SANDOZ

Pioneering access for patients

Integrated Annual Report 2023

SANDOZ

Our Purpose

Pioneering access for patients.

Our Vision

Our Vision is to be the world's leading and most valued biosimilars and generics company.

Read more / Page 07

2023 financial highlights[1]

NET SALES TO THIRD PARTIES

9.6

USD billion, 7% growth in constant currencies

CORE EBITDA MARGIN

18.1%

Core EBITDA of USD 1.7 billion

CORE NET INCOME

953

USD million

2023 non-financial highlights[2]

PATIENT TREATMENTS

>800

Estimated number of patient treatments provided in millions

SAVINGS DELIVERED TO US AND EU HEALTHCARE SYSTEMS

>18

Estimate in USD billion delivered by our key products

SOCIAL IMPACT

~400

Estimate in USD billion delivered by our key products

1 Non-IFRS measures as defined by Sandoz can be found in the section Supplementary financial information.

2 Non-financial indicators definitions can be found on our website: www.sandoz.com/ESG_reporting_criteria

What's inside

Sandoz in six

Sandoz has been a household name for nearly 140 years – but what does the name actually stand for? The six letters summarize the core of our identity, from the S of our Scientific heritage through to the Z of our social and environmental impact: Zeroing in on ESG. Read the rest of our Corporate Report to find out more:


Page 14

SCIENTIFIC HERITAGE

Our strong foundation in science has yielded a long and proud heritage of innovative firsts, which have made Sandoz the global leader it is today – and intends to be tomorrow.


Page 20

ACCESS IS OUR PURPOSE

Access, for patients around the world to the medicines they need, is at the root of our Purpose. It is the reason we do what we do.


Page 32

NOVEL WAYS DRIVE PERFORMANCE

Novel ways of delivering on our Purpose drive the financial results that allow us to continue reinvesting in the future of our business.

Graphics inspired by the "Swiss style"

The Sandoz visual identity comprises a set of interconnected elements, from logo and colors to photography style and new illustrations, as well as a central graphic element: supercrops. These supercrops are inspired by our Swiss heritage and particularly the history of Swiss graphic design, especially the playful typographic deconstructions pioneered by Armin Hofmann and Josef Mueller-Brockmann.

letters...

Page 44

DEMOCRATIZING BIOLOGICS

Democratizing biologics is central to how we help shape the future of healthcare at a time of ever-increasing healthcare costs.

Page 50

OPTIMIZING OUR PRESENCE

We leverage our global strengths across a range of market models, delivering more medicines to the people who need them.

Page 58

ZEROING IN ON ESG

We are focused on the positive social and environmental impact we have on our employees, on patients, and on communities around the world.

Cover

Mariyam Radi (left) and Diana Nikolova (right) working in the biosimilar development laboratory in Holzkirchen, Germany.

Chairman's letter

Our Purpose enables us to drive performance and create value for all our stakeholders.

Biography

Gilbert Ghostine is the former CEO of Geneva-based Firmenich. He led Firmenich between 2014 and 2023 until its merger with DSM in May 2023 to create the world's leading beauty, nutrition and well-being company. He is an experienced business leader with a track record of growing and transforming businesses in competitive industries.

Gilbert Ghostine held executive and senior leadership positions at Firmenich and Diageo in a career spanning three decades. He currently serves on the board of directors at Danone, where he is a member of the audit and CSR committees, and on the board of directors at Four Seasons Hotels and Resorts, where he chairs the remuneration and nomination committee.

For more information / **www.sandoz.com/boardofdirectors**

Dear shareholders

It is my privilege and great pleasure to present you Sandoz first Integrated Annual Report as a standalone publicly traded company.

The biosimilars and generics market in which we operate provides for 80% of medicines used globally, underscoring the critical role this industry plays in society. Today, Sandoz is the biosimilars and generics industry's global leader, with first or second positions in many of the markets we serve.

Sandoz will be valued for executing our strategy and the impact we have on society. I am impressed by the level of trust the Sandoz brand has attached to it and how it resonates with people when talking about off-patent medicines. This, combined with a strong track record of high-quality delivery and reliability, and the passion of our people to drive access and move us forward, will continue to make Sandoz a great company. Our ability to shape the future of healthcare, making medicines more affordable to patients while creating value for our shareholders, truly excites me.

On October 4, 2023, we celebrated a successful spin-off and listing on the SIX Swiss Stock Exchange and entered a new era as a standalone independent company. Sandoz first quarter of independence began with a solid performance, and we can now proudly look back on our achievements in 2023.

