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Edition no.17

Q1 impact and sustainability update

Dear investors and analysts,

In our Q1 earnings release, we announced the proposal of Dr. Giovanni Caforio as the new Chair of the Novartis Board of Directors, succeeding Dr. Joerg Reinhardt, upon completion of his 12-year term at the 2025 Annual General Meeting (AGM). Many of you likely know Dr. Caforio from his time at BMS; we look forward to engaging with you later this year on his potential role at Novartis in the lead-up to the AGM in 2025.

In addition, in our Q1 update, we share key highlights from our 2024 AGM; outline our efforts to design and use AI responsibly; discuss advancements in our Novartis Greener Clinical Trials program; and provide an update on our CDP rating. We also share the top questions received from shareholders in Q1 and our responses.

We also welcomed our new → **Global Head of Investor Relations**, Sloan Simpson, in Q1. As always, we look forward to continuing our engagement with investors on impact and sustainability topics.

For any questions and comments, please reach out to:

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Novartis proposal for the new Chair of the Board of Directors

Novartis proposes Dr. Giovanni Caforio as Chair of the Board of Directors at the AGM in 2025

The 12-year term of **Dr. Joerg Reinhardt** as Chair of the Board of Directors ends as scheduled in 2025, when he will retire and not be available for re-election at the Annual General Meeting. Dr. Reinhardt joined Sandoz in 1982 and has held managerial positions with increasing responsibility in Sandoz and, thereafter, Novartis, including Head of the Vaccines and Diagnostics Division and Chief Operating Officer. In 2013, he was appointed Chair of the Board of Directors. During his leadership, Novartis transformed from a diversified healthcare enterprise to a focused medicines company.

The Board of Directors is proposing the nomination of **Dr. Giovanni Caforio** as Chair of the Board of Directors. Shareholders will vote on Dr. Caforio's nomination to the Board at the next AGM 2025.

Since joining Bristol Myers Squibb in 2000, Dr. Caforio has served in various senior roles at the company. From May 2015 to November 2023, Dr. Caforio was CEO, and from May 2017 to March 2024, he served as Executive Chairman. Under his leadership, BMS successfully transformed into a global medicines company with strong capabilities across R&D and commercialization.
Dr. Caforio was born and educated in Italy and holds Italian and US citizenship. He is a physician by training and received his M.D. from the University of Rome. Dr. Caforio is fluent in Italian, French, Spanish, Portuguese and English.

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Update on AGM 2024

Our 2024 Annual General Meeting (AGM) was held on March 5, 2024. All resolutions were passed with more than 84% support.

We highlight selected topics from the 2024 AGM below.

Re-election of Members of the Board

Shareholders re-elected Joerg Reinhardt as Chair of the Board of Directors and all other current members of the Board with over **85%** support.

Shareholders also re-elected all current members of the Compensation Committee.
The Board of Directors re-designated Simon Moroney as Chair of the Compensation Committee.

Dividend

Shareholders approved the **27th consecutive dividend increase to CHF 3.30 (+3.1%)** per share for 2023, representing a 3.7% yield[1] and approximately 58% payout of free cash flow.

Advisory vote on non-financial report

Shareholders endorsed the non-financial report in an advisory vote, which received **98.4%** support.

Overall, we are grateful for the level of support from our shareholders and the positive feedback we have received on our third integrated report. We remain committed to improving our reporting for enhanced transparency.

Further details of this report are available → **here**.

Background

With the introduction of new provisions on transparency on non-financial matters in the Swiss Code of Obligations in 2023, Novartis was obliged to prepare a report on non-financial matters and submit it to shareholders. The intention of the new provisions is to increase transparency in non-financial matters by providing shareholders with more consistent, comparable, and reliable data. To comply with these new provisions, Novartis has further enhanced the disclosures in its well-established Novartis in Society Integrated Report and submitted it to shareholders for a vote at the 2024 annual general meeting.

As this was the first year of the new provisions, different interpretations emerged on whether the vote should be binding or advisory. Novartis carefully considered this matter and concluded that the vote on the report on non-financial matters is of consultative nature. Among other reasons, the determining aspect for this conclusion is that the report comprises the company's sustainability strategy, which is part of the overall corporate strategy. As such, it is part of the duties of the Board of Directors and cannot be delegated to the shareholders' meeting.

