Q4 and FY 2017 Results

Media Presentation | January 24, 2018
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## Agenda

<table>
<thead>
<tr>
<th>Introduction</th>
<th>Joseph Jimenez</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 financial review</td>
<td>Harry Kirsch</td>
</tr>
<tr>
<td>Future direction of Novartis and 2018 goals</td>
<td>Vas Narasimhan</td>
</tr>
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<td>Chief Executive Officer</td>
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<td></td>
<td>Chief Financial Officer</td>
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<tr>
<td></td>
<td>Global Head Drug Development &amp; CMO</td>
</tr>
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</table>
2017 was a good year for Novartis

| Delivered financial targets | Sales grew +2% (cc) vs. PY  
|                            | Core OpInc in line (cc) with PY |
| Achieved breakthrough innovation | 16 key approvals, including world’s first CAR-T therapy  
|                                | Major trial readouts: CANTOS, RTH258, Kymriah™ in DLBCL |
| Executed well on key growth drivers | Cosentyx® reached multi-blockbuster status  
|                                    | Entresto® exceeded FY sales of USD 500m  
|                                    | Ex-Glivec®, Oncology showed strong growth (+10% cc) |
| Returned Alcon to growth | Sales +4% (cc) with growth in both franchises and all regions  
|                           | Core OpInc +5% (cc) vs. PY |
| Strengthened the organization | Implemented new operating model  
|                               | Manufacturing network transformation on track |
## Agenda

| Introduction | Joseph Jimenez  
Chief Executive Officer |
|--------------|--------------------------|
| **2017 financial review** | Harry Kirsch  
Chief Financial Officer |
| Future direction of Novartis and 2018 goals | Vas Narasimhan  
Global Head Drug Development & CMO |
## 2017 financial results above or at upper end of guidance

### Group full year guidance (January 2017) in cc

<table>
<thead>
<tr>
<th>Actual vs. PY in cc</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sales</strong> are expected to be broadly in line with prior year</td>
</tr>
<tr>
<td><strong>Core operating income</strong> expected to be broadly in line with PY to low single digit decline</td>
</tr>
</tbody>
</table>
## Summary of Q4 and FY 2017 financial results

<table>
<thead>
<tr>
<th>Group</th>
<th>Q4 2017</th>
<th>Change vs. PY</th>
<th>FY 2017</th>
<th>Change vs. PY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% USD</td>
<td>% cc</td>
<td>% USD</td>
<td>% cc</td>
</tr>
<tr>
<td>Net Sales</td>
<td>12,915</td>
<td>5</td>
<td>49,109</td>
<td>1</td>
</tr>
<tr>
<td>Core Operating income</td>
<td>3,223</td>
<td>7</td>
<td>12,850</td>
<td>-1</td>
</tr>
<tr>
<td>Operating income</td>
<td>2,070</td>
<td>42</td>
<td>8,629</td>
<td>4</td>
</tr>
<tr>
<td>Net Income</td>
<td>1,976</td>
<td>111</td>
<td>7,703</td>
<td>15</td>
</tr>
<tr>
<td>Core EPS (USD)</td>
<td>1.21</td>
<td>8</td>
<td>4.86</td>
<td>2</td>
</tr>
<tr>
<td>EPS (USD)</td>
<td>0.85</td>
<td>113</td>
<td>3.28</td>
<td>16</td>
</tr>
<tr>
<td>Free Cash Flow</td>
<td>2,456</td>
<td>-17</td>
<td>10,428</td>
<td>10</td>
</tr>
</tbody>
</table>

1. Core results, constant currencies and free cash flow are non-IFRS measures. Further details regarding non-IFRS measures can be found starting on page 42 of the Condensed Financial Report.
Innovative Medicines, with strong 2017 sales performance from key growth drivers

