

Novartis AG



Novartis 2016 and 2015 Financials Updated Segment Reporting

November 7, 2018



Summary – Updated 2015, 2016 and 2017 Segment Financial Reporting

- **In April 2018, following announcements of 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, Novartis issued updated segment financial reporting for FY 2017, as if the transfer had taken place from January 1, 2017**
- **Now to further enable the comparability of financial results, we issue updated segment financial reporting for FY 2015 and 2016, as if the transfer had taken place from January 1, 2015**
 - 2015 net sales of the ophthalmic OTC products and the surgical diagnostics products were USD 774 million
 - 2016 net sales of the ophthalmic OTC products and the surgical diagnostics products were USD 731 million
 - 2017 net sales of the ophthalmic OTC products and the surgical diagnostics products were USD 747 million
- **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 updated segment financial reporting is provided in accordance with the requirements of IFRS, and to aid comparability of results which are reported using the new division structure from Q1 2018**
- **The transfer does not result in changes to the 2015, 2016 or 2017 total Group Audited Consolidated Financial Statements**

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

2. Announced on January 24, 2018 in the Q4 2017 results media release

Group 2016 – Updated Segment Consolidated Income Statement Reporting – No change in Group total results

Restated consolidated income statements - Segmentation - FY 2016

	Innovative Medicines USDm ①	Sandoz USDm ②	Alcon USDm ③	Corporate (including eliminations) USDm ④	Group USDm (audited) ⑤
Net sales to third parties	31 831	10 144	6 543		48 518
Sales to other segments	624	104		- 728	
Net sales	32 455	10 248	6 543	- 728	48 518
Other revenues	815	37	4	62	918
Cost of Goods Sold	-8 976	-5 971	-3 447	874	-17 520
Gross profit	24 294	4 314	3 100	208	31 916
Selling, General & Administration	-9 225	-1 981	-2 480	- 506	-14 192
Research & Development	-7 696	- 814	- 529		-9 039
Other income	1 091	185	48	603	1 927
Other expense	-1 209	- 259	- 100	- 776	-2 344
Operating income	7 255	1 445	39	- 471	8 268
Income from associated companies		6		697	703
Interest expenses					- 707
Other financial income and expense					- 447
Income before tax					7 817
Taxes					-1 119
Net income					6 698

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 transfer had taken place from January 1, 2016:

1. Innovative Medicines results exclude the transfer of USD 731 million sales and USD 171 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 731 million sales and USD 171 million operating income from Innovative Medicines

Group 2015 – Updated Segment Consolidated Income Statement Reporting – No change in Group total results

Restated consolidated income statements - Segmentation - FY 2015

	Innovative Medicines USDm ①	Sandoz USDm ②	Alcon USDm ③	Corporate (including eliminations) USDm ④	Group USDm (audited) ⑤
Net sales to third parties	32 571	10 070	6 773		49 414
Sales to other segments	518	128		- 620	26
Net sales	33 089	10 198	6 773	- 620	49 440
Other revenues	792	25	23	107	947
Cost of Goods Sold	-8 832	-5 844	-3 517	789	-17 404
Gross profit	25 049	4 379	3 279	276	32 983
Selling, General & Administration	-9 270	-2 025	-2 304	- 648	-14 247
Research & Development	-7 670	- 782	- 483		-8 935
Other income	1 148	109	55	737	2 049
Other expense	-1 634	- 381	- 74	- 784	-2 873
Operating income	7 623	1 300	473	- 419	8 977
Income from associated companies		2		264	266
Interest expenses					- 655
Other financial income and expense					- 454
Income before tax					8 134
Taxes					-1 106
Net income from continuing operations					7 028
Net income from discontinued operations					10 766
Net income					17 794

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 transfer had taken place from January 1, 2015:

1. Innovative Medicines results exclude the transfer of USD 774 million sales and USD 192 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 774 million sales and USD 192 million operating income from Innovative Medicines