Novartis will continue to monitor the future discussions concerning the advisory or binding nature of the vote on non-financial matters under the new provisions of Swiss law and on that basis determine the approach for shareholder votes in 2025 and beyond.

1. Based on the SIX closing share price on March 4, 2024.

Compensation

In two separate binding votes, **shareholders approved** the total maximum aggregate amount of **compensation** for the Board of Directors for the period from the 2024 AGM to the 2025 AGM with 92.2% support, and the total maximum aggregate amount of compensation for the Executive Committee for the 2025 financial year with 90.0% support.

The 2023 total realized compensation for the CEO was 149% of target, **driven by strong 2023 performance.**

The CEO Long Term Incentive (LTI) target for cycle 2024-26 will increase by 13%, which brings the target pay slightly above the 25th percentile of global pharma peers. This is performance-driven compensation, with stringent associated long-term targets.

Proxy advisor ISS recognized that Novartis "provided a compelling rationale for this adjustment, which is entirely performance-based." The voting outcome at the 2024 AGM on compensation report was 84.4% (an increase compared to 2023: 80.6%).

For more details, please see our 2023 Compensation Report → **here**.

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Responsible AI innovation

AI serves as a powerful tool for Novartis. We outline how we leverage AI for value creation across our business and to advance our global health goals, while taking a thoughtful approach to risk mitigation.

Value-creating applications of AI

A benefit of integrating AI across operations is the potential to improve productivity and efficiency and unlock resources and capabilities. Within healthcare and pharmaceuticals, AI can advance the discovery, production and delivery of life-saving medicines.

We have set the following objectives for our use of AI:

- **Innovate across R&D to develop novel therapies and drugs**
- **Optimize business processes, operations and commercial activities**
- **Engage with patients, healthcare professionals and partners**

We are implementing AI use cases across Novartis, continually exploring opportunities of AI application to create value.

A selection of current use cases are included below[1]:

Initiative	Activity	Potential outcome/impact
Leveraging our data across R&D	Through → **data42**, our digital research and development platform, Novartis applies AI to harness its extensive collection of patient data and data from over 2,000 clinical studies to uncover correlations between drugs and diseases.	Streamlined data cleaning and curation enable focused insights for our data scientists, supporting improvements in disease identification. By accelerating medical research and drug discovery, we mitigate rising R&D costs and improve treatment accessibility.
Enabling drug discovery	Through our strategic research collaboration with → **Isomorphic Labs**, we have developed an AI model predicting protein folding to reshape drug design. It models multiprotein and multiligand complexes in 3D at atomic resolution.	AI-driven approaches may uncover complex biological mechanisms, improving the speed of drug discovery.
Automating clinical trial report writing	With our strategic investment in → **Yseop**, an AI technology developer, we automate clinical trial report writing.	Automating key aspects of medical reporting and data analysis speeds up study submissions, reducing timelines between drug development and patient delivery for quicker access to treatments.
Optimizing processes using AI	We deployed Copilot for Microsoft Office 365 to a select group of associates, using the power of large language models to improve productivity.	AI empowerment can augment our associates' capabilities and optimize certain document-heavy processes and activities, changing the way we work and potentially reducing costs.

1. In compliance with all applicable data privacy laws.

Leveraging AI to advance our global health goals and upskilling our associates

We aim to leverage the potential of AI to support our mission to advance global health. We are implementing AI use cases that support our ambitions to reduce health equity, and we are upskilling our workforce to ensure Novartis employees are equipped with the skills to use AI to drive innovation.

