

## Novartis Fourth Quarter and Full Year 2021

### **Condensed financial report – supplementary data**

# Novartis Fourth Quarter and Full Year 2021 Condensed Financial Report – Supplementary Data

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# Group

## Key Figures

|   | Q4 2021<br>USD m | Q4 2020<br>USD m | % change<br>USD | % change<br>cc | FY 2021<br>USD m | FY 2020<br>USD m | % change<br>USD | % change<br>cc <sup>1</sup> |
|---|------------------|------------------|-----------------|----------------|------------------|------------------|-----------------|-----------------------------|
| <b>Net sales to third parties</b>           | <b>13 229</b>    | <b>12 770</b>    | <b>4</b>        | <b>6</b>       | <b>51 626</b>    | <b>48 659</b>    | <b>6</b>        | <b>4</b>                    |
| Divisional operating income                 | 2 854            | 2 758            | 3               | 6              | 12 288           | 10 215           | 20              | 18                          |
| Corporate income and expense,<br>net        | -292             | -114             | -156            | -154           | -599             | -63              | nm              | nm                          |
| <b>Operating income</b>                     | <b>2 562</b>     | <b>2 644</b>     | <b>-3</b>       | <b>-1</b>      | <b>11 689</b>    | <b>10 152</b>    | <b>15</b>       | <b>13</b>                   |
| <i>As % of net sales</i>                    | <i>19.4</i>      | <i>20.7</i>      |                 |                | <i>22.6</i>      | <i>20.9</i>      |                 |                             |
| Income from associated companies            | 14 621           | 141              | nm              | nm             | 15 339           | 673              | nm              | nm                          |
| Interest expense                            | -206             | -201             | -2              | -3             | -811             | -869             | 7               | 6                           |
| Other financial income and expense          | -26              | -25              | -4              | 28             | -80              | -78              | -3              | 44                          |
| Income taxes                                | -645             | -460             | -40             | -41            | -2 119           | -1 807           | -17             | -17                         |
| <b>Net income</b>                           | <b>16 306</b>    | <b>2 099</b>     | <b>nm</b>       | <b>nm</b>      | <b>24 018</b>    | <b>8 071</b>     | <b>198</b>      | <b>195</b>                  |
| <b>Basic earnings per share (USD)</b>       | <b>7.29</b>      | <b>0.92</b>      | <b>nm</b>       | <b>nm</b>      | <b>10.71</b>     | <b>3.55</b>      | <b>202</b>      | <b>200</b>                  |
| <b>Cash flows from operating activities</b> | <b>3 884</b>     | <b>4 005</b>     | <b>-3</b>       |                | <b>15 071</b>    | <b>13 650</b>    | <b>10</b>       |                             |
| <b>Free cash flow<sup>1</sup></b>           | <b>3 027</b>     | <b>3 342</b>     | <b>-9</b>       |                | <b>13 282</b>    | <b>11 691</b>    | <b>14</b>       |                             |
| <b>Core<sup>1</sup></b>                     |                  |                  |                 |                |                  |                  |                 |                             |
| <b>Core operating income</b>                | <b>3 819</b>     | <b>3 501</b>     | <b>9</b>        | <b>12</b>      | <b>16 588</b>    | <b>15 416</b>    | <b>8</b>        | <b>6</b>                    |
| <i>As % of net sales</i>                    | <i>28.9</i>      | <i>27.4</i>      |                 |                | <i>32.1</i>      | <i>31.7</i>      |                 |                             |
| <b>Core net income</b>                      | <b>3 135</b>     | <b>3 034</b>     | <b>3</b>        | <b>6</b>       | <b>14 094</b>    | <b>13 158</b>    | <b>7</b>        | <b>5</b>                    |
| <b>Core basic earnings per share (USD)</b>  | <b>1.40</b>      | <b>1.34</b>      | <b>4</b>        | <b>7</b>       | <b>6.29</b>      | <b>5.78</b>      | <b>9</b>        | <b>7</b>                    |

<sup>1</sup> Constant currencies (cc), core results and free cash flow are non-IFRS measures. An explanation of non-IFRS measures can be found on page 50. Unless otherwise noted, all growth rates in this Release refer to same period in prior year.

nm = not meaningful

# Strategy Update

Novartis is a focused medicines company. During 2021 we continued to build depth in five core therapeutic areas (Cardio-Renal, Immunology, Neuroscience, Oncology and Hematology), strength in technology platforms (Targeted Protein Degradation, Cell Therapy, Gene Therapy, Radioligand Therapy, and xRNA), and have a balanced geographic footprint. Our confidence to grow sales in the near-term is driven by multi-billion-dollar sales from: *Cosentyx*, *Entresto*, *Kesimpta*, *Zolgensma*, *Kisqali* and *Leqvio*. To fuel further growth through 2030 and beyond, we have 20+ new assets with at least USD 1 billion sales potential, that could be approved by 2026. Novartis is also pioneering the shift to advanced technology platforms.

Novartis sold its investment in Roche Holding AG (Roche), in a single bilateral transaction for USD 20.7 billion, consistent with our strategy as a focused medicines company.

The strategic review of Sandoz is progressing, we expect to provide an update, at the latest, by the end of 2022. The review will explore all options, ranging from retaining the business to separation, in order to determine how to best maximize value for our shareholders.

We remain disciplined and shareholder focused in our capital allocation as we balance investing in our business, through organic investments and value-creating bolt-ons, with returning capital to shareholders via our growing annual dividend and share buybacks.

Novartis continued to make significant strides in building trust with society. We committed to carbon neutral emissions: Scope 1 and 2 by 2025, Scope 1, 2 and 3 by 2030, and net zero emissions across our value chain by 2040. Novartis ESG efforts have been recognized by upgrades from several third party ESG rating agencies. Our culture journey towards an inspired, curious and unbossed organization continues, in order to drive performance and competitiveness in the long-term.

## Financials

### Fourth quarter

#### Net sales

Net sales were USD 13.2 billion (+4%, +6% cc) in the fourth quarter driven by volume growth of 11 percentage points, including 1 percentage point relating to a reclassification of contract manufacturing from other revenues to sales. Volume growth was partly offset by price erosion of 3 percentage points and the negative impact from generic competition of 2 percentage points.

#### Corporate income and expense, net

Corporate income and expense, which includes the cost of Group headquarter and coordination functions, amounted to an expense of USD 292 million, compared to an expense of USD 114 million in prior year, mainly driven by prior year fair value adjustment on contingent receivables related to intellectual property rights, adjustments to provisions on M&A transactions, partially offset by higher contributions from the Novartis Venture Fund.

#### Operating income

Operating income was USD 2.6 billion (-3%, -1% cc) as higher sales were more than offset by higher M&S and R&D investments and lower gains from divestments, financial assets, and contingent considerations.

Core operating income was USD 3.8 billion (+9%, +12% cc) driven by higher sales, partly offset by higher investments in M&S and R&D. Core operating income margin was 28.9% of net sales, increasing by 1.5 percentage points (+1.6 percentage points cc).

#### Income from associated companies

Income from associated companies increased to USD 14.6 billion in the current year from USD 141 million in the prior year, an increase of USD 14.5 billion. This increase was mainly due to the gain of USD 14.6 billion recognized on the divestment of our investment in Roche. As a result of the decision to divest our investment in Roche, the Group discontinued the recognition of its share of income of Roche from November 3, 2021.

Excluding the divestment gain from our investment in Roche, income from associated companies decreased to USD 65 million, compared to USD 141 million in prior year, mainly due to the discontinuance of the recognition of the Group's share of income of Roche from November 3, 2021.

Core income from associated companies decreased to USD 93 million from USD 229 million in the prior year due to a lower estimated core income contribution from Roche for the current period. This decrease was also driven by the discontinuance of the recognition of the Group's share of income of Roche from November 3, 2021, as a result of the decision to divest our investment in Roche.

### **Interest expense and other financial income/expense**

Interest expense amounted to USD 206 million and other financial income and expense amounted to a net expense of USD 26 million both in line with prior year.

Core interest expense amounted to USD 206 million and core other financial income and expense amounted to a net expense of USD 24 million both in line with prior year.

### **Income taxes**

The tax rate was 3.8% compared to 18.0% in the prior year. In the current year period the tax rate decreased due to the impact of the divestment gain recognized on the sale of our investment in Roche, partly offset by uncertain tax positions and prior-year items. The prior year tax rate increased due to impact of uncertain tax positions and the effect of adjusting to the full year tax rate, which was higher than previously estimated.

Excluding these impacts, the rate would have been 15.9% compared to 15.6% in the prior year. The increase from prior year was mainly the result of a change in profit mix.

The core tax rate (core taxes as a percentage of core income before tax from continuing operations) was 14.9% compared to 13.5% in the prior year. The current and prior year period core tax rate were both impacted by the effect of adjusting to the full year core tax rate, which was less than previously estimated.

### **Net income, EPS and free cash flow**

Net income was USD 16.3 billion, benefiting from the Roche divestment gain of USD 14.6 billion. EPS was USD 7.29.

Core net income was USD 3.1 billion (+3%, +6% cc), mainly driven by growth in core operating income, partly offset by lower income from associated companies due to the divestment of our investment in Roche and a higher tax rate. Core EPS was USD 1.40 (+4%, +7% cc), growing ahead of core net income.

Free cash flow amounted to USD 3.0 billion (-9% USD), compared to USD 3.3 billion in the prior year quarter. Higher operating income adjusted for non-cash items and other adjustments was more than offset by higher income taxes paid and lower divestment proceeds.

## **Full year**

### **Net sales**

Net sales were USD 51.6 billion (+6%, +4% cc) in the full year. Volume contributed 8 percentage points to sales growth, partly offset by price erosion of 2 percentage points and the negative impact from generic competition of 2 percentage points.

### **Corporate income and expense, net**

Corporate income and expense, which includes the cost of Group headquarter and coordination functions, amounted to an expense of USD 599 million, compared to an expense of USD 63 million in prior year, mainly driven by royalty settlement gains related to intellectual property rights in the prior year, lower contributions from the Novartis Venture Fund, prior year fair value adjustment on contingent receivables related to intellectual property rights and adjustments to provision on M&A transactions.

### **Operating income**

Operating income was USD 11.7 billion (+15%, +13% cc), mainly driven by higher sales and lower legal expenses, partly offset by increased M&S and R&D investments and higher amortization.

Core operating income was USD 16.6 billion (+8%, +6% cc) benefiting from higher sales, partly offset by increased M&S and R&D investments. Core operating income margin was 32.1% of net sales, increasing by 0.4 percentage points (+0.5 percentage points cc).

### **Income from associated companies**

Income from associated companies increased to USD 15.3 billion in the current year from USD 673 million in the prior year, an increase of USD 14.7 billion. This increase was mainly due to the gain of USD 14.6 billion recognized on the divestment of our investment in Roche. As a result of the decision to divest our investment in Roche, the Group discontinued the recognition of its share of income of Roche from November 3, 2021.

Excluding the divestment gain from our investment in Roche, income from associated companies increased to USD 783 million, compared to USD 673 million in prior year, mainly due to the increase in the share of income from Roche. The estimated income for Roche through November 3, 2021, net of amortization, was USD 745 million compared to USD 741 million in prior full year period. A positive prior year true up of USD 40 million has been recognized in the first quarter of 2021, compared to a negative true up of USD 64 million in the first quarter of 2020.

Core income from associated companies decreased to USD 1.0 billion from USD 1.1 billion in prior year due to a lower estimated core income contribution from Roche Holding AG for the current period due to the discontinuance of the recognition of the Group's share of income of Roche from November 3, 2021, as a result of the decision to divest our investment in Roche.

### **Interest expense and other financial income/expense**

Interest expense decreased to USD 811 million from USD 869 million in prior year, mainly due to lower interest expense on financial debts.

Other financial income and expense amounted to a net expense of USD 80 million in line with a net expense of USD 78 million in the prior year.

Core interest expense decreased to USD 811 million from USD 869 million in prior year, mainly due to lower interest expense on financial debts.

Core other financial income and expense amounted to a net expense of USD 41 million compared to a net expense of USD 83 million in the prior year mainly due to lower currency losses.

### **Income taxes**

The tax rate was 8.1% compared to 18.3% in the prior year. In the current year, the tax rate decreased due to the impact of the divestment gain recognized on the sale of our investment in Roche, partially offset by uncertain tax positions and prior-year items. The prior year tax rate was impacted by the effect of non-deductible legal charges and uncertain tax positions.

Excluding these impacts, the rate would have been 15.7% compared to 15.6% in the prior year. The increase from prior year was mainly the result of a change in profit mix.

The core tax rate (core taxes as a percentage of core income before tax from continuing operations) was 15.8% compared to 15.4% in the prior year. The increase from prior year was mainly the result of a change in profit mix.

### **Net income, EPS and free cash flow**

Net income was USD 24.0 billion, benefiting from the USD 14.6 billion gain from the divestment of our investment in Roche. EPS was USD 10.71.

Core net income was USD 14.1 billion (+7%, +5% cc). Core EPS was USD 6.29 (+9%, +7% cc), growing faster than core net income and benefiting from lower weighted average number of shares outstanding.

Free cash flow amounted to USD 13.3 billion (+14% USD), compared to USD 11.7 billion in 2020. This increase was mainly driven by higher operating income adjusted for non-cash items and other adjustments, and lower payments out of provisions, mainly due to legal matters in the prior year, partly offset by USD 650 million upfront payment to in-license tislelizumab from an affiliate of BeiGene, Ltd.

# Innovative Medicines

|                              | Q4 2021<br>USD m | Q4 2020<br>USD m | % change<br>USD | % change<br>cc | FY 2021<br>USD m | FY 2020<br>USD m | % change<br>USD | % change<br>cc |
|------------------------------|------------------|------------------|-----------------|----------------|------------------|------------------|-----------------|----------------|
| <b>Net sales</b>             | <b>10 704</b>    | <b>10 233</b>    | <b>5</b>        | <b>7</b>       | <b>41 995</b>    | <b>39 013</b>    | <b>8</b>        | <b>6</b>       |
| <b>Operating income</b>      | <b>2 468</b>     | <b>2 386</b>     | <b>3</b>        | <b>6</b>       | <b>10 688</b>    | <b>9 172</b>     | <b>17</b>       | <b>15</b>      |
| <i>As % of net sales</i>     | <i>23.1</i>      | <i>23.3</i>      |                 |                | <i>25.5</i>      | <i>23.5</i>      |                 |                |
| <b>Core operating income</b> | <b>3 596</b>     | <b>3 212</b>     | <b>12</b>       | <b>15</b>      | <b>15 215</b>    | <b>13 645</b>    | <b>12</b>       | <b>10</b>      |
| <i>As % of net sales</i>     | <i>33.6</i>      | <i>31.4</i>      |                 |                | <i>36.2</i>      | <i>35.0</i>      |                 |                |

## Fourth quarter

### Net sales

Net sales were USD 10.7 billion (+5%, +7% cc) with volume contributing 11 percentage points to growth, including 1 percentage point relating to contract manufacturing revenue reclassification. Generic competition had a negative impact of 3 percentage points, mainly due to *Afinitor*, *Gleevec/Glivec*, *DuoTrav/Travatan*, *Exforge* and *Ciprodex*. Net pricing had a negative impact of 1 percentage point on sales growth.

In the US (USD 3.9 billion) sales grew +8% driven by *Entresto*, *Kesimpta* and *Cosentyx*. In Europe (USD 3.8 billion, +4%, +8% cc) sales growth was driven by *Kisqali* and *Entresto*. Emerging Growth Markets grew +9% (+11% cc), despite China sales of USD 0.6 billion (0%, -4% cc) due to bi-annual National Reimbursement Drug List (NRDL) pricing reductions on certain products.

Pharmaceuticals BU sales were USD 6.8 billion (+7%, +9% cc) with continued strong growth from *Entresto* (USD 949 million, +33%, +34% cc), *Cosentyx* (USD 1.2 billion, +12%, +13% cc), *Kesimpta* (USD 147 million), *Zolgensma* (USD 342 million, +35%, +36% cc) and *Ilaris* (USD 284 million, +18%, +23% cc), partly offset by generic competition mainly for *DuoTrav/Travatan*, *Exforge* and *Ciprodex*. The USD 108 million reclassification of contract manufacturing revenue recognized in Established Medicines contributed 2 percentage points to Pharmaceuticals BU sales growth.

Oncology BU sales were USD 3.9 billion (+1%, +3% cc), driven by strong performance from *Kisqali* (USD 285 million, +55%, +58% cc), *Tafinlar+Mekinist* (USD 458 million, +12%, +14% cc), *Promacta/Revolade* (USD 518 million, +10%, +12% cc) and *Jakavi* (USD 408 million, +9%, +12% cc) partly offset by generic competition mainly for *Afinitor*, *Gleevec/Glivec* and *Exjade*.

### Operating income

Operating income was USD 2.5 billion (+3%, +6% cc), mainly driven by strong sales growth, partly offset by higher spend and lower gains from divestments and financial assets. Operating income margin was 23.1% of net sales, decreasing 0.2 percentage points (-0.1 percentage points in cc).

Core adjustments were USD 1.1 billion, mainly due to amortization, compared to USD 0.8 billion in prior year. Core adjustments increased compared to prior year mainly due to lower gains from divestments and financial assets.

Core operating income was USD 3.6 billion (+12%, +15% cc) mainly driven by higher sales and productivity, partly offset by higher spend. Core operating income margin was 33.6% of net sales, increasing 2.2 percentage points (+2.4 percentage points cc). Core gross margin as a percentage of sales increased by 0.7 percentage points (cc) mainly driven by productivity. Core R&D expenses as a percentage of net sales decreased by 0.3 percentage points (cc). Core SG&A expenses as a percentage of net sales decreased by 0.8 percentage points (cc). Core Other Income and Expense net increased the margin by 0.6 percentage points (cc).

## Full year

### Net sales

Net sales were USD 42.0 billion (+8%, +6% cc). Volume contributed 9 percentage points to growth. Generic competition had a negative impact of 3 percentage points. Pricing had a negligible impact on sales growth.

In the US (USD 15.0 billion) sales grew +5% driven by *Entresto*, *Cosentyx* and *Kesimpta*. In Europe (USD 14.9 billion, +11%, +8% cc) sales growth was driven by *Zolgensma*, *Entresto*, *Kisqali*, *Jakavi*, and *Lucentis*. Emerging Growth

Markets grew +12% (+11% cc) driven by China sales of USD 2.8 billion (+18%, +10% cc) with the launches of *Entresto* and *Cosentyx*.

Pharmaceuticals BU grew +9% (+7% cc) driven by *Entresto* (USD 3.5 billion, +42%, +40% cc), *Cosentyx* (USD 4.7 billion, +18%, +17% cc), *Zolgensma* (USD 1.4 billion, +47%, +46% cc) and *Kesimpta* (USD 372 million), partly offset by generic competition mainly for *Ciprodex* and *Diovan*. Growth drivers and launches, contributed 52% of sales, up from 43% in the prior year.

Oncology BU grew +5% (+4% cc) driven by *Promacta/Revolade* (USD 2.0 billion, +16%, +15% cc), *Kisqali* (USD 937 million, +36%, +36% cc), *Jakavi* (USD 1.6 billion, +19%, +16% cc), *Tafinlar+Mekinist* (USD 1.7 billion, +10%, +8% cc) and *Kymriah* (USD 587 million, +24%, +22% cc), partly offset by generic competition mainly for *Afinitor*, *Gleevec/Glivec* and *Exjade*. Growth drivers and launches, contributed 51% of sales, up from 45% in the prior year.

## **Operating income**

Operating income was USD 10.7 billion (+17%, +15% cc), mainly driven by sales growth, lower impairments and lower legal expenses, partly offset by higher spend, amortization and restructuring. Operating income margin was 25.5% of net sales, increasing 2.0 percentage points (+2.0 percentage points in cc).

Core adjustments were USD 4.5 billion, mainly due to amortization. Core adjustments were in line with prior year (USD 4.5 billion) as lower impairments and lower legal expenses were offset by higher amortization and restructuring.

Core operating income was USD 15.2 billion (+12%, +10% cc) mainly driven by sales growth and productivity, partly offset by higher spend. Core operating income margin was 36.2% of net sales, increasing 1.2 percentage points (+1.3 percentage points cc). Core gross margin increased by 0.6 percentage points (cc). Core R&D expenses as a percentage of net sales decreased by 0.2 percentage points (cc). Core SG&A expenses as a percentage of net sales decreased by 0.6 percentage points (cc). Core Other Income and Expense net decreased the margin by 0.1 percentage points (cc).

## ONCOLOGY BUSINESS UNIT (Q4 UPDATES)

|  | Q4 2021<br>USD m | Q4 2020<br>USD m | % change<br>USD | % change<br>cc | FY 2021<br>USD m | FY 2020<br>USD m | % change<br>USD | % change<br>cc |
|--|------------------|------------------|-----------------|----------------|------------------|------------------|-----------------|----------------|
| <b>Hematology</b>                            |                  |                  |                 |                |                  |                  |                 |                |
| <i>Tasigna</i>                               | 508              | 513              | -1              | 1              | 2 060            | 1 958            | 5               | 4              |
| <i>Promacta/Revolade</i>                     | 518              | 471              | 10              | 12             | 2 016            | 1 738            | 16              | 15             |
| <i>Jakavi</i>                                | 408              | 376              | 9               | 12             | 1 595            | 1 339            | 19              | 16             |
| <i>Gleevec/Glivec</i>                        | 233              | 291              | -20             | -19            | 1 024            | 1 188            | -14             | -15            |
| <i>Kymriah</i>                               | 143              | 141              | 1               | 4              | 587              | 474              | 24              | 22             |
| <i>Exjade/Jadenu</i>                         | 129              | 156              | -17             | -15            | 563              | 653              | -14             | -16            |
| <i>Adakveo</i>                               | 43               | 34               | 26              | 27             | 164              | 105              | 56              | 56             |
| Other  | 90               | 93               | -3              | -3             | 354              | 327              | 8               | 6              |
| <b>Total Hematology</b>                      | <b>2 072</b>     | <b>2 075</b>     | <b>0</b>        | <b>2</b>       | <b>8 363</b>     | <b>7 782</b>     | <b>7</b>        | <b>6</b>       |
| <b>Solid Tumor</b>                           |                  |                  |                 |                |                  |                  |                 |                |
| <i>Tafinlar + Mekinist</i> <sup>1</sup>      | 458              | 408              | 12              | 14             | 1 693            | 1 542            | 10              | 8              |
| <i>Sandostatin</i>                           | 345              | 363              | -5              | -4             | 1 413            | 1 439            | -2              | -3             |
| <i>Afinitor/Votubia</i>                      | 174              | 259              | -33             | -31            | 938              | 1 083            | -13             | -14            |
| <i>Kisqali</i>                               | 285              | 184              | 55              | 58             | 937              | 687              | 36              | 36             |
| <i>Votrient</i>                              | 139              | 147              | -5              | -4             | 577              | 635              | -9              | -10            |
| <i>Lutathera</i>                             | 115              | 109              | 6               | 6              | 475              | 445              | 7               | 6              |
| <i>Piqray</i>                                | 87               | 84               | 4               | 3              | 329              | 320              | 3               | 3              |
| <i>Tabrecta</i>                              | 27               | 17               | 59              | 57             | 90               | 35               | 157             | 155            |
| Other  | 159              | 171              | -7              | -5             | 661              | 743              | -11             | -13            |
| <b>Total Solid Tumor</b>                     | <b>1 789</b>     | <b>1 742</b>     | <b>3</b>        | <b>4</b>       | <b>7 113</b>     | <b>6 929</b>     | <b>3</b>        | <b>2</b>       |
| <b>Total Novartis Oncology business unit</b> | <b>3 861</b>     | <b>3 817</b>     | <b>1</b>        | <b>3</b>       | <b>15 476</b>    | <b>14 711</b>    | <b>5</b>        | <b>4</b>       |

<sup>1</sup> Majority of sales for *Mekinist* and *Tafinlar* are combination, but both can be used as monotherapy

## HEMATOLOGY

**Tasigna** (USD 508 million, -1%, +1% cc) sales growth was mainly driven by US and Emerging Growth Markets, partially offset by a decline in Europe and Japan.

**Promacta/Revolade** (USD 518 million, +10%, +12% cc) showed growth across all regions, driven by increased use in chronic immune thrombocytopenia (ITP) and as first-line treatment for severe aplastic anemia (SAA).

**Jakavi** (USD 408 million, +9%, +12% cc) showed double-digit growth, which was driven by strong demand in the myelofibrosis and polycythemia vera indications. Regulatory filings based on the REACH2 and REACH3 trials in steroid-resistant/dependent graft-versus-host disease (GvHD) are under review and approvals are expected in 2022.

**Gleevec/Glivec** (USD 233 million, -20%, -19% cc) declined due to increased generic competition.

**Kymriah** (USD 143 million, +1%, +4% cc) sales grew in Japan, US and Emerging Growth Markets, partially offset by a decline in Europe. Coverage continued to expand, with more than 350 qualified treatment centers in 30 countries having coverage for at least one indication. Regulatory submissions for *Kymriah* in follicular lymphoma in the US and EU were completed in October 2021.

**Exjade/Jadenu** (USD 129 million, -17%, -15% cc) declined across all regions due to pressure from generic competition.

**Adakveo** (USD 43 million, +26%, +27% cc) launch continued to progress worldwide with continuous double-digit growth in cumulative patients in the US in 2021, despite COVID-19 challenges. In the UK, NICE recommendation was received in October 2021.

## SOLID TUMORS

**Tafinlar + Mekinist** (USD 458 million, +12%, +14% cc) saw growth driven by BRAF+ adjuvant melanoma and NSCLC indications, while maintaining demand in the highly competitive metastatic melanoma market. *Tafinlar + Mekinist* is approved in over 80 countries and remains the worldwide targeted therapy leader in BRAF+ melanoma.

**Sandostatin** (USD 345 million, -5%, -4% cc) declined mainly in Europe due to ongoing competitive pressure, including generics impact.

**Afinitor/Votubia** (USD 174 million, -33%, -31% cc) declined due to generic competition. In the US, generic competition for the 10mg and disperse formulation entered in October 2021.

**Kisqali** (USD 285 million, +55%, +58% cc) sales grew across all geographies driven by the longest overall survival benefit reported in HR+/HER2- advanced breast cancer. It is the only CDK4/6 inhibitor with proven OS benefit across all three Phase III trials of the MONALEESA program with different endocrine therapy partners, regardless of menopausal status or line of therapy. *Kisqali* is approved in 96 countries and is currently used to treat more than 44,000 patients worldwide. Novartis is in US ANDA litigation with generic manufacturers.

**Votrient** (USD 139 million, -5%, -4% cc) declined due to increased competition in US and Japan.

**Lutathera** (USD 115 million, +6%, +6% cc) sales grew in all regions with approximately 450 centers now actively treating patients globally.

**Piqray** (USD 87 million, +4%, +3% cc) sales grew in Europe and Emerging Growth Markets. *Piqray* is the first and only therapy specifically developed for the approximately 40% of HR+/HER2- advanced breast cancer patients who have a PIK3CA mutation, which is associated with poor prognosis. *Piqray* is approved in more than 60 countries and is currently used to treat more than 3,100 patients with the PIK3CA mutation.

**Tabrecta** (USD 27 million, +59%, +57% cc) US launch continues to progress well. *Tabrecta* is the first and only therapy approved by the US FDA to specifically target metastatic NSCLC with a mutation that leads to MET exon 14 skipping (METex14), as detected by an FDA-approved test using tissue and blood. *Tabrecta* is approved in 9 countries.

## PHARMACEUTICAL BUSINESS UNIT (Q4 UPDATES)

### IMMUNOLOGY, HEPATOLOGY AND DERMATOLOGY

|   | Q4 2021<br>USD m | Q4 2020<br>USD m | % change<br>USD | % change<br>cc | FY 2021<br>USD m | FY 2020<br>USD m | % change<br>USD | % change<br>cc |
|---|------------------|------------------|-----------------|----------------|------------------|------------------|-----------------|----------------|
| <b>Immunology, Hepatology and Dermatology</b>       |                  |                  |                 |                |                  |                  |                 |                |
| <i>Cosentyx</i>                                     | 1 243            | 1 109            | 12              | 13             | 4 718            | 3 995            | 18              | 17             |
| <i>Ilaris</i>                                       | 284              | 240              | 18              | 23             | 1 059            | 873              | 21              | 22             |
| <b>Total Immunology, Hepatology and Dermatology</b> | <b>1 527</b>     | <b>1 349</b>     | <b>13</b>       | <b>15</b>      | <b>5 777</b>     | <b>4 868</b>     | <b>19</b>       | <b>18</b>      |

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

**Cosentyx** (USD 1.2 billion, +12%, +13% cc) saw strong growth driven by continued underlying demand across indications in the US and Europe and strong volume growth in China following National Reimbursement Drug List (NRDL) listing in Q1 2021. On December 22, 2021 *Cosentyx* received US FDA approval for the treatment of active enthesitis-related arthritis (ERA) in patients aged four years and older, and active juvenile psoriatic arthritis (JPsA) in patients two years and older. *Cosentyx* is the only biologic treatment approved for children and adolescents for both ERA and PsA (two years of age and older) in the US.

