

Novartis AG



Novartis 2017 Financials Updated Segment Reporting

April 3, 2018

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Summary – Updated 2017 Segment Financial Reporting

- **The following updated segment financial reporting for FY 2017 reflects the previously announced decisions to move the ophthalmic over the counter (OTC) products¹, together with a small portfolio of surgical diagnostics products², from the Innovative Medicines Division to the Alcon Division, as if the transfer had taken place from January 1, 2017**
 - 2017 net sales of the ophthalmic OTC products and the surgical diagnostics products were USD 747 million
 - The updated segment financial reporting is provided in accordance with the requirements of IFRS, and to aid comparability of 2018 quarterly results which will be reported using the new division structure from Q1 2018
- **The updated operating income for Alcon reflects all costs attributable to the transferred businesses**
 - Allocation of attributable overhead costs is based on the direct activities that they support (e.g. manufacturing non-production costs and general and administrative overhead)
- **The transfer does not result in a change to the 2017 total Group Audited Consolidated Financial Statements**
- **The 2018 full year Division guidance, communicated on January 24 2018, was provided in line with the new segment structure**

1. Announced on October 24, 2017 in the Q3 results media release

2. Announced on January 24, 2018 in the Q4 results media release

Group 2017 – Updated Segment Consolidated Income Statement Reporting – No change in Group total results

Restated consolidated income statements - Segmentation - FY 2017

	Innovative Medicines USDm ①	Sandoz USDm ②	Alcon USDm ③	Corporate (including eliminations) USDm ②	Group USDm (audited) ②
Net sales to third parties	32 278	10 060	6 771		49 109
Sales to other segments	668	118	3	- 789	
Net sales	32 946	10 178	6 774	- 789	49 109
Other revenues	898	37	3	88	1 026
Cost of Goods Sold	-8 650	-5 800	-3 588	863	-17 175
Gross profit	25 194	4 415	3 189	162	32 960
Selling, General & Administration	-9 887	-2 126	-2 532	- 452	-14 997
Research & Development	-7 615	- 774	- 583		-8 972
Other income	1 027	204	47	691	1 969
Other expense	-1 124	- 351	- 124	- 732	-2 331
Operating income	7 595	1 368	- 3	- 331	8 629
as % of net sales	23.5%	13.6%	0.0%		17.6%
Income from associated companies	- 1	23		1 086	1 108
Interest expenses					- 777
Other financial income and expense					39
Income before tax					8 999
Taxes					-1 296
Net income					7 703

Note: In accordance with IFRS, Novartis is required to update its segment income statements to reflect the previously announced move of the ophthalmic OTC and surgical diagnostics products from the Innovative Medicines Division to the Alcon Division, as if the transfer had taken place from January 1, 2017:

1. Innovative Medicines results exclude the transfer of USD 747 million sales and USD 187 million operating income to Alcon
2. No change to the reported results as published in the Novartis Group Annual Report 2017
3. Alcon results include the transfer of USD 747 million sales and USD 187 million operating income from Innovative Medicines

Alcon 2017 – Updated Segment Income Statement Reporting

Restated reported and core operating income - Alcon

	Q1 2017 USDm	Q2 2017 USDm	HY 2017 USDm	Q3 2017 USDm	9M 2017 USDm	Q4 2017 USDm	FY 2017 USDm
Net sales to third parties	1 591	1 707	3 298	1 712	5 010	1 761	6 771
Sales to other segments	1	1	2	1	3		3
Net sales	1 592	1 708	3 300	1 713	5 013	1 761	6 774
Other revenues		1	1	2	3		3
Cost of Goods Sold	- 868	- 895	-1 763	- 884	-2 647	- 941	-3 588
Gross profit	724	814	1 538	831	2 369	820	3 189
Selling, General & Administration	- 605	- 649	-1 254	- 641	-1 895	- 637	-2 532
Research & Development	- 122	- 128	- 250	- 187	- 437	- 146	- 583
Other income	14	7	21	17	38	9	47
Other expense	- 13	- 15	- 28	- 22	- 50	- 74	- 124
Operating income	- 2	29	27	-2	25	- 28	- 3
<i>as % of net sales</i>	<i>-0.1%</i>	<i>1.7%</i>	<i>0.8%</i>	<i>-0.1%</i>	<i>0.5%</i>	<i>-1.6%</i>	<i>0.0%</i>
Core adjustments ^⑥							
Cost of Goods Sold	252	254	506	255	761	254	1 015
Selling, General & Administration							
Research & Development	3	2	5	62	67	11	78
Other income	- 6		- 6	- 8	- 14	- 3	- 17
Other expense	11	6	17	10	27	68	95
Core Operating income	258	291	549	317	866	302	1 168
<i>as % of net sales</i>	<i>16.2%</i>	<i>17.0%</i>	<i>16.6%</i>	<i>18.5%</i>	<i>17.3%</i>	<i>17.1%</i>	<i>17.3%</i>