In the face of a challenging market environment and as the world faces ongoing serious supply chain disruption, rising inflation, and geopolitical instability, we have maintained our focus on protecting service levels for our customers while growing our business worldwide. Our first year as a standalone company delivered a solid set of results, with net sales of USD 9.6 billion in 2023, 7% higher at constant currency than in the prior year.

Driven by our Purpose, building on our heritage

While the listing marks a new chapter for Sandoz as an independent company, our Purpose stands firm: pioneering access for patients. The uniqueness of Sandoz starts with its globally recognized brand, anchored in Basel since the late 19th century. With innovation at its core, the brand has a strong heritage in bringing lifesaving medicines to patients. Sandoz was the first company to successfully launch an oral penicillin in the early 1950s, and notably, pioneered the launch of the world's first biosimilar in 2006.

Today, we provide more than 800 million patient treatments per year, generating annual healthcare savings of about USD 18 billion in the US and Europe alone. The total social impact of our medicines, measured by direct health benefits to patients as well as the benefits of healthier patients to the economy and society more broadly, is estimated at around USD 400 billion per year worldwide. This impact, backed by our long track record of reliably supplying high-quality medicines, is the foundation of our future success.

Strong governance focused on value and trust

Independence brings greater transparency and accountability to our performance. I am very humbled to be chairing this great company and ensuring we deliver on our Purpose. This enables us to drive performance and create value for all our stakeholders. We have assembled a world-class Board of Directors who are excited in fulfilling this ambition.

We put together a lean and highly efficient Board of Directors, comprised of highly qualified leaders with wide-ranging expertise in life science, consumer goods and other industries. Our Directors have worked in some of the most important companies in the world, both as board members and / or as executives. Five Directors are current or past CEOs or CFOs, four have deep healthcare expertise, five have strong expertise in consumer goods, four are female and all are independent.

Our Board recognizes the importance of incorporating ESG into the Sandoz strategy and has an experienced Human Capital and ESG Committee to focus on the development of our environmental goals and social impact. We are committed to follow a stringent carbon reduction plan in line with the Paris Agreement goals and to position Sandoz as a forward-looking leader in the industry. I thank the Board of Directors for their dedication to our mission to create the world's leading and most valued biosimilars and generics company. I am very much looking forward to sharing this commitment with our three new nominees to the Board of Directors, who will be standing for election in April 2024.

Dividend

Our commitment of returning value to shareholders is reflected in the proposed dividend of CHF 0.45 per registered dividend-paying share, representing 24% of core net income, subject to approval at the Annual General Meeting on April 30, 2024.

A personal note

I am confident in the long-term potential of Sandoz, and eagerly anticipate witnessing Sandoz achievements as a standalone entity. May this year mark the beginning of a journey that empowers us to achieve even greater things for you, our shareholders, alongside patients, the healthcare systems, and the societies we support.

On behalf of the Board of Directors, I would like to thank our CEO, Richard Saynor, and our world-class leadership team, as well as our more than 20,000 employees around the world for their great contributions, energy, passion, and their belief in our company mission. Their persistence and motivation have built a solid base for the further successful development of Sandoz. At the same time, I would like to express our great appreciation to Novartis for the long-standing and persevering support, which has been instrumental in fostering our growth prior to becoming an independent, publicly listed company.

I express my deepest gratitude to our investors and shareholders for the trust placed in us. I look forward to continuing our dialogue with you over the months and years ahead, providing meaningful impact for all our stakeholders in the future.

Sincerely,

Gilbert Ghostine
Chairman

Chief Executive's statement

A great year of progress, delivering on our strategic objectives.

"Today we're in a strong position to deliver enhanced shareholder returns by seizing the enormous opportunities ahead."

Richard Saynor
Chief Executive Officer

Biography

Richard Saynor has spent his career in pharmaceuticals with a focus on generics, becoming Sandoz CEO in 2019.

As head of our global organization, Richard aims to make Sandoz the world's leading and most valued generics and biosimilars company as well as a thought leader in pioneering access for patients. Those efforts are well on track, with Sandoz generating net sales to third parties of USD 9.6 billion in 2023 while providing over 800 million patient treatments around the world.

Richard has been named Leader of the Year in the 2020, 2021 and 2023 Global Generics and Biosimilars Awards, and served as the inaugural chair of the CEO Advisory Committee of the International Generics and Biosimilars Association (IGBA) until January 2024.