**Ilaris** (USD 284 million, +18%, +23% cc) strong sales were driven by continued growth across most regions. Contributors to continuing growth include the launch of adult-onset Still's disease, the other adult rheumatology indications in the US and Periodic Fever Syndromes (PFS) indications in Europe.

## NEUROSCIENCE

|                           | Q4 2021<br>USD m | Q4 2020<br>USD m | % change<br>USD | % change<br>cc | FY 2021<br>USD m | FY 2020<br>USD m | % change<br>USD | % change<br>cc |
|---------------------------|------------------|------------------|-----------------|----------------|------------------|------------------|-----------------|----------------|
| <b>Neuroscience</b>       |                  |                  |                 |                |                  |                  |                 |                |
| <i>Gilenya</i>            | 656              | 760              | -14             | -12            | 2 787            | 3 003            | -7              | -9             |
| <i>Zolgensma</i>          | 342              | 254              | 35              | 36             | 1 351            | 920              | 47              | 46             |
| <i>Kesimpta</i>           | 147              | 14               | nm              | nm             | 372              | 15               | nm              | nm             |
| <i>Mayzent</i>            | 81               | 57               | 42              | 46             | 281              | 170              | 65              | 65             |
| <i>Aimovig</i>            | 59               | 56               | 5               | 6              | 215              | 164              | 31              | 27             |
| Other                     | 12               | 12               | 0               | -17            | 46               | 51               | -10             | -14            |
| <b>Total Neuroscience</b> | <b>1 297</b>     | <b>1 153</b>     | <b>12</b>       | <b>14</b>      | <b>5 052</b>     | <b>4 323</b>     | <b>17</b>       | <b>15</b>      |

nm = not meaningful

***Gilenya*** (USD 656 million, -14%, -12% cc) sales declined due to increased competition. Novartis has been in US patent litigation with manufacturers of generic and other tablet forms of *Gilenya*. In January 2022, the US Court of Appeals for the Federal Circuit affirmed an earlier decision by the US District Court in Delaware finding the dosage regimen patent valid and infringing.

***Zolgensma*** (USD 342 million, +35%, +36% cc) had a strong fourth quarter driven by expanding access in Europe and Emerging Growth Markets, combined with steady US sales. *Zolgensma* is now approved in 42 countries.

***Kesimpta*** (USD 147 million) sales were driven by launch uptake, strong access and increased demand based on a superior risk-benefit profile. To initiate access, *Kesimpta* is being provided free of charge for US patients who are eligible for reimbursement until they are covered by their insurance. The share of Novartis free goods is decreasing as reimbursement progresses. *Kesimpta* is now approved in 64 countries.

***Mayzent*** (USD 81 million, +42%, +46% cc) continued to grow, driven by fulfilling an important unmet need in MS patients showing signs of progression despite being on other treatments. *Mayzent* is the first and only oral disease modifying therapy (DMT) studied and proven to delay disease progression in a broad SPMS patient population. *Mayzent* is now approved in 67 countries.

***Aimovig*** (USD 59 million, ex-US, ex-Japan +5%, +6% cc). Effective January 1, 2022, Novartis and Amgen reached an agreement to settle all remaining claims in the litigation. Novartis returns its *Aimovig* US rights to Amgen who is now exclusively commercializing *Aimovig* in the US. Novartis' ex-US rights remain unaffected and Novartis will continue to commercialize *Aimovig* in the rest of the world, with the exception of Japan. Amgen will no longer pay royalties to Novartis on sales of *Aimovig* in the United States, and the parties' cost sharing for commercialization of *Aimovig* in the United States ceases. The parties will continue to share development expenses worldwide in accordance with the relevant agreements. Other terms of the settlement are confidential. *Aimovig* has been prescribed to over 620,000 patients worldwide in the post-trial setting.

## OPHTHALMOLOGY

|                            | Q4 2021<br>USD m | Q4 2020<br>USD m | % change<br>USD | % change<br>cc | FY 2021<br>USD m | FY 2020<br>USD m | % change<br>USD | % change<br>cc |
|----------------------------|------------------|------------------|-----------------|----------------|------------------|------------------|-----------------|----------------|
| <b>Ophthalmology</b>       |                  |                  |                 |                |                  |                  |                 |                |
| <i>Lucentis</i>            | 508              | 530              | -4              | -2             | 2 160            | 1 933            | 12              | 8              |
| <i>Xiidra</i>              | 134              | 108              | 24              | 24             | 468              | 376              | 24              | 24             |
| <i>Beovu</i>               | 51               | 37               | 38              | 41             | 186              | 190              | -2              | -3             |
| Other                      | 361              | 450              | -20             | -18            | 1 516            | 1 911            | -21             | -22            |
| <b>Total Ophthalmology</b> | <b>1 054</b>     | <b>1 125</b>     | <b>-6</b>       | <b>-4</b>      | <b>4 330</b>     | <b>4 410</b>     | <b>-2</b>       | <b>-4</b>      |

***Lucentis*** (USD 508 million, -4%, -2% cc) sales declined versus prior year mainly in Emerging Growth Markets and Japan, partly offset by growth in Europe.

***Xiidra*** (USD 134 million, +24%, +24% cc) showed strong double-digit growth, benefiting from a larger multi-channel direct-to-consumer campaign in the US and increasing educational engagement with the health community, all of which has increased brand awareness among diagnosed patients suffering from symptoms of Dry Eye Disease. In the US, Novartis is in ANDA litigation with generic manufacturers.

**Beovu** (USD 51 million, +38%, +41% cc) sales grew mainly in Europe, Emerging Growth Markets and Japan following continued geographic expansion. *Beovu* is now approved in 73 countries.

**Other ophthalmology** products declined mainly due to generic impacts in the US, primarily for *Travatan* and *Ciprodex*.

## CARDIOVASCULAR, RENAL AND METABOLISM

|   | Q4 2021<br>USD m | Q4 2020<br>USD m | % change<br>USD | % change<br>cc | FY 2021<br>USD m | FY 2020<br>USD m | % change<br>USD | % change<br>cc |
|---|------------------|------------------|-----------------|----------------|------------------|------------------|-----------------|----------------|
| <b>Cardiovascular, Renal and Metabolism</b>       |                  |                  |                 |                |                  |                  |                 |                |
| <i>Entresto</i>                                   | 949              | 716              | 33              | 34             | 3 548            | 2 497            | 42              | 40             |
| <i>Leqvio</i>                                     | 4                |                  | nm              | nm             | 12               |                  | nm              | nm             |
| Other   |                  |                  |                 |                |                  | 1                | nm              | nm             |
| <b>Total Cardiovascular, Renal and Metabolism</b> | <b>953</b>       | <b>716</b>       | <b>33</b>       | <b>35</b>      | <b>3 560</b>     | <b>2 498</b>     | <b>43</b>       | <b>40</b>      |

nm = not meaningful

**Entresto** (USD 949 million, +33%, +34% cc) sustained strong growth with increased patient share across markets, driven by demand as the essential first choice therapy for HF patients (with reduced ejection fraction). Sales in the US continue to benefit from the FDA approval of an expanded indication in patients with left ventricular ejection fraction (LVEF) below normal, making *Entresto* the first therapy indicated for HFrEF and the majority of HFpEF patients. In China, *Entresto* has been listed in the National Reimbursement Drug List (NRDL) for both HFrEF and Hypertension, effective Jan 2022. In the US, Novartis is in ANDA litigation with generic manufacturers.

**Leqvio** (USD 4 million) was approved on December 22, 2021 in the US as an adjunct to diet and maximally tolerated statin therapy for the treatment of adults with heterozygous familial hypercholesterolemia (HeFH) or clinical atherosclerotic cardiovascular disease (ASCVD), who require additional lowering of low-density lipoprotein cholesterol (LDL-C). *Leqvio* is now approved in more than 50 countries, with most awaiting reimbursement. Novartis has obtained global rights to develop, manufacture and commercialize *Leqvio* under a license and collaboration agreement with Alnylam Pharmaceuticals.

## RESPIRATORY AND ALLERGY

|                                      | Q4 2021<br>USD m | Q4 2020<br>USD m | % change<br>USD | % change<br>cc | FY 2021<br>USD m | FY 2020<br>USD m | % change<br>USD | % change<br>cc |
|--------------------------------------|------------------|------------------|-----------------|----------------|------------------|------------------|-----------------|----------------|
| <b>Respiratory and Allergy</b>       |                  |                  |                 |                |                  |                  |                 |                |
| <i>Xolair</i>                        | 373              | 335              | 11              | 15             | 1 428            | 1 251            | 14              | 12             |
| <i>Ultibro</i> Group                 | 148              | 160              | -8              | -5             | 584              | 623              | -6              | -10            |
| Other                                | 17               | 10               | 70              | 107            | 53               | 26               | 104             | 102            |
| <b>Total Respiratory and Allergy</b> | <b>538</b>       | <b>505</b>       | <b>7</b>        | <b>10</b>      | <b>2 065</b>     | <b>1 900</b>     | <b>9</b>        | <b>6</b>       |

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

**Xolair** (USD 373 million, +11%, +15% cc) continued growth, driven by the chronic spontaneous urticaria and severe allergic asthma indications. The indication of nasal polyps has been approved and launched in the US, Germany, Canada and several other countries. *Xolair* for self-injection was launched in the US in Q2 2021. Novartis co-promotes *Xolair* with Genentech in the US and shares a portion of operating income, but does not record any US sales.

**Ultibro Group** (USD 148 million, -8%, -5% cc) sales declined mainly in Europe due to competition. *Ultibro* Group consists of *Ultibro Breezhaler*, *Seebri Breezhaler* and *Onbrez Breezhaler*.

## ESTABLISHED MEDICINES

|                                    | Q4 2021<br>USD m | Q4 2020<br>USD m | % change<br>USD | % change<br>cc | FY 2021<br>USD m | FY 2020<br>USD m | % change<br>USD | % change<br>cc |
|------------------------------------|------------------|------------------|-----------------|----------------|------------------|------------------|-----------------|----------------|
| <b>Established Medicines</b>       |                  |                  |                 |                |                  |                  |                 |                |
| <i>Galvus</i> Group                | 278              | 293              | -5              | 0              | 1 092            | 1 199            | -9              | -8             |
| <i>Exforge</i> Group               | 197              | 247              | -20             | -20            | 901              | 980              | -8              | -11            |
| <i>Diovan</i> Group                | 189              | 224              | -16             | -14            | 773              | 1 003            | -23             | -25            |
| <i>Zortress/Certican</i>           | 110              | 112              | -2              | 3              | 431              | 452              | -5              | -6             |
| <i>Voltaren/Cataflam</i>           | 97               | 95               | 2               | 5              | 373              | 360              | 4               | 3              |
| <i>Neoral/Sandimmun(e)</i>         | 89               | 103              | -14             | -11            | 368              | 393              | -6              | -8             |
| Contract manufacturing             | 108              |                  | nm              | nm             | 108              |                  | nm              | nm             |
| Other                              | 406              | 494              | -18             | -16            | 1 689            | 1 916            | -12             | -13            |
| <b>Total Established Medicines</b> | <b>1 474</b>     | <b>1 568</b>     | <b>-6</b>       | <b>-3</b>      | <b>5 735</b>     | <b>6 303</b>     | <b>-9</b>       | <b>-10</b>     |

nm = not meaningful

**Galvus Group** (USD 278 million, -5%, 0% cc) sales were in line (cc) with prior year.

**Exforge Group** (USD 197 million, -20%, -20% cc) declined mainly due to generic competition and the impact of Volume-Based Procurement in China.

**Diovan Group** (USD 189 million, -16%, -14% cc) declined mainly due to generic competition and the impact of Volume-Based Procurement in China.

**Zortress/Certican** (USD 110 million, -2%, +3% cc) grew mainly in Europe and Japan.

**Voltaren/Cataflam** (USD 97 million, +2%, +5% cc) grew in Emerging Growth Markets, partly offset by decline in Europe and Japan.

**Neoral/Sandimmun(e)** (USD 89 million, -14%, -11% cc) declined across all markets due to generic competition.

# Sandoz

|                              | Q4 2021<br>USD m | Q4 2020<br>USD m | % change<br>USD | % change<br>cc | FY 2021<br>USD m | FY 2020<br>USD m | % change<br>USD | % change<br>cc |
|------------------------------|------------------|------------------|-----------------|----------------|------------------|------------------|-----------------|----------------|
| <b>Net sales</b>             | <b>2 525</b>     | <b>2 537</b>     | <b>0</b>        | <b>2</b>       | <b>9 631</b>     | <b>9 646</b>     | <b>0</b>        | <b>-2</b>      |
| <b>Operating income</b>      | <b>386</b>       | <b>372</b>       | <b>4</b>        | <b>4</b>       | <b>1 600</b>     | <b>1 043</b>     | <b>53</b>       | <b>48</b>      |
| <i>As % of net sales</i>     | <i>15.3</i>      | <i>14.7</i>      |                 |                | <i>16.6</i>      | <i>10.8</i>      |                 |                |
| <b>Core operating income</b> | <b>528</b>       | <b>528</b>       | <b>0</b>        | <b>0</b>       | <b>2 064</b>     | <b>2 334</b>     | <b>-12</b>      | <b>-14</b>     |
| <i>As % of net sales</i>     | <i>20.9</i>      | <i>20.8</i>      |                 |                | <i>21.4</i>      | <i>24.2</i>      |                 |                |

## COVID-19 impacts

We continue to see an impact of COVID-19, particularly for the Retail Generics and third-party Anti-Infectives businesses. However, the effects have been more moderate in recent months and the Sandoz business is continuing to normalize.

## Fourth quarter

### Net sales

Sandoz net sales were USD 2.5 billion (0%, +2% cc), with volume contributing 11 percentage points to growth, including 1 percentage point relating to contract manufacturing revenue reclassification. Pricing had a negative impact of 9 percentage points. Ex US sales grew by +4% in cc.

Sales in Europe were USD 1.4 billion (+1%, +4% cc), in the US USD 475 million (-8%), in Asia / Africa / Australasia USD 452 million (+2%, +5% cc) and in Canada and Latin America USD 216 million (+6%, +5% cc).

Retail sales were USD 1.9 billion (-2%, 0% cc), growing across most regions. The sales decline in the US was mainly due to the negative price effect in the Retail Generics business, especially oral solids. Total Anti-Infectives sales were USD 337 million (+5%, +7% cc) amid initial signs of a cough and cold season normalization.

Global sales of Biopharmaceuticals (biosimilars, biopharmaceutical contract manufacturing and *Glatopa*) grew to USD 555 million (+8%, +11% cc) across all regions.

### Operating income

Operating income was USD 386 million (+4%, +4% cc), mainly driven by lower impairments partly offset by lower divestments. Operating income margin increased by 0.3 percentage points in constant currencies. Currency had a positive impact of 0.3 percentage points, resulting in a net increase of 0.6 percentage points to 15.3% of net sales.

Core adjustments were USD 142 million, including USD 61 million of amortization. Prior year core adjustments were USD 156 million. The change in core adjustments compared to prior year was driven by lower impairments partly offset by lower divestments.

Core operating income was USD 528 million (+0%, +0% cc). Core operating income margin was 20.9% of net sales, increasing 0.1 percentage points (-0.4 percentage points cc) compared to prior year. Core gross margin as a percentage of sales decreased by 0.5 percentage points (cc), due to product and geographic mix. Core R&D expenses as a percentage of net sales decreased by 0.3 percentage points (cc). Core SG&A had no impact (cc). Core Other Income and Expense decreased the margin by 0.2 percentage points (cc).

## Full year

### Net sales

Sandoz net sales were USD 9.6 billion (0%, -2% cc). Volume increased by 7 percentage points, from growth in Biopharmaceuticals and 1 percentage point relating to contract manufacturing revenue reclassification, partly offset by the impact of softer Retail demand, with a weak cough and cold season in the first half. Volume growth was more than offset by a negative price effect of 9 percentage points mainly due to increasing competition and the impact of prior year off-contract sales in the US.

Sales in Europe were USD 5.3 billion (+1%, -2% cc), in the US USD 1.8 billion (-15%), in Asia / Africa / Australasia USD 1.7 billion (+11%, +9% cc) and in Canada and Latin America USD 872 million (+13%, +10% cc). Sales in Europe declined due to the impact of COVID-19 on the Retail Generics business. The sales decline in the US was due to the negative price effect in the Retail Generics business, especially oral solids, which were additionally impacted by partnership terminations, as well as prior year Biopharmaceuticals off-contract sales.

Retail sales were USD 7.1 billion (-2%, -4% cc), declining due to the above-mentioned factors. Total Anti-Infectives sales were USD 1.1 billion (-3%, -5% cc), impacted by softer retail demand.

Global sales of Biopharmaceuticals (biosimilars, biopharmaceutical contract manufacturing and *Glatopa*) grew to USD 2.1 billion (+10%, +7% cc), driven by continued growth ex-US and *Ziextenzo* (pegfilgrastim) US.

### **Operating income**

Operating income was USD 1.6 billion (+53%, +48% cc), mainly driven by lower legal settlements, lower impairments and lower amortization partly offset by unfavorable gross margin and lower sales. Operating income margin increased by 5.6 percentage points in constant currencies. Currency had a positive impact of 0.2 percentage points, resulting in a net increase of 5.8 percentage points to 16.6% of net sales.

Core adjustments were USD 464 million, including USD 236 million of amortization. Prior year core adjustments were USD 1.3 billion. The change in core adjustments compared to prior year was driven by lower legal settlements, lower impairments and lower amortization.

Core operating income was USD 2.1 billion (-12%, -14% cc), declining due to unfavorable gross profit and lower sales. Core operating income margin was 21.4% of net sales, decreasing 2.8 percentage points (-2.9 percentage points cc) versus prior year. Core gross margin as a percentage of sales decreased by 2.4 percentage points (cc), due to unfavorable price effects and product and geographic mix. Core R&D expenses as a percentage of net sales increased by 0.4 percentage points (cc) driven by biopharmaceutical pipeline investments. Core SG&A expenses increased by 0.3 percentage points (cc) mainly due to lower sales. Core Other Income and Expense increased the margin by 0.2 percentage points (cc) driven by higher divestment income.

# Group Cash Flow and Balance Sheet

## Cash Flow

### Fourth quarter

Net cash flows from operating activities amounted to USD 3.9 billion, compared to USD 4.0 billion in the prior year quarter. Higher net income adjusted for non-cash items and other adjustments, including divestment gains, was more than offset by higher income taxes paid and unfavorable hedging results.

Net cash inflows from investing activities from continuing operations amounted to USD 4.6 billion, compared to net cash outflows of USD 0.6 billion in the prior year quarter.

The current year quarter cash inflows were driven by proceeds of USD 20.7 billion from the divestment of our investment in Roche; USD 0.7 billion from the sale of marketable securities, commodities and time deposits; and USD 0.2 billion from the sale of intangible assets, financial assets and property, plant and equipment. These cash inflows were partly offset mainly by USD 15.6 billion cash outflows for purchases of marketable securities and time deposits, mainly due to the investment of a portion of the proceeds from the divestment of our investment in Roche; USD 0.3 billion for acquisitions and divestments of businesses, net (including the acquisition of GSK's cephalosporin antibiotics business for USD 351 million); and USD 1.0 billion for purchases of intangible assets, financial assets and of property, plant and equipment.

In the prior year quarter, net cash outflows used in investing activities from continuing operations of USD 0.6 billion were mainly driven by purchases of property, plant and equipment, intangible and financial assets of USD 1.1 billion. These cash outflows were partly offset by cash inflows of USD 0.3 billion from the sale of financial assets and USD 0.3 billion from the sale of property, plant and equipment and intangible assets.

Net cash outflows used in financing activities from continuing operations amounted to USD 3.3 billion, compared to USD 2.9 billion in the prior year quarter.

The current year quarter cash outflows were driven by USD 2.4 billion net decrease in current financial debts; USD 0.7 billion for the repayment of a bond denominated in euro (notional amount of EUR 0.6 billion) at maturity; and USD 0.1 billion for net treasury share transactions. Payments of lease liabilities, net, amounted to USD 0.1 billion.

In the prior year quarter, net cash outflows used in financing activities from continuing operations of USD 2.9 billion were driven by USD 1.9 billion for net treasury share transactions and USD 0.9 billion for net repayments of current financial debts. Payments of lease liabilities, net, amounted to USD 0.1 billion.

Free cash flow amounted to USD 3.0 billion (-9% USD), compared to USD 3.3 billion in the prior year quarter. Higher operating income adjusted for non-cash items and other adjustments was more than offset by higher income taxes paid and lower divestment proceeds.

### Full year

Net cash flows from operating activities amounted to USD 15.1 billion, compared to USD 13.6 billion in 2020. This increase was mainly driven by higher net income adjusted for non-cash items and other adjustments, including divestment gains, and lower payments out of provisions, mainly due to legal matters in the prior year. This was partly offset by unfavorable hedging results.

Net cash inflows from investing activities from continuing operations amounted to USD 4.2 billion, compared to net cash outflows of USD 13.1 billion in 2020.

The current year cash inflows were driven by proceeds of USD 20.7 billion from the divestment of our investment in Roche; USD 2.3 billion from the sale of marketable securities, commodities and time deposits; and USD 1.4 billion from the sale of intangible assets, financial assets and property, plant and equipment. These cash inflows were partly offset by USD 16.4 billion cash outflows for purchases of marketable securities and time deposits, mainly due to the investment of a portion of the proceeds from the divestment of our investment in Roche; USD 1.6 billion for purchases of intangible assets (including the upfront payment to in-license tislelizumab from an affiliate of BeiGene, Ltd); USD 1.4 billion for purchases of property, plant and equipment; USD 0.6 billion for acquisitions and divestments of businesses, net (including the acquisition of GSK's cephalosporin antibiotics business for USD 351 million); and USD 0.2 billion for purchases of financial assets.

In 2020, net cash outflows used in investing activities from continuing operations of USD 13.1 billion were mainly driven by USD 10.0 billion for acquisitions and divestments of businesses, net (including the acquisition of The Medicines Company for USD 9.5 billion, net of cash acquired USD 0.1 billion, and the acquisition of the Japanese business of Aspen Global Incorporated for USD 0.3 billion); USD 1.4 billion for net purchases of marketable securities, commodities and time deposits; USD 1.3 billion for purchases of property, plant and equipment; and USD 1.3 billion for purchases of intangible assets. These cash outflows were partly offset by cash inflows of USD 0.7 billion from the sale of financial assets (including USD 0.3 billion proceeds from the sale of Alcon Inc. shares) and USD 0.4 billion from the sale of intangible assets.

Net cash outflows used in financing activities from continuing operations amounted to USD 16.3 billion, compared to USD 2.2 billion in 2020.

The current year cash outflows were driven by USD 7.4 billion for the dividend payment; USD 3.0 billion for net treasury share transactions; USD 3.5 billion net decrease in current financial debts; and USD 2.2 billion for the repayment of two bonds denominated in euro (notional amount of EUR 1.25 billion and of EUR 0.6 billion) at maturity. Payments of lease liabilities and other financing cash flows resulted in a net cash outflow of USD 0.2 billion.

In 2020, net cash outflows used in financing activities from continuing operations of USD 2.2 billion were driven by USD 7.0 billion for the dividend payment; USD 2.1 billion for net treasury share transactions; USD 2.0 billion for the repayment of two US dollar bonds at maturity; USD 0.3 billion net payments for lease liabilities; and USD 0.2 billion for other financing cash outflows, net. These cash outflows were partly offset by cash inflows of USD 7.1 billion from the increase in non-current financial debts, mainly consisting of USD 4.9 billion from the issuance of bonds denominated in US dollars (notional amount of USD 5.0 billion) and USD 2.1 billion from the issuance of a sustainability-linked bond denominated in euro (notional amount of EUR 1.85 billion); and USD 2.3 billion from the net increase in current financial debts.

Free cash flow amounted to USD 13.3 billion (+14% USD), compared to USD 11.7 billion in 2020. This increase was mainly driven by higher operating income adjusted for non-cash items and other adjustments, and lower payments out of provisions, mainly due to legal matters in the prior year, partly offset by USD 650 million upfront payment to in-license tislelizumab from an affiliate of BeiGene, Ltd.

## Balance sheet

### Assets

**Total non-current assets** of USD 86.1 billion at December 31, 2021, decreased by USD 12.0 billion compared to December 31, 2020.

Intangible assets other than goodwill decreased by USD 2.6 billion as net additions (including the in-licensing of tislelizumab from an affiliate of BeiGene, Ltd) and acquisitions were more than offset by amortization, unfavorable currency translation adjustments and impairments.

Goodwill decreased by USD 0.4 billion, mainly due to unfavorable currency translation adjustments, only partially offset by additions.

Property, plant and equipment decreased by USD 0.7 billion, as net additions were more than offset by depreciation, unfavorable currency translation adjustments and net impairments.

Investments in associated companies decreased by USD 9.4 billion mainly due to the divestment of our investment in Roche.

These decreases were partly offset by an increase in other non-current assets of USD 1.3 billion, driven by an increase in the prepaid post-employment benefit plans of USD 1.2 billion, resulting from actuarial gains primarily from valuation impact on plan assets and changes in the discount rates used to calculate the actuarial defined benefit obligations.

Right of use assets, deferred tax assets and financial assets were broadly in line with December 31, 2020.

**Total current assets** of USD 45.7 billion at December 31, 2021 increased by USD 16.0 billion compared to December 31, 2020.

Cash and cash equivalents increased by USD 2.7 billion and marketable securities, commodities, time deposits and derivative financial instruments increased by USD 14.0 billion, mainly driven by the cash generated through

operating activities and the proceeds of USD 20.7 billion from the divestment of our investment in Roche, partially offset by the dividend payment, the purchase of treasury shares and the repayment of a financial debt.

Inventories, trade receivables, other current assets and income tax receivables were broadly in line with December 31, 2020.

## Liabilities

**Total non-current liabilities** of USD 33.8 billion decreased by USD 4.3 billion compared to December 31, 2020.

Non-current financial debts decreased by USD 3.4 billion mainly due to the reclassification of USD 2.6 billion from non-current to current financial debts, primarily two USD denominated bonds with notional amounts of USD 1.0 billion and USD 1.5 billion maturing in 2022, and favorable currency translation adjustments of USD 0.8 billion.

Provisions and other non-current liabilities decreased by USD 0.8 billion, mainly due to a USD 0.9 billion decrease in accrued defined benefit plan liabilities mainly due to actuarial gains primarily from valuation impact on plan assets and the changes in discount rates used to calculate the actuarial defined benefit obligations.

Non-current lease liabilities and deferred tax liabilities were broadly in line with December 31, 2020.

**Total current liabilities** of USD 30.2 billion decreased by USD 2.9 billion compared to December 31, 2020.

Provisions and other current liabilities increased by USD 0.5 billion mainly due to an increase in the treasury share repurchase obligation of USD 1.0 billion, which was partially offset by a decrease of USD 0.4 billion in other current provisions.

Current financial debts and derivative financial instruments decreased by USD 3.5 billion mainly due to the repayment of a USD 1.5 billion bond denominated in euro (notional amount of EUR 1.25 billion) and USD 0.7 billion bond denominated in euro (notional amount of EUR 0.6 billion) at maturity, repayments of current financial debts of USD 3.5 billion and favorable currency translation adjustments of USD 0.3 billion, partly offset by the reclassification from non-current to current financial debts of USD 2.6 billion.

Current lease liabilities, current income tax liabilities and trade payables were broadly in line with December 31, 2020.

## Equity

The Group's equity increased by USD 11.2 billion to USD 67.8 billion at December 31, 2021 compared to December 31, 2020.

This increase was mainly due to the net income of USD 24.0 billion, net actuarial gains of USD 1.8 billion, equity-based compensation of USD 0.7 billion and the net favorable fair value adjustments on financial instruments of USD 0.2 billion.

This was partially offset by the cash-dividend payment of USD 7.4 billion, purchase of treasury shares of USD 2.9 billion, the increase of the treasury share repurchase obligation of USD 1.0 billion and unfavorable currency translation differences of USD 4.8 billion.

## Net debt and debt/equity ratio

The Group's liquidity amounted to USD 28.3 billion at December 31, 2021, compared to USD 11.6 billion at December 31, 2020. Total non-current and current financial debts, including derivatives, amounted to USD 29.2 billion at December 31, 2021, compared to USD 36.0 billion at December 31, 2020.

