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Edition no.16

Q4 impact and sustainability update

Dear investors and analysts,

In our Q4 update, we share key highlights from our Novartis in Society Integrated Report 2023 and focus on environmental sustainability.

We share the latest environmental, social and governance efforts, as recognized by our priority third party providers.

We look forward to any feedback and to continuing our engagement with you on impact & sustainability topics in 2024.

Thank you.

For further questions or comments please contact

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Key takeaways from Novartis in Society Integrated Report

We published our third Novartis in Society Integrated Report on January 31, which provides an overview of our business, strategy and performance during 2023.

In 2023, Novartis made a substantial step in transforming from a diversified healthcare player into a focused innovative medicines company with the successful spin-off of Sandoz. We delivered strong financial performance, driven by our corporate strategy, purpose and commitment to financial resilience. Overall, our aim is to create value, mitigate risk and do the right thing to build trust with society and we are committed to making progress on our environmental, social and governance priorities.

The report can be found **here**, with an online summary **here**.

We share our top 10 takeaways from the Report.

1. A focused innovative medicines company

For more details, see page 7 of the NiS report.

Purpose

Our purpose is to reimagine medicine to improve and extend people's lives.

Vision

Our vision is to become the most valued and trusted medicines company in the world.

Our company

Novartis organizational units represent parts of the research, development, production and commercialization value chain.



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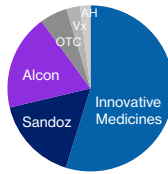
References

2. Transformation completed in 2023

2023 was a historic year for Novartis. With the Sandoz spin-off largely completing the multiyear transformation of our company, including the organizational changes announced in 2022.

Strategy

FY 2014
Pre-portfolio transformation



FY 2023
Focused company



Operations*

Core margin **25.2%**
FCF (USD) as % of sales **11.1bn**
19.1%

36.0%
13.2bn
29.0%

Innovation

10 positive Ph3 readouts on assets with significant sales potential

2023 by numbers

284 million patients reached with our innovative medicines

More than 78,000 associates

Over 250 operating sites worldwide including manufacturing plants, R&D facilities and corporate offices

500 million patients reached by Sandoz before the spin-off¹

3. Our strategy

Our strategy is to focus on high-value, innovative medicines that alleviate society's greatest disease burdens through technology leadership in R&D and novel access approaches. We focus on four core therapeutic areas with strong growth potential and high unmet patient needs: cardiovascular, renal and metabolic; immunology; neuroscience; and oncology.

We focus on our priority markets – US, Germany, China and Japan which together account for most of the expected growth in global healthcare spending over the next five years.

Accelerate growth
Deliver high-value medicines

Deliver returns
Embed operational excellence

Strengthen foundations

- Unleash the power of our people
- Scale data science and technology
- Build trust with society

¹2014 figures reflecting revised free cash flow definition, 2023 figures reflect Continuing Operations. As defined on page 37 of the Condensed Financial Report, Continuing operations include the retained business activities of Novartis, comprising the Innovative Medicines Division and the continuing Corporate activities. For references see last page.

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4. Our most material issues

We regularly carry out a detailed analysis of our operating environment to identify our most material issues, those where we have the most impact on people, society and the environment and that present the most significant potential impact on our business.

Our most material issues

- Patient health and safety
- Innovation
- Access to medicines
- Ethical business practices

5. Delivering value

Novartis medicines improve and extend the lives of millions of people around the world. Through our business, we also create jobs and pay salaries, taxes and dividends, while striving to reduce our impact on the environment.

