



# **Novartis 2022 Financials Updated Segment Reporting**

**April 2023**

## Summary – Updated 2022 Segment Financial Reporting

- **Effective January 1, 2023, Novartis implemented the following transfers between the Sandoz and Innovative Medicines divisions:**
  - The Sandoz biotechnology manufacturing services to other companies' activities were transferred to the Innovative Medicines Division (USD 165 million of net sales to third parties in FY 2022).
  - The *Coartem* brand which is part of the Novartis Malaria Initiative was transferred from the Sandoz Division to the Innovative Medicines Division (USD 25 million of net sales to third parties in FY 2022).
- **The FY 2022 updated Segment financial reporting reflect the transfers from the Sandoz to the Innovative Medicines Division, as if the transfers had taken place from January 1, 2022.**
  - The restated operating income for each segment and corporate activities reflects all costs attributable to the transfers. Allocation of attributable overhead costs is based on the direct activities that they support (e.g. manufacturing overhead, development overhead, SG&A costs)
- **The updated Segment financial reporting is provided in accordance with requirements of IFRS, and to aid comparability of 2023 quarterly and full year results for the Segments and Corporate.**
- **There is no change in the 2022 and prior years Audited Consolidated Financial Statements and the Unaudited Quarterly Consolidated Financial Statements for the total Group.**

# Group 2022 – Updated Segment Consolidated Income Statement Reporting

## No change in Group total results

(USD millions)	Innovative Medicines			Sandoz			Corporate (including eliminations) <sup>1</sup>			Group (audited)		
	FY 2022 as reported	Restatement	FY 2022	FY 2022 as reported	Restatement	FY 2022	FY 2022 as reported	Restatement	FY 2022	FY 2022 as reported	Restatement	FY 2022
<b>Net sales to third parties</b>	<b>41,296</b>	<b>190</b>	<b>41,486</b>	<b>9,249</b>	<b>-190</b>	<b>9,059</b>				<b>50,545</b>		<b>50,545</b>
Sales to other segments	825	-82	743	205		205	-1,030	82	-948			
<b>Net sales</b>	<b>42,121</b>	<b>108</b>	<b>42,229</b>	<b>9,454</b>	<b>-190</b>	<b>9,264</b>	<b>-1,030</b>	<b>82</b>	<b>-948</b>	<b>50,545</b>		<b>50,545</b>
Other revenues	1,249	1	1,250	28	-1	27	6		6	1,283		1,283
Cost of goods sold	-11,569	-34	-11,603	-4,978	116	-4,862	1,061	-82	979	-15,486		-15,486
<b>Gross profit</b>	<b>31,801</b>	<b>75</b>	<b>31,876</b>	<b>4,504</b>	<b>-75</b>	<b>4,429</b>	<b>37</b>		<b>37</b>	<b>36,342</b>		<b>36,342</b>
Selling, general and administration	-11,679	-25	-11,704	-2,062	5	-2,057	-512	20	-492	-14,253		-14,253
Research and development	-9,172		-9,172	-824		-824				-9,996		-9,996
Other income	531		531	103		103	171		171	805		805
Other expense	-2,695		-2,695	-273		-273	-733		-733	-3,701		-3,701
<b>Operating income</b>	<b>8,786</b>	<b>50</b>	<b>8,836</b>	<b>1,448</b>	<b>-70</b>	<b>1,378</b>	<b>-1,037</b>	<b>20</b>	<b>-1,017</b>	<b>9,197</b>		<b>9,197</b>
as % of net sales	21.3%		21.3%	15.7%		15.2%				18.2%		18.2%
(Loss)/income from associated companies	-2		-2	2		2	-9		-9	-9		-9
Interest expense										-837		-837
Other financial income and expense										20		20
<b>Income before taxes</b>										<b>8,371</b>		<b>8,371</b>
Income taxes										-1,416		-1,416
<b>Net income</b>										<b>6,955</b>		<b>6,955</b>

<sup>1</sup> Eliminations mainly relate to the elimination of sales to other segments and the corresponding cost of goods sold.

Note: In accordance with IFRS, Novartis is required to restate its segment income statements to reflect the aforementioned business transfers.