The debt/equity ratio decreased to 0.43:1 at December 31, 2021, compared to 0.64:1 at December 31, 2020. As of December 31, 2021 the net debt was USD 0.9 billion, compared to USD 24.5 billion at December 31, 2020.

# Innovation Review

Benefiting from our continued focus on innovation, Novartis has one of the industry's most innovative and inventive pipelines with more than 160 projects in clinical development.

## Selected Innovative Medicines approvals: US, EU and Japan in Q4

| Product         | Active ingredient/<br>Descriptor | Indication                  | Region   |
|-----------------|----------------------------------|-----------------------------|----------|
| <i>Scemblix</i> | asciminib                        | 3L Chronic myeloid leukemia | US – Oct |
| <i>Cosentyx</i> | secukinumab                      | JPsA & ERA                  | US – Dec |
| <i>Leqvio</i>   | inclisiran                       | Hyperlipidemia              | US – Dec |

## Selected Innovative Medicines projects awaiting regulatory decisions

| Product                    | Indication   | Completed submissions |          |         | News update  |
|----------------------------|--|-----------------------|----------|---------|--|
|                            |  | US                    | EU       | Japan   |  |
| <i>Cosentyx</i>            | JPsA & ERA   | Approved              | Q2 2021  |         |  |
| <i>Cosentyx</i>            | <i>Cosentyx</i> 300mg auto-injector and pre-filled syringe   | Q4 2020               | Approved | Q3 2021 | – CRL issued by FDA  |
| <i>Jakavi</i>              | Acute graft-versus-host disease (GvHD)                       |                       | Q1 2021  | Q1 2021 | – US filing by Incyte  |
|                            | Chronic GvHD   |                       | Q1 2021  | Q1 2021 | – US filing by Incyte  |
| ABL001 (asciminib)         | 3L Chronic myeloid leukemia                                  | Approved              | Q2 2021  | Q3 2021 |  |
| <i>Beovu</i>               | Diabetic macular edema                                       | Q3 2021               | Q3 2021  | Q3 2021 |  |
| <sup>177</sup> Lu-PSMA-617 | Metastatic castration-resistant prostate cancer, post-taxane | Q3 2021               | Q4 2021  |         | – FDA priority review  |
| VDT482 (tislelizumab)      | 2L Esophageal cancer (ESCC)                                  | Q3 2021               |          |         | – BLA submitted by BeiGene to FDA                              |
| <i>Kymriah</i>             | Relapsed/refractory follicular lymphoma                      | Q3 2021               | Q3 2021  | Q4 2021 | – FDA priority review granted                                  |
| BYL719 (alpelisib)         | PIK3CA-related overgrowth spectrum                           | Q4 2021               |          |         | – US filing based on RWE data<br>– FDA priority review granted |

## Selected Innovative Medicines pipeline projects

| Compound/<br>product | Potential indication/<br>Disease area  | First planned<br>submissions | Current<br>Phase | News update   |
|----------------------|--|------------------------------|------------------|---|
| ABL001 (asciminib)   | 1L Chronic myeloid leukemia  | 2025                         | 3                |   |
| ACZ885 (canakinumab) | Adjuvant NSCLC   | 2023                         | 3                | – Enrollment completed                                  |
| <i>Aimovig</i>       | Migraine, pediatrics   | ≥2026                        | 3                |   |
| AVXS-101 (OAV101)    | Spinal muscular atrophy (IT formulation)   | 2025                         | 3                | – Pivotal confirmatory study initiating                 |
| <i>Beovu</i>         | Diabetic retinopathy   | 2025                         | 3                |   |
| BYL719 (alpelisib)   | Triple negative breast cancer  | 2023                         | 3                |   |
|                      | Human epidermal growth factor receptor 2-positive (HER2+) advanced breast cancer | 2025                         | 3                |   |
| CEE321               | Ovarian cancer   | 2023                         | 3                |   |
|                      | Atopic dermatitis  |                              | 1                | – Program discontinued unfavorable benefit/risk profile |
| CFZ533 (iscalimab)   | Liver transplantation  | ≥2026                        | 2                |   |
|                      | Sjögren's syndrome   | ≥2026                        | 2                |   |
| <i>Coartem</i>       | Malaria, uncomplicated (<5 kg patients)  | 2024                         | 3                | – Submission planned in Switzerland                     |

| Compound/<br>product                     | Potential indication/<br>Disease area  | First planned<br>submissions | Current<br>Phase | News update  |
|--|--|------------------------------|------------------|--|
| Cosentyx                                 | Ankylosing spondylitis head-to-head study versus Sandoz biosimilar Hyrimoz (adalimumab)                                  | 2022                         | 3                |  |
|  | Hidradenitis suppurativa   | 2022                         | 3                |  |
|  | Giant cell arteritis   | 2024                         | 3                |  |
|  | Lichen planus  | 2025                         | 2                |  |
|  | Lupus nephritis  | ≥2026                        | 3                |  |
|  | Psoriatic arthritis (IV formulation)   | 2022                         | 3                |  |
|  | Ankylosing spondylitis (IV formulation)  | 2023                         | 3                |  |
| CPK850                                   | Retinitis pigmentosa   | ≥2026                        | 2                |  |
| CSJ117                                   | Asthma   | ≥2026                        | 2                |  |
| JDQ443                                   | Non-small cell lung cancer, 2/3L   | 2024                         | 3                | - Ph3 to be initiated in H2 2022   |
|  | Non-small cell lung cancer (combos)  | ≥2026                        | 2                |  |
| KAE609<br>(cipargamin)                   | Malaria, uncomplicated   | ≥2026                        | 2                |  |
|  | Malaria, severe  | ≥2026                        | 2                |  |
| KAF156<br>(ganaplacide)                  | Malaria, uncomplicated   | ≥2026                        | 2                |  |
| Kisqali +<br>endocrine therapy           | Hormone receptor-positive (HR+)/human epidermal growth factor receptor 2-negative (HER2-) early breast cancer (adjuvant) | 2023                         | 3                |  |
| Leqvio                                   | Secondary prevention of cardiovascular events in patients with elevated levels of LDL-C                                  | ≥2026                        | 3                | - Ph3 VICTORION-2P initiated   |
| LJN452<br>(tropifexor +<br>licoglifozin) | Nonalcoholic steatohepatitis   | ≥2026                        | 2                |  |
| LMI070 (branaplam)                       | Huntington's disease   | ≥2026                        | 2                | - FDA Orphan Drug designation<br>- FDA Fast Track designation granted                      |
| LNA043                                   | Osteoarthritis   | ≥2026                        | 2                | - FDA Fast Track designation   |
| LNP023 (iptacopan)                       | Paroxysmal nocturnal hemoglobinuria  | 2023                         | 3                | - FDA, EU Orphan Drug designation<br>- FDA Breakthrough Therapy designation                |
|  | IgA nephropathy  | 2023                         | 3                | - EU Orphan Drug designation   |
|  | C3 glomerulopathy  | 2023                         | 3                | - EU Orphan Drug designation<br>- EU PRIME designation<br>- FDA Rare Pediatric designation |
|  | Membranous nephropathy   | ≥2026                        | 2                |  |
|  | Atypical haemolytic uraemic syndrome   | 2025                         | 3                |  |
| LOU064<br>(remibrutinib)                 | Chronic spontaneous urticaria  | 2024                         | 3                | - Ph3 initiated  |
|  | Multiple sclerosis   | 2025                         | 3                | - Ph3 initiated  |
|  | Sjögren's syndrome   | ≥2026                        | 2                |  |
| Lutathera                                | Gastroenteropancreatic neuroendocrine tumors, 1 <sup>st</sup> line in G2/3 tumors  | 2023                         | 3                |  |
| <sup>177</sup> Lu-PSMA-617               | Metastatic castration-resistant prostate cancer pre-taxane   | 2023                         | 3                |  |
|  | Metastatic hormone sensitive prostate cancer   | 2024                         | 3                |  |
| <sup>177</sup> Lu-NeoB                   | Multiple solid tumors  | ≥2026                        | 1                |  |
| LXE408                                   | Visceral leishmaniasis   | ≥2026                        | 2                |  |
| MBG453<br>(sabatolimab)                  | Myelodysplastic syndrome   | 2022/2023                    | 3                | - FDA Fast Track designation<br>- EU Orphan Drug designation                               |
|  | Unfit acute myeloid leukemia   | 2024                         | 2                |  |
| MIJ821                                   | Depression   | ≥2026                        | 2                |  |
| NIS793                                   | 1L Pancreatic cancer   | 2025                         | 3                | - FDA Orphan Drug designation  |

| Compound/<br>product     | Potential indication/<br>Disease area  | First planned<br>submissions | Current<br>Phase | News update  |
|--------------------------|--|------------------------------|------------------|--|
| QBW251<br>(icenticaftor) | Chronic obstructive pulmonary disease  | 2025                         | 2                |  |
| QGE031<br>(ligelizumab)  | Chronic spontaneous urticaria  | TBD                          | 3                | - FDA Breakthrough Therapy designation<br>- Ligelizumab demonstrated superiority compared with placebo PEARL 1 and PEARL 2 trials, but not versus omalizumab further evaluating PEARL data |
|                          | Chronic inducible urticaria  | 2025                         | 3                | - Ph3 initiated  |
|                          | Food allergy   | 2025                         | 3                | - Ph3 initiated  |
| SAF312<br>(libvatrep)    | Chronic ocular surface pain  | ≥2026                        | 2                |  |
| SKO136<br>(ensovibep)    | Corona virus infection   | 2022                         | 2                | - Positive topline data from Ph2   |
| TQJ230<br>(pelacarsen)   | Secondary prevention of cardiovascular events in patients with elevated levels of lipoprotein(a) | 2025                         | 3                | - Enrollment ongoing<br>- FDA Fast Track designation<br>- China Breakthrough Therapy designation   |
| UNR844                   | Presbyopia   | 2024                         | 2                |  |
| VAY736<br>(ianalumab)    | Auto-immune hepatitis  | ≥2026                        | 2                |  |
|                          | Sjögren's syndrome   | ≥2026                        | 2                | - FDA Fast Track designation   |
| VDT482<br>(tislelizumab) | NSCLC  | 2022                         | 3                |  |
|                          | 1L Nasopharyngeal carcinoma  | 2022                         | 3                |  |
|                          | 1L Gastric cancer  | 2023                         | 3                |  |
|                          | 1L ESCC  | 2023                         | 3                |  |
|                          | Localized ESCC   | 2023                         | 3                |  |
|                          | 1L Hepatocellular carcinoma  | 2023                         | 3                |  |
|                          | 1L Small cell lung cancer  | 2024                         | 3                |  |
|                          | 1L Bladder urothelial cell carcinoma   | 2024                         | 3                |  |
| VPM087<br>(gevokizumab)  | Colorectal cancer, 1 <sup>st</sup> line  | ≥2026                        | 1                |  |
| <i>Xolair</i>            | Food allergy   | 2023                         | 3                |  |
| YTB323                   | 2L Diffuse large B-cell lymphoma   | 2024                         | 3                | - Ph3 to be initiated in 2022  |

## Selected Sandoz approvals and pipeline projects

| Project/<br>Compound                | Potential indication/<br>Disease area  | News update                         |
|-------------------------------------|--|-------------------------------------|
| GP2411<br>(denosumab)               | Osteoporosis (same as originator)      | - In Ph3                            |
| SOK583<br>(afibercept)              | Ophthalmology (same as originator)     | - In Ph3                            |
| Insulin glargine,<br>lispro, aspart | Diabetes                               | - Collaboration with Gan & Lee      |
| Natalizumab                         | Multiple sclerosis and Crohn's disease | - Collaboration Polpharma Biologics |
| Trastuzumab                         | HER2-positive cancer tumors            | - Collaboration EirGenix            |
| Bevacizumab                         | Solid tumors                           | - Bio-Thera Solutions               |

# Condensed Consolidated Financial Statements

## Consolidated income statements

Fourth quarter (unaudited)

(USD millions unless indicated otherwise)

|   | Note | Q4 2021       | Q4 2020       |
|---|------|---------------|---------------|
| <b>Net sales to third parties</b>                                 | 9    | <b>13 229</b> | <b>12 770</b> |
| Other revenues  | 9    | 293           | 260           |
| Cost of goods sold  |      | -3 976        | -4 217        |
| <b>Gross profit</b>   |      | <b>9 546</b>  | <b>8 813</b>  |
| Selling, general and administration                               |      | -3 985        | -3 924        |
| Research and development  |      | -2 409        | -2 333        |
| Other income  |      | 371           | 643           |
| Other expense   |      | -961          | -555          |
| <b>Operating income</b>   |      | <b>2 562</b>  | <b>2 644</b>  |
| Income from associated companies                                  | 3    | 14 621        | 141           |
| Interest expense  |      | -206          | -201          |
| Other financial income and expense                                |      | -26           | -25           |
| <b>Income before taxes</b>  |      | <b>16 951</b> | <b>2 559</b>  |
| Income taxes  |      | -645          | -460          |
| <b>Net income</b>   |      | <b>16 306</b> | <b>2 099</b>  |
| <i>Attributable to:</i>   |      |               |               |
| Shareholders of Novartis AG                                       |      | 16 308        | 2 094         |
| Non-controlling interests   |      | -2            | 5             |
| Weighted average number of shares outstanding – Basic (million)   |      | 2 237         | 2 265         |
| <b>Basic earnings per share (USD) <sup>1</sup></b>                |      | <b>7.29</b>   | <b>0.92</b>   |
| Weighted average number of shares outstanding – Diluted (million) |      | 2 253         | 2 282         |
| <b>Diluted earnings per share (USD) <sup>1</sup></b>              |      | <b>7.24</b>   | <b>0.92</b>   |

<sup>1</sup> Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Novartis AG.

## Consolidated income statements

Full year (audited)

(USD millions unless indicated otherwise)

|   | Note | FY 2021       | FY 2020       |
|---|------|---------------|---------------|
| <b>Net sales to third parties</b>                                 | 9    | <b>51 626</b> | <b>48 659</b> |
| Other revenues  | 9    | 1 251         | 1 239         |
| Cost of goods sold  |      | -15 867       | -15 121       |
| <b>Gross profit</b>   |      | <b>37 010</b> | <b>34 777</b> |
| Selling, general and administration                               |      | -14 886       | -14 197       |
| Research and development  |      | -9 540        | -8 980        |
| Other income  |      | 1 852         | 1 742         |
| Other expense   |      | -2 747        | -3 190        |
| <b>Operating income</b>   |      | <b>11 689</b> | <b>10 152</b> |
| Income from associated companies                                  | 3    | 15 339        | 673           |
| Interest expense  |      | -811          | -869          |
| Other financial income and expense                                |      | -80           | -78           |
| <b>Income before taxes</b>  |      | <b>26 137</b> | <b>9 878</b>  |
| Income taxes  |      | -2 119        | -1 807        |
| <b>Net income</b>   |      | <b>24 018</b> | <b>8 071</b>  |
| <i>Attributable to:</i>   |      |               |               |
| Shareholders of Novartis AG                                       |      | 24 021        | 8 072         |
| Non-controlling interests   |      | -3            | -1            |
| Weighted average number of shares outstanding – Basic (million)   |      | 2 243         | 2 277         |
| <b>Basic earnings per share (USD) <sup>1</sup></b>                |      | <b>10.71</b>  | <b>3.55</b>   |
| Weighted average number of shares outstanding – Diluted (million) |      | 2 260         | 2 296         |
| <b>Diluted earnings per share (USD) <sup>1</sup></b>              |      | <b>10.63</b>  | <b>3.52</b>   |

<sup>1</sup> Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Novartis AG.

## Consolidated statements of comprehensive income

Fourth quarter (unaudited)

| (USD millions)  | Q4 2021       | Q4 2020      |
|---|---------------|--------------|
| <b>Net income</b>   | <b>16 306</b> | <b>2 099</b> |
| <b>Other comprehensive income</b>   |               |              |
| <b>Items that are or may be recycled into the consolidated income statement</b>               |               |              |
| Novartis share of other comprehensive income recognized by associated companies, net of taxes | 3             |              |
| Net investment hedge, net of taxes  | 89            | -103         |
| Currency translation effects, net of taxes  | -2 699        | 1 701        |
| Total of items that are or may be recycled  | -2 607        | 1 598        |
| <b>Items that will never be recycled into the consolidated income statement</b>               |               |              |
| Actuarial gains from defined benefit plans, net of taxes                                      | 6             | 625          |
| Fair value adjustments on equity securities, net of taxes                                     | -48           | 204          |
| Total of items that will never be recycled  | -42           | 829          |
| <b>Total comprehensive income</b>   | <b>13 657</b> | <b>4 526</b> |
| <i>Attributable to:</i>   |               |              |
| Shareholders of Novartis AG   | 13 660        | 4 521        |
| Non-controlling interests   | -3            | 5            |

Full year (audited)

| (USD millions)  | FY 2021       | FY 2020       |
|---|---------------|---------------|
| <b>Net income</b>   | <b>24 018</b> | <b>8 071</b>  |
| <b>Other comprehensive income</b>   |               |               |
| <b>Items that are or may be recycled into the consolidated income statement</b>               |               |               |
| Novartis share of other comprehensive income recognized by associated companies, net of taxes | 46            | -56           |
| Net investment hedge, net of taxes  | 216           | -201          |
| Currency translation effects, net of taxes  | -4 762        | 3 194         |
| Total of items that are or may be recycled  | -4 500        | 2 937         |
| <b>Items that will never be recycled into the consolidated income statement</b>               |               |               |
| Actuarial gains from defined benefit plans, net of taxes                                      | 1 809         | 143           |
| Fair value adjustments on equity securities, net of taxes                                     | 194           | 250           |
| Total of items that will never be recycled  | 2 003         | 393           |
| <b>Total comprehensive income</b>   | <b>21 521</b> | <b>11 401</b> |
| <i>Attributable to:</i>   |               |               |
| Shareholders of Novartis AG   | 21 528        | 11 403        |
| Non-controlling interests   | -7            | -2            |

## Consolidated balance sheets

| (USD millions)   | Note | Dec 31,<br>2021<br>(audited) | Dec 31,<br>2020<br>(audited) <sup>1</sup> |
|--|------|------------------------------|---|
| <b>Assets</b>  |      |                              |   |
| <b>Non-current assets</b>  |      |                              |   |
| Property, plant and equipment  | 9    | 11 545                       | 12 263                                    |
| Right-of-use assets  |      | 1 561                        | 1 676                                     |
| Goodwill   | 9    | 29 595                       | 29 999                                    |
| Intangible assets other than goodwill  | 9    | 34 182                       | 36 809                                    |
| Investments in associated companies  | 3    | 205                          | 9 632                                     |
| Deferred tax assets  |      | 3 743                        | 3 933                                     |
| Financial assets   |      | 3 036                        | 2 901                                     |
| Other non-current assets   |      | 2 210                        | 892                                       |
| <b>Total non-current assets</b>  |      | <b>86 077</b>                | <b>98 105</b>                             |
| <b>Current assets</b>  |      |                              |   |
| Inventories  |      | 6 666                        | 7 131                                     |
| Trade receivables  |      | 8 005                        | 8 217                                     |
| Income tax receivables   |      | 278                          | 239                                       |
| Marketable securities, commodities, time deposits and derivative financial instruments |      | 15 922                       | 1 905                                     |
| Cash and cash equivalents  |      | 12 407                       | 9 658                                     |
| Other current assets   |      | 2 440                        | 2 523                                     |
| <b>Total current assets</b>  |      | <b>45 718</b>                | <b>29 673</b>                             |
| <b>Total assets</b>  |      | <b>131 795</b>               | <b>127 778</b>                            |
| <b>Equity and liabilities</b>  |      |                              |   |
| <b>Equity</b>  |      |                              |   |
| Share capital  |      | 901                          | 913                                       |
| Treasury shares  |      | -48                          | -53                                       |
| Reserves   |      | 66 802                       | 55 738                                    |
| <b>Equity attributable to Novartis AG shareholders</b>                                 |      | <b>67 655</b>                | <b>56 598</b>                             |
| Non-controlling interests  |      | 167                          | 68  |
| <b>Total equity</b>  |      | <b>67 822</b>                | <b>56 666</b>                             |
| <b>Liabilities</b>   |      |                              |   |
| <b>Non-current liabilities</b>   |      |                              |   |
| Financial debts  |      | 22 902                       | 26 259                                    |
| Lease liabilities  |      | 1 621                        | 1 719                                     |
| Deferred tax liabilities   |      | 3 070                        | 3 141                                     |
| Provisions and other non-current liabilities   |      | 6 172                        | 6 934                                     |
| <b>Total non-current liabilities</b>   |      | <b>33 765</b>                | <b>38 053</b>                             |
| <b>Current liabilities</b>   |      |                              |   |
| Trade payables   |      | 5 553                        | 5 403                                     |
| Financial debts and derivative financial instruments                                   |      | 6 295                        | 9 785                                     |
| Lease liabilities  |      | 275                          | 286                                       |
| Current income tax liabilities   |      | 2 415                        | 2 458                                     |
| Provisions and other current liabilities   |      | 15 670                       | 15 127                                    |
| <b>Total current liabilities</b>   |      | <b>30 208</b>                | <b>33 059</b>                             |
| <b>Total liabilities</b>   |      | <b>63 973</b>                | <b>71 112</b>                             |
| <b>Total equity and liabilities</b>  |      | <b>131 795</b>               | <b>127 778</b>                            |

<sup>1</sup> The December 31, 2020 deferred tax assets and deferred tax liabilities balances have been adjusted to conform with the 2021 presentation, see Note 4 for additional disclosures.

## Consolidated statements of changes in equity

Fourth quarter (unaudited)

| (USD millions)  | Note | Share capital | Treasury shares | Reserves          |                         | Issued share capital and reserves attributable to Novartis shareholders | Non-controlling interests | Total equity  |
|---|------|---------------|-----------------|-------------------|-------------------------|---|---------------------------|---------------|
|   |      |               |                 | Retained earnings | Total value adjustments |   |                           |               |
| <b>Total equity at October 1, 2021</b>  |      | <b>901</b>    | <b>-47</b>      | <b>57 437</b>     | <b>-1 520</b>           | <b>56 771</b>   | <b>166</b>                | <b>56 937</b> |
| Net income  |      |               |                 | 16 308            |                         | 16 308  | -2                        | 16 306        |
| Other comprehensive income  |      |               |                 | 3                 | -2 651                  | -2 648  | -1                        | -2 649        |
| <b>Total comprehensive income</b>   |      |               |                 | <b>16 311</b>     | <b>-2 651</b>           | <b>13 660</b>   | <b>-3</b>                 | <b>13 657</b> |
| Purchase of treasury shares   |      |               | -1              | -224              |                         | -225  |                           | -225          |
| Equity-based compensation   |      |               |                 | 247               |                         | 247   |                           | 247           |
| Taxes on treasury share transactions  |      |               |                 | 1                 |                         | 1   |                           | 1             |
| Increase of treasury share repurchase obligation under a share buyback trading plan | 5.1  |               |                 | -2 809            |                         | -2 809  |                           | -2 809        |
| Transaction costs, net of taxes   | 5.2  |               |                 | 2                 |                         | 2   |                           | 2             |
| Fair value adjustments on financial assets sold                                     |      |               |                 | -46               | 46                      |   |                           |               |
| Fair value adjustments related to divestments                                       |      |               |                 | 62                | -62                     |   |                           |               |
| Impact of change in ownership of consolidated entities                              |      |               |                 | -3                |                         | -3  | 4                         | 1             |
| Other movements   | 5.3  |               |                 | 11                |                         | 11  |                           | 11            |
| <b>Total of other equity movements</b>  |      |               | <b>-1</b>       | <b>-2 759</b>     | <b>-16</b>              | <b>-2 776</b>   | <b>4</b>                  | <b>-2 772</b> |
| <b>Total equity at December 31, 2021</b>  |      | <b>901</b>    | <b>-48</b>      | <b>70 989</b>     | <b>-4 187</b>           | <b>67 655</b>   | <b>167</b>                | <b>67 822</b> |

| (USD millions)  | Note | Share capital | Treasury shares | Reserves          |                         | Issued share capital and reserves attributable to Novartis shareholders | Non-controlling interests | Total equity  |
|---|------|---------------|-----------------|-------------------|-------------------------|---|---------------------------|---------------|
|   |      |               |                 | Retained earnings | Total value adjustments |   |                           |               |
| <b>Total equity at October 1, 2020</b>  |      | <b>913</b>    | <b>-44</b>      | <b>57 403</b>     | <b>-3 788</b>           | <b>54 484</b>   | <b>70</b>                 | <b>54 554</b> |
| Net income  |      |               |                 | 2 094             |                         | 2 094   | 5                         | 2 099         |
| Other comprehensive income  |      |               |                 |                   | 2 427                   | 2 427   | 0                         | 2 427         |
| <b>Total comprehensive income</b>   |      |               |                 | <b>2 094</b>      | <b>2 427</b>            | <b>4 521</b>  | <b>5</b>                  | <b>4 526</b>  |
| Purchase of treasury shares   |      |               | -9              | -1 587            |                         | -1 596  |                           | -1 596        |
| Repurchase of options   |      |               |                 | -89               |                         | -89   |                           | -89           |
| Equity-based compensation   |      |               | 0               | 177               |                         | 177   |                           | 177           |
| Shares delivered to Alcon employees as a result of the Alcon spin-off               |      |               | 0               | 1                 |                         | 1   |                           | 1             |
| Taxes on treasury share transactions  |      |               |                 | 1                 |                         | 1   |                           | 1             |
| Increase of treasury share repurchase obligation under a share buyback trading plan | 5.1  |               |                 | -912              |                         | -912  |                           | -912          |
| Fair value adjustments on financial assets sold                                     |      |               |                 | 59                | -59                     |   |                           |               |
| Fair value adjustments related to divestments                                       |      |               |                 | -2                | 2                       |   |                           |               |
| Impact of change in ownership of consolidated entities                              |      |               |                 | 7                 | -1                      | 6   | -7                        | -1            |
| Other movements   | 5.3  |               |                 | 5                 |                         | 5   |                           | 5             |
| <b>Total of other equity movements</b>  |      |               | <b>-9</b>       | <b>-2 340</b>     | <b>-58</b>              | <b>-2 407</b>   | <b>-7</b>                 | <b>-2 414</b> |
| <b>Total equity at December 31, 2020</b>  |      | <b>913</b>    | <b>-53</b>      | <b>57 157</b>     | <b>-1 419</b>           | <b>56 598</b>   | <b>68</b>                 | <b>56 666</b> |