Highlights

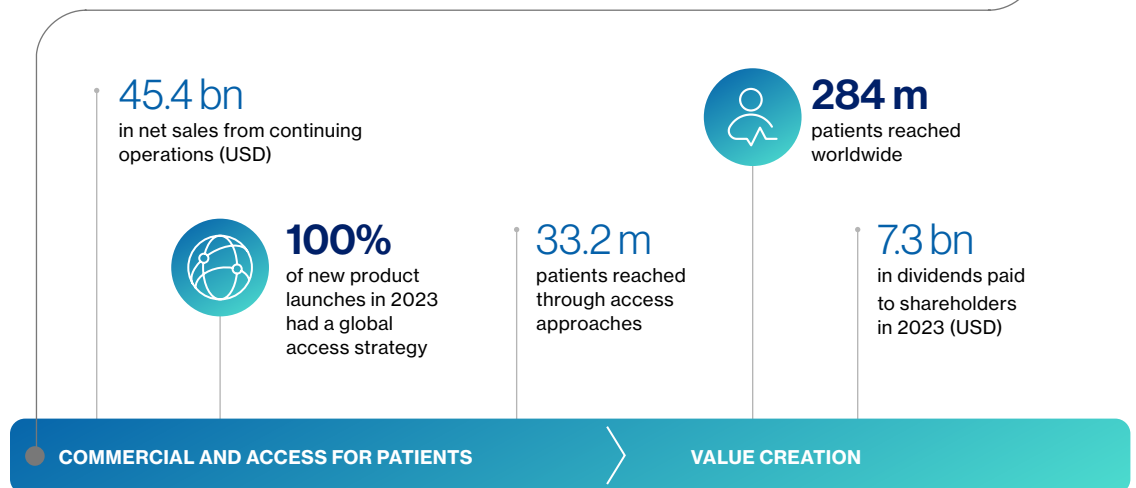
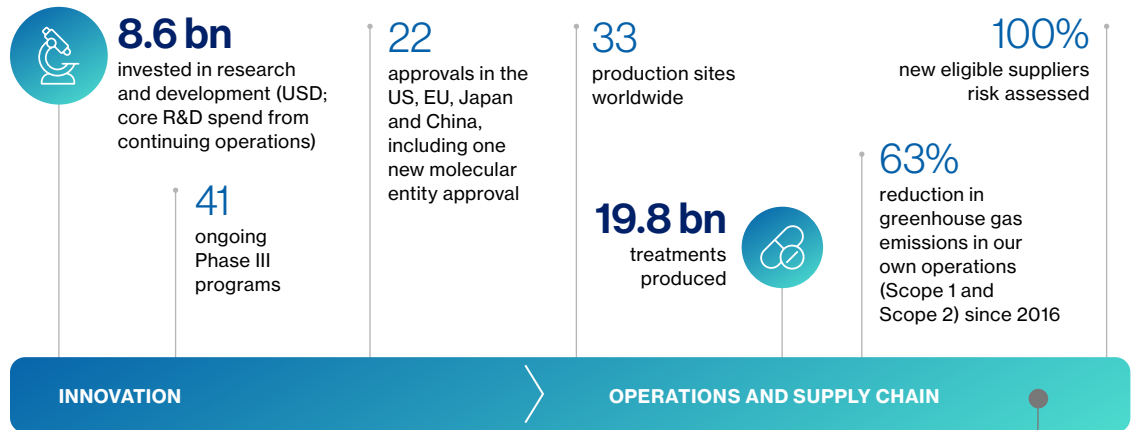
19.8 billion treatments sold to third parties

+10%

2023 sales growth (vs. upgraded guidance: Sales expected to grow high single-digit)

100%

of new medicines launched in 2023 with a global access strategy



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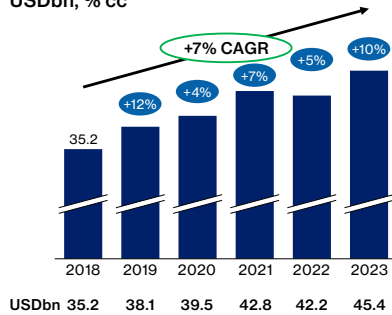
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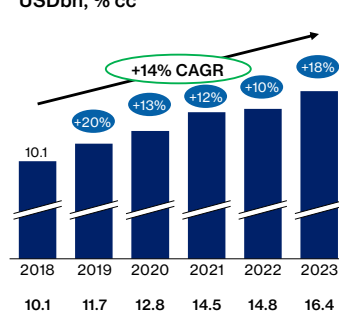
6. Financial Performance