- ✓ Innovative Medicines results include the transfer in from the Sandoz division of USD 165 million net sales to third parties related to the Sandoz biotechnology manufacturing activities and USD 25 million from the *Coartem* brand (part of the Novartis Malaria Initiative) as well as the costs attributable to these transfers. Innovative Medicines sales to other segments decreased by USD 82 million (sales to the Sandoz division) as the net sales to third parties related to the Sandoz biotechnology manufacturing activities and *Coartem* brand are now made by the Innovative Medicines division.
- ✓ Sandoz results include the transfer out to the Innovative Medicines division of USD 165 million net sales to third parties related to the Sandoz biotechnology manufacturing activities and USD 25 million from the *Coartem* brand as well as the costs attributable to these transfers.
- ✓ Corporate elimination of sales to other segments and elimination of cost of goods sold decreased by USD 82 million due to the changes in sales to other segments between the divisions. SG&A decreased by USD 20 million as the corporate costs of the *Coartem* brand related to the company wide global health program is borne by the Innovative Medicines division.

# Innovative Medicines 2022 – Updated Segment Income Statement Reporting

(USD millions)	Q1 2022 (unaudited) restated	Q2 2022 (unaudited) restated	Q3 2022 (unaudited) restated	Q4 2022 (unaudited) restated	FY 2022 (unaudited) restated
<b>Net sales to third parties</b>	<b>10'230</b>	<b>10'525</b>	<b>10'330</b>	<b>10'401</b>	<b>41'486</b>
Sales to other segments	210	178	179	176	743
<b>Net sales</b>	<b>10'440</b>	<b>10'703</b>	<b>10'509</b>	<b>10'577</b>	<b>42'229</b>
Other revenues	274	295	290	391	1'250
Cost of goods sold	-2'922	-2'773	-2'870	-3'038	-11'603
<b>Gross profit</b>	<b>7'792</b>	<b>8'225</b>	<b>7'929</b>	<b>7'930</b>	<b>31'876</b>
Selling, general and administration	-2'886	-2'956	-2'819	-3'043	-11'704
Research and development	-2'112	-2'302	-2'542	-2'216	-9'172
Other income	145	207	73	106	531
Other expense	-312	-968	-589	-826	-2'695
<b>Operating income</b>	<b>2'627</b>	<b>2'206</b>	<b>2'052</b>	<b>1'951</b>	<b>8'836</b>
<i>as % of net sales</i>	<i>25.7%</i>	<i>21.0%</i>	<i>19.9%</i>	<i>18.8%</i>	<i>21.3%</i>
Core adjustments	1'045	1'705	1'878	1'823	6'451
<b>Core operating income</b>	<b>3'672</b>	<b>3'911</b>	<b>3'930</b>	<b>3'774</b>	<b>15'287</b>
<i>as % of net sales</i>	<i>35.9%</i>	<i>37.2%</i>	<i>38.0%</i>	<i>36.3%</i>	<i>36.8%</i>

Note: In accordance with IFRS, Novartis is required to restate its segment income statements to reflect the aforementioned business transfers.

- ✓ For FY 2022, the transfer in from the Sandoz division of USD 165 million net sales to third parties related to the Sandoz biotechnology manufacturing activities and USD 25 million from the *Coartem* brand (part of the Novartis Malaria Initiative) as well as the costs attributable to these transfers resulted in an increase in operating income of USD 50 million.
- ✓ FY 2022 core operating income increased by USD 50 million in the same amount as operating income, as these transfers did not impact core adjustments. Core results are non-IFRS measures. An explanation of these measures can be found on page 50 of the Q4 2022 Condensed Financial Report.