Alcon 2016 and 2015 – Updated Segment Income Statement Reporting

Restated reported and core operating income - Alcon

	Q1 2016 USDm	Q2 2016 USD	HY 2016 USDm	Q3 2016 USDm	9M 2016 USDm	Q4 2016 USDm	FY 2016 USDm	FY 2015 USDm
Net sales to third parties	1 604	1 689	3 293	1 623	4 916	1 627	6 543	6 773
Sales to other segments								
Net sales	1 604	1 689	3 293	1 623	4 916	1 627	6 543	6 773
Other revenues	4		4		4		4	23
Cost of Goods Sold	- 851	- 873	-1 724	- 855	-2 579	- 868	-3 447	-3 517
Gross profit	757	816	1 573	768	2 341	759	3 100	3 279
Selling, General & Administration	- 578	- 622	-1 200	- 631	-1 831	- 649	-2 480	-2 304
Research & Development	- 118	- 143	- 261	- 134	- 395	- 134	- 529	- 483
Other income	18	9	27	19	46	2	48	55
Other expense	- 8	- 10	- 18	- 28	- 46	- 54	- 100	- 74
Operating income	71	50	121	- 6	115	- 76	39	473
<i>as % of net sales</i>	<i>4.4%</i>	<i>3.0%</i>	<i>3.7%</i>	<i>-0.4%</i>	<i>2.3%</i>	<i>-4.7%</i>	<i>0.6%</i>	<i>7.0%</i>
Core adjustments ⁽⁷⁾								
Cost of Goods Sold	240	249	489	254	743	256	999	1'011
Selling, General & Administration								32
Research & Development	3	8	11	17	28	3	31	13
Other income	-1		-1	-1	-2	-2	-4	-9
Other expense	2	5	7	19	26	59	85	35
Core Operating income	315	312	627	283	910	240	1'150	1'555
<i>as % of net sales</i>	<i>19.6%</i>	<i>18.5%</i>	<i>19.0%</i>	<i>17.4%</i>	<i>18.5%</i>	<i>14.8%</i>	<i>17.6%</i>	<i>23.0%</i>

1. Sales increased by USD 731 million in 2016 and USD 774 million in 2015 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 increased by USD 355 million in 2016 and USD 372 million in 2015 related to the ophthalmic OTC and surgical diagnostics products
3. SG&A increased by USD 188 million (25.7% of sales) in 2016 and USD 191 million (24.7% of sales) in 2015 related to the ophthalmic OTC and surgical diagnostics products
4. R&D increased by USD 13 million (1.8% of sales) in 2016 and USD 15 million (1.9% of sales) in 2015 related to the ophthalmic OTC and surgical diagnostics products
5. Other expenses increased by USD 4 million in 2016 and by USD 5 million in 2015 related to the ophthalmic OTC and surgical diagnostics products
6. The move of ophthalmic OTC and surgical diagnostics products increased Alcon's reported operating margin by +2.9%pts in 2016 and +2.3%pts in 2015 and core operating margin by +3.0%pts in 2016 and +2.4%pts in 2015
7. Core adjustments increased by 129 million in 2016 and by USD 128 million in 2015 related to the ophthalmic OTC and surgical diagnostics products intangible asset amortization expense recorded in COGS

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 transfer had taken place from January 1, 2015. Core results are non-IFRS measures. An explanation of these measures can be found on page 179 of the 2017 Novartis Annual Report

Innovative Medicines 2016 and 2015 – Updated Segment Income Statement Reporting

Restated reported and core operating income - Innovative Medicines

	Q1 2016 USDm	Q2 2016 USDm	HY 2016 USDm	Q3 2016 USDm	9M 2016 USDm	Q4 2016 USDm	FY 2016 USDm	FY 2015 USDm
Net sales to third parties	7 551	8 204	15 755	7 986	23 741	8 090	31 831	32 571
Sales to other segments	164	142	306	158	464	160	624	518
Net sales	7 715	8 346	16 061	8 144	24 205	8 250	32 455	33 089
Other revenues	177	189	366	193	559	256	815	792
Cost of Goods Sold	-2 152	-2 286	-4 438	-2 189	-6 627	-2 349	-8 976	-8 832
Gross profit	5 740	6 249	11 989	6 148	18 137	6 157	24 294	25 049
Selling, General & Administration	-2 116	-2 376	-4 492	-2 246	-6 738	-2 487	-9 225	-9 270
Research & Development	-1 728	-1 841	-3 569	-1 886	-5 455	-2 241	-7 696	-7 670
Other income	541	65	606	264	870	221	1 091	1 148
Other expense	- 297	- 274	- 571	- 304	- 875	- 334	-1 209	-1 634
Operating income	2 140	1 823	3 963	1 976	5 939	1 316	7 255	7 623
<i>as % of net sales</i>	<i>28.3%</i>	<i>22.2%</i>	<i>25.2%</i>	<i>24.7%</i>	<i>25.0%</i>	<i>16.3%</i>	<i>22.8%</i>	<i>23.4%</i>
Core adjustments								
Other revenues						-50	-50	-28
Cost of Goods Sold	585	596	1'181	573	1'754	612	2'366	2'428
Selling, General & Administration						7	7	43
Research & Development	27	42	69	119	188	408	596	183
Other income	-447	-31	-478	-242	-720	-107	-827	-825
Other expense	225	165	390	173	563	144	707	1'118
Core Operating income	2'530	2'595	5'125	2'599	7'724	2'330	10'054	10'542
<i>as % of net sales</i>	<i>33.5%</i>	<i>31.6%</i>	<i>32.5%</i>	<i>32.5%</i>	<i>32.5%</i>	<i>28.8%</i>	<i>31.6%</i>	<i>32.4%</i>