1. Sales increased by USD 747 million related to the products moved from Innovative Medicines to Alcon, thereof USD 683 million to the Vision Care Franchise, related to the ophthalmic OTC products, and USD 64 million to the Surgical Franchise, related to the surgical diagnostics products. The products moved include the Systane®, Tears Naturale® and ICAPS® brands
2. COGS increased by USD 357 million related to the ophthalmic OTC and surgical diagnostics products
3. SG&A increased by USD 188 million (25.2% of sales) related to the ophthalmic OTC and surgical diagnostics products
4. R&D increased by USD 15 million (2.0% of sales) related to the ophthalmic OTC and surgical diagnostics products
5. The move of ophthalmic OTC and surgical diagnostics products increased Alcon's reported operating margin by +3.2%pts and core operating margin by +3.1%pts
6. Core adjustments increased by USD 124 million related to the ophthalmic OTC and surgical diagnostics products intangible asset amortization expense recorded in COGS. Core results are non-IFRS measures. An explanation of these measures can be found on page 179 of the 2017 Novartis Annual Report

Note: In accordance with IFRS, Novartis is required to update its segment income statements to reflect the previously announced move of the ophthalmic OTC and surgical diagnostics products from the Innovative Medicines Division to the Alcon Division, as if the transfer had taken place from January 1, 2017.

Innovative Medicines 2017 – Updated Segment Income Statement Reporting

Restated reported operating income - Innovative Medicines

	Q1 2017 USDm	Q2 2017 USDm	HY 2017 USDm	Q3 2017 USDm	9M 2017 USDm	Q4 2017 USDm	FY 2017 USDm
Net sales to third parties	7 518	8 084	15 602	8 117	23 719	8 559	32 278
Sales to other segments	174	157	331	171	502	166	668
Net sales	7 692	8 241	15 933	8 288	24 221	8 725	32 946
Other revenues	217	220	437	241	678	220	898
Cost of Goods Sold	-2 068	-2 162	-4 230	-2 172	-6 402	-2 248	-8 650
Gross profit	5 841	6 299	12 140	6 357	18 497	6 697	25 194
Selling, General & Administration	-2 286	-2 496	-4 782	-2 415	-7 197	-2 690	-9 887
Research & Development	-1 861	-1 739	-3 600	-1 857	-5 457	-2 158	-7 615
Other income	285	272	557	247	804	223	1 027
Other expense	- 299	- 309	- 608	- 201	- 809	- 315	-1 124
Operating income	1 680	2 027	3 707	2 131	5 838	1 757	7 595
<i>as % of net sales</i>	22.3%	25.1%	23.8%	26.3%	24.6%	20.5%	23.5%
Core adjustments ^⑥							
Cost of Goods Sold	529	511	1 040	479	1 519	500	2 019
Selling, General & Administration						- 3	- 3
Research & Development	182	31	213	128	341	240	581
Other income	- 189	- 217	- 406	- 218	- 624	- 52	- 676
Other expense	153	144	297	58	355	148	503
Core Operating income	2 355	2 496	4 851	2 578	7 429	2 590	10 019
<i>as % of net sales</i>	31.3%	30.9%	31.1%	31.8%	31.3%	30.3%	31.0%

1. Sales decreased by USD 747 million related to the ophthalmic OTC and surgical diagnostics products, moved from Innovative Medicines to Alcon. The products moved include the Systane®, Tears Naturale® and ICAPS® brands
2. COGS decreased by USD 357 million related to the ophthalmic OTC and surgical diagnostics products
3. SG&A decreased by USD 188 million (25.2% of sales) related to the ophthalmic OTC and surgical diagnostics products
4. R&D decreased by USD 15 million (2.0% of sales) related to the ophthalmic OTC and surgical diagnostics products
5. The transfer of the ophthalmic OTC and surgical diagnostics products slightly decreased Innovative Medicines Division's reported operating margin by - 0.1%pts and core operating margin by -0.3%pts
6. Core adjustments decreased by USD 124 million related to the ophthalmic OTC and surgical diagnostics products intangible asset amortization expense recorded in COGS. Core results are non-IFRS measures. An explanation of these measures can be found on page 179 of the 2017 Novartis Annual Report

Note: In accordance with IFRS, Novartis is required to update its segment income statements to reflect the previously announced move of the ophthalmic OTC and surgical diagnostics products from the Innovative Medicines Division to the Alcon Division, as if the transfer had taken place from January 1, 2017.