Continuing operations² performance, numbers restated post-Sandoz spin-off*

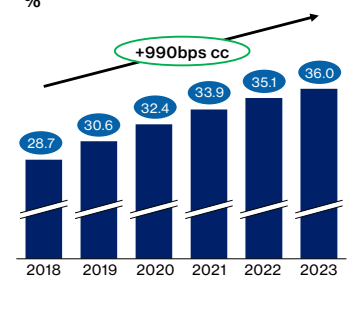
Net sales
USDbn, % cc



Core OpInc³
USDbn, % cc



Core margin³
%



In 2023, we delivered strong financial performance, supported by our renewed strategy and simplified structure.

Mid-term guidance: We aim to increase sales by 5% cc CAGR from 2023 to 2028, driven by strong momentum in our existing portfolio. We aim to increase our core margins to the ~40%+ by 2027.

Over the longer term: We aim to achieve mid-single-digit growth through delivering high-value medicines that sustain and replace our existing growth drivers.

7. Commitment to Innovation

In a world where many diseases don't have a treatment option, Novartis focuses on R&D to push boundaries of scientific discovery and turn breakthroughs into medicines that change lives.

Highlights

22 approvals

in the US, EU, Japan and China for new medicines and new indications for existing medicines

USD 98.4 million

invested in R&D for malaria and neglected tropical diseases (vs. USD 77.2mn in 2022)

10 positive Ph3 readouts

for medicines with significant sales potential

41

ongoing Phase III programs

*Unless otherwise noted, all growth rates refer to same period in PY. For references see last page.

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8. Leading the way on access to innovative medicines

The best medicines are those that reach the people who need them. We work with partners to find new ways to bring our medicines to more people and places faster.

Highlights

31% increase (vs. 2022)

in patients reached with strategic innovative therapies in low- and middle-income countries (LMICs)

28.7 million patients

Reached through our Global Health flagship programs in LMICs⁴

We are on track to meet our targets of the number of patients reached with strategic innovative therapies in LMICs by at least 200% by 2025 (vs. 2019) and increasing the number of patients reached with Novartis Global Health flagship programs in LMICs by at least 50% by 2025 (vs. 2019).

9. Unleashing the power of our people

Our targets include

Achieve gender balance in management by 2023

Close the gender pay gap by 2023

Remove bias from system by eliminating the use of historical salary data by 2023⁵

Create pay transparency for employees by 2023⁶

Highlights

48%

achieved female representation in management

-0.9%

achieved mean pay gap, meaning the difference between men's and women's earnings are on average less than one percent globally

100%

of recruitment no longer undertaken using historical salary data

98%

achieved pay transparency to external and/or internal benchmarks, where available

10. Ethical behavior underpins our business

We strive to maintain high ethical standards, uphold human rights and reduce social and environmental risks, across our value chain.

Highlights

97%

of people trained on our Code of Ethics

100%

of new eligible suppliers risk assessed

We launched our new Doing Business Ethically policy

Environmental sustainability progress is covered below in next section

For references see last page.

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Environmental Sustainability Progress

Improving our environmental footprint contributes to mitigating the impact of climate change on the planet and on human health. It is also intricately linked with improving our operational efficiency and is integral part of our overall business strategy.

Our net-zero target set in 2021 is consistent with the goal of the Paris Agreement to limit global temperatures increase to 1.5C compared with pre-industrial levels. We are in process of validating our near-term (2030) and 2040 net-zero targets with the Science Based Targets Initiative (SBTi).