# Sandoz 2022 – Updated Segment Income Statement Reporting

(USD millions)	Q1 2022 (unaudited) restated	Q2 2022 (unaudited) restated	Q3 2022 (unaudited) restated	Q4 2022 (unaudited) restated	FY 2022 (unaudited) restated
<b>Net sales to third parties</b>	<b>2'301</b>	<b>2'256</b>	<b>2'213</b>	<b>2'289</b>	<b>9'059</b>
Sales to other segments	47	55	42	61	205
<b>Net sales</b>	<b>2'348</b>	<b>2'311</b>	<b>2'255</b>	<b>2'350</b>	<b>9'264</b>
Other revenues	6	7	8	6	27
Cost of goods sold	-1'222	-1'212	-1'157	-1'271	-4'862
<b>Gross profit</b>	<b>1'132</b>	<b>1'106</b>	<b>1'106</b>	<b>1'085</b>	<b>4'429</b>
Selling, general and administration	-513	-503	-477	-564	-2'057
Research and development	-208	-196	-194	-226	-824
Other income	48	23	15	17	103
Other expense	-65	-73	-84	-51	-273
<b>Operating income</b>	<b>394</b>	<b>357</b>	<b>366</b>	<b>261</b>	<b>1'378</b>
<i>as % of net sales</i>	<i>17.1%</i>	<i>15.8%</i>	<i>16.5%</i>	<i>11.4%</i>	<i>15.2%</i>
Core adjustments	119	94	124	118	455
<b>Core operating income</b>	<b>513</b>	<b>451</b>	<b>490</b>	<b>379</b>	<b>1'833</b>
<i>as % of net sales</i>	<i>22.3%</i>	<i>20.0%</i>	<i>22.1%</i>	<i>16.6%</i>	<i>20.2%</i>

Note: In accordance with IFRS, Novartis is required to restate its segment income statements to reflect the aforementioned business transfers.

- ✓ For FY 2022, the transfer out to the Innovative Medicines division of USD 165 million net sales to third parties related to the Sandoz biotechnology manufacturing activities and USD 25 million from the *Coartem* brand (part of the Novartis Malaria Initiative) as well as the costs attributable to these transfers resulted in a decrease in operating income of USD 70 million.
- ✓ FY 2022 core operating income decreased by USD 70 million in the same amount as operating income as these transfers did not impact core adjustments. Core results are non-IFRS measures. An explanation of these measures can be found on page 50 of the Q4 2022 Condensed Financial Report.

# Corporate 2022 – Updated Segment Income Statement Reporting

(USD millions)	Q1 2022 (unaudited) restated	Q2 2022 (unaudited) restated	Q3 2022 (unaudited) restated	Q4 2022 (unaudited) restated	FY 2022 (unaudited) restated
<b>Net sales to third parties</b>					
Sales to other segments	-257	-233	-222	-236	-948
<b>Net sales</b>	<b>-257</b>	<b>-233</b>	<b>-222</b>	<b>-236</b>	<b>-948</b>
Other revenues	3	2	1		6
Cost of goods sold	288	234	222	235	979
<b>Gross profit</b>	<b>34</b>	<b>3</b>	<b>1</b>	<b>-1</b>	<b>37</b>
Selling, general and administration	-113	-122	-117	-140	-492
Research and development					
Other income	33	73	16	49	171
Other expense	-123	-289	-150	-171	-733
<b>Operating income</b>	<b>-169</b>	<b>-335</b>	<b>-250</b>	<b>-263</b>	<b>-1'017</b>
Core adjustments	67	243	112	140	562
<b>Core operating income</b>	<b>-102</b>	<b>-92</b>	<b>-138</b>	<b>-123</b>	<b>-455</b>

Note: In accordance with IFRS, Novartis is required to restate its segment income statements to reflect the aforementioned business transfers.

- ✓ FY 2022 operating income increased by USD 20 million following the *Coartem* brand restatement as the corporate SG&A decreased by USD 20 million as the corporate costs of the *Coartem* brand related to the company wide global health program is borne by the Innovative Medicines division. The elimination of sales to other segments and elimination of cost of goods sold both decreased by USD 82 million due to the changes in sales to other segments between the divisions, as result did not impact operating income.
- ✓ FY 2022 core operating income increased by USD 20 million in the same amount as operating income as these transfers did not impact core adjustments. Core results are non-IFRS measures. An explanation of these measures can be found on page 50 of the Q4 2022 Condensed Financial Report.



