

STRATEGIC OVERVIEW





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PHOTO ESSAY

Bringing healthcare home

Bianca Wuersch climbs into a four-seat gondola and sets a bag of medical supplies on the seat beside her as the cable car jerks to life, swaying up a steep mountainside toward a remote Alpine community.

Gondola rides and hard-to-reach homes are all part of a typical day's work for Ms. Wuersch, an energetic 34-year-old nurse who provides home healthcare to elderly clients in a rural part of central Switzerland.

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OUR ENVIRONMENT

Strong demographic and economic trends continue to transform societies worldwide and shape the future of healthcare. These trends are opening opportunities for Novartis, while at the same time raising new challenges.

The world's population is rapidly growing and aging. According to the United Nations (UN), the global population reached 7.3 billion in 2015 – an increase of about 1 billion people in the last 12 years. Moreover, the latest UN projections indicate the world will add more than 1 billion people within the next 15 years, with most of that growth occurring in developing countries. A contributing factor is increasing longevity. Those over the age of 60 represent the fastest-growing segment of the population – a segment that is expected to climb by 500 million people by 2030, reaching 1.4 billion.

In addition, the ongoing rapid movement of people from rural to urban areas is impacting lifestyles, including diet and physical activity. This population shift and increasing longevity are both contributing to a rise in chronic illnesses such as diabetes, cancer and heart disease in developed and developing countries alike. Globally, chronic diseases account for about 63% of all deaths. They likely will account for 70% by 2025, according to the World Health Organization.

Taken together, these factors are likely to drive increasing demand for healthcare worldwide. If growth in healthcare spending were to continue at the current pace, global outlays could more than double by 2025 to USD 15 trillion. At the same time, economic uncertainty and tight budgets are prompting many governments and healthcare insurers to look for ways to moderate spending growth. During 2015, these pressures were evident in the fiscal crisis in Greece, lingering economic malaise in much of Europe, and the slowdown in China. These factors are also contributing to increased scrutiny on drug pricing by governments, media and consumers.

INNOVATION AND PATIENT HEALTH OUTCOMES

Against this backdrop, we see an acceleration of the trend for governments and insurers to focus on the value they receive for their health-

care spending, based on tangible benefits for patients and healthcare systems, rather than simply paying for products and services. This is driving a shift toward measurement of health outcomes for patients as a means of identifying the most effective treatments. Payors increasingly seek evidence of health outcomes and aim to make payments based on them.

For instance, the US Department of Health and Human Services in 2015 announced plans to tie 90% of all Medicare payments to the quality or value of care by 2018. Other countries such as France are also moving quickly, asking for real-world evidence of effectiveness as part of a process to periodically re-evaluate prices and reimbursement for prescription drugs. Developed markets such as Europe and the US likely will embrace this trend at a faster rate than Japan and developing markets.

In addition, the overall pace of innovation in the healthcare industry continues to gather speed. For instance, the US Food and Drug Administration in 2015 approved 45 new drug compounds, versus 41 in 2014 and 27 in 2013.

We believe these developments validate our strategy of focusing on science-based innovation to deliver better outcomes for patients. These trends underline the need to maintain our research and development efforts in pursuit of breakthrough innovation, and to demonstrate better results for patients in everyday healthcare settings.

INDUSTRY CONSOLIDATION AND NEW ENTRANTS

These trends are prompting profound shifts in the competitive landscape. There is ongoing consolidation in the pharmaceutical industry. Merger and acquisition activity continued to accelerate in 2015, with announced deals in the industry totaling about USD 429 billion, up from USD 211 billion in 2014.

At the same time, new entrants are looking to use their expertise to establish or expand their presence in healthcare. Many are technology companies hoping to benefit as data

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and data management become increasingly important in healthcare. For instance, Verily (formerly Google Life Sciences) initially focused on new types of digital diagnostic devices, such as the glucose-monitoring contact lens for diabetics that our Alcon eye care division is a collaborator in developing. It is also working to build capabilities in health data management. IBM, meanwhile, has acquired medical imaging companies and added the artificial intelligence capabilities of its Watson supercomputer to help doctors diagnose and treat patients. The growing role of health-related technology has the potential to add a new digital dimension to the pharmaceutical industry.

This shifting industry landscape underscores the need to pursue collaborations that reinforce our know-how in areas of emerging science and technology. It also highlights the importance of having scale and innovation power to compete effectively in the future. That logic drove our own business portfolio transformation, which was completed in 2015,

focusing Novartis on leading global divisions in growing areas of healthcare: patented pharmaceuticals, generic medicines and eye care. Our portfolio transformation was a critical move that will help us further pursue our strategy.

Looking ahead, we remain convinced we have a sound strategy that will position Novartis to compete today and in the future. As we move forward with the execution of our strategy, we are taking additional steps to reinforce innovation, build capabilities to help us benefit from the increasing focus on patient health outcomes, strengthen our culture, and further improve operating efficiency.