Environmental Sustainability targets 2025, 2030 and 2040⁷

	Our ambition	Targets 2025	Targets 2030	Targets 2040
Climate 	Net-zero	1 Carbon neutral own operations (Scope 1 and 2) ^{8,14}	3 Carbon neutral across the value chain (Scope 1, 2 & 3) ^{9,14}	Net-zero carbon emissions across our value chain ⁹
		2 Environmental criteria in all supplier contracts		
Waste 	Circular economy and plastic neutrality	4 Eliminate PVC in packaging ¹⁰	6 Plastic neutral ^{11,14}	
		5 Waste disposal reduced by half ¹⁴	7 All new products meet sustainable design principles	
Water 	Water sustainability	8 Water consumption reduced by half in our operations ¹⁴	10 Water neutral ^{12,14}	
		9 No water quality impacts from manufacturing effluents	11 Enhance water quality wherever we operate ¹³	

More than 90% of our carbon emissions are generated outside our own operations. In line with our commitment to decarbonize our value chain, we are integrating **Environmental Sustainability Criteria (ES Criteria) in our suppliers' contracts** to onboard them in our sustainability journey. We are working closely with our suppliers to define sustainability roadmap, exchanging technical expertise and knowledge - to drive emission reductions. Furthermore, in 2023, we published the **Environmental Sustainability Supplier Playbook**, designed to provide comprehensive guidance to our suppliers on transitioning to sustainable business models. Available in English and Chinese, it is also being integrated into the Pharmaceutical Supply Chain Initiative (PSCI) standard supplier learning plans.

In addition, we participate in the development of the World Business Council for Sustainable Development (WBCSD) Partnership for Carbon Transparency Pathfinder Framework, a catalyst for primary data exchange across value chains.

In 2023 we made significant progress in upscaling adoption of renewable electricity in our operations. More than **92% of our purchased electricity consumption in 2023 came from renewable sources**. This was driven by virtual power purchase agreements we have in place for US, Canada and Europe and implementation of renewable electricity solutions in other key markets like India, China, Turkey, Egypt and Japan. Our target is to use 100% renewable electricity in our Operations by 2025.

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We share our 2023 progress, which shows that we remain on track to deliver against long-term goals:

Climate



2025 Target: Carbon neutral in own operations.

Progress: We reduced our Scope 1 and 2 emissions (from energy) by 19% (year on year), which represents an overall reduction of **63%**, compared to our 2016 baseline.¹⁵

2030 Target: Carbon neutral across value chain.

Progress: **~57%** of supplier emissions from our value chain (Scope 3) are covered with ES Criteria in contracts.¹⁶

Waste



2025 Target: Reduce waste disposal by half.

Progress: In 2023, we reduced the amount of waste sent for disposal by **66%** compared to our 2016 baseline.¹⁵

2025 Target: Eliminate PVC in packaging.

Progress: We are on track to **eliminate PVC** in secondary and tertiary packaging by 2025.

Water



2025 Target: Reduce water consumption by half in own operations.

Progress: We reduced our water consumption by **50%** compared to our 2016 baseline.¹⁵

2025 Target: No water quality impact from effluents.

Progress: **97%** of Novartis manufacturing sites and **88%** of high-risk suppliers can demonstrate that they meet internal water quality standards.¹⁷

2030 Target: Enhance water quality wherever we operate.

Progress: Plan in place to expand internal water quality standards to Novartis nonmanufacturing sites and to remaining suppliers in scope.



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Changes to Science & Technology Committee

The Novartis Board of Directors is planning to appoint John Young as Chair of the Science and Technology Committee after the shareholder meeting 2024.

Conclusion of legacy issue

In 2020, Novartis entered a deferred prosecution agreement with the US Department of Justice (DOJ) due to investigations into historical conduct. This included certain obligations for reporting and compliance, which were fulfilled over a three-year period. A United States federal court dismissed the deferred indictment at the request of the DOJ in December 2023, and this matter is now concluded.

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Our environmental, social and governance efforts are integrated across the company and are key to driving long-term value for our stakeholders.

We aim to be a sector leader in the areas where we can have the most impact on people and society. Our performance is reflected in various third-party ratings, including our five priority third-party ratings.