# **Appendix – Quarterly Segment Income Statement as previously reported**

## Innovative Medicines 2022 – Segment Income Statement Reporting

– As previously reported in 2022 Annual Report

(USD millions)	Q1 2022 (unaudited) as reported	Q2 2022 (unaudited) as reported	Q3 2022 (unaudited) as reported	Q4 2022 (unaudited) as reported	FY 2022 (audited) as reported
<b>Net sales to third parties</b>	<b>10'176</b>	<b>10'461</b>	<b>10'299</b>	<b>10'360</b>	<b>41'296</b>
Sales to other segments	228	210	194	193	825
<b>Net sales</b>	<b>10'404</b>	<b>10'671</b>	<b>10'493</b>	<b>10'553</b>	<b>42'121</b>
Other revenues	274	295	290	390	1'249
Cost of goods sold	-2'912	-2'765	-2'866	-3'026	-11'569
<b>Gross profit</b>	<b>7'766</b>	<b>8'201</b>	<b>7'917</b>	<b>7'917</b>	<b>31'801</b>
Selling, general and administration	-2'880	-2'950	-2'813	-3'036	-11'679
Research and development	-2'112	-2'302	-2'542	-2'216	-9'172
Other income	145	207	73	106	531
Other expense	-312	-968	-589	-826	-2'695
<b>Operating income</b>	<b>2'607</b>	<b>2'188</b>	<b>2'046</b>	<b>1'945</b>	<b>8'786</b>
<i>as % of net sales</i>	25.6%	20.9%	19.9%	18.8%	21.3%
Core adjustments	1'045	1'705	1'878	1'823	6'451
<b>Core operating income</b>	<b>3'652</b>	<b>3'893</b>	<b>3'924</b>	<b>3'768</b>	<b>15'237</b>
<i>as % of net sales</i>	35.9%	37.2%	38.1%	36.4%	36.9%



## Sandoz 2022 – Segment Income Statement Reporting

– As previously reported in 2022 Annual Report

(USD millions)	Q1 2022 (unaudited) as reported	Q2 2022 (unaudited) as reported	Q3 2022 (unaudited) as reported	Q4 2022 (unaudited) as reported	FY 2022 (audited) as reported
<b>Net sales to third parties</b>	<b>2'355</b>	<b>2'320</b>	<b>2'244</b>	<b>2'330</b>	<b>9'249</b>
Sales to other segments	47	55	42	61	205
<b>Net sales</b>	<b>2'402</b>	<b>2'375</b>	<b>2'286</b>	<b>2'391</b>	<b>9'454</b>
Other revenues	6	7	8	7	28
Cost of goods sold	-1'250	-1'252	-1'176	-1'300	-4'978
<b>Gross profit</b>	<b>1'158</b>	<b>1'130</b>	<b>1'118</b>	<b>1'098</b>	<b>4'504</b>
Selling, general and administration	-514	-505	-478	-565	-2'062
Research and development	-208	-196	-194	-226	-824
Other income	48	23	15	17	103
Other expense	-65	-73	-84	-51	-273
<b>Operating income</b>	<b>419</b>	<b>379</b>	<b>377</b>	<b>273</b>	<b>1'448</b>
<i>as % of net sales</i>	<i>17.8%</i>	<i>16.3%</i>	<i>16.8%</i>	<i>11.7%</i>	<i>15.7%</i>
Core adjustments	119	94	124	118	455
<b>Core operating income</b>	<b>538</b>	<b>473</b>	<b>501</b>	<b>391</b>	<b>1'903</b>
<i>as % of net sales</i>	<i>22.8%</i>	<i>20.4%</i>	<i>22.3%</i>	<i>16.8%</i>	<i>20.6%</i>

## Corporate 2022 – Segment Income Statement Reporting

– As previously reported in 2022 Annual Report

(USD millions)	Q1 2022 (unaudited) as reported	Q2 2022 (unaudited) as reported	Q3 2022 (unaudited) as reported	Q4 2022 (unaudited) as reported	FY 2022 (audited) as reported
<b>Net sales to third parties</b>					
Sales to other segments	-275	-265	-236	-254	-1'030
<b>Net sales</b>	<b>-275</b>	<b>-265</b>	<b>-236</b>	<b>-254</b>	<b>-1'030</b>
Other revenues	3	2	1		6
Cost of goods sold	306	266	236	253	1'061
<b>Gross profit</b>	<b>34</b>	<b>3</b>	<b>1</b>	<b>-1</b>	<b>37</b>
Selling, general and administration	-118	-126	-122	-146	-512
Research and development					
Other income	33	73	16	49	171
Other expense	-123	-289	-150	-171	-733
<b>Operating income</b>	<b>-174</b>	<b>-339</b>	<b>-255</b>	<b>-269</b>	<b>-1'037</b>
Core adjustments	67	243	112	140	562
<b>Core operating income</b>	<b>-107</b>	<b>-96</b>	<b>-143</b>	<b>-129</b>	<b>-475</b>