FURTHER DETAIL

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Home healthcare nurse Margrit Locher visits Maria Matter at her rural home in Switzerland to help manage her pain medication.



OUR STRATEGY

Novartis has a sound strategy to navigate a world with a growing, aging population and continuously evolving healthcare needs. Our mission and vision complement our strategy, and together they support the creation of value over the long term for our company, our shareholders and society.

The Novartis mission, vision and strategy are all anchored in our company's long heritage and tradition of leadership in innovation. We believe our mission accurately describes why we exist as a company, while our vision expresses an ambitious aspiration to strive for. Along with our strategy, they effectively guide our path to the future.

OUR MISSION

Our mission is to discover new ways to improve and extend people's lives.

We use science-based innovation to address some of society's most challenging healthcare issues. We discover and develop breakthrough treatments and find new ways to deliver them to as many people as possible.

We also aim to provide a shareholder return that rewards those who invest their money, time and ideas in our company.

OUR VISION

Our vision is to be a trusted leader in changing the practice of medicine.

OUR STRATEGY

Our strategy is to use science-based innovation to deliver better patient outcomes. We aim to lead in growing areas of healthcare.

Science-based innovation

We believe innovation that produces breakthrough medicines and products will be more important than ever in the healthcare industry in the coming years. We maintain substantial investment in research and development (R&D) aimed at areas of unmet medical need. Our product pipeline is fed by a distinctive research and clinical approach that focuses on scientific advances before market potential.

Innovation founded in strong science is at the heart of Novartis

Our approach for sustainable growth



We aim to develop innovative products in growing areas of healthcare where we can make a real difference

Our R&D strategy is to continue reinforcing therapeutic areas where we are already strong – including oncology, cardiovascular, eye care, biosimilars and neuroscience – and to expand into new disease areas that we believe are ripe for innovation, such as immuno-oncology, aging and regenerative medicine, and infectious diseases.

Better patient outcomes

We seek to develop medicines and products that can produce positive real-world outcomes for patients and healthcare providers. The benefits can range from improving the cost-effectiveness of high-quality care to prolonging lives. We are developing services and technologies to augment the benefits of our core products, often in collaboration with healthcare providers and technology companies.

Lead in growing areas of healthcare

We aim to develop innovative products in growing areas of healthcare where we can make a real difference. We focus on patented medicines, generic medicines and eye care – segments where we have the innovation power and global scale necessary to compete effectively. At the same time, we are expanding our presence in the emerging markets of Asia, Africa and Latin America, where there is fast-growing demand for access to high-quality medicines and healthcare.

FURTHER DETAIL

On our innovation, see page 44



On a typical day, home healthcare worker Sybilla Blumer assists a series of clients in rural communities and farms in the mountains of central Switzerland.



OUR CULTURE AND VALUES

Talented and committed people from diverse backgrounds are important for executing our strategy. Equally important is how they execute it. We foster a company culture that supports the success of the enterprise through clear values to guide our people in their work.

OUR CULTURE

The traditional Novartis culture of performance served us well for many years, underpinning our ability to deliver results. While performance remains important, in the context of a rapidly evolving healthcare landscape, our sharpened strategy and the business portfolio transformation undertaken in 2015, we are also reshaping our culture. We are taking steps to continue building a culture that strengthens our people as they face new challenges.

OUR VALUES

Our values define our culture and help us execute the Novartis strategy in line with our mission and vision. They describe the professional behavior we expect from our employees. We use six values – which were rolled out across our company in 2015 – to inform our recruitment activities, shape employee development programs, and help guide individual performance assessments and decisions about bonuses and other rewards. Comprehensive training programs ensure our people are familiar with these values and know how to apply them on the job.

Innovation

Innovation founded in strong science is at the heart of Novartis and key for our strategy. We nurture a culture of innovation by encouraging people to experiment and take smart risks. Our aim is to foster creative thinking that leads to practical solutions to healthcare and business challenges.

Quality

Delivering high quality is critical to ensuring a reliable supply of important medicines and earning the trust of our customers and society. Our focus on quality excellence includes continuously enhancing our standards, technology and training for our people.

Collaboration

We foster teamwork among our employees to efficiently deliver innovative new products to patients and healthcare providers. This capitalizes on the diversity and creativity of our global staff.

Performance

People at Novartis are known for their focus on delivering results – and they often make extraordinary efforts to achieve their goals. We aim to reinforce that focus on personal and collective achievement while maintaining high ethical standards.

Courage

We want our associates to speak out, challenge conventional thinking, and stand up for their ideas. We also want them to have the courage to do the right thing in the face of resistance or moral dilemmas. They need the fortitude to take smart risks, even when the chance of failure is high.

Integrity

High performance with integrity is fundamental to the way we operate at Novartis and is critical to maintaining the support of society and governments. Our Code of Conduct sets high ethical standards, and comprehensive training ensures our associates know how to apply these standards in their work. We also enforce our code, investigating allegations of wrongdoing and taking decisive corrective action when needed.

