



Portfolio Transformation

Required changes to the Group reporting structure from Q2, 2014

July 7, 2014



Introduction of discontinuing operations

- On April 22, 2014 Novartis announced significant transactions which, on completion, will transform its portfolio of activities
- As a result, although the Group will continue to report its total income statement it will, as required by IFRS, also split its results into those from discontinuing and continuing operations
- This presentation explains these changes and the impact they will have on the reported results for 2014 and prior periods
- **Discontinuing operations will comprise:**
 - Consumer Health (Animal Health and OTC)
 - Vaccines but excluding certain intellectual property rights and related income which will be retained by Novartis (2013 full year other revenue of approx. USD 0.1 bn) which will be included in the retained Corporate activities
 - The 2014 pre-tax gain of approximately USD 0.9 bn on divesting the blood transfusion diagnostics unit and related prior period results of this unit
 - Corporate items in legal entities that will be divested
 - 2014 Group results will exclude from announcement date any further depreciation and amortization related to discontinuing operations (2013 full year amount approx. USD 0.5 bn)

Introduction of continuing operations

- **Continuing operations will comprise:**

- Pharmaceuticals, Alcon and Sandoz Divisions as previously reported and Corporate (including certain transferred intellectual property rights mentioned above)

But not

- Results from Oncology assets to be acquired from GSK on closing of the GSK transaction
 - Results from 36.5% of GSK/Novartis OTC joint venture interest to be obtained on closing the GSK transaction
- Focus of 2014 Group performance comments will be the total 2014 Group IFRS income statement compared to 2013 excluding the results of the divested blood transfusion diagnostics unit. Discussion of the 2014 IFRS results with those of 2013 will also be included
 - The 2014 IFRS results include the pre-tax gain from the blood transfusion diagnostics unit divestment of approx. USD 0.9 bn however the core results will exclude this amount

Overview of key segment reporting changes

Implemented from Q2 Press Release

- Consumer Health (Animal Health and OTC), Vaccines and Corporate financial data will be presented on July 17, 2014 as follows:

		Consumer Health	Vaccines	Corporate
2013	2013 as reported	✓		
	2013 adjusted for the royalties/out-licensing IP transferred to Corporate		✓	✓
	2013 as reported (ie including Diagnostics) and excluding Diagnostics with commentary on both		✓	
2014	Cessation of depreciation and amortization as of date of announcement	✓	✓	
	2014 adjusted for the royalties/out-licensing IP transferred to Corporate		✓	✓
	2014 gain from sale of Diagnostics included in IFRS reported numbers and adjusted in Core		✓	

Amended segmental reporting

The following slides show the impact on the Group's reporting of implementing these changes for all the quarters of 2013 and for Q1 2014

Novartis 2013 / Q1 2014 IFRS results for continuing operations

	Q1 2013	Q2 2013	H1 2013	Q3 2013	9M 2013	Q4 2013	FY 2013	Q1 2014
Net sales to third parties	12 702	13 073	25 775	12 705	38 480	13 389	51 869	12 767
Sales to other segments	64	57	121	49	170	51	221	65
Net sales of segments	12 766	13 130	25 896	12 754	38 650	13 440	52 090	12 832
Other revenues	136	150	286	152	438	188	626	199
Cost of goods sold	-3 938	-4 087	-8 025	-4 126	-12 151	-4 428	-16 579	-4 130
Gross profit	8 964	9 193	18 157	8 780	26 937	9 200	36 137	8 901
Marketing & Sales	-2 989	-3 165	-6 154	-3 033	-9 187	-3 451	-12 638	-2 988
Research & Development	-2 122	-2 247	-4 369	-2 216	-6 585	-2 486	-9 071	-2 210
General & Administration	- 648	- 619	-1 267	- 641	-1 908	- 695	-2 603	- 649
Other income	319	230	549	143	692	513	1 205	236
Other expense	- 465	- 359	- 824	- 475	-1 299	- 748	-2 047	- 475
Operating income	3 059	3 033	6 092	2 558	8 650	2 333	10 983	2 815
<i>as % of net sales</i>	24.1%	23.2%	23.6%	20.1%	22.5%	17.4%	21.2%	22.0%
Income from associated companies	111	171	282	162	444	155	599	215
Interest expense	- 175	- 175	- 350	- 170	- 520	- 163	- 683	- 168
Other financial income and expense	7	5	12	- 62	- 50	- 42	- 92	- 25
Income before taxes	3 002	3 034	6 036	2 488	8 524	2 283	10 807	2 837
Taxes	- 454	- 447	- 901	- 329	-1 230	- 268	-1 498	- 383
Net income	2 548	2 587	5 135	2 159	7 294	2 015	9 309	2 454
Attributable to:								
<i>Shareholders of Novartis AG</i>	2 523	2 554	5 077	2 127	7 204	1 985	9 189	2 426
<i>Non-controlling interests</i>	25	33	58	32	90	30	120	28
Average number of shares outstanding - Basic (million)	2 441	2 453	2 446	2 442	2 444	2 432	2 441	2 440
Basic earnings per share (USD)	1.03	1.04	2.08	0.87	2.95	0.82	3.76	0.99