Appendix

Group 2017 – Segment Consolidated Income Statement Reporting

– As previously reported in 2017 Annual Report

Reported consolidated income statements - Segmentation - FY 2017

(audited)	Innovative Medicines USDm	Sandoz USDm	Alcon USDm	Corporate (including eliminations) USDm	Group USDm
Net sales to third parties	33 025	10 060	6 024		49 109
Sales to other segments	668	118	3	- 789	
Net sales	33 693	10 178	6 027	- 789	49 109
Other revenues	898	37	3	88	1 026
Cost of Goods Sold	-9 007	-5 800	-3 231	863	-17 175
Gross profit	25 584	4 415	2 799	162	32 960
Selling, General & Administration	-10 075	-2 126	-2 344	- 452	-14 997
Research & Development	-7 630	- 774	- 568		-8 972
Other income	1 027	204	47	691	1 969
Other expense	-1 124	- 351	- 124	- 732	-2 331
Operating income	7 782	1 368	- 190	- 331	8 629
<i>as % of net sales</i>	<i>23.6%</i>	<i>13.6%</i>	<i>-3.2%</i>		<i>17.6%</i>
Income from associated companies	- 1	23		1 086	1 108
Interest expenses					- 777
Other financial income and expense					39
Income before tax					8 999
Taxes					-1 296
Net income					7 703

Alcon 2017 – Segment Income Statement Reporting

As previously reported in 2017 Annual Report and quarterly earnings reports

Reported and core operating income - Alcon

	Q1 2017 USDm	Q2 2017 USDm	HY 2017 USDm	Q3 2017 USDm	9M 2017 USDm	Q4 2017 USDm	FY 2017 USDm
Net sales to third parties	1 417	1 516	2 933	1 527	4 460	1 564	6 024
Sales to other segments	1	1	2	1	3		3
Net sales	1 418	1 517	2 935	1 528	4 463	1 564	6 027
Other revenues		1	1	2	3		3
Cost of Goods Sold	- 781	- 806	-1 587	- 795	-2 382	- 849	-3 231
Gross profit	637	712	1 349	735	2 084	715	2 799
Selling, General & Administration	- 561	- 600	-1 161	- 597	-1 758	- 586	-2 344
Research & Development	- 120	- 123	- 243	- 183	- 426	- 142	- 568
Other income	14	7	21	17	38	9	47
Other expense	- 13	- 15	- 28	- 22	- 50	- 74	- 124
Operating income	- 43	- 19	- 62	- 50	- 112	- 78	- 190
<i>as % of net sales</i>	<i>-3.0%</i>	<i>-1.3%</i>	<i>-2.1%</i>	<i>-3.3%</i>	<i>-2.5%</i>	<i>-5.0%</i>	<i>-3.2%</i>
Core adjustments ^①							
Cost of Goods Sold	222	222	444	224	668	223	891
Selling, General & Administration							
Research & Development	3	2	5	62	67	11	78
Other income	- 6		- 6	- 8	- 14	- 3	- 17
Other expense	11	6	17	10	27	68	95
Core Operating income	187	211	398	238	636	221	857
<i>as % of net sales</i>	<i>13.2%</i>	<i>13.9%</i>	<i>13.6%</i>	<i>15.6%</i>	<i>14.3%</i>	<i>14.1%</i>	<i>14.2%</i>

1. Core results are non-IFRS measures and are unaudited. An explanation of these measures can be found on page 179 of the 2017 Novartis Annual Report

Innovative Medicines 2017 – Segment Income Statement Reporting

– As previously reported in 2017 Annual Report and quarterly earnings reports

Reported operating income - Innovative Medicines

	Q1 2017 USDm	Q2 2017 USDm	HY 2017 USDm	Q3 2017 USDm	9M 2017 USDm	Q4 2017 USDm	FY 2017 USDm
Net sales to third parties	7 692	8 275	15 967	8 302	24 269	8 756	33 025
Sales to other segments	174	157	331	171	502	166	668
Net sales	7 866	8 432	16 298	8 473	24 771	8 922	33 693
Other revenues	217	220	437	241	678	220	898
Cost of Goods Sold	-2 155	-2 251	-4 406	-2 261	-6 667	-2 340	-9 007
Gross profit	5 928	6 401	12 329	6 453	18 782	6 802	25 584
Selling, General & Administration	-2 330	-2 545	-4 875	-2 459	-7 334	-2 741	-10 075
Research & Development	-1 863	-1 744	-3 607	-1 861	-5 468	-2 162	-7 630
Other income	285	272	557	247	804	223	1 027
Other expense	- 299	- 309	- 608	- 201	- 809	- 315	-1 124
Operating income	1 721	2 075	3 796	2 179	5 975	1 807	7 782
as % of net sales	22.4%	25.1%	23.8%	26.2%	24.6%	20.6%	23.6%
Core adjustments ^①							
Cost of Goods Sold	559	543	1 102	510	1 612	531	2 143
Selling, General & Administration						- 3	- 3
Research & Development	182	31	213	128	341	240	581
Other income	- 189	- 217	- 406	- 218	- 624	- 52	- 676
Other expense	153	144	297	58	355	148	503
Core Operating income	2 426	2 576	5 002	2 657	7 659	2 671	10 330
as % of net sales	31.5%	31.1%	31.3%	32.0%	31.6%	30.5%	31.3%

1. Core results are non-IFRS measures and are unaudited. An explanation of these measures can be found on page 179 of the 2017 Novartis Annual Report