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 transfer had taken place from January 1, 2015. Core results are non-IFRS measures. An explanation of these measures can be found on page 179 of the 2017 Novartis Annual Report

1. Sales decreased by USD 731 million in 2016 and USD 774 million in 2015 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 355 million in 2016 and USD 372 million in 2015 related to the ophthalmic OTC and surgical diagnostics products
3. SG&A decreased by USD 188 million (25.7% of sales) in 2016 and USD 191 million (24.7% of sales) in 2015 related to the ophthalmic OTC and surgical diagnostics products
4. R&D decreased by USD 13 million (1.8% of sales) in 2016 and USD 15 million (1.9% of sales) in 2015 related to the ophthalmic OTC and surgical diagnostics products
5. Other expenses decreased by USD 4 million in 2016 and by USD 5 million in 2015 related to the ophthalmic OTC and surgical diagnostics products
6. The transfer of the ophthalmic OTC and surgical diagnostics products had a negligible impact on Innovative Medicines Division's reported operating margin in 2016 and 2015 and slightly decreased the core operating margin by -0.2%pts in 2016 and in 2015
7. Core adjustments decreased by USD 129 million in 2016 and USD 128 million on 2015 related to the ophthalmic OTC and surgical diagnostics products intangible asset amortization expense recorded in COGS



Appendix

2016 and 2015 Segment Financials as previously reported

Novartis 2017 Financials Updated Segment Reporting
(As published April 3, 2018)

Group 2016 – Segment Consolidated Income Statement Reporting – As previously reported in 2016 Annual Report

Reported consolidated income statements - Segmentation - FY 2016

(audited)	Innovative Medicines USDm	Sandoz USDm	Alcon USDm	Corporate (including eliminations) USDm	Group USDm
Net sales to third parties	32 562	10 144	5 812		48 518
Sales to other segments	624	104		- 728	
Net sales	33 186	10 248	5 812	- 728	48 518
Other revenues	815	37	4	62	918
Cost of Goods Sold	-9 331	-5 971	-3 092	874	-17 520
Gross profit	24 670	4 314	2 724	208	31 916
Selling, General & Administration	-9 413	-1 981	-2 292	- 506	-14 192
Research & Development	-7 709	- 814	- 516		-9 039
Other income	1 091	185	48	603	1 927
Other expense	-1 213	- 259	- 96	- 776	-2 344
Operating income	7 426	1 445	- 132	- 471	8 268
Income from associated companies		6		697	703
Interest expenses					- 707
Other financial income and expense					- 447
Income before tax					7 817
Taxes					-1 119
Net income					6 698

Group 2015 – Segment Consolidated Income Statement Reporting – As previously reported in 2016 Annual Report

Reported consolidated income statements - Segmentation - FY 2015

(audited)	Innovative Medicines USDm	Sandoz USDm	Alcon USDm	Corporate (including eliminations) USDm	Group USDm
Net sales to third parties	33 345	10 070	5 999		49 414
Sales to other segments	518	128		- 620	26
Net sales	33 863	10 198	5 999	- 620	49 440
Other revenues	792	25	23	107	947
Cost of Goods Sold	-9 204	-5 844	-3 145	789	-17 404
Gross profit	25 451	4 379	2 877	276	32 983
Selling, General & Administration	-9 461	-2 025	-2 113	- 648	-14 247
Research & Development	-7 685	- 782	- 468		-8 935
Other income	1 149	109	54	737	2 049
Other expense	-1 639	- 381	- 69	- 784	-2 873
Operating income	7 815	1 300	281	- 419	8 977
Income from associated companies		2		264	266
Interest expenses					- 655
Other financial income and expense					- 454
Income before tax					8 134
Taxes					-1 106
Net income from continuing operations					7 028
Net income from discontinued operations					10 766
Net income					17 794