Novartis 2013 / Q1 2014 core results for continuing and discontinuing operations

Continuing operations	Q1 2013	Q2 2013	H1 2013	Q3 2013	9M 2013	Q4 2013	FY 2013	Q1 2014
Net sales to third parties	12 702	13 073	25 775	12 705	38 480	13 389	51 869	12 767
Core gross profit	9 614	9 842	19 456	9 454	28 910	9 882	38 792	9 617
Core operating income	3 753	3 731	7 484	3 433	10 917	3 290	14 207	3 800
as % of net sales	29.5%	28.5%	29.0%	27.0%	28.4%	24.6%	27.4%	29.8%
Core income before taxes	3 860	3 779	7 639	3 429	11 068	3 284	14 352	3 899
Taxes	- 579	- 575	-1 154	- 485	-1 639	- 418	-2 057	- 566
Core net income	3 281	3 204	6 485	2 944	9 429	2 866	12 295	3 333
Core basic earnings per share (USD)	1.33	1.29	2.63	1.19	3.82	1.17	4.99	1.35

Discontinuing operations ¹	Q1 2013	Q2 2013	H1 2013	Q3 2013	9M 2013	Q4 2013	FY 2013	Q1 2014
Net sales to third parties	1 314	1 415	2 729	1 633	4 362	1 689	6 051	1 255
Core gross profit	701	815	1 516	937	2 453	913	3 366	668
Core operating income	- 39	24	- 15	188	173	105	278	- 143
as % of net sales	-3.0%	1.7%	-0.5%	11.5%	4.0%	6.2%	4.6%	-11.4%
Core income before taxes	- 39	27	- 12	187	175	104	279	- 142
Taxes	6	- 4	2	- 28	- 26	- 15	- 41	21
Core net income	- 33	23	- 10	159	149	89	238	- 121
Core basic earnings per share (USD)	-0.01	0.01	-0.01	0.07	0.06	0.03	0.10	-0.04

¹ Includes the blood transfusion diagnostics unit sold on January 9, 2014

Back up slides

Q1 2013 IFRS results

Q1 2013	Continuing operations	Discontinuing operations	Eliminations	Group Total
Net sales to third parties	12 702	1 314		14 016
Sales to other segments	64	13	- 77	
Net sales of segments	12 766	1 327	- 77	14 016
Other revenues	136	54		190
Cost of goods sold	-3 938	- 745	77	-4 606
Gross profit	8 964	636		9 600
Marketing & Sales	-2 989	- 468		-3 457
Research & Development	-2 122	- 175		-2 297
General & Administration	- 648	- 113		- 761
Other income	319	52	- 2	369
Other expense	- 465	- 95	2	- 558
Operating income	3 059	- 163		2 896
<i>as % of net sales</i>	<i>24.1%</i>	<i>-12.4%</i>		<i>20.7%</i>
Income from associated companies	111			111
Interest expense	- 175			- 175
Other financial income and expense	7			7
Income before taxes	3 002	- 163		2 839
Taxes	- 454	37		- 417
Net income	2 548	- 126		2 422
<i>Attributable to:</i>				
<i>Shareholders of Novartis AG</i>	<i>2 523</i>	<i>- 125</i>		<i>2 398</i>
<i>Non-controlling interests</i>	<i>25</i>	<i>- 1</i>		<i>24</i>
Average number of shares outstanding - Basic (million)	2 441	2 441		2 441
Basic earnings per share (USD)	1.03	- 0.05		0.98