For more information / **www.sandoz.com/ourleadership**

Dear shareholders

I'm pleased to share with you the strong results of this historic year, during which we achieved our long-anticipated goal of becoming a standalone company and thus the independent global leader in biosimilar and generic medicines.

Our financial performance in 2023 reflects the incredible focus of our more than 20,000 employees worldwide, and we also achieved a significant number of strategic goals in our first year. These include:

- Becoming a standalone public company listed on the SIX Swiss Exchange on October 4, 2023
- Launching hundreds of new products, including Hyrimoz®, or biosimilar adalimumab, in a high-concentration formula in the US and Europe
- Receiving approval on four biosimilars in the EU and US, including EU approval on Tyruko®, our biosimilar natalizumab (now available in several EU markets, including Germany, as of January 2024)
- Enhancing our portfolio, pipeline and capabilities through bolt-on acquisitions and partnerships, including the acquisition of leading antifungal Mycamine from Astellas, commercial rights for leading biosimilar ustekinumab from Samsung Bioepis, and a groundbreaking partnership with Just-Evotec to develop and manufacture multiple biosimilars
- Expanding our development and manufacturing footprint, including a new facility for production of penicillin in Austria and investments in biosimilar development centers in Germany and Slovenia
- Issuing over USD 2 billion of debt, replacing our bridge loan with lower-interest and longer-term debt

Excited about our future

As you'll see in the pages that follow, we've already started to take advantage of our freedom. We're simplifying and optimizing our business. We're operating with greater agility. We're strengthening our culture. Today we're in a strong position to deliver enhanced shareholder returns by seizing the enormous opportunities ahead.

Gross sales for off-patent medicines are set to grow at a compound annual growth rate of about 7% between 2023 and 2032.[1] That growth will be driven by demographic trends, accelerating biosimilar and generic uptake, increasing patent expiries, and an ongoing shift towards more complex, higher-value medicines.

As the only company positioned at scale in both biosimilars and generics and with a top five ranking across all three of our geographic regions – Europe, North America and International – we have the global depth and breadth to drive sustained growth, while expanding our margin, enabling further investments in our business.

One rule always holds true in off-patent medicines: nothing stands still. We start looking at opportunities 10 years ahead or more, scanning the horizon for the "next big thing" in healthcare. Over the past five years, our new launches contributed USD 1.4 billion in sales. As a standalone company, that number could potentially reach USD 3.0 billion over the next five years, providing patients with sustained access to more affordable medicines.

Strong performance

In 2023, we achieved 7% net sales growth in constant currencies, exceeding our mid-single digit guidance, with strong growth across all three regions and double-digit growth in biosimilars, as well as a strong cough and cold season. Several of our biosimilars performed extremely well, including biosimilar Omnitrope®, which is a growth hormone, and Hyrimoz®, which expands access for millions of people with serious inflammatory diseases.

In biosimilars, our pipeline of 24 products[2] has tripled in size in the last five years and now targets reference medicines with sales of approximately USD 200 billion, particularly in oncology and immunology. We prioritize exclusive or first-to-market opportunities that leverage our strong commercial footprint and will offer greater patient access. We are planning on three major biosimilar launches over the next few years alone, supported by investments in our own production network.

In parallel, we continue to develop our vertically integrated penicillin production network – the largest of its kind in Europe for the world's leading category of antibiotics – with investments totaling over EUR 250 million. We are the established global leader in generic antibiotics, the backbone of modern medicine, providing more than 800 million patient treatments per year. In line with the increasingly complex nature of reference medicines, we continue to invest in developing more complex generics, including injectables and inhalables, across multiple technological platforms.

Creating value for the long term

The pride and dedication behind our work is evident everywhere in our company: in our Purpose, which shines brightly as our "North Star"; in our Values, which bring out the best in us all; and in the passion and commitment of our employees, which will continue to propel us towards our bright future.

I thank them for their efforts and look forward to continuing to build the world's leading and most valued biosimilars and generics company and to creating sustainable long-term value for you, dear shareholders, and for society as a whole.

Richard Saynor
Chief Executive Officer

1 IQVIA Analytics Link in constant currencies excluding markets with no or limited Sandoz operations (e.g. China, India, Bangladesh, Pakistan, Indonesia), using IQVIA definition: generics, early-entry generics and biocomparable products.

2 As of March 2024.

Our investment case

Building on our heritage to succeed as a standalone company.

Our leadership in driving access is built on an impressive history of innovation.

Today, we're continuing to build on that deep scientific heritage with a strong pipeline of important off-patent medicines – from complex generics to biosimilars.

