Materiality Assessment 2021 Kickoff Webinar

Dialogue matters – support us to spur positive impact
February 8, 2021
Agenda

Welcome

Why it’s important?

What have we achieved?

Where are we heading?

We would like to hear from you

Open Q&A
Welcome

Duration: 1 hour

At any time, we invite you to type your questions in the Q&A box

If you are struggling to connect:

- Audio is typically more reliable over a telephone/mobile line than computer audio
- Close other applications not in use, especially those that take bandwidth (e.g. email and additional internet browser tabs)
- Connect to the internet via cable rather than wireless, if possible
Moderator & Speakers

Jeff Sturchio  
Chairman  
Rabin Martin

Dr. Patrice Matchaba  
Head US Corporate Responsibility and President  
Novartis US Foundation

Dr. Lutz Hegemann  
Group Head Corporate Affairs and Global Health  
Novartis

Samir Shah  
Head Investor Relations  
Novartis

Carrie Scott  
Head ESG Management Office  
Novartis
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Open Q&A
Our purpose is to reimagine medicine to improve and extend people's lives. We use innovative science and technology 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 reward those who invest their money, time and ideas in our company.”
Listening to our stakeholders to understand what matters most for our mission.
Materiality Assessments at Novartis have shaped our approach

Sole donor to WHO of multidrug therapy for leprosy
Antimalarial Coartem® (no-loss strategy)
Healthy Family
Local innovative brands in LMIC
Novartis Access
Novartis Access Principles
New strategy for SS Africa
ESG Bond

Preparing to transform
Moving from reacting to healthcare system challenges to proactively shaping systems and solutions!
Stakeholder input from the materiality assessment informs our core actions

MA results will inform:

- Divisional & Functional Processes
- Enterprise Risk Management
- Annual Corporate Strategy Review

Ownership:

- Novartis Executive Committee
- Board of Directors
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Open Q&A
How can a healthcare company increase its value?

Novartis share price dependent on:

1. **Driving top line**
   - excellence in launches

2. **Driving bottom line**
   - operational excellence

3. **Pipeline**
   - delivering on innovation

4. **ESG**

Source: Aswath Damodaran: Value Enhancements: Back to Basics, Vontobel Equity Research
ESG principles in Novartis

1. Materiality Analyses

2. ESG needs to be integrated into functions e.g. sustainability bond

3. Great ESG scores are not the direct objective
Materiality Analyses are fundamental to determining relevance of ESG factors (e.g. company, or investment decision)
Novartis also uses Materiality Analyses for this Key first step to defining the ESG strategy

Most relevant ESG factors

- External stakeholders
  - Patient health and safety
  - Access to healthcare
  - Innovation
  - Ethical business practices
- Internal stakeholders
  - Access to healthcare
  - Patient health and safety
  - Ethical business practices
  - Innovation
  - Others including governance, people, environment

ESG pillars

- Ethical Standards
- Pricing & Access
- Global Health Challenges
- Corporate Citizenship

But materiality…

Is about answering what the **purpose** is of using ESG data

Depends on **stakeholder** (IR world, asset manager, investor, hedge fund, pension fund)

Depends on **geography**

Changes with **time**
... which explains why materiality is the most and least consensual term in ESG investing

1. JPMorgan research March 2020: What Happened to ESG, Hecker et al
2. WEF Measuring stakeholder capitalism September 2020
4. SASB’s approach to materiality for the purpose of standards development staff bulletin no. SB002-07/08/2017 July 2017

Any fact, describing an asset, that helps you decide whether or not you should invest in this asset

Relevance of a sustainability factor to a company’s financial performance

Information that is important, relevant and critical to long-term value creation

Pose direct financial risks, may be regulated, drive best practices, raised by stakeholders, opportunities for innovation / growth
Robust methodology is important
Novartis approach: varied inputs from stakeholders, geography, time-relevant

1
Secondary research (desk)
Medical journals
Analyst reports
Research
~180 articles

2
Primary research
Quantitative & qualitative (interviews)
- externals
- internals

Local Materiality Analyses
Forward-looking scenario analysis
It’s not ESG per se, but the focus on material ESG issues that is correlated to improved share price

First sustainability-linked bond in the industry
An open accountability to our ESG commitments

“Driving purpose, stakeholder value; happens when at center of systems, integrated, targets mandatory & conditional”

“Creating symbiotic innovation ecosystem requires new methods, metrics, and indicators”

Mariana Mazzucato

Novartis Sustainability linked bond

Treasury issued (ESG) linked bond

1 Materiality Analyses
   bases of Targets
   (access/patients reached with medicines)

2 Conditional
   Step up

3 Mandatory
   Targets included in CEO balanced scorecard

4 Symbiotic
   Bond buyers partnership with company
Operationalized Materiality Analyses into strategic pillars and then into management targets

### Holding Ourselves to High Ethical Standards
- Conduct risk assessments for all new eligible suppliers by 2022.
- Complete risk assessments of existing suppliers by 2022.
- Fully integrate human rights into third-party risk assessments in scope.
- Enhance external reporting on anti-bribery by 2022.
- Post all clinical trial results on clinicaltrials.gov or novartiscertichfals.com within one year of completion.