MSCI

Novartis maintained its **AA** letter score rating (leadership status) with MSCI in the annual assessment cycle in July 2023. Novartis was included in the **MSCI World ESG Leaders Index**, consisting of 698 companies selected from the MSCI World parent index based on ESG criteria.

CDP

In February 2024, CDP confirmed our **leadership status** with A- ratings in both Climate Change and Water Security.

ISS ESG

Novartis sustained its **industry leadership** position with “Prime Status”¹⁸ and B Rating. We improved our performance score from 69.29 in 2022 to 71.04 and we retained a “Very High” level of transparency rating.

Sustainalytics

Sustainalytics upgraded our ESG Risk Rating¹⁹ from 16.9 to 15.8 in 2023. We were assessed to be at low risk of experiencing material financial impacts from ESG factors. We are currently leading in 3 out of 8 Material ESG Issues (Product Governance, Access and Carbon-own operations). Novartis is included in Sustainalytics’ 2024 Top-rated Companies List.

ATMI

Novartis ranked #4 in ATMI 2022 (vs. #2 in 2021) and has been in the **leadership group** for more than 10 years. The ATMI 2024 assessment cycle has started, with results expected in November 2024.

Priority rating	Updated	Scores ¹⁹		Status	Industry perspective
		Current	Previous ²⁰		
MSCI	Jul 2023	AA	AA	Leaders group	One peer with AAA, two peers with AA ²¹
Sustainalytics*	Dec 2023	15.8	16.9	Leaders group	Low risk category
ISS ESG	Jul 2023	B	B	Industry leader group	2/522
Access to Medicine Index	Nov 2022	3.87	4.18	Leadership group since 10 years	4/20
CDP Climate Change	Feb 2023	A-	A	Leadership status	A-/A- is the highest rating among our peers ²¹
CDP Water Security	Feb 2023	A-	A		

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Top 10 questions from shareholders and our responses

Question	Response
<p>01</p> <p>What are your views on China-specific risk and how do you mitigate bribery risks?</p>	<ul style="list-style-type: none"> • China launched a one-year campaign to address corruption in healthcare. In the long term, we expect a positive impact driving the healthcare sector to create a more transparent, fair and professional environment and strengthen the competitive advantage of innovation-based companies who invest in compliance. • We have a comprehensive compliance management system, which has been implemented globally, including China. It is aligned with recognized international standards and best practices that help us prevent, detect, respond and correct systemic misconduct. A core objective of our compliance management system is to maintain a culture of integrity designed to promote and enable ethical behavior. • Our processes, like Compliance Risk, Assessment & Monitoring, Review, Monitoring & Remediation visits, Internal Audit and SpeakUp are designed to detect and prevent misconduct. Where evidence of misconduct is detected, we take swift and appropriate action. Breaches of the Code of Ethics, policies, guidelines, or local laws result in remedial, corrective, or disciplinary action up to and including termination of employment.
<p>02</p> <p>How are you preparing for the Corporate Sustainability Due Diligence Directive?</p>	<ul style="list-style-type: none"> • We are monitoring developments related to the EU Corporate Sustainability Due Diligence Directive (CSDDD) directive very closely and feel that we are in a strong position to comply once it becomes final and implemented through EU member states. • In December 2022, Novartis completed an external assessment of our human rights program against the industry benchmark. The results indicated 'a relatively strong program in comparison to our peers' and we have also undertaken implementation of key recommendations to further strengthen our program in anticipation of increased legislation. • We are ensuring compliance with new human rights legislations in various countries including Switzerland, Germany, Norway and eventually with the EU Corporate Sustainability Due Diligence Directive.
<p>03</p> <p>How do you assess impact of sustainability due diligence on supply chain reporting?</p>	<ul style="list-style-type: none"> • We believe that supply chain due diligence is an essential part of an effective ethics, risk and compliance program. • In 2018, we started to introduce a comprehensive third-party risk management program, which goes beyond classic anti-corruption topics. We included topics very early on, which are now on the agenda of the EU Commission, especially on human rights, the environment and health & safety topics. • Novartis continues to look at best practices in the industry and beyond, and how we can further develop. We also engage actively with regulators on challenges, especially Tier 2 and 3 suppliers and sub-suppliers. On reporting, we provide a detailed insight into our supply chain and associated risk management of the supply chain in our Novartis in Society Integrated Report.