Initiative	Activity	Potential outcome/impact
Narrowing Health Inequities with the Novartis Foundation	→ **AI4HealthyCities** is a global Novartis Foundation partnership with city governments, research organizations, Microsoft AI for Health and WIPRO, which focuses on **reducing health inequities** in city populations with the goal to co-design new population health roadmaps, based on the newly generated data insights. The initiative uses AI to integrate city data sets and uncover cardiovascular risk factors.	US-focused studies show that only about 20% of health outcomes are shaped by the healthcare access, with the remaining 80% being shaped by socio-economic and environmental factors, alongside genetics and modifiable aspects such as lifestyle habits. By leveraging insights generated from data in health and related sectors, we aim to narrow health inequities and empower policymakers with tools to support decisions. With five cities across three continents already participating, the initiative anticipates sharing initial results later in 2024.
Upskilling our associates on AI	Novartis runs an enterprise-wide **AI upskilling campaign**, covering a broad spectrum of topics. A significant component of this program is supporting the adoption of Microsoft Copilot. We also established a 'Data Science Academy' that offers education sessions and accreditation for data scientists and executives.	Upskilling employees in AI is crucial for **driving innovation**. It empowers employees to leverage AI tools effectively and securely, enhancing productivity and decision-making.

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Our approach to mitigating AI risks

Underpinning our risk mitigation strategy for AI is our commitment to the ethical and responsible use of AI systems, which is available on our → **website**.

We engaged a team of ethicists and data privacy, legal and AI specialists, both from within Novartis and externally, to develop the initial framework. The commitment then underwent a review with the Independent Bioethics Advisory Committee and was approved by the Novartis ESG Committee, which is chaired by our CEO and ensures awareness and accountability at the highest levels of the company.

This commitment stands on eight core ethical principles, that are aligned to our Code of Ethics and international standards, ensuring a human-centric approach in AI development and applications.

Three of these principles are particularly relevant to our risk mitigation efforts:

Accountability

Establishes robust AI governance, including leadership and oversight, risk and impact assessments, policies and procedures, transparency, training and awareness, monitoring and verification, response and enforcement. It means humans are accountable for AI; our AI use cases are thoroughly assessed to mitigate risks before deployment; and Operation Technology controls and processes are applied to continuously monitor AI systems.

Transparency and explainability

Enables auditability of AI decisions while communicating purpose, capabilities and limitations. Novartis can effectively track and understand AI's decisions, mitigating risks and facilitating communication with stakeholders.

Safe and secure

Performing risk impact assessments in the design and implementation of AI systems, considering the context and ensuring we safeguard our patients' and partners' information. In the event of adverse events, we follow reporting procedures to flag risks to the Novartis Safety Department or Quality Assurance within 24 hours of discovery, and transparently disclose any risks to regulatory authorities. This ensures we have a robust framework for preemptively assessing risks and impacts with comprehensive strategies in place to promptly address any potential impacts.

Our AI Risk and Compliance Management framework is being rolled out across the organization in 2024, and our Ethics, Risk and Compliance organization now includes a specialized branch focused on Data Privacy, Digital, and AI Ethics, reporting directly to our Chief Ethics, Risk and Compliance Officer.

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Novartis Greener Clinical Trials Program

Environmental sustainability is a meaningful component to the Novartis strategy and operating model, and we remain committed to driving a sustainable approach to clinical trials, with a strong focus on efficiency as the key tool in the early stages of development.

We continue to build on our progress with the Novartis Greener Clinical Trials initiative.

Activity	Potential outcome/impact
The Novartis Greener Clinical Trials program (launched in 2020 and expanded to company-wide effort in 2022) integrates sustainable practices into clinical trials, from design to execution. The initiative has advanced our sustainability goals in these areas: A. Reduced the volume of patient medication and clinical sample kits and their shipments to hospitals and labs via the use of improved data and analytics capabilities. B. Introduced reusable shipper boxes covering almost all cool-chain medication shipments to hospitals. C. Limited the frontloading of medication at clinical sites prior to patient recruitment. D. Introduced guidance for sustainable clinical trial design and execution across our organization and internal processes.	The program has reduced the carbon footprint of our manufactured drug products and patient medication kits for clinical trials, clinical trial medication shipments, single-use shipper boxes waste and trial monitoring on-site visits by between **40% and 70% over a 3-year period.** Novartis is sharing its experience with private and public partners within the Sustainable Healthcare Coalition (SHC) to advance progress in reducing the environmental impact of clinical trials. Novartis was awarded the 2023 → **Terra Carta Seal** for this initiative. Part of the Sustainable Markets Initiative (SMI), the Terra Carta Seal recognizes global companies that are actively supporting a climate- and nature-positive future by aligning their core operations and strategies with sustainable practices.