Alcon 2016 and 2015 – Segment Income Statement Reporting

As previously reported in 2016 Annual Report and 2016 quarterly earnings reports

Reported and core operating income - Alcon

	Q1 2016 USDm	Q2 2016 USD	HY 2016 USDm	Q3 2016 USDm	9M 2016 USDm	Q4 2016 USDm	FY 2016 USDm	FY 2015 USDm
Net sales to third parties	1 426	1 506	2 932	1 436	4 368	1 444	5 812	5 999
Sales to other segments								
Net sales	1 426	1 506	2 932	1 436	4 368	1 444	5 812	5 999
Other revenues	4		4		4		4	23
Cost of Goods Sold	- 763	- 783	-1 546	- 764	-2 310	- 782	-3 092	-3 145
Gross profit	667	723	1 390	672	2 062	662	2 724	2 877
Selling, General & Administration	- 532	- 576	-1 108	- 584	-1 692	- 600	-2 292	-2 113
Research & Development	- 114	- 140	- 254	- 131	- 385	- 131	- 516	- 468
Other income	18	9	27	19	46	2	48	54
Other expense	- 8	- 9	- 17	- 26	- 43	- 53	- 96	- 69
Operating income	31	7	38	- 50	- 12	- 120	- 132	281
as % of net sales	2.2%	0.5%	1.3%	-3.5%	-0.3%	-8.3%	-2.3%	4.7%
Core adjustments ^①								
Cost of Goods Sold	209	219	428	221	649	227	876	887
Selling, General & Administration								32
Research & Development	3	7	10	18	28	2	30	13
Other income	-1		-1	-1	-2	-2	-4	-9
Other expense	1	5	6	18	24	56	80	31
Core Operating income	243	238	481	206	687	163	850	1'235
as % of net sales	17.0%	15.8%	16.4%	14.3%	15.7%	11.3%	14.6%	20.6%

1. Core results are non-IFRS measures and are unaudited. An explanation of these measures can be found on page 171 of the 2016 Novartis Annual Report

Innovative Medicines 2016 and 2015 – Segment Income Statement Reporting – As previously reported in 2016 Annual Report and 2016 quarterly earnings reports

Reported and core operating income - Innovative Medicines

	Q1 2016 USDm	Q2 2016 USDm	HY 2016 USDm	Q3 2016 USDm	9M 2016 USDm	Q4 2016 USDm	FY 2016 USDm	FY 2015 USDm
Net sales to third parties	7 729	8 387	16 116	8 173	24 289	8 273	32 562	33 345
Sales to other segments	164	142	306	158	464	160	624	518
Net sales	7 893	8 529	16 422	8 331	24 753	8 433	33 186	33 863
Other revenues	177	189	366	193	559	256	815	792
Cost of Goods Sold	-2 240	-2 376	-4 616	-2 280	-6 896	-2 435	-9 331	-9 204
Gross profit	5 830	6 342	12 172	6 244	18 416	6 254	24 670	25 451
Selling, General & Administration	-2 162	-2 422	-4 584	-2 293	-6 877	-2 536	-9 413	-9 461
Research & Development	-1 732	-1 844	-3 576	-1 889	-5 465	-2 244	-7 709	-7 685
Other income	541	65	606	264	870	221	1 091	1 149
Other expense	- 297	- 275	- 572	- 306	- 878	- 335	-1 213	-1 639
Operating income	2 180	1 866	4 046	2 020	6 066	1 360	7 426	7 815
<i>as % of net sales</i>	<i>28.2%</i>	<i>22.2%</i>	<i>25.1%</i>	<i>24.7%</i>	<i>25.0%</i>	<i>16.4%</i>	<i>22.8%</i>	<i>23.4%</i>
Core adjustments ^①								
Other revenues						-50	-50	-28
Cost of Goods Sold	616	626	1'242	606	1'848	641	2'489	2'552
Selling, General & Administration						7	7	43
Research & Development	27	43	70	118	188	409	597	183
Other income	-447	-31	-478	-242	-720	-107	-827	-825
Other expense	226	165	391	174	565	147	712	1'122
Core Operating income	2'602	2'669	5'271	2'676	7'947	2'407	10'354	10'862
<i>as % of net sales</i>	<i>33.7%</i>	<i>31.8%</i>	<i>32.7%</i>	<i>32.7%</i>	<i>32.7%</i>	<i>29.1%</i>	<i>31.8%</i>	<i>32.6%</i>