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Question

04

How is Novartis managing to comply with the evolving ESG reporting landscape?

Response

- Novartis is well positioned to meet existing and emerging requirements in this rapidly evolving and complex regulatory landscape.
- Within Novartis, we have integrated various teams to collaborate on reporting requirements:
 - Within Finance, we have a Head of Reporting and Assurance for ESG Data, whose role is to monitor ongoing standards and regulations on reporting.
 - Our Sustainability and ESG Office and Legal teams monitor ESG regulations and standards and collaborate with the Finance team.
- To integrate our efforts, Novartis created an ESG Reporting Council to review the quality of our ESG data, current trends and review emerging standards. We also are involved with many external organizations that focus on specific jurisdictions and work closely with selected consultants for input and training.

05

Can you explain your shift to an impact-led model in Sub-Saharan Africa?

- In 2018, we reviewed our strategy for Sub-Saharan Africa, which has 1.6bn people and identified a gap between good health coverage and where it is today.
- Based on the unique and significant challenges in Sub-Saharan Africa, we believed that a classical business approach would be insufficient to achieve financial sustainability. It was a critical moment for us, as we decided to pivot the business from a financially driven business to an impact-driven one. We also decided to measure patient reach as a surrogate for impact.
- Our model has worked very well and motivated the right behaviors across the organization. Currently, in Sub-Saharan Africa, the patient reach has been increasing year over year, with the financials following demonstrating that we are delivering impact in society.

06

How is local affordability factored into the access strategies for Novartis?

- Local affordability, one of several barriers to healthcare is critical to our access efforts at Novartis, and we believe that pricing should not prevent patients in need from getting access to medicines.
 - As part of a number of approaches that we are actively employing, the first step is tiered pricing which is enabled by the emerging market brands.
 - We also explore shared value propositions and strategic donations, where appropriate.
- We increasingly see that a critical barrier is the readiness of the health system to deal with this innovation. To bring a second-line treatment to a community, patients need to be diagnosed or a first-line treatment needs to exist.
- Our approach is to take a holistic and integrated view when it comes to access. Our model in Sub-Saharan Africa is focused on taking the profits we make and reinvesting it into the advancement of healthcare using our access principles or similar. We continually look at opportunities to strengthen our propositions and see how we can address the entire continuum of care.

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Question

07

What is your approach to partnerships in Global Health?

Response

- Partnerships are a critical enabler for Global Health, including in the R&D space and with organizations that help us reach more patients.
- We will continue to explore new models and partnerships to increase access.
- It is important for Novartis that when we evaluate future partnerships to focus on the potential capabilities, which include skills and complementarity. This helps us ultimately deliver impact at scale.
- We appreciate organizations that co-invest with Novartis which reduce some of the financial burden of doing work in areas with limited financial return. However, the funding potential is not the main criterion for entering partnerships.

08

Can you update us on your biodiversity aims?

- To minimize our environmental footprint, we have so far set targets for Climate (e.g. net-zero by 2040), Waste (e.g. Plastic Neutral by 2030) and Water (e.g. Water Neutral by 2030). Whilst we continue to deliver on our environmental sustainability strategy and targets, Novartis recognizes the growing importance of Biodiversity and Nature, and we are committed to addressing biodiversity risks. Novartis is currently conducting a Biodiversity/Nature technical risk assessment that aligns with guidance from both the Science Based Targets Network (SBTN) and the Task Force on Nature-related Financial Disclosures (TNFD). The scope of this assessment includes Novartis core operations and key upstream commodity supply chains, providing insights into Novartis nature dependencies, impacts, material risks and opportunities. Based on this analysis, we plan to have a biodiversity strategy by end of 2024– we will publish our approach to biodiversity in our 2024 Integrated Report (approach to disclosures dependent on results of our materiality analysis).