Q2 2013 / H1 2013 IFRS results

	Q2 2013				H1 2013			
	Continuing operations	Discontinuing operations	Eliminations	Group Total	Continuing operations	Discontinuing operations	Eliminations	Group Total
Net sales to third parties	13 073	1 415		14 488	25 775	2 729		28 504
Sales to other segments	57	21	- 78		121	34	- 155	
Net sales of segments	13 130	1 436	- 78	14 488	25 896	2 763	- 155	28 504
Other revenues	150	66		216	286	120		406
Cost of goods sold	-4 087	- 771	78	-4 780	-8 025	-1 516	155	-9 386
Gross profit	9 193	731		9 924	18 157	1 367		19 524
Marketing & Sales	-3 165	- 492		-3 657	-6 154	- 960		-7 114
Research & Development	-2 247	- 192		-2 439	-4 369	- 367		-4 736
General & Administration	- 619	- 112		- 731	-1 267	- 225		-1 492
Other income	230	37	- 3	264	549	89	- 5	633
Other expense	- 359	- 35	3	- 391	- 824	- 130	5	- 949
Operating income	3 033	- 63		2 970	6 092	- 226		5 866
<i>as % of net sales</i>	23.2%	-4.5%		20.5%	23.6%	-8.3%		20.6%
Income from associated companies	171	3		174	282	3		285
Interest expense	- 175			- 175	- 350			- 350
Other financial income and expense	5			5	12			12
Income before taxes	3 034	- 60		2 974	6 036	- 223		5 813
Taxes	- 447	21		- 426	- 901	58		- 843
Net income	2 587	- 39		2 548	5 135	- 165		4 970
Attributable to:								
Shareholders of Novartis AG	2 554	- 38		2 516	5 077	- 163		4 914
Non-controlling interests	33	- 1		32	58	- 2		56
Average number of shares outstanding - Basic (million)	2 453	2 453		2 453	2 446	2 446		2 446
Basic earnings per share (USD)	1.04	- 0.01		1.03	2.08	- 0.07		2.01

Q3 2013 / 9M 2013 IFRS results

	Q3 2013				9M 2013			
	Continuing operations	Discontinuing operations	Eliminations	Group Total	Continuing operations	Discontinuing operations	Eliminations	Group Total
Net sales to third parties	12 705	1 633		14 338	38 480	4 362		42 842
Sales to other segments	49	24	- 73		170	58	- 228	
Net sales of segments	12 754	1 657	- 73	14 338	38 650	4 420	- 228	42 842
Other revenues	152	68		220	438	188		626
Cost of goods sold	-4 126	- 857	73	-4 910	-12 151	-2 373	228	-14 296
Gross profit	8 780	868		9 648	26 937	2 235		29 172
Marketing & Sales	-3 033	- 448		-3 481	-9 187	-1 408		-10 595
Research & Development	-2 216	- 203		-2 419	-6 585	- 570		-7 155
General & Administration	- 641	- 105		- 746	-1 908	- 330		-2 238
Other income	143	32	- 3	172	692	121	- 8	805
Other expense	- 475	- 31	3	- 503	-1 299	- 161	8	-1 452
Operating income	2 558	113		2 671	8 650	- 113		8 537
<i>as % of net sales</i>	20.1%	6.9%		18.6%	22.5%	-2.6%		19.9%
Income from associated companies	162	- 1		161	444	2		446
Interest expense	- 170			- 170	- 520			- 520
Other financial income and expense	- 62			- 62	- 50			- 50
Income before taxes	2 488	112		2 600	8 524	- 111		8 413
Taxes	- 329	- 7		- 336	-1 230	51		-1 179
Net income	2 159	105		2 264	7 294	- 60		7 234
Attributable to:								
Shareholders of Novartis AG	2 127	105		2 232	7 204	- 58		7 146
Non-controlling interests	32			32	90	- 2		88
Average number of shares outstanding - Basic (million)	2 442	2 442		2 442	2 444	2 444		2 444
Basic earnings per share (USD)	0.87	0.04		0.91	2.95	- 0.03		2.92