Enhanced focus

Simplification and optimization of resource allocation

Improved accountability

Ambitious targets and clearer business objectives

Strong governance

A highly experienced and diverse Board of Directors

Greater agility

Greater freedom to operate and adapt to evolving off-patent medicines market conditions

Generics culture

Strong entrepreneurial mindset

Value creation

Clear path for profitable growth and enhanced shareholder returns

Our strategy

Strategic levers to drive shareholder value

Attractive market fundamentals

Sandoz operates in the attractive and growing global off-patent medicines market, which is driven by a growing and aging population, higher rates of chronic disease, increasing market adoption as healthcare systems and payors seek to reduce the cost of medicines, and a consistent pipeline of upcoming loss of exclusivities (LoEs) as patents for reference medicines expire. Together, these drivers are expected to support long-term volume growth through existing and new product launches, and expansion of the patient pool, that will more than offset anticipated price erosion.

MARKET SIZE[1] (USD billion)

233

Find out more / **Page 52**

Leadership and scale

Sandoz is the global leader in the biosimilars and generics markets with one of the broadest portfolios in the industry, providing more than 800 million patient treatments every year across more than 100 markets. We are well positioned across both the biosimilars and generics markets, providing Sandoz with a balanced risk profile and opportunity to drive significant growth and margin expansion over the midterm. We have an attractive geographic footprint. We are a European champion with a presence in over 40 markets and a No. 1 or No. 2 position in most of the region's top markets. We are the fifth largest biosimilars and generics company in the US and second in Canada, while our International region has a highly targeted presence globally. We are particularly strong in biosimilars, with a leading position in key markets.

MARKETS SERVED

+100

Find out more / **Page 50**

Multiple drivers of sustainable top-line growth

We are confident that Sandoz is well positioned for continued success in the biosimilars and generics markets with numerous sustainable growth drivers, including our:

- Expertise and excellence in product launches and driving market penetration
- Major high-value near-term biosimilars pipeline
- Improving product mix with increasing contribution from biosimilars and complex generics
- Use of strategic partnerships to add incremental product and technology opportunities
- Expansion in breadth and depth of our pipeline

TARGETED LOE VALUE[2] (USD billion)

+370

Find out more / **Page 26–29**

1 Source: IQVIA Analytics Link in constant currencies excluding markets with no or limited Sandoz operations (e.g. China, India, Bangladesh, Pakistan, Indonesia), using IQVIA definition: generics, early-entry generics and biocomparable products.

2 Calculated as originator sales one year prior to loss of exclusivity (LOE-1); targeted value refers to coverage from Sandoz pipeline. Analysis based on industry reports, databases and internal evaluations.

Sandoz is well positioned to drive sustainable growth and long-term shareholder value through the following six strategic levers:

Margin improvement

As an independent company, we are rigorously focused on improving our core EBITDA margin over the midterm. We anticipate margin expansion from our volume and product mix as we simplify our portfolio and shift increasingly towards higher value products. We plan to drive operational improvements in our supply chain through an enhanced network, focused vertical integration, procurement optimization and operational excellence initiatives. We also look to drive organizational efficiencies through a leaner operating model.

TARGETED MARGIN

24–26%

Core EBITDA margin by 2028

Find out more / **Page 42**

Strong cash flow generation supporting disciplined capital allocation

We expect free cash flow to more than double by 2028 compared to 2022, driven by core EBITDA expansion, increasing EBITDA to cash conversion, and working capital optimization. Our strong balance sheet provides us with great optionality in our capital allocation strategy, supported by our investment-grade credit profile. Sandoz intends to follow a disciplined approach to capital allocation to support the delivery of long-term growth and attractive shareholder returns:

- Reinvest capital into our business to support sustainable organic revenue growth
- Return capital to shareholders, primarily through a progressive and largely business performance-related dividend policy
- Deploy capital into value-generating M&A and Business Development & Licensing (BD&L) opportunities in line with our strategy where it does not constrain our priorities as outlined above

FREE CASH FLOW

~2.5x

in 2028 versus 2022

Sustainability and impact linked to business success

As a global company and a leader in our industry, we have a great responsibility and an even greater opportunity to create positive social impact by delivering on our Purpose and strategy. Our Environmental, Social, and Governance (ESG) strategy is anchored around four pillars: (i) delivering access to medicines and strengthening healthcare systems globally; (ii) embedding environmental responsibility in the way we operate; (iii) championing diversity, equity, and inclusion across our organization; and (iv) building a strong governance framework to foster best practice reporting and conduct, and to ensure transparency, accountability and ethical behavior. In January 2024, we confirmed our intent to set science-based carbon emissions reduction targets by submitting our commitment letter to the Science-Based Targets initiative (SBTi). See page 60 for more on ESG.