## Consolidated statements of changes in equity

Full year (audited)

| (USD millions)  | Note | Share capital | Treasury shares | Reserves          |                         | Issued share capital and reserves attributable to Novartis shareholders | Non-controlling interests | Total equity   |
|---|------|---------------|-----------------|-------------------|-------------------------|---|---------------------------|----------------|
|   |      |               |                 | Retained earnings | Total value adjustments |   |                           |                |
| <b>Total equity at January 1, 2021</b>  |      | <b>913</b>    | <b>-53</b>      | <b>57 157</b>     | <b>-1 419</b>           | <b>56 598</b>   | <b>68</b>                 | <b>56 666</b>  |
| Net income  |      |               |                 | 24 021            |                         | 24 021  | -3                        | 24 018         |
| Other comprehensive income  |      |               |                 | 46                | -2 539                  | -2 493  | -4                        | -2 497         |
| <b>Total comprehensive income</b>   |      |               |                 | <b>24 067</b>     | <b>-2 539</b>           | <b>21 528</b>   | <b>-7</b>                 | <b>21 521</b>  |
| Dividends   |      |               |                 | -7 368            |                         | -7 368  |                           | -7 368         |
| Purchase of treasury shares   |      |               | -18             | -2 902            |                         | -2 920  |                           | -2 920         |
| Reduction of share capital  |      | -12           | 18              | -6                |                         |   |                           |                |
| Exercise of options and employee transactions                                       |      |               | 0               | 39                |                         | 39  |                           | 39             |
| Equity-based compensation   |      |               | 5               | 740               |                         | 745   |                           | 745            |
| Shares delivered to Alcon employees as a result of the Alcon spin-off               |      |               | 0               | 17                |                         | 17  |                           | 17             |
| Taxes on treasury share transactions  |      |               |                 | 1                 |                         | 1   |                           | 1              |
| Increase of treasury share repurchase obligation under a share buyback trading plan | 5.1  |               |                 | -1 040            |                         | -1 040  |                           | -1 040         |
| Transaction costs, net of taxes   | 5.2  |               |                 | 12                |                         | 12  |                           | 12             |
| Changes in non-controlling interests  |      |               |                 |                   |                         |   | -1                        | -1             |
| Fair value adjustments on financial assets sold                                     |      |               |                 | 164               | -164                    |   |                           |                |
| Fair value adjustments related to divestments                                       |      |               |                 | 65                | -65                     |   |                           |                |
| Impact of change in ownership of consolidated entities                              |      |               |                 | -5                | 0                       | -5  | 107                       | 102            |
| Other movements   | 5.3  |               |                 | 48                |                         | 48  |                           | 48             |
| <b>Total of other equity movements</b>  |      | <b>-12</b>    | <b>5</b>        | <b>-10 235</b>    | <b>-229</b>             | <b>-10 471</b>  | <b>106</b>                | <b>-10 365</b> |
| <b>Total equity at December 31, 2021</b>  |      | <b>901</b>    | <b>-48</b>      | <b>70 989</b>     | <b>-4 187</b>           | <b>67 655</b>   | <b>167</b>                | <b>67 822</b>  |

| (USD millions)  | Note | Share capital | Treasury shares | Reserves          |                         | Issued share capital and reserves attributable to Novartis shareholders | Non-controlling interests | Total equity   |
|---|------|---------------|-----------------|-------------------|-------------------------|---|---------------------------|----------------|
|   |      |               |                 | Retained earnings | Total value adjustments |   |                           |                |
| <b>Total equity at January 1, 2020</b>  |      | <b>936</b>    | <b>-80</b>      | <b>59 275</b>     | <b>-4 657</b>           | <b>55 474</b>   | <b>77</b>                 | <b>55 551</b>  |
| Net income  |      |               |                 | 8 072             |                         | 8 072   | -1                        | 8 071          |
| Other comprehensive income  |      |               |                 | -56               | 3 387                   | 3 331   | -1                        | 3 330          |
| <b>Total comprehensive income</b>   |      |               |                 | <b>8 016</b>      | <b>3 387</b>            | <b>11 403</b>   | <b>-2</b>                 | <b>11 401</b>  |
| Dividends   |      |               |                 | -6 987            |                         | -6 987  |                           | -6 987         |
| Purchase of treasury shares   |      |               | -18             | -3 038            |                         | -3 056  |                           | -3 056         |
| Reduction of share capital  |      | -23           | 31              | -8                |                         |   |                           |                |
| Exercise of options and employee transactions                                       |      |               | 8               | 798               |                         | 806   |                           | 806            |
| Repurchase of options   |      |               |                 | -89               |                         | -89   |                           | -89            |
| Equity-based compensation   |      |               | 6               | 724               |                         | 730   |                           | 730            |
| Shares delivered to Alcon employees as a result of the Alcon spin-off               |      |               | 0               | 30                |                         | 30  |                           | 30             |
| Taxes on treasury share transactions  |      |               |                 | 32                |                         | 32  |                           | 32             |
| Increase of treasury share repurchase obligation under a share buyback trading plan | 5.1  |               |                 | -1 769            |                         | -1 769  |                           | -1 769         |
| Fair value adjustments on financial assets sold                                     |      |               |                 | 150               | -150                    |   |                           |                |
| Fair value adjustments related to divestments                                       |      |               |                 | -2                | 2                       |   |                           |                |
| Impact of change in ownership of consolidated entities                              |      |               |                 | 7                 | -1                      | 6   | -7                        | -1             |
| Other movements   | 5.3  |               |                 | 18                |                         | 18  |                           | 18             |
| <b>Total of other equity movements</b>  |      | <b>-23</b>    | <b>27</b>       | <b>-10 134</b>    | <b>-149</b>             | <b>-10 279</b>  | <b>-7</b>                 | <b>-10 286</b> |
| <b>Total equity at December 31, 2020</b>  |      | <b>913</b>    | <b>-53</b>      | <b>57 157</b>     | <b>-1 419</b>           | <b>56 598</b>   | <b>68</b>                 | <b>56 666</b>  |

## Consolidated statements of cash flows

Fourth quarter (unaudited)

| (USD millions)   | Note | Q4 2021       | Q4 2020       |
|--|------|---------------|---------------|
| <b>Net income</b>  |      | <b>16 306</b> | <b>2 099</b>  |
| <i>Adjustments to reconcile net income to net cash flows from operating activities</i>       |      |               |               |
| Reversal of non-cash items and other adjustments   | 7.1  | -11 941       | 1 997         |
| Dividends received from associated companies and others                                      |      | 2             | 1             |
| Interest received  |      | 5             | 5             |
| Interest paid  |      | -206          | -221          |
| Other financial receipts   |      |               | 176           |
| Other financial payments   |      | 14            | -11           |
| Income taxes paid  | 7.2  | -883          | -618          |
| <b>Net cash flows from operating activities before working capital and provision changes</b> |      | <b>3 297</b>  | <b>3 428</b>  |
| Payments out of provisions and other net cash movements in non-current liabilities           |      | -589          | -645          |
| Change in net current assets and other operating cash flow items                             |      | 1 176         | 1 222         |
| <b>Net cash flows from operating activities</b>  |      | <b>3 884</b>  | <b>4 005</b>  |
| Purchases of property, plant and equipment   |      | -460          | -521          |
| Proceeds from sale of property, plant and equipment  |      | 74            | 82            |
| Purchases of intangible assets   |      | -517          | -502          |
| Proceeds from sale of intangible assets  |      | 84            | 176           |
| Purchases of financial assets  |      | -67           | -105          |
| Proceeds from sale of financial assets   |      | 34            | 256           |
| Purchases of other non-current assets  |      | -5            | -7            |
| Proceeds from sale of other non-current assets   |      | 0             | 2             |
| Divestments and acquisitions of interests in associated companies, net                       | 7.3  | 20 675        | -1            |
| Acquisitions and divestments of businesses, net  | 7.4  | -343          | 54            |
| Purchases of marketable securities, commodities and time deposits                            |      | -15 567       | -55           |
| Proceeds from sale of marketable securities, commodities and time deposits                   |      | 655           | 52            |
| <b>Net cash flows from/used in investing activities from continuing operations</b>           |      | <b>4 563</b>  | <b>-569</b>   |
| Net cash flows used in investing activities from discontinued operations                     |      |               | -2            |
| <b>Net cash flows from/used in investing activities</b>                                      |      | <b>4 563</b>  | <b>-571</b>   |
| Acquisitions of treasury shares  |      | -148          | -1 768        |
| Proceeds from exercised options and other treasury share transactions, net                   |      |               | -98           |
| Increase in non-current financial debts  |      | 16            |               |
| Repayments of non-current financial debts  |      | -696          | -1            |
| Change in current financial debts  |      | -2 350        | -935          |
| Payments of lease liabilities, net   |      | -80           | -95           |
| Impact of change in ownership of consolidated entities                                       |      | 1             | -2            |
| Other financing cash flows, net  |      | 6             | -24           |
| <b>Net cash flows used in financing activities from continuing operations</b>                |      | <b>-3 251</b> | <b>-2 923</b> |
| Net cash flows used in financing activities from discontinued operations                     |      |               | -13           |
| <b>Net cash flows used in financing activities</b>   |      | <b>-3 251</b> | <b>-2 936</b> |
| <b>Net change in cash and cash equivalents before effect of exchange rate changes</b>        |      | <b>5 196</b>  | <b>498</b>    |
| Effect of exchange rate changes on cash and cash equivalents                                 |      | 0             | 166           |
| <b>Net change in cash and cash equivalents</b>   |      | <b>5 196</b>  | <b>664</b>    |
| Cash and cash equivalents at October 1   |      | 7 211         | 8 994         |
| <b>Cash and cash equivalents at December 31</b>  |      | <b>12 407</b> | <b>9 658</b>  |

## Consolidated statements of cash flows

Full year (audited)

| (USD millions)   | Note | FY 2021        | FY 2020        |
|--|------|----------------|----------------|
| <b>Net income</b>  |      | <b>24 018</b>  | <b>8 071</b>   |
| <i>Adjustments to reconcile net income to net cash flows from operating activities</i>       |      |                |                |
| Reversal of non-cash items and other adjustments   | 7.1  | -5 299         | 9 881          |
| Dividends received from associated companies and others                                      |      | 525            | 490            |
| Interest received  |      | 13             | 47             |
| Interest paid  |      | -664           | -703           |
| Other financial receipts   |      |                | 464            |
| Other financial payments   |      | -302           | -39            |
| Income taxes paid  | 7.2  | -2 342         | -1 833         |
| <b>Net cash flows from operating activities before working capital and provision changes</b> |      | <b>15 949</b>  | <b>16 378</b>  |
| Payments out of provisions and other net cash movements in non-current liabilities           |      | -1 119         | -2 437         |
| Change in net current assets and other operating cash flow items                             |      | 241            | -291           |
| <b>Net cash flows from operating activities</b>  |      | <b>15 071</b>  | <b>13 650</b>  |
| Purchases of property, plant and equipment   |      | -1 378         | -1 275         |
| Proceeds from sale of property, plant and equipment  |      | 240            | 88             |
| Purchases of intangible assets   |      | -1 593         | -1 310         |
| Proceeds from sale of intangible assets  |      | 748            | 380            |
| Purchases of financial assets  |      | -191           | -230           |
| Proceeds from sale of financial assets   |      | 442            | 723            |
| Purchases of other non-current assets  |      | -61            | -61            |
| Proceeds from sale of other non-current assets   |      | 4              | 2              |
| Divestments and acquisitions of interests in associated companies, net                       | 7.3  | 20 669         | -7             |
| Acquisitions and divestments of businesses, net  | 7.4  | -567           | -9 957         |
| Purchases of marketable securities, commodities and time deposits                            |      | -16 403        | -1 900         |
| Proceeds from sale of marketable securities, commodities and time deposits                   |      | 2 298          | 492            |
| <b>Net cash flows from/used in investing activities from continuing operations</b>           |      | <b>4 208</b>   | <b>-13 055</b> |
| Net cash flows used in investing activities from discontinued operations                     |      |                | -127           |
| <b>Net cash flows from/used in investing activities</b>                                      |      | <b>4 208</b>   | <b>-13 182</b> |
| Dividends paid to shareholders of Novartis AG  |      | -7 368         | -6 987         |
| Acquisitions of treasury shares  |      | -3 057         | -2 842         |
| Proceeds from exercised options and other treasury share transactions, net                   |      | 53             | 748            |
| Increase in non-current financial debts  |      | 16             | 7 126          |
| Repayments of non-current financial debts  |      | -2 162         | -2 003         |
| Change in current financial debts  |      | -3 524         | 2 261          |
| Payments of lease liabilities, net   |      | -316           | -312           |
| Impact of change in ownership of consolidated entities                                       |      | -3             | -2             |
| Other financing cash flows, net  |      | 97             | -147           |
| <b>Net cash flows used in financing activities from continuing operations</b>                |      | <b>-16 264</b> | <b>-2 158</b>  |
| Net cash flows used in financing activities from discontinued operations                     |      |                | -50            |
| <b>Net cash flows used in financing activities</b>   |      | <b>-16 264</b> | <b>-2 208</b>  |
| <b>Net change in cash and cash equivalents before effect of exchange rate changes</b>        |      | <b>3 015</b>   | <b>-1 740</b>  |
| Effect of exchange rate changes on cash and cash equivalents                                 |      | -266           | 286            |
| <b>Net change in cash and cash equivalents</b>   |      | <b>2 749</b>   | <b>-1 454</b>  |
| Cash and cash equivalents at January 1   |      | 9 658          | 11 112         |
| <b>Cash and cash equivalents at December 31</b>  |      | <b>12 407</b>  | <b>9 658</b>   |

# Notes to the Condensed Consolidated Financial Statements for the three-month interim period (unaudited) and year ended December 31, 2021 (audited)

## 1. Basis of preparation

These Condensed Consolidated Financial Statements for the three-month and year ended December 31, 2021, were prepared in accordance with International

Accounting Standard 34 *Interim Financial Reporting* and accounting policies set out in the 2021 Annual Report published on February 2, 2022.

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## 2. Selected critical accounting policies

The Group's principal accounting policies are set out in Note 1 to the Consolidated Financial Statements in the 2021 Annual Report and conform with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The preparation of financial statements requires management to make certain estimates and assumptions, either at the balance sheet date or during the year, which affect the reported amounts of revenues, expenses, assets, liabilities and contingent amounts.

Estimates are based on historical experience and other assumptions that are considered reasonable under the given circumstances and are continually monitored. Actual outcomes and results could differ from those

estimates and assumptions. Revisions to estimates are recognized in the period in which the estimate is revised.

As disclosed in the 2021 Annual Report, goodwill, 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 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.

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## 3. Significant transactions

The Group applied the acquisition method of accounting for businesses acquired, and did not elect to apply the optional concentration test to account for acquired business as an asset separately acquired.

### Significant transactions in 2021

#### **Sandoz – acquisition of GSK's cephalosporin antibiotics business**

On February 10, 2021, Sandoz entered into an agreement with certain subsidiaries of GlaxoSmithKline plc (GSK) for the acquisition of the GSK's cephalosporin antibiotics business.

Under the agreement, Sandoz acquired the global rights to three established brands (Zinnat®, Zinacef® and Fortum®) in more than 100 markets. It excluded the rights in the US, Australia and Germany to certain of those brands, which were previously divested by GSK, and the rights in India, Pakistan, Egypt, Japan (to certain of the brands) and China, which will be retained by GSK. The transaction closed on October 8, 2021.

The purchase price consisted of a USD 350 million upfront payment paid at closing and potential milestone payments up to USD 150 million, which GSK will be eligible to receive upon the achievement of certain annual sales milestones for the portfolio.

The fair value of the total purchase consideration was USD 415 million. The amount consisted of a payment of USD 351 million, including purchase price adjustments, and the fair value of contingent consideration of USD 64 million, which GSK is eligible to receive upon the achievement of specified milestones. The purchase price allocation resulted in net identifiable assets of USD 308 million, consisting of USD 292 million intangible assets and USD 16 million deferred tax assets. Goodwill amounted to USD 107 million.

The results of operations since the date of acquisition are not material.

### **Corporate – divestment of the investment in Roche Holding AG**

On November 3, 2021, Novartis entered into a Share Repurchase Agreement with Roche Holding AG under which Novartis agreed to sell 53.3 million (approximately 33.3%) bearer shares of Roche Holding AG voting shares in a bilateral transaction to Roche Holding AG for a total consideration of USD 20.7 billion. As a result, Novartis discontinued the use of equity method accounting starting from November 3, 2021.

The transaction closed on December 6, 2021. Novartis realized a gain of USD 14.6 billion, recorded in income from associated companies.

## **Significant pending transactions**

### **Innovative Medicines – acquisition of Gyroscope Therapeutics Holdings plc**

On December 22, 2021, Novartis entered into an agreement to acquire Gyroscope Therapeutics Holdings plc (Gyroscope), a UK-based ocular gene therapy company. Gyroscope focuses on the discovery and development of gene therapy treatments for retinal indications.

The purchase price will consist of a cash payment of USD 0.8 billion, subject to certain purchase adjustments, and potential additional milestone payments of up to USD 0.7 billion, upon achievement of specified milestones.

The acquisition is expected to close in the first quarter of 2022. Completion of the acquisition is subject to customary closing conditions.

## **Significant transactions in 2020**

### **Innovative Medicines – acquisition of The Medicines Company**

On November 23, 2019, Novartis entered into an agreement and plan of merger (the Merger Agreement) with The Medicines Company, a US-based pharmaceutical company headquartered in Parsippany, New Jersey, USA. Pursuant to the Merger Agreement, on December 5, 2019, Novartis, through a subsidiary, commenced a tender offer to acquire all outstanding shares of The Medicines Company for USD 85 per share, or a total consideration of approximately USD 9.6 billion in cash on a fully diluted basis, including the equivalent share value related to The Medicines Company's convertible notes, in accordance with their terms. The tender offer expired on January 3, 2020, and on January 6, 2020, the

acquiring subsidiary merged with and into The Medicines Company, resulting in The Medicines Company becoming an indirect wholly owned subsidiary of Novartis. Novartis financed the transaction through available cash, and short- and long-term borrowings.

The Medicines Company is focused on the development of inclisiran, a potentially first-in-class, twice yearly therapy that allows administration during patients' routine visits to their healthcare professionals and will potentially contribute to improved patient adherence and sustained lower LDL-C levels.

The fair value of the total purchase consideration was USD 9.6 billion. The purchase price allocation resulted in net identifiable assets of approximately USD 7.1 billion, consisting of USD 8.5 billion intangible assets, USD 1.4 billion net deferred tax liabilities and goodwill of approximately USD 2.5 billion.

The 2020 results of operations since the date of acquisition were not material.

### **Sandoz – acquisition of the Japanese business of Aspen Global Incorporated**

On November 11, 2019, Sandoz entered into an agreement for the acquisition of the Japanese business of Aspen Global Incorporated (AGI), a wholly owned subsidiary of Aspen Pharmacare Holdings Limited. Under the agreement, Sandoz acquired the shares in Aspen Japan K.K. and associated assets held by AGI. The transaction closed on January 31, 2020.

Aspen's portfolio in Japan consisted of off-patent medicines with a focus on anesthetics and specialty brands. The acquisition enabled Sandoz to expand its presence in the third-largest worldwide generics marketplace.

The purchase price consisted of EUR 274 million (USD 303 million) upfront payment, less customary purchase price adjustment of EUR 27 million (USD 30 million), plus potential milestone payments of up to EUR 70 million (USD 77 million), which AGI is eligible to receive upon the achievement of specified milestones.

The fair value of the total purchase consideration was EUR 294 million (USD 324 million). The amount consisted of a cash payment of EUR 247 million (USD 273 million) and the fair value of contingent consideration of EUR 47 million (USD 51 million), which AGI is eligible to receive upon the achievement of specified milestones. The purchase price allocation resulted in net identifiable assets of USD 238 million, consisting of USD 196 million intangible assets, USD 26 million other net assets and USD 16 million net deferred tax assets. Goodwill amounted to USD 86 million.

The 2020 results of operations since the date of acquisition were not material.

### **Sandoz – retention of US dermatology business and generic US oral solids portfolio, previously planned to be divested**

On September 6, 2018, Novartis announced that it entered into a stock and asset purchase agreement (SAPA) with Aurobindo Pharma USA Inc. (Aurobindo) for the sale of selected portions of its Sandoz US portfolio, specifically the Sandoz US dermatology business and generic US oral solids portfolio, for USD 0.8 billion in

cash and potential earnouts. The closing was conditional on obtaining regulatory approval.

In March 2020, Novartis took the decision to retain the Sandoz US generic oral solids and dermatology businesses and on April 2, 2020 entered into a mutual agreement with Aurobindo to terminate the transaction. The decision was taken as approval from the US Federal Trade Commission for the transaction was not obtained within the agreed timelines.

The cumulative amount of the depreciation on property, plant and equipment (USD 38 million) and amortization on intangible assets (USD 102 million), not recorded in the consolidated income statement since the date of

classification as held for sale was recognized in the consolidated income statement in the first quarter of 2020. In addition, an impairment of currently marketed products of USD 42 million was recognized in the first quarter of 2020 consolidated income statement.

As at March 31, 2020, the assets and liabilities of the Sandoz US generic oral solids and dermatology businesses were reclassified out of assets and liabilities of disposal group held for sale. The prior year balance sheet was not required to be restated.

There were no cumulative income or expenses included in other comprehensive income relating to the disposal group.

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## 4. Deferred tax assets and liabilities

The December 31, 2020, presentation of deferred tax liabilities and deferred tax assets on the consolidated balance sheet has been adjusted. This adjustment was made to conform with the December 31, 2021 presentation to offset all deferred tax liabilities and deferred tax assets within the same tax jurisdiction and when a legally enforceable right to offset current tax assets against current tax liabilities exists.

In the December 31, 2020, consolidated balance sheet, deferred tax liabilities and deferred tax assets were presented on gross basis and not fully netted as required for presentation in the consolidated balance sheet, because only certain portions of deferred tax amounts were offset.

The correction resulted in a decrease in the previously reported December 31, 2020, deferred tax liabilities, total non-current liabilities, total liabilities, and total equity and liabilities by USD 4.3 billion and a corresponding USD 4.3 billion decrease in deferred tax assets, total non-current assets, and total assets. The correction resulted only in the net presentation of these deferred tax amounts in the consolidated balance sheet, with no impact to the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows, and management concluded the item was not material to the previously issued consolidated financial statements.

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

|   | Note | Number of outstanding shares<br>(in millions) |                | Issued share capital and<br>reserves attributable to<br>Novartis AG shareholders<br>(in USD millions) |               |
|---|------|---|----------------|---|---------------|
|   |      | 2021  | 2020           | FY 2021   | FY 2020       |
| <b>Balance at beginning of year</b>   |      | <b>2 256.8</b>                                | <b>2 265.0</b> | <b>56 598</b>   | <b>55 474</b> |
| Shares acquired to be canceled  |      | -30.7   | -32.6          | -2 775  | -2 897        |
| Other share purchases   |      | -1.5  | -1.7           | -145  | -159          |
| Exercise of options and employee transactions                                       |      | 0.6   | 14.7           | 39  | 806           |
| Repurchase of options   |      |   |                |   | -89           |
| Equity-based compensation   |      | 9.6   | 11.0           | 745   | 730           |
| Shares delivered to Alcon employees as a result of the Alcon spin-off               |      | 0.1   | 0.4            | 17  | 30            |
| Taxes on treasury share transactions  |      |   |                | 1   | 32            |
| Increase of treasury share repurchase obligation under a share buyback trading plan | 5.1  |   |                | -1 040  | -1 769        |
| Dividends   |      |   |                | -7 368  | -6 987        |
| Net income of the period attributable to shareholders of Novartis AG                |      |   |                | 24 021  | 8 072         |
| Other comprehensive income attributable to shareholders of Novartis AG              |      |   |                | -2 493  | 3 331         |
| Transaction costs, net of taxes   | 5.2  |   |                | 12  |               |
| Impact of change in ownership of consolidated entities                              |      |   |                | -5  | 6             |
| Other movements   | 5.3  |   |                | 48  | 18            |
| <b>Balance at December 31</b>   |      | <b>2 234.9</b>                                | <b>2 256.8</b> | <b>67 655</b>   | <b>56 598</b> |

5.1. In December 2021, Novartis entered into an irrevocable, non-discretionary arrangement with a bank to repurchase Novartis shares on the second trading line under its up-to USD 15.0 billion share buyback. Novartis is able to cancel this arrangement at any time but could be subject to a 90-day waiting period. The commitment under this arrangement therefore reflects the obligated purchases by the bank under such trading plan over a rolling 90-day period, or if shorter, until the maturity date of such trading plan.

The liability under this arrangement amounted to USD 2.8 billion as of December 31, 2021.

In June 2021, Novartis entered into an irrevocable, non-discretionary arrangement with a bank to repurchase Novartis shares to mitigate dilution related to participation plans of associates. Novartis would have been able to cancel this arrangement at any time but would have been subject to a 90-day waiting period.

This trading plan commitment was fully executed and expired in June 2021, and as a consequence, there is no liability related to this plan recognized as of December 31, 2021.

In November 2020, Novartis entered into an irrevocable, non-discretionary arrangement with a bank to

repurchase Novartis shares on the second trading line under its up-to USD 2.5 billion share buyback. Novartis would have been able to cancel this arrangement at any time but would have been subject to a 90-day waiting period. The commitment under this arrangement therefore reflected the obligated purchases by the bank under such trading plan over a rolling 90-day period, or if shorter, until the maturity date of such trading plan.

The commitment under this arrangement amounted to USD 1.8 billion as of December 31, 2020. This trading plan commitment was fully executed and expired in March 2021, and as a consequence, there is no liability related to this plan recognized as of December 31, 2021.

5.2. Transaction costs that were directly attributable to the distribution (spin-off) of Alcon Inc. to Novartis AG shareholders and that would otherwise have been avoided, were recorded to equity.

5.3. Other movements include, for subsidiaries in hyper-inflationary economies, the impact of the restatement of the non-monetary assets and liabilities with the general price index at the beginning of the period as well as the restatement of the equity balances of the current year.

## 6. Financial instruments

### Fair value by hierarchy

The following table illustrates the three hierarchical levels for valuing financial instruments at fair value as of December 31, 2021, and December 31, 2020. For additional information on the hierarchies and other matters, please refer to the Consolidated Financial Statements in the 2021 Annual Report, published on February 2, 2022.

| (USD millions)  | Level 1      |              | Level 2      |              | Level 3       |               | Total         |               |
|---|--------------|--------------|--------------|--------------|---------------|---------------|---------------|---------------|
|   | Dec 31, 2021 | Dec 31, 2020 | Dec 31, 2021 | Dec 31, 2020 | Dec 31, 2021  | Dec 31, 2020  | Dec 31, 2021  | Dec 31, 2020  |
| <b>Cash and cash equivalents</b>  |              |              |              |              |               |               |               |               |
| Debt securities   | 2 010        |              |              |              |               |               | 2 010         |               |
| <b>Total cash and cash equivalents</b>                                  | <b>2 010</b> |              |              |              |               |               | <b>2 010</b>  |               |
| <b>Marketable securities</b>  |              |              |              |              |               |               |               |               |
| Debt securities   | 2 719        |              | 22           | 26           |               |               | 2 741         | 26            |
| <b>Total marketable securities</b>                                      | <b>2 719</b> |              | <b>22</b>    | <b>26</b>    |               |               | <b>2 741</b>  | <b>26</b>     |
| Derivative financial instruments  |              |              | 105          | 159          |               |               | 105           | 159           |
| <b>Total marketable securities and derivative financial instruments</b> | <b>2 719</b> |              | <b>127</b>   | <b>185</b>   |               |               | <b>2 846</b>  | <b>185</b>    |
| <b>Long-term financial investments</b>                                  |              |              |              |              |               |               |               |               |
| Debt and equity securities  | 1 080        | 1 153        |              |              | 617           | 460           | 1 697         | 1 613         |
| Fund investments  | 28           | 30           |              |              | 338           | 336           | 366           | 366           |
| Contingent consideration receivables                                    |              |              |              |              | 641           | 625           | 641           | 625           |
| <b>Total long-term financial investments</b>                            | <b>1 108</b> | <b>1 183</b> |              |              | <b>1 596</b>  | <b>1 421</b>  | <b>2 704</b>  | <b>2 604</b>  |
| <b>Associated companies at fair value through profit or loss</b>        |              |              |              |              | <b>192</b>    | <b>211</b>    | <b>192</b>    | <b>211</b>    |
| Contingent consideration payables                                       |              |              |              |              | -1 075        | -1 046        | -1 075        | -1 046        |
| Other financial liabilities   |              |              |              |              | -19           | -23           | -19           | -23           |
| Derivative financial instruments  |              |              | -68          | -194         |               |               | -68           | -194          |
| <b>Total financial liabilities at fair value</b>                        |              |              | <b>-68</b>   | <b>-194</b>  | <b>-1 094</b> | <b>-1 069</b> | <b>-1 162</b> | <b>-1 263</b> |

In 2021, there was a transfer of equity security from level 1 to level 3 of USD 29 million due to de-listing. During the fourth quarter of 2021, there were four non-significant transfers of equity securities from level 3 to level 1 totaling USD 6 million due to Initial Public Offerings.

The fair value of straight bonds amounted to USD 27.1 billion at December 31, 2021 (USD 31.4 billion at December 31, 2020) compared to the balance sheet value of USD 25.3 billion at December 31, 2021 (USD 28.3 billion at December 31, 2020). 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 total long-term financial investments of USD 2.7 billion at December 31, 2021 (USD 2.6 billion at December 31, 2020) is included in the line "Financial assets" of the consolidated balance sheets.

In 2021, in accordance with the consolidated foundations' Alcon Inc. share divestment plans, Alcon Inc. shares with a fair value of USD 9 million (2020: USD 331 million) were sold, or otherwise disposed of, and the USD 1 million gain on disposal (2020: USD 13 million gain on disposal) was transferred from other comprehensive income to retained earnings (Q4 2021: nil).

In the first quarter of 2021, Novartis repaid a USD 1.5 billion (nominal amount of EUR 1.25 billion) bond, at maturity in accordance with its terms.

In the fourth quarter of 2021, Novartis repaid a USD 700 million (nominal amount of EUR 600 million) bond, at maturity in accordance with its terms.

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.

Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 became effective from January 1, 2021. These amendments address issues that might affect financial reporting when an existing interest rate benchmark (i.e. Interbank offered rate – IBOR) is replaced with an alternative benchmark interest rate. The effects of interest rate benchmark reform on the Group's financial instruments and risk management strategies did not have a material impact on the Group's consolidated financial statements and are not expected to have a significant impact in future periods.