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CDP 2023: Double A List status

CDP recognized Novartis as a leader in corporate transparency and action on climate change and water security in its 2023 CDP disclosures, awarding Novartis an "A" rating in both CDP Climate Change and CDP Water Security.

The double "A" rating reflects our commitment to transparency and our leading performance on climate change and water security.

Of more than **21,000** companies scored, under 2% were included in the 2023 "A" list for disclosing actionable, high quality environmental data.

Novartis is among a small group of companies that achieved double "A" rating status and the only company among our Global Healthcare Peers.

Top 10 impact and sustainability related questions from shareholders and our responses

In our discussions with our investors and analysts, ESG topics remain an area of interest. In Q1, questions centered on board composition, the evolution of the ESG regulatory landscape, responsible use of AI, and progress on our path to achieving our ESG goals and targets.

Question	Response
01 What is your position on over-boarding at Board level?	• We review the external mandates of our Board members regularly and ensure that they are compliant with the Novartis articles of association, which allow for up to four additional mandates in other listed companies (whereas chair positions count as two mandates). • Any potential mandate in listed and non-listed companies requires pre-approval, where Novartis assesses the overall mandates of a Board member as well as potential conflicts of interest. • We pay close attention to external commitments and time required for travel and the attendance record of our Board members. All Board members had 100% attendance rate in 2023 (for more information please see p. 136 of Annual Report).
02 What is the specific ESG experience of Board Members?	• The Board has ultimate responsibility for our ESG strategy and has delegated certain duties and responsibilities related to ESG to some of its committees. Most importantly, the Governance, Sustainability and Nomination Committee (GSNC) oversees the ESG strategy and governance, and the Audit and Compliance Committee (ACC) is responsible for internal controls and reviews non-financial performance indicators. More information can be found in our → **Integrated Report (page 68).** • Several of our Board members have direct ESG experience, as noted on our website and in our Annual Report (as of 2023: 61%). • We have an active program of Board education on key topics including ESG. In 2023, the full Board attended an education session, jointly organized by the ACC and GSNC, on the evolving regulatory landscape in ESG. We will continue to invest in the education of our Board members through additional sessions in 2024 and beyond, addressing material topics such as “Impact of Climate Change on Health and Business”. These sessions will be supported by key experts in the respective fields.

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Question	Response
03 What is your policy on Board gender diversity?	• The Governance, Sustainability and Nomination Committee (GSNC) assesses the Board's competencies and skills annually to ensure that an appropriate balance of skills, expertise, experience and diversity is represented. Diversity is also a consideration when discussing existing Board composition and future candidates. • We have pledged to continuously advance our efforts to promote gender parity in the composition of our Board of Directors (at **50% within a range of +/- 10%**). • While we are pleased with the support of the re-election of all members of our Board of Directors at our recent AGM, we acknowledge feedback from investors regarding providing more clarity on our future direction and commitment to gender parity.
04 How do you protect IP using AI?	• We have a comprehensive approach to protecting IP that combines legal, technical, and operational measures. To protect our proprietary information and IP shared with third parties, we ensure that transactional requirements are in place. For example, these requirements include confidentiality obligations, appropriate data ownership provisions, and restrictions on use and data access. • We continue to rely on patents, trademarks, copyright, and other intellectual property rights to protect our innovative and creative works to support our business model and objectives.
05 Can you share Novartis approach to ethical clinical trials?	• We are seeking input and preferences from the patient community early in the drug development process and continuously improving how we share information with patients before, during and after clinical trials. Novartis commitment to patients and caregivers can be found → **here** • We are also aiming to improve access to and participation in clinical trials by using insights from the patient community in trial design, exploring technology-enabled solutions, and implementing strategies to ensure that our trials reflect the diversity of patients. • We remain committed to → **clinical trials transparency** to advance public health. After completion, we publish clinical trials results on → **clinicaltrials.gov** and → **EudraCT**, including requesting that all → **Investigator Initiated Trials (IITs)** supported by Novartis make results public. • After successful completion of clinical programs, we register our new medicines in every country where patients have participated in trials. Where a medicine is registered and not commercially available, we commit to providing it, as permitted by local legislation, to patients who participated in trials to ensure their treatment is not interrupted.