SOCIAL IMPACT (USD billion)

~400

Delivered by our key products in 2023

Find out more / **Page 60**

Our year in review

2023

Governance

Appointment of Sandoz chairman Gilbert Ghostine and strong independent Board of Directors

Spin-off:

Novartis shareholders vote in favor of

100%

spin-off on September 15

On October 4

Sandoz shares are listed and traded on the SIX Swiss Exchange and ADRs are traded on OTCQX® in the US; creation of independent global leader in generic and biosimilar medicines

Biosimilar capabilities

Investments of

USD >500m

are announced to **expand biosimilar production capacity** and **technical development capabilities** in Slovenia and Germany

Read more / **Page 18**

"As an independent company, Sandoz is fully enabled to deliver on its Purpose-driven strategy. We are already actively pioneering access for patients by shaping the global healthcare environment and intend to make an even greater impact going forward."

Gilbert Ghostine
Chairman

Biosimilars partnerships

Major strategic biosimilars development and manufacturing partnership with Just-Evotec, to complement internal capabilities

Just EVOTEC BIOLOGICS

Read more / **Page 43**

Bio pipeline

Major progress on five high-value biosimilars:

- **Aflibercept:** positive Phase III trial results
- **Denosumab:** File acceptance by EMA and FDA
- **Hyrimoz® HCF (adalimumab):** US and EU launch
- **Tyruko© (natalizumab)** EU approval, US approval
- **Ustekinumab:** Global commercial partnership with Samsung Bioepis to broaden immunology portfolio

Read more / **Page 48–49**

Generic portfolio building

Acquisition of leading antifungal medicine Mycamine from Astellas, reinforcing leading global anti-infectives portfolio and hospital offering

astellas

Generic capabilities

Opening of new antibiotic production facility at Kundl, Austria, as part of ongoing EUR 250 million investments in unique vertically integrated European manufacturing network

(pictured: Karl Nehammer, Austrian Chancellor, speaking at the event)

Read more / **Page 56**

SCIENTIFIC HERITAGE

A scientific heritage of innovative firsts has made Sandoz the global leader it is today – and intends to be tomorrow.

Sandoz medical innovations over the past century range from the introduction of Calcium Sandoz in 1929, via the first oral penicillin in 1951, through to the first-ever biosimilar medicine in 2006.

And we continue to build on that deep heritage as we build our future pipeline, taking decisions today that will affect the economic sustainability of healthcare systems in the years and decades to come.

Edouard-Constant Sandoz (1853–1928)

Together with Alfred Kern, Edouard-Constant Sandoz founded Kern & Sandoz in Basel in 1886. Sandoz ran the company on his own from 1893, converting the company into a stock corporation in 1895, when he became Chairman of the Board. This photo was taken around 1915.

See more of our Purpose in action /
www.sandoz.com/stories

SANDOZ

Sandoz brand heritage

Heritage is the foundation of our success

Sandoz today is the **leading global provider** of off-patent medicines (biosimilars and generics), which account overall for approximately 80% of medicines used worldwide at a fraction of the total cost.

With a comprehensive portfolio of about 1,500 products covering most therapeutic areas and available in over 100 countries, we make a real difference for patients and healthcare systems worldwide. We are also a global leader in our two largest global businesses: biosimilars and generic antibiotics.

Find out more / **Page 26–29**

Leadership did not happen by chance. Sandoz has a long and proud history of medical innovation, including some truly transformative treatments. Throughout our history we've established a pattern of innovation, with each transformative step laying the basis for the next, decade on decade.

Our predecessor, Kern & Sandoz, was founded in Basel in 1886, to manufacture and sell synthetic dyes, before branching out into pharmaceuticals. Within a decade, the company produced its first medicine: antipyrine, a fever-controlling agent. In 1929, the company launched Calcium Sandoz, which laid the basis for modern calcium deficiency treatments – and helped secure its long-term future.

In 1946, as post-war Europe experienced an acute shortage of life-saving penicillin, a young army officer saw an opportunity to solve this by adapting the fermentation process at a brewery in Kundl, in the Austrian Tyrol, to manufacture penicillin at scale. Some five years later, the facility developed the world's first-ever oral penicillin. By 1963, the Kundl plant had become part of what is now called Sandoz.