<table>
<thead>
<tr>
<th>FY sales</th>
<th>Growth vs. PY</th>
<th>vs. PY</th>
<th>Q4 vs. PY</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD million</td>
<td>USD billion</td>
<td>cc</td>
<td>cc</td>
</tr>
<tr>
<td>Cosentyx (secukinumab)</td>
<td>2,071</td>
<td>0.9</td>
<td>82%</td>
</tr>
<tr>
<td>Entresto (sacubitril/valsartan)</td>
<td>507</td>
<td>0.3</td>
<td>195%</td>
</tr>
<tr>
<td>Promacta (cilomretib)</td>
<td>867</td>
<td>0.2</td>
<td>37%</td>
</tr>
<tr>
<td>Tafinlar</td>
<td>873</td>
<td>0.2</td>
<td>29%</td>
</tr>
<tr>
<td>Jakavi</td>
<td>777</td>
<td>0.2</td>
<td>32%</td>
</tr>
<tr>
<td>Tasigna</td>
<td>1,841</td>
<td>0.1</td>
<td>9%</td>
</tr>
<tr>
<td>Kisqali</td>
<td>76</td>
<td>0.1</td>
<td>nm</td>
</tr>
</tbody>
</table>
Alcon returned to growth in 2017

Sales growth vs. PY, cc

<table>
<thead>
<tr>
<th></th>
<th>FY 2016</th>
<th>Q1 2017</th>
<th>Q2 2017</th>
<th>Q3 2017</th>
<th>Q4 2017</th>
<th>FY 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY</td>
<td>-2%</td>
<td>1%</td>
<td>3%</td>
<td>7%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Q1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q2</td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Q3</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Q4</td>
<td></td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>FY 2016</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

FY net sales grew +4%, core operating income grew +5%:

Driven by improving operations, innovation, and customer relationships

FY net sales by franchise:
Surgical +5% and Vision Care +3%

1. Alcon sales growth benefitted from stock in trade movements, approximately 2% (cc) in Q3 2017 and 1% (cc) in Q4 2017
FY 2017 free cash flow strong at USD 10.4bn

Group free cash flow
USD billion

FY 2016  |  9.5
-10%
FY 2017  |  10.4
+10%

Key drivers vs. PY:
+ Working capital
+ Lower legal settlements
+ Lower CapEx
- Higher net investments
Novartis proposes the 21st consecutive dividend increase to the AGM: 2.80 CHF / share

1. Proposal to shareholders at the 2018 Annual General Meeting, taking place on March 2, 2018
2. Converted at historic exchange rates on the dividend payment date as per Bloomberg; assumes an exchange rate of USD / CHF of 0.977 as of December 31, 2017 for 2017
Barring unforeseen events

**Full year guidance**
Growth vs. PY (in cc)

**Group sales** are expected to grow low to mid single digit\(^1\)
- IM Division to grow mid single digit
- Sandoz to be broadly in line to a slight decline
- Alcon to grow low to mid single digit

**Group core operating income** expected to grow mid to high single digit

\(^1\) 2018 Sales guidance by Division reflects the announced transfer of Novartis ophthalmic OTC products, together with a small portfolio of surgical diagnostic products, from the Innovative Medicines Division to the Alcon Division, effective January 1, 2018
Agenda

Introduction

Joseph Jimenez
Chief Executive Officer

2017 financial review

Harry Kirsch
Chief Financial Officer

Future direction of Novartis and 2018 goals

Vas Narasimhan
Global Head Drug Development & CMO
We face a dynamic, complex external environment

Opportunities

- High unmet needs
- New science of therapeutics
- Demand for curative therapies and QOL improvement
- Data / digital revolution

Challenges

- Increasing competition
- Rising standard of care
- Payor / pricing pressure
- Industry reputation
Our aspiration is to lead for the long term

Strategic

Leading innovator of transformative therapies

Leader in data / digital

Productivity leader with a lean, agile organization

Leader in attracting and retaining top talent

Financial

Long-term sustainable top-line growth

Ongoing core margin expansion

Solid cash flow

Improving return on capital employed
We plan to continue to focus the company

Medicinal chemistry and industrials

1920 - 1996

Portfolio transformation

1996 - 2009

Focused medicines company powered by data / digital

2009 - 2017

Diversified healthcare group

2018+
**Five key priorities to shape our future**

- **Operational Execution**: Ensure launch excellence, high levels of productivity, and margin improvement.
- **Breakthrough Innovation**: Focus on high-end, transformative innovation.
- **Data / Digital Leadership**: Pivot to become a data-centric, digitally powered company.
- **Trust & Reputation**: Rebuild trust with society.
- **Culture Transformation**: Shift to a more empowered, inspired, unbureaucratic organization.
We are positioned well to grow sales....