Q4 2013 / FY 2013 IFRS results

	Q4 2013				FY 2013			
	Continuing operations	Discontinuing operations	Eliminations	Group Total	Continuing operations	Discontinuing operations	Eliminations	Group Total
Net sales to third parties	13 389	1 689		15 078	51 869	6 051		57 920
Sales to other segments	51	14	- 65		221	72	- 293	
Net sales of segments	13 440	1 703	- 65	15 078	52 090	6 123	- 293	57 920
Other revenues	188	97		285	626	285		911
Cost of goods sold	-4 428	- 949	65	-5 312	-16 579	-3 322	293	-19 608
Gross profit	9 200	851		10 051	36 137	3 086		39 223
Marketing & Sales	-3 451	- 503		-3 954	-12 638	-1 911		-14 549
Research & Development	-2 486	- 211		-2 697	-9 071	- 781		-9 852
General & Administration	- 695	- 127		- 822	-2 603	- 457		-3 060
Other income	513	53	- 4	562	1 205	174	- 12	1 367
Other expense	- 748	- 23	4	- 767	-2 047	- 184	12	-2 219
Operating income	2 333	40		2 373	10 983	- 73		10 910
<i>as % of net sales</i>	17.4%	2.4%		15.7%	21.2%	-1.2%		18.8%
Income from associated companies	155	- 1		154	599	1		600
Interest expense	- 163			- 163	- 683			- 683
Other financial income and expense	- 42			- 42	- 92			- 92
Income before taxes	2 283	39		2 322	10 807	- 72		10 735
Taxes	- 268	4		- 264	-1 498	55		-1 443
Net income	2 015	43		2 058	9 309	- 17		9 292
Attributable to:								
Shareholders of Novartis AG	1 985	44		2 029	9 189	- 14		9 175
Non-controlling interests	30	- 1		29	120	- 3		117
Average number of shares outstanding - Basic (million)	2 432	2 432		2 432	2 441	2 441		2 441
Basic earnings per share (USD)	0.82	0.01		0.83	3.76	0.00		3.76

Q1 2014 IFRS results

Q1 2014	Continuing operations	Discontinuing operations	Eliminations	Group Total
Net sales to third parties	12 767	1 255		14 022
Sales to other segments	65	15	- 80	
Net sales of segments	12 832	1 270	- 80	14 022
Other revenues	199	18		217
Cost of goods sold	-4 130	- 673	80	-4 723
Gross profit	8 901	615		9 516
Marketing & Sales	-2 988	- 469		-3 457
Research & Development	-2 210	- 222		-2 432
General & Administration	- 649	- 116		- 765
Other income	236	900	- 3	1 133
Other expense	- 475	- 34	3	- 506
Operating income	2 815	674		3 489
<i>as % of net sales</i>	<i>22.0%</i>	<i>53.7%</i>		<i>24.9%</i>
Income from associated companies	215	1		216
Interest expense	- 168			- 168
Other financial income and expense	- 25			- 25
Income before taxes	2 837	675		3 512
Taxes	- 383	- 161		- 544
Net income	2 454	514		2 968
Attributable to:				
<i>Shareholders of Novartis AG</i>	<i>2 426</i>	<i>515</i>		<i>2 941</i>
<i>Non-controlling interests</i>	<i>28</i>	<i>- 1</i>		<i>27</i>
Average number of shares outstanding - Basic (million)	2 440	2 440		2 440
Basic earnings per share (USD)	0.99	0.22		1.21

Impact of cessation of amortization/depreciation

- 2014 results will exclude depreciation and amortization related to discontinuing operations from the announcement date
- Amortization and depreciation for the full year 2013 for the discontinuing operations of Consumer Health (OTC and AH), Vaccines (Vx) excluding blood transfusion diagnostics unit (Dx) and Dx until the date of the announcement of the divestment is as follows:

Full year 2013	Consumer Health	Vx excl. Dx	Dx¹	Total
	USD m	USD m	USD m	USD m
Amortization on intangible assets	56	167	55	278
Depreciation on PP&E	47	138	12	197
Total	103	305	67	475

¹ Until announcement date of divestment of the blood transfusion diagnostics unit on November 11, 2013

- Amortization on intangible assets impacts only reported operating income as it is reversed for core operating income
- Depreciation on PP&E impacts reported and core operating income