## 7. Details to the consolidated statements of cash flows

### 7.1. Reversal of non-cash items and other adjustments

| (USD millions)   | Q4 2021        | Q4 2020      |
|--|----------------|--------------|
| Depreciation, amortization and impairments on:   |                |              |
| Property, plant and equipment  | 440            | 353          |
| Right-of-use assets  | 80             | 94           |
| Intangible assets  | 999            | 1 170        |
| Financial assets <sup>1</sup>  | 12             | -69          |
| Change in provisions and other non-current liabilities   | 100            | 75           |
| Gains on disposal and other adjustments on property, plant and equipment; intangible assets; financial assets; and other non-current assets, net | -23            | -330         |
| Equity-settled compensation expense  | 195            | 159          |
| Income from associated companies <sup>2</sup>  | -14 621        | -141         |
| Income taxes   | 645            | 460          |
| Net financial expense  | 232            | 226          |
| <b>Total</b>   | <b>-11 941</b> | <b>1 997</b> |

<sup>1</sup> Includes fair value adjustments

<sup>2</sup> The fourth quarter 2021 includes the gain of USD 14.6 billion recognized from the divestment of the Group's investment in Roche (see Note 3).

| (USD millions)   | FY 2021       | FY 2020      |
|--|---------------|--------------|
| Depreciation, amortization and impairments on:   |               |              |
| Property, plant and equipment  | 1 489         | 1 758        |
| Right-of-use assets  | 318           | 330          |
| Intangible assets  | 4 306         | 4 376        |
| Financial assets <sup>1</sup>  | -38           | -335         |
| Change in provisions and other non-current liabilities   | 896           | 1 411        |
| Gains on disposal and other adjustments on property, plant and equipment; intangible assets; financial assets; and other non-current assets, net | -677          | -478         |
| Equity-settled compensation expense  | 736           | 738          |
| Income from associated companies <sup>2</sup>  | -15 339       | -673         |
| Income taxes   | 2 119         | 1 807        |
| Net financial expense  | 891           | 947          |
| <b>Total</b>   | <b>-5 299</b> | <b>9 881</b> |

<sup>1</sup> Includes fair value adjustments

<sup>2</sup> 2021 includes the gain of USD 14.6 billion recognized from the divestment of the Group's investment in Roche (see Note 3).

### 7.2. Total amount of income taxes paid

In 2021, the total amount of income taxes paid was USD 2.3 billion (Q4 2021: USD 883 million), which was included within "Net cash flows from operating activities."

In 2020, the total amount of income taxes paid was USD 1.9 billion (Q4 2020: USD 618 million), of which USD 1.8 billion (Q4 2020: USD 618 million) was included within "Net cash flows from operating activities," and USD 88 million (Q4 2020: nil) was included within "Net cash flows used in investing activities from discontinued operations."

### 7.3. Cash flows arising from divestments and acquisitions of interests in associated companies, net

In 2021, divestments and acquisitions of interests in associated companies, net included USD 20.7 billion (Q4 2021: USD 20.7 billion) proceeds from the divestment of the Group's investment in Roche (see Note 3).

## 7.4. Cash flows arising from acquisitions and divestments of businesses, net

The following table is a summary of the cash flow impact of acquisitions and divestments of businesses. The most significant transactions are described in Note 3.

| (USD millions)  | Q4 2021     | Q4 2020   | FY 2021     | FY 2020        |
|---|-------------|-----------|-------------|----------------|
| <b>Net assets recognized as a result of acquisitions of businesses</b>          | <b>-415</b> |           | <b>-735</b> | <b>-10 173</b> |
| Fair value of previously held equity interests                                  |             | 1         | 42          | 7              |
| Contingent consideration payable, net   | 59          |           | 59          | 98             |
| Payments, deferred consideration and other adjustments, net                     | -2          | 26        | 1           | 62             |
| <b>Cash flows used for/from acquisitions of businesses</b>                      | <b>-358</b> | <b>27</b> | <b>-633</b> | <b>-10 006</b> |
| <b>Cash flows from divestments of businesses, net <sup>1</sup></b>              | <b>15</b>   | <b>27</b> | <b>66</b>   | <b>49</b>      |
| <b>Cash flows used for/from acquisitions and divestments of businesses, net</b> | <b>-343</b> | <b>54</b> | <b>-567</b> | <b>-9 957</b>  |

<sup>1</sup> In 2021, USD 66 million (Q4 2021: USD 15 million) included USD 52 million (Q4 2021: USD 15 million) net cash inflows from divestments in previous years, and a USD 14 million (Q4 2021: nil) net cash inflow from a business divestment in 2021, comprised of an intangible asset.

In 2020, USD 49 million (Q4 2020: USD 27 million) represented the net cash inflows from divestments in previous years.

Notes 3 and 8 provide further information regarding acquisitions and divestments of businesses. All acquisitions were for cash.

## 8. Acquisition of businesses

Fair value of assets and liabilities arising from acquisitions of businesses:

| (USD millions)   | FY 2021    | FY 2020       |
|--|------------|---------------|
| Property, plant and equipment  |            | 26            |
| Right-of-use assets  |            | 32            |
| Currently marketed products  | 292        | 196           |
| Acquired research and development                                      | 262        | 8 600         |
| Other intangible assets  | 98         | 218           |
| Deferred tax assets  | 28         | 476           |
| Non-current financial and other assets                                 |            | 49            |
| Inventories  |            | 84            |
| Trade receivables and financial and other current assets               | 1          | 109           |
| Cash and cash equivalents  | 10         | 76            |
| Deferred tax liabilities   | -74        | -1 977        |
| Current and non-current financial debts                                | -1         | -32           |
| Current and non-current lease liabilities                              |            | -44           |
| Trade payables and other liabilities                                   | -4         | -144          |
| <b>Net identifiable assets acquired</b>                                | <b>612</b> | <b>7 669</b>  |
| Acquired cash and cash equivalents                                     | -10        | -76           |
| Non-controlling interests  | -105       |               |
| Goodwill   | 238        | 2 580         |
| <b>Net assets recognized as a result of acquisitions of businesses</b> | <b>735</b> | <b>10 173</b> |

Note 3 details significant acquisitions of businesses, specifically, the acquisition of the cephalosporin antibiotics business from GSK in 2021; The Medicines Company and the Japanese business of AGI in 2020. The goodwill arising out of these acquisitions is attributable to the

buyer-specific synergies, the assembled workforce, and the accounting for deferred tax liabilities on the acquired assets. Goodwill of USD 107 million in 2021 (2020: USD 74 million) is tax deductible.

## 9. 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 2020 Annual Report and 2020 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 February 1, 2022, of significant developments in those proceedings, as well as any new significant proceedings commenced since the date of the 2020 Annual Report and 2020 Form 20-F.

### Investigations and related litigations

#### Government generic pricing antitrust investigations, antitrust class actions

Since 2016, Sandoz Inc. has received a grand jury subpoena and a civil investigative demand and interrogatories from the Antitrust and Civil Divisions of the US Department of Justice (DOJ) in connection with those agencies' investigation into alleged price fixing and market allocation of generic drugs in the United States as well as alleged federal False Claims Act (FCA) violations. In 2020, Sandoz Inc. reached a resolution with the DOJ Antitrust Division, pursuant to which Sandoz Inc. paid USD 195 million and entered into a deferred prosecution agreement. The Sandoz Inc. resolution related to instances of misconduct at the company between 2013 and 2015 with regard to certain generic drugs sold in the United States. At the same time, Sandoz Inc. reached an agreement in principle with the DOJ Civil Division to resolve potential related damages claims arising out of the same conduct and products on behalf of US federal health programs under the FCA for USD 185 million and fully provisioned for this resolution. In 2021, Sandoz Inc. finalized the resolution with the DOJ Civil Division, which resolved those claims. In October 2021, Sandoz Inc. paid USD 185 million plus interest from the date of the agreement in principle to settle, and entered into a corporate integrity agreement (CIA) with the Office of Inspector General (OIG) of the US Department of Health and Human Services (HHS), under which Sandoz Inc. will implement additional controls. This resolution with the DOJ Civil Division resolves all federal government matters related to price fixing allegations and HHS will not seek to exclude Sandoz Inc. from specified federal healthcare programs.

Other investigations and cases relating to this matter are described in the "Investigations and related litigations – Government generic pricing antitrust investigations, antitrust class actions" entry in Note 20 to the 2020 Annual Report and 2020 Form 20-F.

#### 340B Drug Pricing Program investigation

In February 2021, Novartis Pharmaceuticals Corporation (NPC) received a civil investigative subpoena from the Office of the Attorney General of the State of Vermont. The subpoena requests the production of documents and information concerning NPC's participation in the 340B Drug Pricing Program in Vermont. NPC provided documents and information to the Office of the Attorney General. In May 2021, NPC received a notification from the US Health Resources and Services Administration (HRSA) which stated that HRSA believes NPC's contract pharmacy policy violates the 340B statute and threatened potential enforcement action. NPC subsequently sued HRSA in the U.S. District Court ("USDC") for the District of Columbia to challenge HRSA's determination and to enjoin HRSA from taking action with respect to NPC's contract pharmacy policy. HRSA then referred the matter regarding NPC's contract pharmacy policy to OIG, which could result in the imposition of civil monetary penalties on NPC. In November 2021, the USDC issued a decision rejecting HRSA's interpretation of the 340B statute, vacated the violation notification and remanded the matter to HRSA. HRSA has filed an appeal.

#### Entresto matter

In September 2021, NPC received a civil investigative demand from the DOJ seeking information from 2016 to the present regarding the marketing and pricing of *Entresto*, including remuneration provided to healthcare professionals. NPC is cooperating with the DOJ's inquiry.

#### Japan investigation

In 2015, a trial started against a former Novartis Pharma K.K. (NPKK) employee, and also against NPKK under the dual liability concept in Japanese law, over allegations brought by the Tokyo District Public Prosecutor Office for alleged manipulation of data in sub-analysis publications of the Kyoto Heart Study regarding valsartan. The charges against NPKK were subject to a maximum total fine of JPY 4 million. In 2018, the Tokyo High Court upheld a not-guilty ruling of the Tokyo District Court in 2017 for both the former NPKK employee and NPKK, and that ruling was appealed to the Supreme Court of Japan. In June 2021, the Supreme Court issued its decision dismissing the prosecutors' appeal and upholding the Tokyo District Court's not-guilty ruling. This matter is now concluded.

#### Aimovig–Amgen dispute

In 2015 and 2017, Novartis and Amgen entered into agreements regarding the development and commercialization of *Aimovig*, which the companies co-commercialized in the US and to which Novartis has exclusive rights in all territories outside the US, excluding Japan. Amgen issued a termination notice in April 2019 based on an alleged material breach of the collaboration agreements, and this notice, as well as other ancillary matters, were the subject of legal proceedings between Novartis and Amgen. Novartis disputed Amgen's allegations vigorously. In 2020, the court ruled that Amgen did not have grounds to terminate the 2017 agreement and dismissed

that portion of their lawsuit. In January 2022, the parties reached a confidential agreement to settle all remaining claims in the litigation. Novartis returned its *Aimovig* US rights to Amgen, which is now exclusively commercializing *Aimovig* in the US. Novartis will continue to commercialize *Aimovig* in the rest of the world, with the exception of Japan. This matter is now concluded.

In addition to the matters described above, there have been other developments in the other legal matters described in Note 20 to the Consolidated Financial

Statements contained in our 2020 Annual Report and 2020 Form 20-F.

Novartis believes that its total provisions for investigations, product liability, arbitration and other legal matters are adequate based upon currently available information. However, given the inherent difficulties in estimating liabilities, there can be no assurance that additional liabilities and costs will not be incurred beyond the amounts provided.

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## 10. Segmentation of key figures

The businesses of Novartis are divided operationally on a worldwide basis into two identified reporting segments, Innovative Medicines and Sandoz. 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.

The reporting segments are as follows:

Innovative Medicines researches, develops, manufactures, distributes and sells patented prescription medicines. The Innovative Medicines Division is organized into two global business units: Novartis Oncology and Novartis Pharmaceuticals. Novartis Oncology consists of the global business franchises Hematology and Solid Tumor, and Novartis Pharmaceuticals consists of the global business franchises Immunology, Hepatology and Dermatology; Neuroscience; Ophthalmology; Cardiovascular, Renal and Metabolism; Respiratory and Allergy; and Established Medicines.

Sandoz develops, manufactures and markets finished dosage form medicines as well as intermediary products

including active pharmaceutical ingredients. Sandoz is organized globally into three franchises: Retail Generics, Anti-Infectives and Biopharmaceuticals. In Retail Generics, Sandoz develops, manufactures and markets active ingredients and finished dosage forms of small molecule pharmaceuticals to third parties across a broad range of therapeutic areas, as well as finished dosage form of anti-infectives sold to third parties. In Anti-Infectives, Sandoz manufactures and supplies active pharmaceutical ingredients and intermediates, mainly antibiotics, for the Retail Generics business franchise and for sale to third-party companies. In Biopharmaceuticals, Sandoz develops, manufactures and markets protein- or other biotechnology-based products, including biosimilars, and provides biotechnology manufacturing services to other companies.

Corporate includes the costs of the Group headquarters and those of corporate coordination functions in major countries, and items that are not specific to one segment.

Our divisions are supported by Novartis Institutes for BioMedical Research, Global Drug Development, Novartis Technical Operations and Customer & Technology Solutions (formerly named Novartis Business Services).

Further details are provided in Note 3 to the Consolidated Financial Statements of the 2021 Annual Report.

## Segmentation – Consolidated income statements

### Fourth quarter

| (USD millions)                      | Innovative Medicines |               | Sandoz       |              | Corporate (including eliminations) |             | Group         |               |
|-------------------------------------|----------------------|---------------|--------------|--------------|------------------------------------|-------------|---------------|---------------|
|                                     | Q4 2021              | Q4 2020       | Q4 2021      | Q4 2020      | Q4 2021                            | Q4 2020     | Q4 2021       | Q4 2020       |
| <b>Net sales to third parties</b>   | <b>10 704</b>        | <b>10 233</b> | <b>2 525</b> | <b>2 537</b> |                                    |             | <b>13 229</b> | <b>12 770</b> |
| Sales to other segments             | 184                  | 190           | 42           | 52           | -226                               | -242        |               |               |
| <b>Net sales</b>                    | <b>10 888</b>        | <b>10 423</b> | <b>2 567</b> | <b>2 589</b> | <b>-226</b>                        | <b>-242</b> | <b>13 229</b> | <b>12 770</b> |
| Other revenues                      | 281                  | 246           | 10           | 8            | 2                                  | 6           | 293           | 260           |
| Cost of goods sold                  | -2 873               | -3 097        | -1 341       | -1 383       | 238                                | 263         | -3 976        | -4 217        |
| <b>Gross profit</b>                 | <b>8 296</b>         | <b>7 572</b>  | <b>1 236</b> | <b>1 214</b> | <b>14</b>                          | <b>27</b>   | <b>9 546</b>  | <b>8 813</b>  |
| Selling, general and administration | -3 274               | -3 211        | -568         | -572         | -143                               | -141        | -3 985        | -3 924        |
| Research and development            | -2 169               | -2 082        | -240         | -251         |                                    |             | -2 409        | -2 333        |
| Other income                        | 186                  | 422           | 50           | 93           | 135                                | 128         | 371           | 643           |
| Other expense                       | -571                 | -315          | -92          | -112         | -298                               | -128        | -961          | -555          |
| <b>Operating income</b>             | <b>2 468</b>         | <b>2 386</b>  | <b>386</b>   | <b>372</b>   | <b>-292</b>                        | <b>-114</b> | <b>2 562</b>  | <b>2 644</b>  |
| as % of net sales                   | 23.1%                | 23.3%         | 15.3%        | 14.7%        |                                    |             | 19.4%         | 20.7%         |
| Income from associated companies    | 4                    |               |              |              | 14 617                             | 141         | 14 621        | 141           |
| Interest expense                    |                      |               |              |              |                                    |             | -206          | -201          |
| Other financial income and expense  |                      |               |              |              |                                    |             | -26           | -25           |
| <b>Income before taxes</b>          |                      |               |              |              |                                    |             | <b>16 951</b> | <b>2 559</b>  |
| Income taxes                        |                      |               |              |              |                                    |             | -645          | -460          |
| <b>Net income</b>                   |                      |               |              |              |                                    |             | <b>16 306</b> | <b>2 099</b>  |

### Full year

| (USD millions)                      | Innovative Medicines |               | Sandoz       |              | Corporate (including eliminations) |             | Group         |               |
|-------------------------------------|----------------------|---------------|--------------|--------------|------------------------------------|-------------|---------------|---------------|
|                                     | FY 2021              | FY 2020       | FY 2021      | FY 2020      | FY 2021                            | FY 2020     | FY 2021       | FY 2020       |
| <b>Net sales to third parties</b>   | <b>41 995</b>        | <b>39 013</b> | <b>9 631</b> | <b>9 646</b> |                                    |             | <b>51 626</b> | <b>48 659</b> |
| Sales to other segments             | 795                  | 792           | 180          | 189          | -975                               | -981        |               |               |
| <b>Net sales</b>                    | <b>42 790</b>        | <b>39 805</b> | <b>9 811</b> | <b>9 835</b> | <b>-975</b>                        | <b>-981</b> | <b>51 626</b> | <b>48 659</b> |
| Other revenues                      | 1 179                | 1 018         | 61           | 53           | 11                                 | 168         | 1 251         | 1 239         |
| Cost of goods sold                  | -11 751              | -10 927       | -5 147       | -5 252       | 1 031                              | 1 058       | -15 867       | -15 121       |
| <b>Gross profit</b>                 | <b>32 218</b>        | <b>29 896</b> | <b>4 725</b> | <b>4 636</b> | <b>67</b>                          | <b>245</b>  | <b>37 010</b> | <b>34 777</b> |
| Selling, general and administration | -12 306              | -11 657       | -2 062       | -2 076       | -518                               | -464        | -14 886       | -14 197       |
| Research and development            | -8 641               | -8 118        | -899         | -862         |                                    |             | -9 540        | -8 980        |
| Other income                        | 1 149                | 922           | 233          | 176          | 470                                | 644         | 1 852         | 1 742         |
| Other expense                       | -1 732               | -1 871        | -397         | -831         | -618                               | -488        | -2 747        | -3 190        |
| <b>Operating income</b>             | <b>10 688</b>        | <b>9 172</b>  | <b>1 600</b> | <b>1 043</b> | <b>-599</b>                        | <b>-63</b>  | <b>11 689</b> | <b>10 152</b> |
| as % of net sales                   | 25.5%                | 23.5%         | 16.6%        | 10.8%        |                                    |             | 22.6%         | 20.9%         |
| Income from associated companies    | 5                    | 1             | 2            | 2            | 15 332                             | 670         | 15 339        | 673           |
| Interest expense                    |                      |               |              |              |                                    |             | -811          | -869          |
| Other financial income and expense  |                      |               |              |              |                                    |             | -80           | -78           |
| <b>Income before taxes</b>          |                      |               |              |              |                                    |             | <b>26 137</b> | <b>9 878</b>  |
| Income taxes                        |                      |               |              |              |                                    |             | -2 119        | -1 807        |
| <b>Net income</b>                   |                      |               |              |              |                                    |             | <b>24 018</b> | <b>8 071</b>  |

## Segmentation – Additional consolidated balance sheets and income statements disclosure

| (USD millions)                       | Innovative Medicines |                | Sandoz        |               | Corporate (including eliminations) |                | Group          |                |
|--------------------------------------|----------------------|----------------|---------------|---------------|------------------------------------|----------------|----------------|----------------|
|                                      | Dec 31, 2021         | Dec 31, 2020   | Dec 31, 2021  | Dec 31, 2020  | Dec 31, 2021                       | Dec 31, 2020   | Dec 31, 2021   | Dec 31, 2020   |
| <b>Total assets<sup>1</sup></b>      | <b>79 220</b>        | <b>83 112</b>  | <b>16 192</b> | <b>16 825</b> | <b>36 383</b>                      | <b>27 841</b>  | <b>131 795</b> | <b>127 778</b> |
| <b>Total liabilities<sup>1</sup></b> | <b>-15 929</b>       | <b>-15 472</b> | <b>-3 632</b> | <b>-3 786</b> | <b>-44 412</b>                     | <b>-51 854</b> | <b>-63 973</b> | <b>-71 112</b> |
| <b>Total equity</b>                  |                      |                |               |               |                                    |                | <b>67 822</b>  | <b>56 666</b>  |
| Net debt <sup>2</sup>                |                      |                |               |               | 868                                | 24 481         | 868            | 24 481         |
| <b>Net operating assets</b>          | <b>63 291</b>        | <b>67 640</b>  | <b>12 560</b> | <b>13 039</b> | <b>-7 161</b>                      | <b>468</b>     | <b>68 690</b>  | <b>81 147</b>  |

Included in net operating assets are:

|                                       |        |        |       |       |     |     |        |        |
|---------------------------------------|--------|--------|-------|-------|-----|-----|--------|--------|
| Property, plant and equipment         | 9 168  | 9 863  | 1 901 | 1 849 | 476 | 551 | 11 545 | 12 263 |
| Goodwill                              | 21 562 | 21 718 | 8 026 | 8 274 | 7   | 7   | 29 595 | 29 999 |
| Intangible assets other than goodwill | 32 357 | 35 121 | 1 577 | 1 543 | 248 | 145 | 34 182 | 36 809 |

<sup>1</sup> The December 31, 2020 total assets and total liabilities have been adjusted from the previously reported amounts due to a change in the presentation of the deferred tax assets and deferred tax liabilities on the consolidated balance sheet, to conform with the 2021 presentation (see Note 4 for additional disclosures).

<sup>2</sup> See page 59 for additional disclosures related to net debt.

The following tables show the property, plant and equipment impairment charges and reversals, and the intangible asset impairment charges:

### Fourth quarter

| (USD millions)                                    | Innovative Medicines |         | Sandoz  |         | Corporate |         | Group       |             |
|---|----------------------|---------|---------|---------|-----------|---------|-------------|-------------|
|   | Q4 2021              | Q4 2020 | Q4 2021 | Q4 2020 | Q4 2021   | Q4 2020 | Q4 2021     | Q4 2020     |
| Property, plant and equipment impairment charges  | -131                 | -33     | -8      | -4      | -1        |         | <b>-140</b> | <b>-37</b>  |
| Property, plant and equipment impairment reversal | 1                    |         | 1       |         |           |         | <b>2</b>    |             |
| Intangible assets impairment charges              | -5                   | -191    | -9      | -51     | -7        | -5      | <b>-21</b>  | <b>-247</b> |

### Full year

| (USD millions)                                    | Innovative Medicines |         | Sandoz  |         | Corporate |         | Group       |             |
|---|----------------------|---------|---------|---------|-----------|---------|-------------|-------------|
|   | FY 2021              | FY 2020 | FY 2021 | FY 2020 | FY 2021   | FY 2020 | FY 2021     | FY 2020     |
| Property, plant and equipment impairment charges  | -315                 | -326    | -68     | -121    | -1        |         | <b>-384</b> | <b>-447</b> |
| Property, plant and equipment impairment reversal | 44                   | 2       | 59      | 5       |           |         | <b>103</b>  | <b>7</b>    |
| Intangible assets impairment charges <sup>1</sup> | -367                 | -768    | -28     | -141    | -8        | -5      | <b>-403</b> | <b>-914</b> |

<sup>1</sup> 2021 includes an impairment of USD 201 million in Innovative Medicines related to the write-down of IPR&D related to cessation of clinical development program GTX312.

2020 includes an impairment of USD 485 million in Innovative Medicines related to the write-down of IPR&D related to cessation of clinical development program ZPL389 for atopic dermatitis and USD 181 million related to a partial write-down of the *Votrient* currently marketed product.

In the fourth quarter and full year period of 2021, there were no reversals of prior-year impairment charges on intangible assets (Q4 2020 and FY 2020: nil).

## Segmentation – Net sales by region<sup>1</sup>

### Fourth quarter

|  | Q4 2021<br>USD m | Q4 2020<br>USD m | % change<br>USD | % change<br>cc <sup>2</sup> | Q4 2021<br>% of total | Q4 2020<br>% of total |
|--|------------------|------------------|-----------------|-----------------------------|-----------------------|-----------------------|
| <b>Innovative Medicines</b>                |                  |                  |                 |                             |                       |                       |
| Europe                                     | 3 795            | 3 663            | 4               | 8                           | 35                    | 36                    |
| US   | 3 945            | 3 653            | 8               | 8                           | 37                    | 36                    |
| Asia/Africa/Australasia                    | 2 246            | 2 263            | -1              | 1                           | 21                    | 22                    |
| Canada and Latin America                   | 718              | 654              | 10              | 13                          | 7                     | 6                     |
| <b>Total</b>                               | <b>10 704</b>    | <b>10 233</b>    | <b>5</b>        | <b>7</b>                    | <b>100</b>            | <b>100</b>            |
| <i>Of which in Established Markets</i>     | 8 082            | 7 821            | 3               | 5                           | 76                    | 76                    |
| <i>Of which in Emerging Growth Markets</i> | 2 622            | 2 412            | 9               | 11                          | 24                    | 24                    |
| <b>Sandoz</b>                              |                  |                  |                 |                             |                       |                       |
| Europe                                     | 1 382            | 1 375            | 1               | 4                           | 55                    | 54                    |
| US   | 475              | 517              | -8              | -8                          | 19                    | 20                    |
| Asia/Africa/Australasia                    | 452              | 441              | 2               | 5                           | 18                    | 17                    |
| Canada and Latin America                   | 216              | 204              | 6               | 5                           | 8                     | 9                     |
| <b>Total</b>                               | <b>2 525</b>     | <b>2 537</b>     | <b>0</b>        | <b>2</b>                    | <b>100</b>            | <b>100</b>            |
| <i>Of which in Established Markets</i>     | 1 774            | 1 843            | -4              | -2                          | 70                    | 73                    |
| <i>Of which in Emerging Growth Markets</i> | 751              | 694              | 8               | 11                          | 30                    | 27                    |
| <b>Group</b>                               |                  |                  |                 |                             |                       |                       |
| Europe                                     | 5 177            | 5 038            | 3               | 7                           | 39                    | 39                    |
| US   | 4 420            | 4 170            | 6               | 6                           | 33                    | 33                    |
| Asia/Africa/Australasia                    | 2 698            | 2 704            | 0               | 2                           | 20                    | 21                    |
| Canada and Latin America                   | 934              | 858              | 9               | 11                          | 8                     | 7                     |
| <b>Total</b>                               | <b>13 229</b>    | <b>12 770</b>    | <b>4</b>        | <b>6</b>                    | <b>100</b>            | <b>100</b>            |
| <i>Of which in Established Markets</i>     | 9 856            | 9 664            | 2               | 4                           | 75                    | 76                    |
| <i>Of which in Emerging Growth Markets</i> | 3 373            | 3 106            | 9               | 11                          | 25                    | 24                    |

<sup>1</sup> Net sales to third parties by location of customer. Emerging Growth Markets comprise all markets other than the Established Markets of the US, Canada, Western Europe, Japan, Australia and New Zealand.

<sup>2</sup> Constant currencies (cc) is a non-IFRS measure. A definition of non-IFRS measures used by Novartis can be found starting on page 50.

## Segmentation – Net sales by region<sup>1</sup>

Full year

|  | FY 2021<br>USD m | FY 2020<br>USD m | % change<br>USD | % change<br>cc <sup>2</sup> | FY 2021<br>% of total | FY 2020<br>% of total |
|--|------------------|------------------|-----------------|-----------------------------|-----------------------|-----------------------|
| <b>Innovative Medicines</b>                |                  |                  |                 |                             |                       |                       |
| Europe                                     | 14 919           | 13 484           | 11              | 8                           | 36                    | 35                    |
| US   | 14 999           | 14 342           | 5               | 5                           | 36                    | 37                    |
| Asia/Africa/Australasia                    | 9 304            | 8 718            | 7               | 4                           | 22                    | 22                    |
| Canada and Latin America                   | 2 773            | 2 469            | 12              | 14                          | 6                     | 6                     |
| <b>Total</b>                               | <b>41 995</b>    | <b>39 013</b>    | <b>8</b>        | <b>6</b>                    | <b>100</b>            | <b>100</b>            |
| <i>Of which in Established Markets</i>     | 31 459           | 29 643           | 6               | 4                           | 75                    | 76                    |
| <i>Of which in Emerging Growth Markets</i> | 10 536           | 9 370            | 12              | 11                          | 25                    | 24                    |
| <b>Sandoz</b>                              |                  |                  |                 |                             |                       |                       |
| Europe                                     | 5 278            | 5 231            | 1               | -2                          | 55                    | 54                    |
| US   | 1 819            | 2 142            | -15             | -15                         | 19                    | 22                    |
| Asia/Africa/Australasia                    | 1 662            | 1 501            | 11              | 9                           | 17                    | 16                    |
| Canada and Latin America                   | 872              | 772              | 13              | 10                          | 9                     | 8                     |
| <b>Total</b>                               | <b>9 631</b>     | <b>9 646</b>     | <b>0</b>        | <b>-2</b>                   | <b>100</b>            | <b>100</b>            |
| <i>Of which in Established Markets</i>     | 6 855            | 7 089            | -3              | -6                          | 71                    | 73                    |
| <i>Of which in Emerging Growth Markets</i> | 2 776            | 2 557            | 9               | 8                           | 29                    | 27                    |
| <b>Group</b>                               |                  |                  |                 |                             |                       |                       |
| Europe                                     | 20 197           | 18 715           | 8               | 5                           | 39                    | 38                    |
| US   | 16 818           | 16 484           | 2               | 2                           | 33                    | 34                    |
| Asia/Africa/Australasia                    | 10 966           | 10 219           | 7               | 5                           | 21                    | 21                    |
| Canada and Latin America                   | 3 645            | 3 241            | 12              | 13                          | 7                     | 7                     |
| <b>Total</b>                               | <b>51 626</b>    | <b>48 659</b>    | <b>6</b>        | <b>4</b>                    | <b>100</b>            | <b>100</b>            |
| <i>Of which in Established Markets</i>     | 38 314           | 36 732           | 4               | 2                           | 74                    | 75                    |
| <i>Of which in Emerging Growth Markets</i> | 13 312           | 11 927           | 12              | 11                          | 26                    | 25                    |

<sup>1</sup> Net sales to third parties by location of customer. Emerging Growth Markets comprise all markets other than the Established Markets of the US, Canada, Western Europe, Japan, Australia and New Zealand.