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Question	Response
06 Why did the number of Speak Up cases increase in 2023 vs. 2022?	• Speak Up cases either come directly from reporters to our "SpeakUp office" or through internal controls or detection mechanisms (e.g. Finance/Compliance/IT teams conducting the monitoring). • The increase was driven by the latter – improvement in detection mechanisms. In mid-2022, our IT function enhanced its protective measures and monitoring systems. Data security cases are classified as high risk, and also have a high substantiation rate due to the automated detection measures. • The number of substantiated cases indicates the detection measures were effective at identifying security breaches. In addition, regular mandatory training on information management, data privacy and data use is in place to raise awareness. We also believe that the increase in no. of cases is partly a result of our ongoing campaign to encourage reporting.
07 What are your expectations with respect to Novartis ranking for the 2024 Access to Medicines Index (ATMI)? Can you remind us why your ATMI ranking declined in 2022 vs. 2020?	• We acknowledge that third-party ESG ratings are important because they provide an independent assessment of companies, which can be useful for investors. We are pleased to have had a leading ranking in ATMI over the last decade. We believe that this is a by-product of our consistent efforts towards improving access to medicines in low- and middle-income countries (LMICs). • Our 2022 ATMI rating declined from second to fourth due to the negative impact of a legacy Alcon issue that occurred between 2011 and 2016 (Alcon was spun off in 2019). We recently submitted our responses for the 2024 ATMI cycle to the Access to Medicines Foundation (ATMF), with results expected to be published in Q4 2024. Due to the approach to scoring by the ATMF and new indicators/requirements, we cannot predict what our 2024 rating will be. • Novartis remains dedicated to providing access to patients in LMICs, as evidenced by our reaching 284 million patients globally with our innovative medicines (out of which 33.2 million are through access approaches in LMICs).
08 Can you provide an update on your SBTi net zero targets?	• We have a near-term target approved by the Science Based Targets initiative (SBTi). We have committed to reach carbon neutrality by 2030 across Scopes 1, 2 and 3 and to achieve net-zero across our value chain by 2040. Our 2025 target is to become carbon neutral in our own operations from energy (Scopes 1 and 2). • We are in the process of updating our near-term target for 2030 in accordance with the latest SBTi Corporate Net-Zero Standard. We have submitted the 2030 near-term and 2040 net-zero targets to SBTi for validation.

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Question	Response
09 Can you explain why the percentage of sites eliminating PVC decreased from 90% in 2022 to 78% in 2023?	• The decrease in the percentage of sites eliminating PVC was primarily due to the expansion of our analysis scope in 2023 to include additional sites. • Previously, our focus was solely on packaging sites utilizing PVCs in secondary and tertiary packaging, i.e. where actions were required for elimination to deliver our 2025 target. However, beginning in 2023, we broadened our scope to encompass all product packaging sites to prevent any potential reintroduction of PVC. We also expanded the scope to include new sites. • We remain on track to eliminate PVC in secondary and tertiary packaging by 2025.
10 What are the actions that Novartis has taken to improve the performance of high-risk suppliers in water quality between 2022 and 2023?	• 88% of our high-risk suppliers met our water quality standards in 2023, compared with 26% in 2022. This was driven by two main factors: - We began engaging with our suppliers on water quality topics in 2021, investing a significant amount of time in onboarding and engaging them on this topic during 2021 and 2022. This effort involved capability-building and providing support to meet the required standards. This has motivated our suppliers to take concrete actions to meet water quality standards and we will continue this engagement in coming years. - We continue to look for opportunities to reduce our supply chain complexity. As part of this strategic initiative, we consolidate our supplier base by reducing the number of suppliers every year. In 2023, one of the impacts of this strategic project was the exit of several high-risk suppliers.