Illustrative sales FY 2017–2022
in cc

2017
Gx Impact

Mainly:
- Gilenya®
- Afinitor®
- Glivec®

2017
Pharma Growth Drivers

Mainly:
- Cosentyx®
- Entresto®
- Launches±

2017
Onco Growth Drivers

Mainly:
- Kisqali®
- Kymriah™
- Tafinlar® + Mekinist®
- Promacta®
- Jakavi®

2022
Sandoz
and Alcon

Mainly:
- Biosimilars & Alcon growth

1. Including RTH258, BAF312, Entresto® HFpEF, Aimovig™, OMB157; The brand name Aimovig™ has been provisionally approved by the FDA and EMA for the investigational product AMG 334 (erenumab), but the product itself has not been approved for sale in any country
...while driving our leading innovation engine

<table>
<thead>
<tr>
<th>#1</th>
<th>#3</th>
<th>21</th>
<th>175+</th>
<th>90+</th>
<th>500+</th>
</tr>
</thead>
<tbody>
<tr>
<td>In US/EU approvals past 10 years</td>
<td>In pipeline replacement power</td>
<td>Breakthrough Therapy designations</td>
<td>Projects in the clinic</td>
<td>New molecular entities in the clinic</td>
<td>Active clinical trials</td>
</tr>
</tbody>
</table>

1. Data for Global Drug Development: Innovative Medicines and Sandoz biosimilars
2. In number of new molecular entities (NMEs) approved including fixed dose combinations 2007-2016
3. Source: Novartis peer group analysis based on data from EvaluatePharma (download from January 16, 2017) as presented during Novartis R&D Day in January 2017
4. Since introduction of the Breakthrough Therapy Designation (BTD) by the FDA, the Novartis pipeline included a total of 21 BTDs of which 18 are currently actively under development or in approved indications
2018: Returning to growth and building the foundation for the future

- Strengthen commercial execution on recent launches
- Prepare for 12 potential launches, including 3 in 2018
- Progress Alcon review; optimize Sandoz US portfolio
- Advance productivity efforts

Deliver Financials

- Group net sales expected to grow low to mid single digit (cc)
- Group core operating income expected to grow mid to high single digit (cc) (barring unforeseen events)

Operational Execution

- Regulatory decisions, e.g.: Aimovig™, Kymriah™ DLBCL
- Submissions, e.g.: RTH258, BAF312
- Trial readouts, e.g.: Entresto® HFP EF interim, Kisqali® MONALEESA-3

Breakthrough Innovation

- Develop data / digital strategy for all units and functions
- Build new Digital Organization

Data / Digital Leadership

- Ensure high levels of Quality and Compliance
- Lead in value-based healthcare and access to medicines

Trust & Reputation

- Establish baseline for culture transformation
- Drive simplification and reduce bureaucracy
- Increase diversity and inclusion

Culture Transformation

1. The brand name Aimovig™ has been provisionally approved by the FDA and EMA for the investigational product AMG 334 (erenumab), but the product itself has not been approved for sale in any country
Must prepare for and deliver on upcoming potential blockbuster launches

1. Exact launches and timing depends on filing date, HAs decisions and timelines
2. The brand name Aimovig™ has been provisionally approved by the FDA and EMA for the investigational product AMG 334 (erenumab), but the product itself has not been approved for sale in any country
Progressing portfolio review of Alcon; accelerating Sandoz US focus on differentiated portfolio

- Alcon management focused on completing the turnaround
- Making progress to enable a potential capital markets exit
- No change to our potential timing of action

- US oral solids business challenged due to industry-wide pricing pressures
- Continuing to reshape our US business with a focus on more complex products, while preparing for upcoming biosimilar launches
2017 was a landmark year for innovation at Novartis