<sup>2</sup> Constant currencies (cc) is a non-IFRS measure. A definition of non-IFRS measures used by Novartis can be found starting on page 50.

## Segmentation – Net sales by business franchise

### Innovative Medicines Division net sales by business franchise

Fourth quarter

|   | Q4 2021<br>USD m | Q4 2020<br>USD m | % change<br>USD | % change<br>cc <sup>2</sup> |
|---|------------------|------------------|-----------------|-----------------------------|
| <b>Hematology</b>                                   |                  |                  |                 |                             |
| <i>Tasigna</i>                                      | 508              | 513              | -1              | 1                           |
| <i>Promacta/Revolade</i>                            | 518              | 471              | 10              | 12                          |
| <i>Jakavi</i>                                       | 408              | 376              | 9               | 12                          |
| <i>Gleevec/Glivec</i>                               | 233              | 291              | -20             | -19                         |
| <i>Kymriah</i>                                      | 143              | 141              | 1               | 4                           |
| <i>Exjade/Jadenu</i>                                | 129              | 156              | -17             | -15                         |
| <i>Adakveo</i>                                      | 43               | 34               | 26              | 27                          |
| Other   | 90               | 93               | -3              | -3                          |
| <b>Total Hematology</b>                             | <b>2 072</b>     | <b>2 075</b>     | <b>0</b>        | <b>2</b>                    |
| <b>Solid Tumor</b>                                  |                  |                  |                 |                             |
| <i>Tafinlar + Mekinist</i>                          | 458              | 408              | 12              | 14                          |
| <i>Sandostatin</i>                                  | 345              | 363              | -5              | -4                          |
| <i>Afinitor/Votubia</i>                             | 174              | 259              | -33             | -31                         |
| <i>Kisqali</i>                                      | 285              | 184              | 55              | 58                          |
| <i>Votrient</i>                                     | 139              | 147              | -5              | -4                          |
| <i>Lutathera</i>                                    | 115              | 109              | 6               | 6                           |
| <i>Piqray</i>                                       | 87               | 84               | 4               | 3                           |
| <i>Tabrecta</i>                                     | 27               | 17               | 59              | 57                          |
| Other   | 159              | 171              | -7              | -5                          |
| <b>Total Solid Tumor</b>                            | <b>1 789</b>     | <b>1 742</b>     | <b>3</b>        | <b>4</b>                    |
| <b>Total Novartis Oncology business unit</b>        | <b>3 861</b>     | <b>3 817</b>     | <b>1</b>        | <b>3</b>                    |
| <b>Immunology, Hepatology and Dermatology</b>       |                  |                  |                 |                             |
| <i>Cosentyx</i>                                     | 1 243            | 1 109            | 12              | 13                          |
| <i>Ilaris</i>                                       | 284              | 240              | 18              | 23                          |
| <b>Total Immunology, Hepatology and Dermatology</b> | <b>1 527</b>     | <b>1 349</b>     | <b>13</b>       | <b>15</b>                   |
| <b>Neuroscience</b>                                 |                  |                  |                 |                             |
| <i>Gilenya</i>                                      | 656              | 760              | -14             | -12                         |
| <i>Zolgensma</i>                                    | 342              | 254              | 35              | 36                          |
| <i>Kesimpta</i>                                     | 147              | 14               | nm              | nm                          |
| <i>Mayzent</i>                                      | 81               | 57               | 42              | 46                          |
| <i>Aimovig</i>                                      | 59               | 56               | 5               | 6                           |
| Other   | 12               | 12               | 0               | -17                         |
| <b>Total Neuroscience</b>                           | <b>1 297</b>     | <b>1 153</b>     | <b>12</b>       | <b>14</b>                   |
| <b>Ophthalmology</b>                                |                  |                  |                 |                             |
| <i>Lucentis</i>                                     | 508              | 530              | -4              | -2                          |
| <i>Xiidra</i>                                       | 134              | 108              | 24              | 24                          |
| <i>Beovu</i>  | 51               | 37               | 38              | 41                          |
| Other   | 361              | 450              | -20             | -18                         |
| <b>Total Ophthalmology</b>                          | <b>1 054</b>     | <b>1 125</b>     | <b>-6</b>       | <b>-4</b>                   |
| <b>Cardiovascular, Renal and Metabolism</b>         |                  |                  |                 |                             |
| <i>Entresto</i>                                     | 949              | 716              | 33              | 34                          |
| <i>Leqvio</i>                                       | 4                |                  | nm              | nm                          |
| <b>Total Cardiovascular, Renal and Metabolism</b>   | <b>953</b>       | <b>716</b>       | <b>33</b>       | <b>35</b>                   |
| <b>Respiratory and Allergy</b>                      |                  |                  |                 |                             |
| <i>Xolair</i> <sup>1</sup>                          | 373              | 335              | 11              | 15                          |
| <i>Ultibro Group</i>                                | 148              | 160              | -8              | -5                          |
| Other   | 17               | 10               | 70              | 107                         |
| <b>Total Respiratory and Allergy</b>                | <b>538</b>       | <b>505</b>       | <b>7</b>        | <b>10</b>                   |
| <b>Established Medicines</b>                        |                  |                  |                 |                             |
| <i>Galvus Group</i>                                 | 278              | 293              | -5              | 0                           |
| <i>Exforge Group</i>                                | 197              | 247              | -20             | -20                         |
| <i>Diovan Group</i>                                 | 189              | 224              | -16             | -14                         |
| <i>Zortress/Certican</i>                            | 110              | 112              | -2              | 3                           |
| <i>Voltaren/Cataflam</i>                            | 97               | 95               | 2               | 5                           |
| <i>Neoral/Sandimmun(e)</i>                          | 89               | 103              | -14             | -11                         |
| Contract manufacturing                              | 108              |                  | nm              | nm                          |
| Other   | 406              | 494              | -18             | -16                         |
| <b>Total Established Medicines</b>                  | <b>1 474</b>     | <b>1 568</b>     | <b>-6</b>       | <b>-3</b>                   |
| <b>Total Novartis Pharmaceuticals business unit</b> | <b>6 843</b>     | <b>6 416</b>     | <b>7</b>        | <b>9</b>                    |
| <b>Total division net sales</b>                     | <b>10 704</b>    | <b>10 233</b>    | <b>5</b>        | <b>7</b>                    |

<sup>1</sup> Net sales reflect *Xolair* sales for all indications.

<sup>2</sup> Constant currencies (cc) is a non-IFRS measure. A definition of non-IFRS measures used by Novartis can be found starting on page 50.

## Innovative Medicines Division net sales by business franchise

Full year

|   | FY 2021<br>USD m | FY 2020<br>USD m | % change<br>USD | % change<br>cc <sup>2</sup> |
|---|------------------|------------------|-----------------|-----------------------------|
| <b>Hematology</b>                                   |                  |                  |                 |                             |
| <i>Tasigna</i>                                      | 2 060            | 1 958            | 5               | 4                           |
| <i>Promacta/Revolade</i>                            | 2 016            | 1 738            | 16              | 15                          |
| <i>Jakavi</i>                                       | 1 595            | 1 339            | 19              | 16                          |
| <i>Gleevec/Glivec</i>                               | 1 024            | 1 188            | -14             | -15                         |
| <i>Kymriah</i>                                      | 587              | 474              | 24              | 22                          |
| <i>Exjade/Jadenu</i>                                | 563              | 653              | -14             | -16                         |
| <i>Adakveo</i>                                      | 164              | 105              | 56              | 56                          |
| Other   | 354              | 327              | 8               | 6                           |
| <b>Total Hematology</b>                             | <b>8 363</b>     | <b>7 782</b>     | <b>7</b>        | <b>6</b>                    |
| <b>Solid Tumor</b>                                  |                  |                  |                 |                             |
| <i>Tafinlar + Mekinist</i>                          | 1 693            | 1 542            | 10              | 8                           |
| <i>Sandostatin</i>                                  | 1 413            | 1 439            | -2              | -3                          |
| <i>Afinitor/Votubia</i>                             | 938              | 1 083            | -13             | -14                         |
| <i>Kisqali</i>                                      | 937              | 687              | 36              | 36                          |
| <i>Votrient</i>                                     | 577              | 635              | -9              | -10                         |
| <i>Lutathera</i>                                    | 475              | 445              | 7               | 6                           |
| <i>Piqray</i>                                       | 329              | 320              | 3               | 3                           |
| <i>Tabrecta</i>                                     | 90               | 35               | 157             | 155                         |
| Other   | 661              | 743              | -11             | -13                         |
| <b>Total Solid Tumor</b>                            | <b>7 113</b>     | <b>6 929</b>     | <b>3</b>        | <b>2</b>                    |
| <b>Total Novartis Oncology business unit</b>        | <b>15 476</b>    | <b>14 711</b>    | <b>5</b>        | <b>4</b>                    |
| <b>Immunology, Hepatology and Dermatology</b>       |                  |                  |                 |                             |
| <i>Cosentyx</i>                                     | 4 718            | 3 995            | 18              | 17                          |
| <i>Ilaris</i>                                       | 1 059            | 873              | 21              | 22                          |
| <b>Total Immunology, Hepatology and Dermatology</b> | <b>5 777</b>     | <b>4 868</b>     | <b>19</b>       | <b>18</b>                   |
| <b>Neuroscience</b>                                 |                  |                  |                 |                             |
| <i>Gilenya</i>                                      | 2 787            | 3 003            | -7              | -9                          |
| <i>Zolgensma</i>                                    | 1 351            | 920              | 47              | 46                          |
| <i>Kesimpta</i>                                     | 372              | 15               | nm              | nm                          |
| <i>Mayzent</i>                                      | 281              | 170              | 65              | 65                          |
| <i>Aimovig</i>                                      | 215              | 164              | 31              | 27                          |
| Other   | 46               | 51               | -10             | -14                         |
| <b>Total Neuroscience</b>                           | <b>5 052</b>     | <b>4 323</b>     | <b>17</b>       | <b>15</b>                   |
| <b>Ophthalmology</b>                                |                  |                  |                 |                             |
| <i>Lucentis</i>                                     | 2 160            | 1 933            | 12              | 8                           |
| <i>Xiidra</i>                                       | 468              | 376              | 24              | 24                          |
| <i>Beovu</i>  | 186              | 190              | -2              | -3                          |
| Other   | 1 516            | 1 911            | -21             | -22                         |
| <b>Total Ophthalmology</b>                          | <b>4 330</b>     | <b>4 410</b>     | <b>-2</b>       | <b>-4</b>                   |
| <b>Cardiovascular, Renal and Metabolism</b>         |                  |                  |                 |                             |
| <i>Entresto</i>                                     | 3 548            | 2 497            | 42              | 40                          |
| <i>Leqvio</i>                                       | 12               |                  | nm              | nm                          |
| Other   |                  | 1                | nm              | nm                          |
| <b>Total Cardiovascular, Renal and Metabolism</b>   | <b>3 560</b>     | <b>2 498</b>     | <b>43</b>       | <b>40</b>                   |
| <b>Respiratory and Allergy</b>                      |                  |                  |                 |                             |
| <i>Xolair</i> <sup>1</sup>                          | 1 428            | 1 251            | 14              | 12                          |
| <i>Ultibro Group</i>                                | 584              | 623              | -6              | -10                         |
| Other   | 53               | 26               | 104             | 102                         |
| <b>Total Respiratory and Allergy</b>                | <b>2 065</b>     | <b>1 900</b>     | <b>9</b>        | <b>6</b>                    |
| <b>Established Medicines</b>                        |                  |                  |                 |                             |
| <i>Galvus Group</i>                                 | 1 092            | 1 199            | -9              | -8                          |
| <i>Exforge Group</i>                                | 901              | 980              | -8              | -11                         |
| <i>Diovan Group</i>                                 | 773              | 1 003            | -23             | -25                         |
| <i>Zortress/Certican</i>                            | 431              | 452              | -5              | -6                          |
| <i>Voltaren/Cataflam</i>                            | 373              | 360              | 4               | 3                           |
| <i>Neoral/Sandimmun(e)</i>                          | 368              | 393              | -6              | -8                          |
| Contract manufacturing                              | 108              |                  | nm              | nm                          |
| Other   | 1 689            | 1 916            | -12             | -13                         |
| <b>Total Established Medicines</b>                  | <b>5 735</b>     | <b>6 303</b>     | <b>-9</b>       | <b>-10</b>                  |
| <b>Total Novartis Pharmaceuticals business unit</b> | <b>26 519</b>    | <b>24 302</b>    | <b>9</b>        | <b>7</b>                    |
| <b>Total division net sales</b>                     | <b>41 995</b>    | <b>39 013</b>    | <b>8</b>        | <b>6</b>                    |

<sup>1</sup> Net sales reflect *Xolair* sales for all indications.

<sup>2</sup> Constant currencies (cc) is a non-IFRS measure. A definition of non-IFRS measures used by Novartis can be found starting on page 50.

nm = not meaningful

## Net sales of the top 20 Innovative Medicines Division products in 2021

Fourth quarter

| Brands                       | Business franchise                     | Key indication  | US           |                              | Rest of world |              |                          | Total         |              |                          |
|------------------------------|--|---|--------------|------------------------------|---------------|--------------|--------------------------|---------------|--------------|--------------------------|
|                              |  |   | USD m        | % change USD/cc <sup>2</sup> | USD m         | % change USD | % change cc <sup>2</sup> | USD m         | % change USD | % change cc <sup>2</sup> |
| <i>Cosentyx</i>              | Immunology, Hepatology and Dermatology | Psoriasis, ankylosing spondylitis, psoriatic arthritis and non-radiographic axial spondyloarthritis | 770          | 12                           | 473           | 12           | 15                       | 1 243         | 12           | 13                       |
| <i>Entresto</i>              | Cardiovascular, Renal and Metabolism   | Chronic heart failure   | 520          | 44                           | 429           | 21           | 24                       | 949           | 33           | 34                       |
| <i>Gilenya</i>               | Neuroscience                           | Relapsing multiple sclerosis  | 345          | -9                           | 311           | -18          | -15                      | 656           | -14          | -12                      |
| <i>Lucentis</i>              | Ophthalmology                          | Age-related macular degeneration  |              |                              | 508           | -4           | -2                       | 508           | -4           | -2                       |
| <i>Tasigna</i>               | Hematology                             | Chronic myeloid leukemia  | 230          | 4                            | 278           | -5           | -1                       | 508           | -1           | 1                        |
| <i>Promacta/Revolade</i>     | Hematology                             | Immune thrombocytopenia (ITP), severe aplastic anemia (SAA)   | 246          | 10                           | 272           | 10           | 14                       | 518           | 10           | 12                       |
| <i>Tafinlar + Mekinist</i>   | Solid Tumor                            | BRAF V600+ metastatic and adjuvant melanoma; advanced non-small cell lung cancer (NSCLC)            | 161          | 8                            | 297           | 15           | 18                       | 458           | 12           | 14                       |
| <i>Jakavi</i>                | Hematology                             | Myelofibrosis (MF), polycythemia vera (PV)  |              |                              | 408           | 9            | 12                       | 408           | 9            | 12                       |
| <i>Xolair</i> <sup>1</sup>   | Respiratory and Allergy                | Severe allergic asthma (SAA), chronic spontaneous urticaria (CSU) and nasal polyps                  |              |                              | 373           | 11           | 15                       | 373           | 11           | 15                       |
| <i>Sandostatin</i>           | Solid Tumor                            | Carcinoid tumors and acromegaly   | 208          | -1                           | 137           | -10          | -8                       | 345           | -5           | -4                       |
| <i>Zolgensma</i>             | Neuroscience                           | Spinal muscular atrophy (SMA)   | 118          | 11                           | 224           | 51           | 58                       | 342           | 35           | 36                       |
| <i>Galvus Group</i>          | Established Medicines                  | Type 2 diabetes   |              |                              | 278           | -5           | 0                        | 278           | -5           | 0                        |
| <i>Ilaris</i>                | Immunology, Hepatology and Dermatology | Auto-inflammatory (CAPS, TRAPS, HIDS/MKD, FMF, SJA, AOSD and gout)                                  | 145          | 28                           | 139           | 9            | 17                       | 284           | 18           | 23                       |
| <i>Gleevec/Glivec</i>        | Hematology                             | Chronic myeloid leukemia and GIST   | 61           | -13                          | 172           | -22          | -20                      | 233           | -20          | -19                      |
| <i>Afinitor/Votubia</i>      | Solid Tumor                            | Breast cancer/TSC   | 74           | -53                          | 100           | -2           | 4                        | 174           | -33          | -31                      |
| <i>Kisqali</i>               | Solid Tumor                            | HR+/HER2- metastatic breast cancer  | 98           | 20                           | 187           | 83           | 88                       | 285           | 55           | 58                       |
| <i>Exforge Group</i>         | Established Medicines                  | Hypertension  | 4            | 33                           | 193           | -21          | -20                      | 197           | -20          | -20                      |
| <i>Diovan Group</i>          | Established Medicines                  | Hypertension  | 11           | -65                          | 178           | -8           | -6                       | 189           | -16          | -14                      |
| <i>Kymriah</i>               | Hematology                             | r/r pediatric and young adults ALL, DLBCL   | 58           | 9                            | 85            | -3           | 0                        | 143           | 1            | 4                        |
| <i>Ultibro Group</i>         | Respiratory and Allergy                | Chronic obstructive pulmonary disease (COPD)  |              |                              | 148           | -8           | -5                       | 148           | -8           | -5                       |
| <b>Top 20 products total</b> |  |   | <b>3 049</b> | <b>7</b>                     | <b>5 190</b>  | <b>3</b>     | <b>6</b>                 | <b>8 239</b>  | <b>5</b>     | <b>7</b>                 |
| Rest of portfolio            |  |   | 896          | 11                           | 1 569         | 1            | 4                        | 2 465         | 4            | 6                        |
| <b>Total division sales</b>  |  |   | <b>3 945</b> | <b>8</b>                     | <b>6 759</b>  | <b>3</b>     | <b>6</b>                 | <b>10 704</b> | <b>5</b>     | <b>7</b>                 |

<sup>1</sup> Net sales reflect *Xolair* sales for all indications.

<sup>2</sup> Constant currencies (cc) is a non-IFRS measure. A definition of non-IFRS measures used by Novartis can be found starting on page 50.

## Net sales of the top 20 Innovative Medicines Division products in 2021

Full year

| Brands                       | Business franchise                     | Key indication  | US            |                              | Rest of world |              |                          | Total         |              |                          |
|------------------------------|--|---|---------------|------------------------------|---------------|--------------|--------------------------|---------------|--------------|--------------------------|
|                              |  |   | USD m         | % change USD/cc <sup>2</sup> | USD m         | % change USD | % change cc <sup>2</sup> | USD m         | % change USD | % change cc <sup>2</sup> |
| <i>Cosentyx</i>              | Immunology, Hepatology and Dermatology | Psoriasis, ankylosing spondylitis, psoriatic arthritis and non-radiographic axial spondyloarthritis | 2 883         | 15                           | 1 835         | 24           | 20                       | 4 718         | 18           | 17                       |
| <i>Entresto</i>              | Cardiovascular, Renal and Metabolism   | Chronic heart failure   | 1 712         | 34                           | 1 836         | 50           | 45                       | 3 548         | 42           | 40                       |
| <i>Gilenya</i>               | Neuroscience                           | Relapsing multiple sclerosis  | 1 427         | -9                           | 1 360         | -6           | -8                       | 2 787         | -7           | -9                       |
| <i>Lucentis</i>              | Ophthalmology                          | Age-related macular degeneration  |               |                              | 2 160         | 12           | 8                        | 2 160         | 12           | 8                        |
| <i>Tasigna</i>               | Hematology                             | Chronic myeloid leukemia  | 882           | 3                            | 1 178         | 7            | 5                        | 2 060         | 5            | 4                        |
| <i>Promacta/Revolade</i>     | Hematology                             | Immune thrombocytopenia (ITP), severe aplastic anemia (SAA)   | 947           | 14                           | 1 069         | 18           | 17                       | 2 016         | 16           | 15                       |
| <i>Tafinlar + Mekinist</i>   | Solid Tumor                            | BRAF V600+ metastatic and adjuvant melanoma; advanced non-small cell lung cancer (NSCLC)            | 606           | 7                            | 1 087         | 12           | 9                        | 1 693         | 10           | 8                        |
| <i>Jakavi</i>                | Hematology                             | Myelofibrosis (MF), polycythemia vera (PV)  |               |                              | 1 595         | 19           | 16                       | 1 595         | 19           | 16                       |
| <i>Xolair</i> <sup>1</sup>   | Respiratory and Allergy                | Severe allergic asthma (SAA), chronic spontaneous urticaria (CSU) and nasal polyps                  |               |                              | 1 428         | 14           | 12                       | 1 428         | 14           | 12                       |
| <i>Sandostatin</i>           | Solid Tumor                            | Carcinoid tumors and acromegaly   | 843           | 1                            | 570           | -5           | -8                       | 1 413         | -2           | -3                       |
| <i>Zolgensma</i>             | Neuroscience                           | Spinal muscular atrophy (SMA)   | 469           | 2                            | 882           | 91           | 90                       | 1 351         | 47           | 46                       |
| <i>Galvus Group</i>          | Established Medicines                  | Type 2 diabetes   |               |                              | 1 092         | -9           | -8                       | 1 092         | -9           | -8                       |
| <i>Ilaris</i>                | Immunology, Hepatology and Dermatology | Auto-inflammatory (CAPS, TRAPS, HIDS/MKD, FMF, SJA, AOSD and gout)                                  | 501           | 25                           | 558           | 18           | 19                       | 1 059         | 21           | 22                       |
| <i>Gleevec/Glivec</i>        | Hematology                             | Chronic myeloid leukemia and GIST   | 263           | -17                          | 761           | -13          | -15                      | 1 024         | -14          | -15                      |
| <i>Afinitor/Votubia</i>      | Solid Tumor                            | Breast cancer/TSC   | 521           | -19                          | 417           | -5           | -6                       | 938           | -13          | -14                      |
| <i>Kisqali</i>               | Solid Tumor                            | HR+/HER2- metastatic breast cancer  | 339           | 7                            | 598           | 62           | 61                       | 937           | 36           | 36                       |
| <i>Exforge Group</i>         | Established Medicines                  | Hypertension  | 14            | -13                          | 887           | -8           | -11                      | 901           | -8           | -11                      |
| <i>Diovan Group</i>          | Established Medicines                  | Hypertension  | 51            | -59                          | 722           | -18          | -20                      | 773           | -23          | -25                      |
| <i>Kymriah</i>               | Hematology                             | r/r pediatric and young adults ALL, DLBCL   | 230           | 12                           | 357           | 33           | 30                       | 587           | 24           | 22                       |
| <i>Ultibro Group</i>         | Respiratory and Allergy                | Chronic obstructive pulmonary disease (COPD)  |               |                              | 584           | -6           | -10                      | 584           | -6           | -10                      |
| <b>Top 20 products total</b> |  |   | <b>11 688</b> | <b>7</b>                     | <b>20 976</b> | <b>12</b>    | <b>9</b>                 | <b>32 664</b> | <b>10</b>    | <b>8</b>                 |
| Rest of portfolio            |  |   | 3 311         | -3                           | 6 020         | 2            | 0                        | 9 331         | 0            | -1                       |
| <b>Total division sales</b>  |  |   | <b>14 999</b> | <b>5</b>                     | <b>26 996</b> | <b>9</b>     | <b>7</b>                 | <b>41 995</b> | <b>8</b>     | <b>6</b>                 |

<sup>1</sup> Net sales reflect *Xolair* sales for all indications.

<sup>2</sup> Constant currencies (cc) is a non-IFRS measure. A definition of non-IFRS measures used by Novartis can be found starting on page 50.

## Sandoz Division net sales by business franchise

### Fourth quarter

|                                 | Q4 2021<br>USD m | Q4 2020<br>USD m | % change<br>USD | % change<br>cc <sup>2</sup> |
|---------------------------------|------------------|------------------|-----------------|-----------------------------|
| Retail Generics <sup>1</sup>    | 1 853            | 1 887            | -2              | 0                           |
| Biopharmaceuticals              | 555              | 514              | 8               | 11                          |
| Anti-Infectives <sup>1</sup>    | 117              | 136              | -14             | -13                         |
| <b>Total division net sales</b> | <b>2 525</b>     | <b>2 537</b>     | <b>0</b>        | <b>2</b>                    |

<sup>1</sup> Sandoz total anti-infectives net sales amounted to USD 337 million (Q4 2020: USD 320 million), of which USD 220 million (Q4 2020: USD 184 million) is sold through the Retail Generics business franchise and USD 117 million (Q4 2020: USD 136 million) is sold to other third-party companies through the Anti-Infectives business franchise.

<sup>2</sup> Constant currencies (cc) is a non-IFRS measure. A definition of non-IFRS measures used by Novartis can be found starting on page 50.

### Full year

|                                 | FY 2021<br>USD m | FY 2020<br>USD m | % change<br>USD | % change<br>cc <sup>2</sup> |
|---------------------------------|------------------|------------------|-----------------|-----------------------------|
| Retail Generics <sup>1</sup>    | 7 092            | 7 244            | -2              | -4                          |
| Biopharmaceuticals              | 2 116            | 1 928            | 10              | 7                           |
| Anti-Infectives <sup>1</sup>    | 423              | 474              | -11             | -12                         |
| <b>Total division net sales</b> | <b>9 631</b>     | <b>9 646</b>     | <b>0</b>        | <b>-2</b>                   |

<sup>1</sup> Sandoz total anti-infectives net sales amounted to USD 1.1 billion (2020: USD 1.2 billion), of which USD 707 million (2020: USD 694 million) is sold through the Retail Generics business franchise and USD 423 million (2020: USD 474 million) is sold to other third-party companies through the Anti-Infectives business franchise.

<sup>2</sup> Constant currencies (cc) is a non-IFRS measure. A definition of non-IFRS measures used by Novartis can be found starting on page 50.

The product portfolio of Sandoz is widely spread in 2021 and 2020.

## Segmentation – Other revenue

### Fourth quarter

| (USD millions)              | Innovative Medicines |            | Sandoz    |          | Corporate |          | Group      |            |
|-----------------------------|----------------------|------------|-----------|----------|-----------|----------|------------|------------|
|                             | Q4 2021              | Q4 2020    | Q4 2021   | Q4 2020  | Q4 2021   | Q4 2020  | Q4 2021    | Q4 2020    |
| Profit sharing income       | 236                  | 210        |           |          |           |          | 236        | 210        |
| Royalty income              | 14                   | 27         | 6         | 6        | 2         | 6        | 22         | 39         |
| Milestone income            | 9                    | 2          | 24        |          |           |          | 33         | 2          |
| Other <sup>1</sup>          | 22                   | 7          | -20       | 2        |           |          | 2          | 9          |
| <b>Total other revenues</b> | <b>281</b>           | <b>246</b> | <b>10</b> | <b>8</b> | <b>2</b>  | <b>6</b> | <b>293</b> | <b>260</b> |

<sup>1</sup> Other includes revenue from activities such as manufacturing or other services rendered, to the extent such revenue is not recorded under net sales.