### Being Part of the Solution on Pricing and Access to Medicines
- Implement an access strategy for all new products launched.
- Increase by 200% the number of patients reached with strategic innovative therapies in low- and middle-income countries by 2025.
- Achieve a fivefold increase in the number of patients reached in sub-Saharan Africa by 2022, and a fivefold increase by 2025.
- Implement a fixed price for launches in Pharmaceuticals and Oncology based on national income levels and value-based pricing.

### Addressing Global Health Challenges
- Increase by 50% the number of patients reached by the global health flagship programs by 2025.
- Advance clinical development program for our next-generation antimalarials.
- Expand Africa-wide cell disease program to 10 countries by 2022.
- Advance clinical development program in patients with Chagas-related heart failure.

### Being a Responsible Citizen
- Be carbon neutral in all operations (Scope 1 and 2) by 2025 and across the value chain (Scope 1, 2, and 3) by 2030.
- Reduce water consumption in our operations by half by 2025 (vs. 2016), with no water quality impacts from the manufacturing of our products.
- Be water-neutral in all areas of our operations by 2030 while enhancing water quality wherever we operate.
- Eliminate polyvinyl chloride in packaging by 2025.
- Reduce the amount of waste sent for disposal by half by 2025 (vs. 2016).
- Be plastic-neutral by 2030, with all new products meeting sustainable design principles.
- Close the gender pay gap by 2023.
- Invest USD 100 million in learning over five years from 2019.
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Open Q&A
A systematic stakeholder engagement follows a robust methodology

https://www.youtube.com/watch?v=IqFLSV6Hnms&feature=youtu.be
Process Overview

1. **Q3 2020**
   - **Desk Research**
     - Manual review of key stakeholder sources to create impact and dependency list

2. **Q3 2020**
   - **Management Survey**
     - Via function & division to define **internal contact owners** of external stakeholders

3. **Q1 2021**
   - **Materiality Surveys**
     - Quantitative online survey among internal & external stakeholders

4. **Q2 2021**
   - **Stakeholder Discussions**
     - Qualitative interviews and workshop with internal & external stakeholders

5. **Q2 2021**
   - **Analysis & Interpretation**
     - Ranking of cluster and issues, correlation analysis and scenario analysis

6. **Q3 2021**
   - **Management Report**
     - Informing business strategies, management processes and decision making

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Novartis Materiality Webinar | 08.02.2021

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Novartis | Reimagining Medicine
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Assurance
https://www.youtube.com/watch?v=IqFLSVHm6tU&feature=youtu.be

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Thank you for your attention!

For more information
1. Visit our site: www.novartis.com
2. Read the CR Materiality Assessment Results Report 2017
3. Read the Novartis In Society Report 2020

Any feedback, send an email to cr.materiality@novartis.com
Backup
Materiality Assessments highlight our impacts from the perspectives of our stakeholders across all dimensions of Environment, Social and Governance.

**Strategic insights**
Align with societal expectations, business needs and market developments; tease out white space for competitive advantage and leadership opportunities.

**Build stakeholder relationships**
Intensify dialog with key stakeholders on a systematic basis to strengthen relationships and enable stakeholder specific communication.

**Reporting**
Structure and prioritize reporting; highlight impact measuring needs; validate current impact valuation indicators and contextualize their relevance.
Novartis’ corporate responsibility “materiality” definition

Social, environmental or economic issues are being considered to be material for Novartis if they have a substantial likelihood to influence the judgment and decisions of key stakeholder groups and a significant impact on Novartis performance and business overall.

Key sources
2017 Results at a glance show each topic’s relative importance

How to read the chart

Outer circle
- Priority topics

Middle circle
- External stakeholders perceive as more important
- Internal stakeholders perceive as more important
- No significant difference in perception

Inner circle
- Material issue clusters

Access to healthcare
1. Pricing
2. Availability of medicines
3. Intellectual property
4. Health system strengthening
5. Patient assistance programs

Economic sustainability
6. Financial health & performance
7. Recruitment & retention of employees
8. Fair contribution to society

Environmental protection
9. Pharmaceuticals in the environment
10. Pollution, waste & effluents
11. Sustainable use of resources

Ethical business practices
12. Ethical & compliant behavior
13. Respect for human rights
14. Responsible supply chain management
15. Responsible use of new technologies
16. Animal testing

Good governance
17. Corporate governance
18. Data privacy and security
19. Transparency

Innovation
20. Innovative technologies
21. R&D for unmet medical needs
22. Business model innovation
23. Drug resistance
24. R&D for neglected diseases

Our people
25. Health & safety
26. Fair working conditions
27. Diversity & inclusion

Patient health & safety
28. Pharmacovigilance, safety profile & quality of drugs
29. Counterfeit medicines
30. Health education & prevention