1. Core results are non-IFRS measures and are unaudited. An explanation of these measures can be found on page 171 of the 2016 Novartis Annual Report



Appendix

2016 and 2015 Segment Financials as previously reported

Novartis 2017 Financials Updated Segment Reporting
(As published April 3, 2018)

As published April 3, 2018

Novartis AG



Novartis 2017 Financials Updated Segment Reporting

April 3, 2018



Disclaimer

This presentation contains forward-looking statements that can be identified by terminology such as such as “potential,” “expected,” “will,” “planned,” “pipeline,” “outlook,” or similar expressions, or by express or implied discussions regarding potential new products, potential new indications for existing products, or regarding potential future revenues from any such products; or regarding the potential outcome of the strategic review being undertaken to maximize shareholder value of the Alcon Division; or regarding the potential financial or other impact of the significant acquisitions and reorganizations of recent years; or regarding the potential impact of the share buyback plan; or regarding potential future sales or earnings of the Novartis Group or any of its divisions or potential shareholder returns; or by discussions of strategy, plans, expectations or intentions. You should not place undue reliance on these statements. Such forward looking statements are based on our current beliefs and expectations regarding future events, and are subject to significant known and unknown risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those set forth in the forward looking statements. There can be no guarantee that any new products will be approved for sale in any market, or that any new indications will be approved for any existing products in any market, or that any approvals which are obtained will be obtained at any particular time, or that any such products will achieve any particular revenue levels. Nor can there be any guarantee that the strategic review being undertaken to maximize shareholder value of the Alcon Division will reach any particular results, or at any particular time, or that the result of the strategic review will in fact maximize shareholder value. Neither can there be any guarantee that Novartis will be able to realize any of the potential strategic benefits, synergies or opportunities as a result of the significant acquisitions and reorganizations of recent years. Neither can there be any guarantee that shareholders will achieve any particular level of shareholder returns. Nor can there be any guarantee that the Group, or any of its divisions, will be commercially successful in the future, or achieve any particular credit rating or financial results. In particular, our expectations could be affected by, among other things: global trends toward health care cost containment, including government, payor and general public pricing and reimbursement pressures and requirements for increased pricing transparency; regulatory actions or delays or government regulation generally; the potential that the strategic benefits, synergies or opportunities expected from the significant acquisitions and reorganizations of recent years may not be realized or may take longer to realize than expected; the inherent uncertainties involved in predicting shareholder returns; the uncertainties inherent in the research and development of new healthcare products, including clinical trial results and additional analysis of existing clinical data; our ability to obtain or maintain proprietary intellectual property protection, including the ultimate extent of the impact on Novartis of the loss of patent protection and exclusivity on key products which commenced in prior years and will continue this year; safety, quality or manufacturing issues; uncertainties regarding actual or potential legal proceedings, including, among others, actual or potential product liability litigation, litigation and investigations regarding sales and marketing practices, intellectual property disputes and government investigations generally; uncertainties involved in the development or adoption of potentially transformational technologies and business models; general political and economic conditions, including uncertainties regarding the effects of ongoing instability in various parts of the world; uncertainties regarding future global exchange rates; uncertainties regarding future demand for our products; and uncertainties regarding potential significant breaches of data security or data privacy, or disruptions of our information technology systems; and other risks and factors referred to in Novartis AG’s current Form 20-F on file with the US Securities and Exchange Commission. Novartis is providing the information in this presentation 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.

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
<i>as % of net sales</i>	<i>23.5%</i>	<i>13.6%</i>	<i>0.0%</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

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 and core 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>	<i>22.3%</i>	<i>25.1%</i>	<i>23.8%</i>	<i>26.3%</i>	<i>24.6%</i>	<i>20.5%</i>	<i>23.5%</i>
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>	<i>31.3%</i>	<i>30.9%</i>	<i>31.1%</i>	<i>31.8%</i>	<i>31.3%</i>	<i>30.3%</i>	<i>31.0%</i>

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.

As published April 3, 2018

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 ⓘ							
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 and core 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
<i>as % of net sales</i>	<i>22.4%</i>	<i>25.1%</i>	<i>23.8%</i>	<i>26.2%</i>	<i>24.6%</i>	<i>20.6%</i>	<i>23.6%</i>
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
<i>as % of net sales</i>	<i>31.5%</i>	<i>31.1%</i>	<i>31.3%</i>	<i>32.0%</i>	<i>31.6%</i>	<i>30.5%</i>	<i>31.3%</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