### Full year

| (USD millions)              | Innovative Medicines |              | Sandoz    |           | Corporate |            | Group        |              |
|-----------------------------|----------------------|--------------|-----------|-----------|-----------|------------|--------------|--------------|
|                             | FY 2021              | FY 2020      | FY 2021   | FY 2020   | FY 2021   | FY 2020    | FY 2021      | FY 2020      |
| Profit sharing income       | 873                  | 835          |           |           |           |            | 873          | 835          |
| Royalty income              | 74                   | 107          | 24        | 25        | 11        | 168        | 109          | 300          |
| Milestone income            | 127                  | 39           | 28        | 11        |           |            | 155          | 50           |
| Other <sup>1</sup>          | 105                  | 37           | 9         | 17        |           |            | 114          | 54           |
| <b>Total other revenues</b> | <b>1 179</b>         | <b>1 018</b> | <b>61</b> | <b>53</b> | <b>11</b> | <b>168</b> | <b>1 251</b> | <b>1 239</b> |

<sup>1</sup> Other includes revenue from activities such as manufacturing or other services rendered, to the extent such revenue is not recorded under net sales.

## 11. Commitments and contingencies

### Research and development commitments

The Group has entered into long-term research and development agreements with various institutions related to intangible assets, which provide for potential milestone payments by Novartis. As of December 31, 2021, the Group's commitments to make payments under those agreements, and their estimated timing, were as follows:

| (USD millions) | 2021         |
|----------------|--------------|
| 2022           | 602          |
| 2023           | 1 088        |
| 2024           | 472          |
| 2025           | 629          |
| 2026           | 113          |
| Thereafter     | 3 839        |
| <b>Total</b>   | <b>6 743</b> |

## 12. Events subsequent to the December 31, 2021, consolidated balance sheet date

### ***Aimovig*–Amgen dispute**

On January 31, 2022 Novartis and Amgen entered into a settlement agreement related to *Aimovig* litigation. For additional information see Note 9.

### **Dividend proposal for 2021 and approval of the Group's 2021 consolidated financial statements**

On February 1, 2022, the Novartis AG Board of Directors proposed the acceptance of the 2021 consolidated financial statements of the Novartis Group for approval by the Annual General Meeting on March 4, 2022. Furthermore, also on February 1, 2022, the Board proposed a dividend of CHF 3.10 per share to be approved at the Annual General Meeting on March 4, 2022. If approved, total dividend payments would amount to approximately USD 7.6 billion (2020: USD 7.4 billion), using the CHF/USD December 31, 2021, exchange rate.

# Supplementary information (unaudited)

## Non-IFRS disclosures

Novartis uses certain non-IFRS metrics when measuring performance, especially when measuring current-year results against prior periods, including core results, constant currencies, free cash flow and net debt.

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 their usefulness to investors.

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

As an internal measure of Group performance, these non-IFRS measures have limitations, and the Group's performance management process is not solely restricted to these metrics.

### 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, net gains and losses on fund investments and equity securities valued at fair value through profit and loss, and certain acquisition- and divestment-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, and 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 since, core measures exclude items that can vary significantly from year to year, they 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.

As an internal measure of Group performance, the core results measures have limitations, and the Group's performance management process is not solely restricted to these metrics. A limitation of the core results 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, impairments to property, plant and equipment and restructurings and related items.

### 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 exchange rates:

- The impact of translating the income statements of consolidated entities from their non-USD functional currencies to USD
- 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 that 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.

### Free cash flow

Novartis defines free cash flow as net cash flows from operating activities and cash flows from investing activities associated with purchases and sales of property, plant and equipment, of intangible assets, of financial assets and of other non-current assets. Excluded from free cash flow are cash flows from investing activities associated with acquisitions and divestments of businesses and of interests in associated companies, purchases and sales of marketable securities, commodities,

time deposits and net cash flows from financing activities.

Free cash flow is a non-IFRS measure and is not intended to be a substitute measure for net cash flows from operating activities as determined under IFRS. 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 investment in strategic opportunities, returning to shareholders and for debt repayment. Free cash flow is a non-IFRS measure, which means it should not be interpreted as a measure determined under IFRS.

### **Net debt**

Novartis calculates net debt as current financial debts and derivative financial instruments plus non-current financial debts less cash and cash equivalents and marketable securities, commodities, time deposits and derivative financial instruments.

Net debt is a non-IFRS measure, which means it should not be interpreted as a measure 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.

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

Fourth quarter

| (USD millions unless indicated otherwise)  | Innovative Medicines |              | Sandoz     |            | Corporate   |             | Group        |              |
|--|----------------------|--------------|------------|------------|-------------|-------------|--------------|--------------|
|  | Q4 2021              | Q4 2020      | Q4 2021    | Q4 2020    | Q4 2021     | Q4 2020     | Q4 2021      | Q4 2020      |
| <b>IFRS operating income</b>   | <b>2 468</b>         | <b>2 386</b> | <b>386</b> | <b>372</b> | <b>-292</b> | <b>-114</b> | <b>2 562</b> | <b>2 644</b> |
| <b>Amortization of intangible assets</b>   | <b>877</b>           | <b>827</b>   | <b>61</b>  | <b>66</b>  |             |             | <b>938</b>   | <b>893</b>   |
| Impairments  |                      |              |            |            |             |             |              |              |
| Intangible assets  |                      | 192          | 8          | 51         |             |             | 8            | 243          |
| Property, plant and equipment related to the Group-wide rationalization of manufacturing sites | 125                  | 28           | 7          | 4          |             |             | 132          | 32           |
| Other property, plant and equipment  | -2                   |              |            |            |             |             | -2           |              |
| <b>Total impairment charges</b>  | <b>123</b>           | <b>220</b>   | <b>15</b>  | <b>55</b>  |             |             | <b>138</b>   | <b>275</b>   |
| Acquisition or divestment of businesses and related items                                      |                      |              |            |            |             |             |              |              |
| - Income   |                      | -2           |            |            | -11         | -6          | -11          | -8           |
| - Expense  |                      | 17           |            |            | 89          | 10          | 89           | 27           |
| <b>Total acquisition or divestment of businesses and related items, net</b>                    |                      | <b>15</b>    |            |            | <b>78</b>   | <b>4</b>    | <b>78</b>    | <b>19</b>    |
| Other items  |                      |              |            |            |             |             |              |              |
| Divestment gains   | -57                  | -170         |            | -27        | -9          | 12          | -66          | -185         |
| Financial assets – fair value adjustments  | 39                   | -91          |            |            | -27         | 21          | 12           | -70          |
| Restructuring and related items  |                      |              |            |            |             |             |              |              |
| - Income   | -11                  | -22          | -12        | -11        | -1          | -7          | -24          | -40          |
| - Expense  | 154                  | 169          | 70         | 64         | 12          | 9           | 236          | 242          |
| Legal-related items  |                      |              |            |            |             |             |              |              |
| - Income   |                      |              |            |            |             |             |              |              |
| - Expense  |                      | 15           | 6          | 8          |             |             | 6            | 23           |
| Additional income  | -115                 | -130         | 2          | -1         | -84         | -219        | -197         | -350         |
| Additional expense   | 118                  | -7           |            | 2          | 18          | 55          | 136          | 50           |
| <b>Total other items</b>   | <b>128</b>           | <b>-236</b>  | <b>66</b>  | <b>35</b>  | <b>-91</b>  | <b>-129</b> | <b>103</b>   | <b>-330</b>  |
| <b>Total adjustments</b>   | <b>1 128</b>         | <b>826</b>   | <b>142</b> | <b>156</b> | <b>-13</b>  | <b>-125</b> | <b>1 257</b> | <b>857</b>   |
| <b>Core operating income</b>   | <b>3 596</b>         | <b>3 212</b> | <b>528</b> | <b>528</b> | <b>-305</b> | <b>-239</b> | <b>3 819</b> | <b>3 501</b> |
| as % of net sales  | 33.6%                | 31.4%        | 20.9%      | 20.8%      |             |             | 28.9%        | 27.4%        |
| Income from associated companies   | 4                    |              |            |            | 14 617      | 141         | 14 621       | 141          |
| Core adjustments to income from associated companies, net of tax                               |                      |              |            |            | -14 528     | 88          | -14 528      | 88           |
| Interest expense   |                      |              |            |            |             |             | -206         | -201         |
| Other financial income and expense   |                      |              |            |            |             |             | -26          | -25          |
| Core adjustments to other financial income and expense   |                      |              |            |            |             |             | 2            | 5            |
| Income taxes, adjusted for above items (core income taxes)                                     |                      |              |            |            |             |             | -547         | -475         |
| <b>Core net income</b>   |                      |              |            |            |             |             | <b>3 135</b> | <b>3 034</b> |
| <b>Core net income attributable to shareholders of Novartis AG</b>                             |                      |              |            |            |             |             | <b>3 137</b> | <b>3 029</b> |
| <b>Core basic EPS (USD)<sup>1</sup></b>  |                      |              |            |            |             |             | <b>1.40</b>  | <b>1.34</b>  |

<sup>1</sup> 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

Full year

| (USD millions unless indicated otherwise)  | Innovative Medicines |               | Sandoz       |              | Corporate   |             | Group         |               |
|--|----------------------|---------------|--------------|--------------|-------------|-------------|---------------|---------------|
|  | FY 2021              | FY 2020       | FY 2021      | FY 2020      | FY 2021     | FY 2020     | FY 2021       | FY 2020       |
| <b>IFRS operating income</b>   | <b>10 688</b>        | <b>9 172</b>  | <b>1 600</b> | <b>1 043</b> | <b>-599</b> | <b>-63</b>  | <b>11 689</b> | <b>10 152</b> |
| <b>Amortization of intangible assets</b>   | <b>3 528</b>         | <b>2 999</b>  | <b>236</b>   | <b>366</b>   |             |             | <b>3 764</b>  | <b>3 365</b>  |
| Impairments  |                      |               |              |              |             |             |               |               |
| Intangible assets  | 360                  | 759           | 27           | 141          |             |             | 387           | 900           |
| Property, plant and equipment related to the Group-wide rationalization of manufacturing sites | 219                  | 321           | 7            | 112          |             |             | 226           | 433           |
| Other property, plant and equipment  | 40                   |               |              | 2            |             |             | 40            | 2             |
| <b>Total impairment charges</b>  | <b>619</b>           | <b>1 080</b>  | <b>34</b>    | <b>255</b>   |             |             | <b>653</b>    | <b>1 335</b>  |
| Acquisition or divestment of businesses and related items                                      |                      |               |              |              |             |             |               |               |
| - Income   | -2                   | -5            |              |              | -64         | -73         | -66           | -78           |
| - Expense  | 1                    | 107           |              | 22           | 106         | 89          | 107           | 218           |
| <b>Total acquisition or divestment of businesses and related items, net</b>                    | <b>-1</b>            | <b>102</b>    |              | <b>22</b>    | <b>42</b>   | <b>16</b>   | <b>41</b>     | <b>140</b>    |
| Other items  |                      |               |              |              |             |             |               |               |
| Divestment gains   | -649                 | -348          | -4           | -27          | -75         | -39         | -728          | -414          |
| Financial assets – fair value adjustments  | -43                  | -153          |              |              | 5           | -183        | -38           | -336          |
| Restructuring and related items  |                      |               |              |              |             |             |               |               |
| - Income   | -32                  | -36           | -36          | -30          | -6          | -28         | -74           | -94           |
| - Expense  | 833                  | 484           | 193          | 252          | 32          | 35          | 1 058         | 771           |
| Legal-related items  |                      |               |              |              |             |             |               |               |
| - Income   |                      |               | -11          |              |             |             | -11           |               |
| - Expense  | 170                  | 555           | 53           | 406          |             | -26         | 223           | 935           |
| Additional income  | -139                 | -264          | -1           | -6           | -138        | -361        | -278          | -631          |
| Additional expense   | 241                  | 54            |              | 53           | 48          | 86          | 289           | 193           |
| <b>Total other items</b>   | <b>381</b>           | <b>292</b>    | <b>194</b>   | <b>648</b>   | <b>-134</b> | <b>-516</b> | <b>441</b>    | <b>424</b>    |
| <b>Total adjustments</b>   | <b>4 527</b>         | <b>4 473</b>  | <b>464</b>   | <b>1 291</b> | <b>-92</b>  | <b>-500</b> | <b>4 899</b>  | <b>5 264</b>  |
| <b>Core operating income</b>   | <b>15 215</b>        | <b>13 645</b> | <b>2 064</b> | <b>2 334</b> | <b>-691</b> | <b>-563</b> | <b>16 588</b> | <b>15 416</b> |
| as % of net sales  | 36.2%                | 35.0%         | 21.4%        | 24.2%        |             |             | 32.1%         | 31.7%         |
| Income from associated companies   | 5                    | 1             | 2            | 2            | 15 332      | 670         | 15 339        | 673           |
| Core adjustments to income from associated companies, net of tax                               |                      |               |              |              | -14 346     | 424         | -14 346       | 424           |
| Interest expense   |                      |               |              |              |             |             | -811          | -869          |
| Other financial income and expense   |                      |               |              |              |             |             | -80           | -78           |
| Core adjustments to other financial income and expense   |                      |               |              |              |             |             | 39            | -5            |
| Income taxes, adjusted for above items (core income taxes)                                     |                      |               |              |              |             |             | -2 635        | -2 403        |
| <b>Core net income</b>   |                      |               |              |              |             |             | <b>14 094</b> | <b>13 158</b> |
| <b>Core net income attributable to shareholders of Novartis AG</b>                             |                      |               |              |              |             |             | <b>14 097</b> | <b>13 159</b> |
| <b>Core basic EPS (USD)<sup>1</sup></b>  |                      |               |              |              |             |             | <b>6.29</b>   | <b>5.78</b>   |

<sup>1</sup> 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

Fourth quarter

| (USD millions unless indicated otherwise) | Q4 2021<br>IFRS results | Amortization<br>of intangible<br>assets <sup>1</sup> | Impairments <sup>2</sup> | Acquisition or<br>divestment of<br>businesses and<br>related items <sup>3</sup> | Other<br>items <sup>4</sup> | Q4 2021<br>Core results | Q4 2020<br>Core results |
|---|-------------------------|--|--------------------------|---|-----------------------------|-------------------------|-------------------------|
| <b>Gross profit</b>                       | <b>9 546</b>            | <b>908</b>   | <b>1</b>                 |   | <b>-25</b>                  | <b>10 430</b>           | <b>9 956</b>            |
| <b>Operating income</b>                   | <b>2 562</b>            | <b>938</b>   | <b>138</b>               | <b>78</b>   | <b>103</b>                  | <b>3 819</b>            | <b>3 501</b>            |
| <b>Income before taxes</b>                | <b>16 951</b>           | <b>966</b>   | <b>138</b>               | <b>-14 494</b>  | <b>121</b>                  | <b>3 682</b>            | <b>3 509</b>            |
| Income taxes <sup>5</sup>                 | -645                    |  |                          |   |                             | -547                    | -475                    |
| <b>Net income</b>                         | <b>16 306</b>           |  |                          |   |                             | <b>3 135</b>            | <b>3 034</b>            |
| <b>Basic EPS (USD)<sup>6</sup></b>        | <b>7.29</b>             |  |                          |   |                             | <b>1.40</b>             | <b>1.34</b>             |

### The following are adjustments to arrive at core gross profit

|                    |        |     |   |  |     |        |        |
|--------------------|--------|-----|---|--|-----|--------|--------|
| Cost of goods sold | -3 976 | 908 | 1 |  | -25 | -3 092 | -3 074 |
|--------------------|--------|-----|---|--|-----|--------|--------|

### The following are adjustments to arrive at core operating income

|                                     |        |    |     |     |      |        |        |
|-------------------------------------|--------|----|-----|-----|------|--------|--------|
| Selling, general and administration | -3 985 |    |     |     | 1    | -3 984 | -3 908 |
| Research and development            | -2 409 | 30 | 7   |     | 3    | -2 369 | -2 297 |
| Other income                        | 371    |    | 1   | -11 | -243 | 118    | 15     |
| Other expense                       | -961   |    | 129 | 89  | 367  | -376   | -265   |

### The following are adjustments to arrive at core income before taxes

|                                    |        |    |  |         |    |     |     |
|------------------------------------|--------|----|--|---------|----|-----|-----|
| Income from associated companies   | 14 621 | 28 |  | -14 556 |    | 93  | 229 |
| Other financial income and expense | -26    |    |  | -16     | 18 | -24 | -20 |

<sup>1</sup> Amortization of intangible assets: cost of goods sold includes the amortization of acquired rights to currently marketed products and other production-related intangible assets; research and development includes the amortization of acquired rights for technologies; income from associated companies includes USD 28 million for the Novartis share of the estimated Roche core items

<sup>2</sup> Impairments: cost of goods sold and research and development includes impairment charges related to intangible assets; other income and other expense include a reversal of an impairment charge and impairment charges related to property, plant and equipment

<sup>3</sup> Acquisition or divestment of businesses and related items, including restructuring and integration charges: other income includes adjustments to portfolio transformation accruals; other expense includes transitional service fee expenses related to the Alcon distribution and adjustments to accruals; income from associated companies includes the gain related to the divestment of our investment in Roche; other financial income and expense includes other financial gains related to the divestment of our investment in Roche

<sup>4</sup> Other items: cost of goods sold, research and development and other expense include net restructuring and other charges related to the Group-wide rationalization of manufacturing sites; research and development, other income and other expense include other restructuring income and charges and related items; selling, general and administration includes adjustments to provisions; cost of goods sold, research and development and other expense include adjustments to contingent considerations and provisions; other income includes net gains from the divestment of products; other income and other expense include fair value adjustments and divestment gains and losses on financial assets and adjustments to environmental provisions; other expense also includes legal-related items; other financial income and expense includes a charge related to the monetary loss due to hyperinflation in Argentina and Venezuela and a revaluation impact of a financial liability incurred through the Alcon distribution

<sup>5</sup> 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 13.3 billion to arrive at the core results before tax amounts to USD 98 million. Excluding the gain on the divestment of our investment in Roche, the tax on the total adjustments of USD 1.3 billion to arrive at the core results before tax amounts to USD 98 million and the average tax rate on the adjustments was 7.5%.

<sup>6</sup> 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

Full year

| (USD millions unless indicated otherwise) | FY 2021<br>IFRS results | Amortization<br>of intangible<br>assets <sup>1</sup> | Impairments <sup>2</sup> | Acquisition or<br>divestment of<br>businesses and<br>related items <sup>3</sup> | Other<br>items <sup>4</sup> | FY 2021<br>Core results | FY 2020<br>Core results |
|---|-------------------------|--|--------------------------|---|-----------------------------|-------------------------|-------------------------|
| <b>Gross profit</b>                       | <b>37 010</b>           | <b>3 655</b>   | <b>18</b>                |   | <b>414</b>                  | <b>41 097</b>           | <b>38 663</b>           |
| <b>Operating income</b>                   | <b>11 689</b>           | <b>3 764</b>   | <b>653</b>               | <b>41</b>   | <b>441</b>                  | <b>16 588</b>           | <b>15 416</b>           |
| <b>Income before taxes</b>                | <b>26 137</b>           | <b>3 974</b>   | <b>653</b>               | <b>-14 531</b>  | <b>496</b>                  | <b>16 729</b>           | <b>15 561</b>           |
| Income taxes <sup>5</sup>                 | -2 119                  |  |                          |   |                             | -2 635                  | -2 403                  |
| <b>Net income</b>                         | <b>24 018</b>           |  |                          |   |                             | <b>14 094</b>           | <b>13 158</b>           |
| <b>Basic EPS (USD)<sup>6</sup></b>        | <b>10.71</b>            |  |                          |   |                             | <b>6.29</b>             | <b>5.78</b>             |

### The following are adjustments to arrive at core gross profit

|                    |         |       |    |  |     |         |         |
|--------------------|---------|-------|----|--|-----|---------|---------|
| Cost of goods sold | -15 867 | 3 655 | 18 |  | 414 | -11 780 | -11 099 |
|--------------------|---------|-------|----|--|-----|---------|---------|

### The following are adjustments to arrive at core operating income

|                                     |         |     |      |     |        |         |         |
|-------------------------------------|---------|-----|------|-----|--------|---------|---------|
| Selling, general and administration | -14 886 |     |      |     | 71     | -14 815 | -14 093 |
| Research and development            | -9 540  | 109 | 369  |     | 21     | -9 041  | -8 484  |
| Other income                        | 1 852   |     | -100 | -66 | -1 265 | 421     | 323     |
| Other expense                       | -2 747  |     | 366  | 107 | 1 200  | -1 074  | -993    |

### The following are adjustments to arrive at core income before taxes

|                                    |        |     |  |         |    |     |       |
|------------------------------------|--------|-----|--|---------|----|-----|-------|
| Income from associated companies   | 15 339 | 210 |  | -14 556 |    | 993 | 1 097 |
| Other financial income and expense | -80    |     |  | -16     | 55 | -41 | -83   |

<sup>1</sup> Amortization of intangible assets: cost of goods sold includes the amortization of acquired rights to currently marketed products and other production-related intangible assets; research and development includes the amortization of acquired rights for technologies; income from associated companies includes USD 210 million for the Novartis share of the estimated Roche core items

<sup>2</sup> Impairments: cost of goods sold and research and development include impairment charges related to intangible assets; other income and other expense include reversals of impairment charges and impairment charges related to property, plant and equipment

<sup>3</sup> Acquisition or divestment of businesses and related items, including restructuring and integration charges: other income includes adjustments to portfolio transformation and Alcon spin-off accruals; other income and other expense include transitional service-fee income and expenses related to the Alcon distribution; other expense also includes adjustments to provisions; income from associated companies includes the gain related to the divestment of our investment in Roche; other financial income and expense includes other financial gains related to the divestment of our investment in Roche

<sup>4</sup> Other items: cost of goods sold, research and development, other income and other expense include net restructuring and other charges related to the Group-wide rationalization of manufacturing sites; cost of goods sold, selling, general and administration, other income and other expense include other restructuring income and charges and related items; cost of goods sold, research and development, other income and other expense also include adjustments to contingent considerations; selling, general and administration, research and development, other income and other expense include adjustments to provisions; other income and other expense also include gains and losses from the divestment of products and financial assets and fair value adjustments on financial assets, adjustments to environmental provisions and legal-related items; other financial income and expense includes a charge related to the monetary loss due to hyperinflation in Argentina and Venezuela and a revaluation impact of a financial liability incurred through the Alcon distribution

<sup>5</sup> 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 9.4 billion to arrive at the core results before tax amounts to USD 516 million. Excluding the gain on the divestment of our investment in Roche, the tax on the total adjustments of USD 5.2 billion to arrive at the core results before tax amounts to USD 516 million and the average tax rate on the adjustments was 10.0%.

<sup>6</sup> 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

### Fourth quarter

| (USD millions)          | Q4 2021<br>IFRS results | Amortization<br>of intangible<br>assets <sup>1</sup> | Impairments <sup>2</sup> | Acquisition or<br>divestment of<br>businesses and<br>related items | Other<br>items <sup>3</sup> | Q4 2021<br>Core results | Q4 2020<br>Core results |
|-------------------------|-------------------------|--|--------------------------|--|-----------------------------|-------------------------|-------------------------|
| <b>Gross profit</b>     | <b>8 296</b>            | <b>847</b>   |                          |  | <b>-59</b>                  | <b>9 084</b>            | <b>8 589</b>            |
| <b>Operating income</b> | <b>2 468</b>            | <b>877</b>   | <b>123</b>               |  | <b>128</b>                  | <b>3 596</b>            | <b>3 212</b>            |

#### The following are adjustments to arrive at core gross profit

|                    |        |     |  |  |     |        |        |
|--------------------|--------|-----|--|--|-----|--------|--------|
| Cost of goods sold | -2 873 | 847 |  |  | -59 | -2 085 | -2 080 |
|--------------------|--------|-----|--|--|-----|--------|--------|

#### The following are adjustments to arrive at core operating income

|                                     |        |    |     |  |     |        |        |
|-------------------------------------|--------|----|-----|--|-----|--------|--------|
| Selling, general and administration | -3 274 |    |     |  | -1  | -3 275 | -3 199 |
| Research and development            | -2 169 | 30 |     |  | 3   | -2 136 | -2 055 |
| Other income                        | 186    |    | -2  |  | -65 | 119    | 51     |
| Other expense                       | -571   |    | 125 |  | 250 | -196   | -174   |

<sup>1</sup> Amortization of intangible assets: cost of goods sold includes the amortization of acquired rights to currently marketed products and other production-related intangible assets; research and development includes the amortization of acquired rights for technologies

<sup>2</sup> Impairments: other income and other expense include reversals of impairment charges and impairment charges related to property, plant and equipment

<sup>3</sup> Other items: cost of goods sold, research and development and other expense include net restructuring and other charges related to the Group-wide rationalization of manufacturing sites; research and development, other income and other expense include other restructuring income and charges and related items; cost of goods sold, research and development and other expense include adjustments to contingent considerations and provisions; selling, general and administration includes adjustments to provisions; other income includes net gains from the divestment of products and financial assets; other income and other expense include fair value adjustments on financial assets; other expense also includes adjustments to environmental provisions

### Full year

| (USD millions)          | FY 2021<br>IFRS results | Amortization<br>of intangible<br>assets <sup>1</sup> | Impairments <sup>2</sup> | Acquisition or<br>divestment of<br>businesses and<br>related items <sup>3</sup> | Other<br>items <sup>4</sup> | FY 2021<br>Core results | FY 2020<br>Core results |
|-------------------------|-------------------------|--|--------------------------|---|-----------------------------|-------------------------|-------------------------|
| <b>Gross profit</b>     | <b>32 218</b>           | <b>3 419</b>   |                          |   | <b>344</b>                  | <b>35 981</b>           | <b>33 275</b>           |
| <b>Operating income</b> | <b>10 688</b>           | <b>3 528</b>   | <b>619</b>               | <b>-1</b>   | <b>381</b>                  | <b>15 215</b>           | <b>13 645</b>           |

#### The following are adjustments to arrive at core gross profit

|                    |         |       |  |  |     |        |        |
|--------------------|---------|-------|--|--|-----|--------|--------|
| Cost of goods sold | -11 751 | 3 419 |  |  | 344 | -7 988 | -7 548 |
|--------------------|---------|-------|--|--|-----|--------|--------|

#### The following are adjustments to arrive at core operating income

|                                     |         |     |     |    |      |         |         |
|-------------------------------------|---------|-----|-----|----|------|---------|---------|
| Selling, general and administration | -12 306 |     |     |    | 71   | -12 235 | -11 583 |
| Research and development            | -8 641  | 109 | 360 |    | 22   | -8 150  | -7 636  |
| Other income                        | 1 149   |     | -45 | -2 | -837 | 265     | 229     |
| Other expense                       | -1 732  |     | 304 | 1  | 781  | -646    | -640    |

<sup>1</sup> Amortization of intangible assets: cost of goods sold includes the amortization of acquired rights to currently marketed products and other production-related intangible assets; research and development includes the amortization of acquired rights for technologies

<sup>2</sup> Impairments: research and development includes impairment charges related to intangible assets; other income and other expense include reversals of impairment charges and impairment charges related to property, plant and equipment

<sup>3</sup> 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 related to the Alcon distribution

<sup>4</sup> Other items: cost of goods sold, research and development, other income and other expense include net restructuring and other charges related to the Group-wide rationalization of manufacturing sites; cost of goods sold, selling, general and administration, other income and other expense include other restructuring income and charges and related items; cost of goods sold, research and development and other expense include adjustments to contingent considerations; selling, general and administration, research and development and other expense include adjustments to provisions; other income and other expense include gains and losses from the divestment of products and financial assets and fair value adjustments on financial assets; other expense also includes legal-related items and adjustments to environmental provisions

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

### Fourth quarter

| (USD millions)          | Q4 2021<br>IFRS results | Amortization<br>of intangible<br>assets <sup>1</sup> | Impairments <sup>2</sup> | Acquisition or<br>divestment of<br>businesses and<br>related items | Other<br>items <sup>3</sup> | Q4 2021<br>Core results | Q4 2020<br>Core results |
|-------------------------|-------------------------|--|--------------------------|--|-----------------------------|-------------------------|-------------------------|
| <b>Gross profit</b>     | <b>1 236</b>            | <b>61</b>  | <b>1</b>                 |  | <b>34</b>                   | <b>1 332</b>            | <b>1 340</b>            |
| <b>Operating income</b> | <b>386</b>              | <b>61</b>  | <b>15</b>                |  | <b>66</b>                   | <b>528</b>              | <b>528</b>              |

#### The following are adjustments to arrive at core gross profit

|                    |        |    |   |  |    |        |        |
|--------------------|--------|----|---|--|----|--------|--------|
| Cost of goods sold | -1 341 | 61 | 1 |  | 34 | -1 245 | -1 257 |
|--------------------|--------|----|---|--|----|--------|--------|

#### The following are adjustments to arrive at core operating income

|                                     |      |  |   |  |     |      |      |
|-------------------------------------|------|--|---|--|-----|------|------|
| Selling, general and administration | -568 |  |   |  | 2   | -566 | -568 |
| Research and development            | -240 |  | 7 |  |     | -233 | -242 |
| Other income                        | 50   |  | 3 |  | -12 | 41   | 54   |
| Other expense                       | -92  |  | 4 |  | 42  | -46  | -56  |