- 16 Key approvals
- 16 Key submissions
- 6 Breakthrough Therapy designations
- 6 Positive readouts of potential blockbusters
- 14 Transitions from NIBR to Development
2018 pipeline milestones expected to continue the momentum

15+
Key approvals

Aimovig™¹
Migraine prevention (US/EU)

Kymriah™
DLBCL (US/EU)

Tafinlar® + Mekinist®
Adjuvant melanoma (US/EU/JP)

15+
Key submissions

RTH258
nAMD (US/EU)

BAF312
MS (US/EU/JP)

Kisqali®
MONALEESA-7 & 3 (US/EU)

Multiple
Late-stage readouts

Entresto®
HF-pEF interim analysis

Kisqali®
MONALEESA-3 readout

BYL719
HR+ BC readout

1. The brand name Aimovig™ has been provisionally approved by the FDA and EMA for the investigational product AMG 334 (erenumab), but the product itself has not been approved for sale in any country
Range of emerging assets advancing
2018 milestones

<table>
<thead>
<tr>
<th>Oncology</th>
<th>Cardio-Metabolic</th>
<th>Neuroscience</th>
<th>Liver</th>
<th>Dermatology</th>
</tr>
</thead>
<tbody>
<tr>
<td>BYL719 Phase 3 readout</td>
<td>LIK066 Phase 2 readout</td>
<td>CNP520 Phase 2/3 enrolling</td>
<td>LJN452 Phase 2 readout</td>
<td>QGE031 (CSU) Phase 3 start</td>
</tr>
<tr>
<td>ACZ885 (NSCLC) Phase 3 start</td>
<td>APO(a)-LRx¹ Phase 2 readout</td>
<td>BYM338 Phase 2 readout</td>
<td>VAY785 Phase 2 readout</td>
<td></td>
</tr>
</tbody>
</table>

1. Novartis has an option to license APO(a)-LRx from Ionis Pharmaceuticals, Inc. and its affiliate Akcea Therapeutics, Inc.
Strengthening the pipeline with value-creating bolt-ons and partnerships

- Acquisition bolsters strong NET franchise
- Adds Lutathera®, first-in-class radioligand therapy
- Introduces new technology platform and pipeline assets to Novartis
- Global partnership on next-generation biosimilars
- Strengthens pipeline with multiple immunology and oncology biologics
- Enables cost-sharing in development of select assets
Advancing a digital transformation
Example initiatives

### NIBR
- Structured Data
- REFa™
- NIBR Digital Cortex

Digital Cortex
- Novel compound prediction
- In-silico heart failure simulation
- Image-based response prediction

### GDD
- NerveLive
  - Module for optimized trial execution
  - Prediction of delays
  - Potential 15% reduction in enrollment times

### Commercial
- NerveLive
  - Module for optimized trial execution
  - Prediction of delays
  - Potential 15% reduction in enrollment times

Marketing Intelligence
- Omnichannel segmentation and targeting
- Next-best-action in HCP outreach
- Tender strategy optimization
Rebuilding trust with society

• Operate with the highest values
• Ensure high levels of Quality and Compliance
• Lead in value-based healthcare
• Expand access to underserved populations
• Partner with health systems to address their challenges
Transforming our culture

Novartis Global Employee Survey Results, 2017

- High levels of engagement
- Strong alignment around company priorities and values
- Greatest areas of opportunity vs. global benchmark levels:
  - Eliminating bureaucracy
  - Empowering associates

Inspired employees are the most productive

<table>
<thead>
<tr>
<th>Productive output</th>
<th>Dissatisfied</th>
<th>Satisfied</th>
<th>Engaged</th>
<th>Inspired</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>71%</td>
<td>100%</td>
<td>144%</td>
<td>225%</td>
</tr>
</tbody>
</table>

Source: Bain & Company and EIU Research, 2015

Source (for image on the left): Harvard Business Review cover, Jan/Feb 2018 issue
Dynamic and exciting future for the company

- Focusing as a medicines company powered by data and digital
- Entering our next growth phase, with a full pipeline to sustain growth into the future
- Transforming our productivity, culture and reputation
Q&A