09

Can you share your efforts in addressing gender diversity at the Board?

- The Governance, Sustainability, Nomination Committee (GSNC) assesses the set of competencies as well as the individual skills annually to ensure that an appropriate balance of skills, expertise, experience and diversity is represented on the Board.
- Gender equity is one of the criteria we consider in our commitment to Diversity, Equity, and Inclusion across our leadership teams and workforce.
- Compared to 2019, the female representation on our Board rose from 25% to 31%.
- The GSNC is focused on achieving even greater diversity when identifying new Board member candidates and we pledge to continuously advance our efforts to promote gender parity in the composition of our Board of Directors within a range of +/- 10%.



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Question

10

What is your position on over-boarding at Board level?

Response

- 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 also pay close attention to time spent on external commitments and time required for travel and the attendance record of our Board members.



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1. This figure is accurate as of financial year 2022.
2. As defined on page 37 of the Condensed Financial Report, Continuing operations include the retained business activities of Novartis, comprising the Innovative Medicines Division and the continuing Corporate activities.
3. Core results and constant currencies are non-IFRS measures. Details regarding non-IFRS measures can be found starting on page 49 of the Condensed Financial Report.
4. Relates to Malaria, leprosy, Chagas disease, sickle cell disease.
5. Where legally possible.
6. Where legally possible and where data and cohort size are sufficient.
7. Scope 1 is also referred to as direct climate emissions, and is defined as “emissions from sources that are owned or controlled by Novartis”; Scope 2 is also referred to as climate indirect emissions, defined as “emissions from the consumption of purchased electricity, steam, or other sources of energy (e.g. chilled water) generated upstream from Novartis”; Scope 3 is also referred to as other indirect climate emissions, defined as “emissions that are a consequence of the operations of an organization, but are not directly owned or controlled by Novartis – this includes supply chain, business travel, employee commuting, and use of products”.
8. Scope 1 and 2 from energy.
9. In accordance with the Science Based Targets initiative (SBTi) Corporate Net-Zero Standard.
10. From Novartis owned and operated sites that are involved in packaging; defined as secondary and tertiary packaging. In addition, this is supported by efforts to eliminate PVC from primary packaging where feasible.
11. Plastic neutral is achieved when the weight of plastic packaging entering the environment for disposal is approximately the same as the weight being recovered for recycling.
12. All Novartis sites to reduce water consumption in all areas and to be water neutral in water-stressed regions by not depleting local water reserves. Water-stressed regions are determined using the WWF Water Risk Filter.
13. 100% of manufacturing effluents released comply with all permit regulations related to water quality and meet our water quality requirements. This applies to Novartis manufacturing operations and high-risk suppliers manufacturing sites that can potentially have an impact on water quality due to the discharge of APIs.
14. Targets 1, 3, 5, 6, 8, 10 are compared to 2016 baseline.
15. Restated in 2023 to exclude Sandoz.
16. Calculation uses 2022 actual Scope 3 supplier emissions data.
17. Water quality was assessed for compliance to water standard levels 1, 2, and 3 (training and legal compliance, quantification and risk assessment, PEC/PNEC <1 (“predicted environmental concentration” and “predicted no effect concentration”)).
18. Companies are awarded Prime Status if the overall ESG Corporate Rating letter grade meets or exceeds an industry-specific threshold.
19. Score ranges - ATMI: 1 to 5; CDP: D- to A; ISS ESG: D- to A+; MSCI: CCC to AAA; Sustainalytics ESG Risk Rating: 0 (Negligible risk) to 40+ (Severe risk).
20. ATMI is being published every other year.
21. Based on the peer group of 14 global healthcare companies as listed in Novartis Annual Report.