We are taking steps to build a culture that supports our people as they face new challenges

OUR PORTFOLIO

In 2015, Novartis completed a transformation that focuses our business on divisions with innovation power and global scale: pharmaceuticals, eye care and generics. We also further built our business services group to drive collaboration and efficiency across divisions. These steps position us for future growth and support our ability to create long-term value.

LEADING DIVISIONS

In 2015, Novartis completed a series of transactions that focus our company on industry-leading divisions. With strong global positions in patented medicines, generic medicines and eye care, Novartis has the scale necessary to continue developing new products that respond to changing healthcare needs in markets worldwide.

As part of these transactions, Novartis acquired GlaxoSmithKline's (GSK) oncology products, solidifying our position as a global leader in cancer treatments. Novartis and GSK also merged their over-the-counter businesses into a joint venture that is one of the world's largest consumer healthcare companies, 36.5% owned by Novartis. At the same time, Novartis sold our Vaccines business, excluding our influenza business, to GSK. Our influenza vaccines business was sold to CSL Limited and our Animal Health business was sold to Eli Lilly.

SUPPORTING OUR DIVISIONS

Novartis Institutes for BioMedical Research

The Novartis Institutes for BioMedical Research (NIBR), with more than 6 000 scientists and physicians worldwide, is the innovation engine of Novartis. NIBR focuses on discovering new drugs that can change the practice of medicine.

Novartis Business Services

Novartis Business Services (NBS) consolidates support services across Novartis divisions, helping drive efficiency, standardization and simplification. NBS includes six service domains: financial reporting and accounting operations, human resources services, information technology, procurement, product lifecycle services, and real estate and facility management. NBS has about 9 500 associates. Its role in generating productivity gains supports our continued investment in research and development, and underpins strong financial results.

FURTHER DETAIL

On NIBR and innovation, see page 44

Our divisions

PHARMACEUTICALS

We develop innovative, patent-protected medicines and are at the forefront of development and commercialization in oncology, primary care and specialty medicines.

ALCON EYE CARE

We provide products that enhance quality of life by helping people see better and we offer the world's widest spectrum of eye care products.

SANDOZ GENERICS

We are a leader in the growing generics industry, offering more than 1 000 different types of high-quality, affordable medicines across a broad range of therapeutic areas.



- 1 Healthcare worker Sybilla Blumer walks to the mountain home of a client in the hamlet of Wiesenberg, Switzerland.
- 2 Ms. Blumer helps manage medication for Walter Imboden following an operation on his toe.
- 3 Nurse Margrit Locher assists Jobst von Buddenbrock in his mountain home near Stans, Switzerland.
- 4 Bianca Wuersch arrives at the home of Rene-Marcel Hagenbach to help with the fit of his new prosthetic leg.



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The people Ms. Wuersch cares for include a 72-year-old man whose leg was recently amputated, a 75-year-old who needs help with his Parkinson's medication, and a group of elderly nuns living in an isolated monastery. She is one of more than 100 home caregivers working for a local chapter of Spitex, a nonprofit organization that provides home care in Switzerland.

Home care plays an important role in Switzerland, which like so many countries has a rapidly aging population and is looking at care options for growing ranks of elderly. The proportion of people over the age of 60 in Switzerland is projected to surpass 30% by 2030, up from about one-fourth today.

Switzerland is building on a long tradition of home care. Spitex affiliates typically receive some support from local or regional governments. And health insurance also picks up at least part of the cost for Spitex services.

For Ms. Wuersch and her colleagues, the day starts with a staff meeting at 7 a.m. in the Spitex office next to the local hospital in the town of Stans. Then they shoulder their bags of equipment and head off on their rounds.

Many of the local Spitex chapter's nearly 800 clients live in rural communities and remote farms reachable by narrow mountain roads or small gondolas that sometimes serve a single household. In winter when the area becomes blanketed with snow, Spitex workers occasionally use snowshoes to reach some remote homes.

Spitex staff provide medical or household help, keep tabs on people living in isolated places, and provide a measure of companionship. For instance, one of Spitex worker Margrit Locher's clients lives alone and suffers from dementia. Ms. Locher knows he can be moody, so she checks the mailbox on the way to his house to see if he has had the energy to collect the post. "I can always tell if he's in a good way," she says. She helps wash his feet, changes a bandage and chats with him before heading off to her next client.

Later Ms. Locher goes to the home of Maria Matter, 79, who is receiving pain medication for an injury suffered when she fell out of a tree while gathering plums. Spitex workers visit regularly to change her morphine patch and manage her medication. While Ms. Locher is there, they step outside to admire Ms. Matter's rose garden.

Spitex workers chat and joke with clients during visits. But they must also keep an eye on the clock, for each service they provide has an allotted time – often 30 minutes or less. And they don't want to get behind on their schedules.

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