<sup>1</sup> Amortization of intangible assets: cost of goods sold includes the amortization of acquired rights to currently marketed products and other production-related intangible assets

<sup>2</sup> Impairments: cost of goods sold and research and development include impairment charges related to intangible assets; other income and other expense include reversals of impairment charges and impairment charges related to property, plant and equipment

<sup>3</sup> Other items: cost of goods sold and other expense include net restructuring and other charges related to the Group-wide rationalization of manufacturing sites; selling, general and administration includes adjustments to provisions; other income and other expense include other restructuring income and charges and related items; other expense also includes legal-related items

### Full year

| (USD millions)          | FY 2021<br>IFRS results | Amortization<br>of intangible<br>assets <sup>1</sup> | Impairments <sup>2</sup> | Acquisition or<br>divestment of<br>businesses and<br>related items | Other<br>items <sup>3</sup> | FY 2021<br>Core results | FY 2020<br>Core results |
|-------------------------|-------------------------|--|--------------------------|--|-----------------------------|-------------------------|-------------------------|
| <b>Gross profit</b>     | <b>4 725</b>            | <b>236</b>   | <b>18</b>                |  | <b>70</b>                   | <b>5 049</b>            | <b>5 279</b>            |
| <b>Operating income</b> | <b>1 600</b>            | <b>236</b>   | <b>34</b>                |  | <b>194</b>                  | <b>2 064</b>            | <b>2 334</b>            |

#### The following are adjustments to arrive at core gross profit

|                    |        |     |    |  |    |        |        |
|--------------------|--------|-----|----|--|----|--------|--------|
| Cost of goods sold | -5 147 | 236 | 18 |  | 70 | -4 823 | -4 609 |
|--------------------|--------|-----|----|--|----|--------|--------|

#### The following are adjustments to arrive at core operating income

|                          |      |  |     |  |     |      |      |
|--------------------------|------|--|-----|--|-----|------|------|
| Research and development | -899 |  | 9   |  | -1  | -891 | -848 |
| Other income             | 233  |  | -55 |  | -51 | 127  | 109  |
| Other expense            | -397 |  | 62  |  | 176 | -159 | -160 |

<sup>1</sup> Amortization of intangible assets: cost of goods sold includes the amortization of acquired rights to currently marketed products and other production-related intangible assets

<sup>2</sup> Impairments: cost of goods sold and research and development include impairment charges related to intangible assets; other income and other expense include reversals of impairment charges and impairment charges related to property, plant and equipment

<sup>3</sup> Other items: cost of goods sold, other income and other expense include net restructuring and other charges related to the Group-wide rationalization of manufacturing sites and other restructuring income and charges and related items; research and development includes adjustments to provisions; other income includes net gains from the divestment of a product; other income and other expense include legal-related items

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

### Fourth quarter

| (USD millions)        | Q4 2021<br>IFRS results | Amortization<br>of intangible<br>assets | Impairments | Acquisition or<br>divestment of<br>businesses and<br>related items <sup>1</sup> | Other<br>items <sup>2</sup> | Q4 2021<br>Core results | Q4 2020<br>Core results |
|-----------------------|-------------------------|---|-------------|---|-----------------------------|-------------------------|-------------------------|
| <b>Gross profit</b>   | <b>14</b>               |   |             |   |                             | <b>14</b>               | <b>27</b>               |
| <b>Operating loss</b> | <b>-292</b>             |   |             | <b>78</b>   | <b>-91</b>                  | <b>-305</b>             | <b>-239</b>             |

#### The following are adjustments to arrive at core operating loss

|               |      |  |  |     |      |      |     |
|---------------|------|--|--|-----|------|------|-----|
| Other income  | 135  |  |  | -11 | -166 | -42  | -90 |
| Other expense | -298 |  |  | 89  | 75   | -134 | -35 |

<sup>1</sup> Acquisition or divestment of businesses and related items, including restructuring and integration charges; other income includes adjustments to portfolio transformation accruals; other expense includes transitional service fee expenses related to the Alcon distribution and adjustments to accruals

<sup>2</sup> Other items: other income and other expense include fair value adjustments and divestment gains and losses on financial assets, adjustments to environmental provisions and restructuring income and charges and related items

### Full year

| (USD millions)        | FY 2021<br>IFRS results | Amortization<br>of intangible<br>assets | Impairments | Acquisition or<br>divestment of<br>businesses and<br>related items <sup>1</sup> | Other<br>items <sup>2</sup> | FY 2021<br>Core results | FY 2020<br>Core results |
|-----------------------|-------------------------|---|-------------|---|-----------------------------|-------------------------|-------------------------|
| <b>Gross profit</b>   | <b>67</b>               |   |             |   |                             | <b>67</b>               | <b>109</b>              |
| <b>Operating loss</b> | <b>-599</b>             |   |             | <b>42</b>   | <b>-134</b>                 | <b>-691</b>             | <b>-563</b>             |

#### The following are adjustments to arrive at core operating loss

|               |      |  |  |     |      |      |      |
|---------------|------|--|--|-----|------|------|------|
| Other income  | 470  |  |  | -64 | -377 | 29   | -15  |
| Other expense | -618 |  |  | 106 | 243  | -269 | -193 |

<sup>1</sup> Acquisition or divestment of businesses and related items, including restructuring and integration charges; other income includes adjustments to portfolio transformation and Alcon spin-off accruals; other income and other expense include transitional service fee income and expenses related to the Alcon distribution; other expense also includes adjustments to provisions

<sup>2</sup> Other items: other income includes an adjustment to a contingent consideration receivable; other income and other expense include fair value adjustments and divestment gains and losses on financial assets, adjustments to environmental provisions and restructuring income and charges and related items

## Income from associated companies

| (USD millions)   | Q4 2021       | Q4 2020    | FY 2021       | FY 2020    |
|--|---------------|------------|---------------|------------|
| Share of estimated Roche reported results                            | 69            | 187        | 815           | 913        |
| Prior-year adjustment  |               |            | 40            | -64        |
| Amortization of fair value adjustments relating to intangible assets | -6            | -45        | -70           | -172       |
| Gain on divestment of investment in Roche Holding AG                 | 14 556        |            | 14 556        |            |
| Net income effect from Roche Holding AG                              | 14 619        | 142        | 15 341        | 677        |
| Others   | 2             | -1         | -2            | -4         |
| <b>Income from associated companies</b>                              | <b>14 621</b> | <b>141</b> | <b>15 339</b> | <b>673</b> |

## Core income from associated companies

| (USD millions)                                       | Q4 2021       | Q4 2020    | FY 2021       | FY 2020      |
|--|---------------|------------|---------------|--------------|
| <b>Income from associated companies</b>              | <b>14 621</b> | <b>141</b> | <b>15 339</b> | <b>673</b>   |
| Share of estimated Roche core adjustments            | 28            | 88         | 210           | 322          |
| Roche prior year adjustment                          |               |            |               | 102          |
| Gain on divestment of investment in Roche Holding AG | -14 556       |            | -14 556       |              |
| <b>Core income from associated companies</b>         | <b>93</b>     | <b>229</b> | <b>993</b>    | <b>1 097</b> |

## Net debt

### Condensed consolidated changes in net debt

#### Fourth quarter

| (USD millions)   | Q4 2021       | Q4 2020        |
|--|---------------|----------------|
| <b>Change in cash and cash equivalents</b>   | <b>5 196</b>  | <b>664</b>     |
| Change in marketable securities, commodities, time deposits, financial debts and derivatives financial instruments | 18 212        | 209            |
| <b>Change in net debt</b>  | <b>23 408</b> | <b>873</b>     |
| Net debt at October 1  | -24 276       | -25 354        |
| <b>Net debt at December 31</b>   | <b>-868</b>   | <b>-24 481</b> |

### Condensed consolidated changes in net debt

#### Full year

| (USD millions)   | FY 2021       | FY 2020        |
|--|---------------|----------------|
| <b>Change in cash and cash equivalents</b>   | <b>2 749</b>  | <b>-1 454</b>  |
| Change in marketable securities, commodities, time deposits, financial debts and derivatives financial instruments | 20 864        | -7 089         |
| <b>Change in net debt</b>  | <b>23 613</b> | <b>-8 543</b>  |
| Net debt at January 1  | -24 481       | -15 938        |
| <b>Net debt at December 31</b>   | <b>-868</b>   | <b>-24 481</b> |

### Components of net debt

| (USD millions)   | Dec 31, 2021   | Dec 31, 2020   |
|--|----------------|----------------|
| Non-current financial debts  | -22 902        | -26 259        |
| Current financial debts and derivative financial instruments                           | -6 295         | -9 785         |
| <b>Total financial debts</b>   | <b>-29 197</b> | <b>-36 044</b> |
| Less liquidity   |                |                |
| Cash and cash equivalents  | 12 407         | 9 658          |
| Marketable securities, commodities, time deposits and derivative financial instruments | 15 922         | 1 905          |
| <b>Total liquidity</b>   | <b>28 329</b>  | <b>11 563</b>  |
| <b>Net debt at end of period</b>   | <b>-868</b>    | <b>-24 481</b> |

## Share information

|   | Dec 31, 2021         | Dec 31, 2020  |
|---|----------------------|---------------|
| Number of shares outstanding                      | <b>2 234 939 948</b> | 2 256 822 048 |
| Registered share price (CHF)                      | <b>80.28</b>         | 83.65         |
| ADR price (USD)                                   | <b>87.47</b>         | 94.43         |
| Market capitalization (USD billions) <sup>1</sup> | <b>196.1</b>         | 214.3         |
| Market capitalization (CHF billions) <sup>1</sup> | <b>179.4</b>         | 188.8         |

<sup>1</sup> Market capitalization is calculated based on the number of shares outstanding (excluding treasury shares). Market capitalization in USD is based on the market capitalization in CHF converted at the quarter end CHF/USD exchange rate.

## Free cash flow

The following table is a reconciliation of the three major categories of the IFRS consolidated statements of cash flows to free cash flow:

### Fourth quarter

| (USD millions)   | Q4 2021        |               |                | Q4 2020        |              |                |
|--|----------------|---------------|----------------|----------------|--------------|----------------|
|  | IFRS cash flow | Adjustments   | Free cash flow | IFRS cash flow | Adjustments  | Free cash flow |
| <b>Net cash flows from operating activities</b>  | <b>3 884</b>   |               | <b>3 884</b>   | <b>4 005</b>   |              | <b>4 005</b>   |
| <b>Net cash flows from/used in investing activities from continuing operations<sup>1,2</sup></b> | <b>4 563</b>   | <b>-5 420</b> | <b>-857</b>    | <b>-569</b>    | <b>-94</b>   | <b>-663</b>    |
| Net cash flows used in investing activities from discontinued operations <sup>3</sup>            |                |               |                | -2             | 2            | 0              |
| <b>Net cash flows from/used in investing activities</b>  | <b>4 563</b>   | <b>-5 420</b> | <b>-857</b>    | <b>-571</b>    | <b>-92</b>   | <b>-663</b>    |
| <b>Net cash flows used in financing activities from continuing operations<sup>4</sup></b>        | <b>-3 251</b>  | <b>3 251</b>  | <b>0</b>       | <b>-2 923</b>  | <b>2 923</b> | <b>0</b>       |
| Net cash flows used in financing activities from discontinued operations <sup>3</sup>            |                |               |                | -13            | 13           | 0              |
| <b>Net cash flows used in financing activities</b>   | <b>-3 251</b>  | <b>3 251</b>  | <b>0</b>       | <b>-2 936</b>  | <b>2 936</b> | <b>0</b>       |
| <b>Free cash flow</b>  |                |               | <b>3 027</b>   |                |              | <b>3 342</b>   |

<sup>1</sup> Excluded from the free cash flow are cash flows from investing activities associated with acquisitions and divestments of businesses and of interest in associated companies, purchases and sales of marketable securities, commodities and time deposits.

<sup>2</sup> For the fourth quarter of 2020 free cash flow, proceeds from the sale of financial assets exclude the cash inflows from the sale of a portion of the Alcon Inc. shares received by certain consolidated foundations through the Alcon spin-off, which amounted to USD 44 million.

<sup>3</sup> Net cash flows used in investing activities from discontinued operations are activities associated with acquisitions and divestments of businesses which are excluded from the free cash flow. Net cash flows used in financing activities from discontinued operations are excluded from free cash flow. Free cash flow from discontinued operations in the fourth quarter of 2021 and 2020 was nil.

<sup>4</sup> Net cash flows used in financing activities are excluded from the free cash flow.

### Full year

| (USD millions)   | FY 2021        |               |                | FY 2020        |               |                |
|--|----------------|---------------|----------------|----------------|---------------|----------------|
|  | IFRS cash flow | Adjustments   | Free cash flow | IFRS cash flow | Adjustments   | Free cash flow |
| <b>Net cash flows from operating activities</b>  | <b>15 071</b>  |               | <b>15 071</b>  | <b>13 650</b>  |               | <b>13 650</b>  |
| <b>Net cash flows from/used in investing activities from continuing operations<sup>1,2</sup></b> | <b>4 208</b>   | <b>-5 997</b> | <b>-1 789</b>  | <b>-13 055</b> | <b>11 096</b> | <b>-1 959</b>  |
| Net cash flows used in investing activities from discontinued operations <sup>3</sup>            |                |               |                | -127           | 127           | 0              |
| <b>Net cash flows from/used in investing activities</b>  | <b>4 208</b>   | <b>-5 997</b> | <b>-1 789</b>  | <b>-13 182</b> | <b>11 223</b> | <b>-1 959</b>  |
| <b>Net cash flows used in financing activities from continuing operations<sup>4</sup></b>        | <b>-16 264</b> | <b>16 264</b> | <b>0</b>       | <b>-2 158</b>  | <b>2 158</b>  | <b>0</b>       |
| Net cash flows used in financing activities from discontinued operations <sup>3</sup>            |                |               |                | -50            | 50            | 0              |
| <b>Net cash flows used in financing activities</b>   | <b>-16 264</b> | <b>16 264</b> | <b>0</b>       | <b>-2 208</b>  | <b>2 208</b>  | <b>0</b>       |
| <b>Free cash flow</b>  |                |               | <b>13 282</b>  |                |               | <b>11 691</b>  |

<sup>1</sup> Excluded from the free cash flow are cash flows from investing activities associated with acquisitions and divestments of businesses and of interest in associated companies, purchases and sales of marketable securities, commodities and time deposits.

<sup>2</sup> For the free cash flow in 2020, proceeds from the sale of financial assets exclude the cash inflows from the sale of a portion of the Alcon Inc. shares received by certain consolidated foundations through the Alcon spin-off, which amounted to USD 276 million.

<sup>3</sup> Net cash flows used in investing activities from discontinued operations are activities associated with acquisitions and divestments of businesses which are excluded from the free cash flow. Net cash flows used in financing activities from discontinued operations are excluded from free cash flow. Free cash flow from discontinued operations was nil in 2021 and 2020.

<sup>4</sup> Net cash flows used in financing activities are excluded from the free cash flow.

The following table is a summary of the free cash flow:

**Fourth quarter**

| (USD millions)   | Q4 2021      | Q4 2020      |
|--|--------------|--------------|
| <b>Operating income</b>  | <b>2 562</b> | <b>2 644</b> |
| Adjustments for non-cash items   |              |              |
| Depreciation, amortization and impairments   | 1 531        | 1 548        |
| Change in provisions and other non-current liabilities                             | 100          | 75           |
| Other  | 172          | -171         |
| <b>Operating income adjusted for non-cash items</b>                                | <b>4 365</b> | <b>4 096</b> |
| Dividends received from associated companies and others                            | 2            | 1            |
| Interest and other financial receipts  | 5            | 181          |
| Interest and other financial payments  | -192         | -232         |
| Income taxes paid  | -883         | -618         |
| Payments out of provisions and other net cash movements in non-current liabilities | -589         | -645         |
| Change in inventory and trade receivables less trade payables                      | 893          | 1 000        |
| Change in other net current assets and other operating cash flow items             | 283          | 222          |
| <b>Net cash flows from operating activities</b>                                    | <b>3 884</b> | <b>4 005</b> |
| Purchases of property, plant and equipment   | -460         | -521         |
| Proceeds from sale of property, plant and equipment                                | 74           | 82           |
| Purchases of intangible assets   | -517         | -502         |
| Proceeds from sale of intangible assets  | 84           | 176          |
| Purchases of financial assets  | -67          | -105         |
| Proceeds from sale of financial assets <sup>1</sup>                                | 34           | 212          |
| Purchases of other non-current assets  | -5           | -7           |
| Proceeds from sale of other non-current assets                                     | 0            | 2            |
| <b>Free cash flow</b>  | <b>3 027</b> | <b>3 342</b> |

<sup>1</sup> For the fourth quarter of 2020 free cash flow, proceeds from the sale of financial assets exclude the cash inflows from the sale of a portion of the Alcon Inc. shares received by certain consolidated foundations through the Alcon spin-off, which amounted to USD 44 million.

## Full year

| (USD millions)   | FY 2021       | FY 2020       |
|--|---------------|---------------|
| <b>Operating income</b>  | <b>11 689</b> | <b>10 152</b> |
| Adjustments for non-cash items   |               |               |
| Depreciation, amortization and impairments   | 6 075         | 6 129         |
| Change in provisions and other non-current liabilities                             | 896           | 1 411         |
| Other  | 59            | 260           |
| <b>Operating income adjusted for non-cash items</b>                                | <b>18 719</b> | <b>17 952</b> |
| Dividends received from associated companies and others                            | 525           | 490           |
| Interest and other financial receipts  | 13            | 511           |
| Interest and other financial payments  | -966          | -742          |
| Income taxes paid  | -2 342        | -1 833        |
| Payments out of provisions and other net cash movements in non-current liabilities | -1 119        | -2 437        |
| Change in inventory and trade receivables less trade payables                      | -329          | -730          |
| Change in other net current assets and other operating cash flow items             | 570           | 439           |
| <b>Net cash flows from operating activities</b>                                    | <b>15 071</b> | <b>13 650</b> |
| Purchases of property, plant and equipment   | -1 378        | -1 275        |
| Proceeds from sale of property, plant and equipment                                | 240           | 88            |
| Purchases of intangible assets   | -1 593        | -1 310        |
| Proceeds from sale of intangible assets  | 748           | 380           |
| Purchases of financial assets  | -191          | -230          |
| Proceeds from sale of financial assets <sup>1</sup>                                | 442           | 447           |
| Purchases of other non-current assets  | -61           | -61           |
| Proceeds from sale of other non-current assets                                     | 4             | 2             |
| <b>Free cash flow</b>  | <b>13 282</b> | <b>11 691</b> |

<sup>1</sup> For the free cash flow in 2020, proceeds from the sale of financial assets exclude the cash inflows from the sale of a portion of the Alcon Inc. shares received by certain consolidated foundations through the Alcon spin-off, which amounted to USD 276 million.

## Effects of currency fluctuations

### Principal currency translation rates

| (USD per unit) | Average rates<br>Q4 2021 | Average rates<br>Q4 2020 | Average rates<br>FY 2021 | Average rates<br>FY 2020 | Period-end rates<br>Dec 31,<br>2021 | Period-end rates<br>Dec 31,<br>2020 |
|----------------|--------------------------|--------------------------|--------------------------|--------------------------|-------------------------------------|-------------------------------------|
| 1 CHF          | 1.085                    | 1.106                    | 1.094                    | 1.066                    | 1.093                               | 1.135                               |
| 1 CNY          | 0.156                    | 0.151                    | 0.155                    | 0.145                    | 0.157                               | 0.153                               |
| 1 EUR          | 1.144                    | 1.192                    | 1.183                    | 1.141                    | 1.131                               | 1.229                               |
| 1 GBP          | 1.349                    | 1.320                    | 1.376                    | 1.283                    | 1.351                               | 1.365                               |
| 100 JPY        | 0.880                    | 0.957                    | 0.912                    | 0.937                    | 0.868                               | 0.970                               |
| 100 RUB        | 1.377                    | 1.312                    | 1.357                    | 1.389                    | 1.336                               | 1.337                               |

### Currency impact on key figures

The following table provides a summary of the currency impact on key Group figures due to their conversion into US dollars, the Group's reporting currency, of the financial data from entities reporting in non-US dollars. Constant currency (cc) calculations apply the exchange rates of the prior year period to the current period financial data for entities reporting in non-US dollars.

#### Fourth quarter

|                                     | Change in<br>USD %<br>Q4 2021 | Change in<br>constant<br>currencies %<br>Q4 2021 | Percentage<br>point currency<br>impact<br>Q4 2021 | Change in<br>USD %<br>Q4 2020 | Change in<br>constant<br>currencies %<br>Q4 2020 | Percentage<br>point currency<br>impact<br>Q4 2020 |
|-------------------------------------|-------------------------------|--|---|-------------------------------|--|---|
| <b>Total Group</b>                  |                               |  |   |                               |  |   |
| Net sales to third parties          | 4                             | 6  | -2  | 3                             | 1  | 2   |
| Operating income                    | -3                            | -1   | -2  | 45                            | 51   | -6  |
| Net income                          | nm                            | nm   | nm  | 86                            | 93   | -7  |
| Basic earnings per share (USD)      | nm                            | nm   | nm  | 84                            | 93   | -9  |
| Core operating income               | 9                             | 12   | -3  | 1                             | 2  | -1  |
| Core net income                     | 3                             | 6  | -3  | 2                             | 3  | -1  |
| Core basic earnings per share (USD) | 4                             | 7  | -3  | 2                             | 3  | -1  |
| <b>Innovative Medicines</b>         |                               |  |   |                               |  |   |
| Net sales to third parties          | 5                             | 7  | -2  | 3                             | 1  | 2   |
| Operating income                    | 3                             | 6  | -3  | 8                             | 12   | -4  |
| Core operating income               | 12                            | 15   | -3  | 3                             | 3  | 0   |
| <b>Sandoz</b>                       |                               |  |   |                               |  |   |
| Net sales to third parties          | 0                             | 2  | -2  | 2                             | 0  | 2   |
| Operating income                    | 4                             | 4  | 0   | nm                            | nm   | nm  |
| Core operating income               | 0                             | 0  | 0   | 2                             | 3  | -1  |
| <b>Corporate</b>                    |                               |  |   |                               |  |   |
| Operating loss                      | -156                          | -154   | -2  | 41                            | 45   | -4  |
| Core operating loss                 | -28                           | -28  | 0   | -35                           | -28  | -7  |

nm = not meaningful

## Currency impact on key figures

Full year

|                                     | Change in<br>USD %<br>FY 2021 | Change in<br>constant<br>currencies %<br>FY 2021 | Percentage<br>point currency<br>impact<br>FY 2021 | Change in<br>USD %<br>FY 2020 | Change in<br>constant<br>currencies %<br>FY 2020 | Percentage<br>point currency<br>impact<br>FY 2020 |
|-------------------------------------|-------------------------------|--|---|-------------------------------|--|---|
| <b>Total Group</b>                  |                               |  |   |                               |  |   |
| Net sales to third parties          | 6                             | 4  | 2   | 3                             | 3  | 0   |
| Operating income                    | 15                            | 13   | 2   | 12                            | 19   | -7  |
| Net income                          | 198                           | 195  | 3   | 13                            | 20   | -7  |
| Basic earnings per share (USD)      | 202                           | 200  | 2   | 14                            | 21   | -7  |
| Core operating income               | 8                             | 6  | 2   | 9                             | 13   | -4  |
| Core net income                     | 7                             | 5  | 2   | 9                             | 12   | -3  |
| Core basic earnings per share (USD) | 9                             | 7  | 2   | 9                             | 13   | -4  |
| <b>Innovative Medicines</b>         |                               |  |   |                               |  |   |
| Net sales to third parties          | 8                             | 6  | 2   | 3                             | 4  | -1  |
| Operating income                    | 17                            | 15   | 2   | -1                            | 4  | -5  |
| Core operating income               | 12                            | 10   | 2   | 8                             | 11   | -3  |
| <b>Sandoz</b>                       |                               |  |   |                               |  |   |
| Net sales to third parties          | 0                             | -2   | 2   | -1                            | 0  | -1  |
| Operating income                    | 53                            | 48   | 5   | 89                            | 106  | -17   |
| Core operating income               | -12                           | -14  | 2   | 11                            | 15   | -4  |
| <b>Corporate</b>                    |                               |  |   |                               |  |   |
| Operating loss                      | nm                            | nm   | nm  | nm                            | nm   | nm  |
| Core operating loss                 | -23                           | -20  | -3  | 11                            | 14   | -3  |

nm = not meaningful

## 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 “continues,” “to advance,” “progressing,” “expected,” “to grow,” “long-term,” “growth,” “looking ahead,” “continue,” “to invest,” “driven,” “pioneering,” “expect,” “will,” “to drive,” “growth drivers,” “remains,” “remain,” “outlook,” “guidance,” “transformative,” “continuing,” “confident,” “to maintain,” “to meet,” “ongoing,” “launch,” “growing,” “to support,” “can,” “pipeline,” “investigational,” “submissions,” “focus,” “innovation,” “focus,” “innovation,” “potential,” “priority,” “prevail,” “proposes,” or similar expressions, or by express or implied discussions regarding potential new products, potential new indications for existing products, potential product launches, or regarding potential future revenues from any such products; or regarding potential future, pending or announced transactions, including the acquisition of Gyroscope Therapeutics; regarding potential future sales or earnings of the Group or any of its divisions; or by discussions of strategy, plans, expectations or intentions; or regarding the Group’s liquidity or cash flow positions and its ability to meet its ongoing financial obligations and operational needs; or regarding the strategic review of Sandoz; or regarding our commitment to carbon neutral emissions by 2030 and net zero emissions by 2040. Such forward-looking statements are based on the current beliefs and expectations of management 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. You should not place undue reliance on these statements. In particular, our expectations could be affected by, among other things: liquidity or cash flow disruptions affecting our ability to meet our ongoing financial obligations and to support our ongoing business activities; the impact of the COVID-19 pandemic on enrollment in, initiation and completion of our clinical trials in the future, and research and development timelines; the impact of a partial or complete failure of the return to normal global healthcare systems including prescription dynamics; global trends toward healthcare cost containment, including ongoing government, payer and general public pricing and reimbursement pressures and requirements for increased pricing transparency; uncertainties regarding potential significant breaches of data security or data privacy, or disruptions of our information technology systems; regulatory actions or delays or government regulation generally, including potential regulatory actions or delays with respect to the development of the products described in this press release; the potential that the strategic benefits, synergies or opportunities expected from the transactions described, including Gyroscope Therapeutics, may not be realized or may be more difficult or take longer to realize than expected; the uncertainties 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; safety, quality, data integrity, or manufacturing issues; uncertainties involved in the development or adoption of potentially transformational technologies and business models; uncertainties regarding actual or potential legal proceedings, investigations or disputes; our performance on environmental, social and governance measures; general political, economic and business conditions, including the effects of and efforts to mitigate pandemic diseases such as COVID-19; uncertainties regarding future global exchange rates; uncertainties regarding future demand for our products; 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.

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## **About Novartis**

Novartis is reimagining medicine to improve and extend people's lives. As a leading global medicines company, we use innovative science and digital technologies to create transformative treatments in areas of great medical need. In our quest to find new medicines, we consistently rank among the world's top companies investing in research and development. Novartis products reach nearly 800 million people globally and we are finding innovative ways to expand access to our latest treatments. About 110,000 people of more than 140 nationalities work at Novartis around the world. Find out more at <https://www.novartis.com>.

Novartis will conduct a conference call with investors to discuss this news release today at 14:00 Central European time and 8:00 Eastern Time. A simultaneous webcast of the call for investors and other interested parties may be accessed by visiting the Novartis website. A replay will be available after the live webcast by visiting <https://www.novartis.com/investors/event-calendar>.

Detailed financial results accompanying this press release are included in the condensed financial report at the link below. Additional information is provided on Novartis divisions and pipeline of selected compounds in late stage development and a copy of today's earnings call presentation can be found at <https://www.novartis.com/investors/event-calendar>.

Novartis issued its 2021 Annual Report today, and it is available at [www.novartis.com](http://www.novartis.com). Novartis will also file its 2021 Annual Report on Form 20-F with the US Securities and Exchange Commission today, and will post this document on [www.novartis.com](http://www.novartis.com). Novartis shareholders may receive a hard copy of either of these documents, each of which contains our complete audited financial statements, free of charge, upon request. Novartis also issued its Novartis in Society Integrated Report 2021 today, and it is available at [www.novartis.com](http://www.novartis.com).

### **Important dates**

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|------------------|--|
| March 4, 2022    | Annual General Meeting                   |
| April 26, 2022   | First quarter 2022 results               |
| July 19, 2022    | Second quarter & Half year 2022 results  |
| October 25, 2022 | Third quarter & Nine months 2022 results |