Half a century later, this fermentation-based technology expertise laid the basis for Sandoz to pioneer the field of biosimilar medicines, with the first-ever biosimilar launched in 2006. Our portfolio continues to be spearheaded by our leading global position in generic antibiotics, the backbone of modern medicine, and biosimilars, which make cutting-edge biologics accessible to many more patients worldwide.

Find out more / **Page 28**

And we continue to build on that deep scientific heritage as we develop our future pipeline, taking decisions today that will affect the economic sustainability of healthcare systems in the years and decades to come.

Our heritage

The Sandoz brand is a seal of quality, trusted by patients and healthcare professionals around the world.

Since its creation over 100 years ago, the Sandoz name has been associated with pioneering medical discoveries. This pioneering spirit is as strong today as ever, as we work tirelessly to find new ways to bring advanced medicines to more patients.

1886
Creation of **Kern & Sandoz** in Basel

1917
Sandoz begins **in-house pharmaceutical research** with the hiring of key personnel

1929
The company launched Calcium Sandoz for the prevention and treatment of calcium deficiency. One of the highest selling pharmaceutical products of its day, it helped to assure the future of Sandoz as a pharmaceutical company

1939
The Kern & Sandoz name was shortened to Sandoz, a name it operated under for nearly 60 years

For more details on our heritage **/www.sandoz.com/ourhistory**

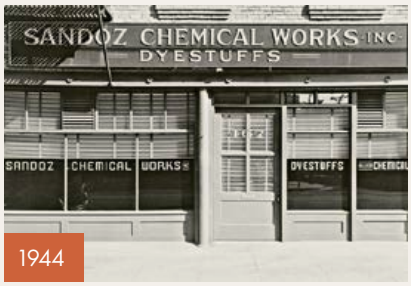
Correspondence office

Warehouse, New York

Storage facility, Basel

Scientific office and sales organization

Administration building, Basel



Branch office, Los Angeles

Fermenter systems, Kundl, Austria

Parasitology lab, Vienna

1946
Brewery in Kundl, Austria, adapted to manufacture penicillin at scale. Five years later, it made the world's first oral penicillin. By 1963, the Kundl plant was part of Sandoz

1951
Launch of first oral penicillin

1980
World's first recombinant interferon-alfa

1996
Sandoz and Ciba-Geigy merge to form Novartis

2002
Acquisition of Lek (Slovenia)

2003
Sandoz is established as the umbrella brand for Novartis Generics business

2005
Acquisition of Hexal (Germany)

2006
Sandoz introduces first Biosimilar

2020
Acquisition of Aspen's Japanese operations

2023
Acquisition of Mycamine antifungal brand from Astellas

2023
Partnership announced with Just-Evotec Biologics

2023
Sandoz spins off from Novartis

Building the foundation | **Establish global leadership** | **Investment in innovation and biosimilars**

Our scientific heritage continues

We're constantly evaluating our range of high-quality biosimilar and generic medicines, looking to improve access for millions of patients while continuing to deliver sustainable growth.

Around 10% of our annual net sales to third parties, or USD 926 million in 2023, was invested in development and regulatory (D&R) activity.

As a producer of off-patent medicines, we do not need to do research into innovative compounds. Instead, our end-to-end approach covers the entire spectrum of product development, including analytical development, bioequivalence studies, clinical studies, pharmacovigilance and regulatory support. It also spans therapeutic areas, including respiratory, anti-infectives, cardiovascular, immunology, central nervous system, diabetes, pain and oncology, among others.

Our D&R capabilities are centralized under one global organization and six technology-focused development centers. We constantly evaluate new technologies of on-patent products, even those with material patent life, to remain in the best position over the long term. In 2023, we announced an investment of approximately USD 90 million to build a new biosimilar technical development center in Ljubljana, Slovenia, as well as an investment of about EUR 25 million to expand our biosimilars development center in Holzkirchen, Germany. The planned investments complement previously announced plans to invest at least USD 400 million in a new biologics manufacturing plant in Lendava, Slovenia. All three investments are in addition to our D&R activity and represent a significant expansion of our biosimilar development capabilities, while also building on existing small molecule product development capabilities, helping Sandoz to meet rapidly rising global demand for biosimilars and to make an even more meaningful contribution to healthcare systems around the world.

With strong capabilities across our four core technology platforms – biosimilars, oral solids, injectables and respiratory – we have built a strong foundation to deliver high-value biosimilars and generics to patients. The regulatory team promotes greater access to our products through advocacy and scientific discussions with critical industry associations, committees and regulatory bodies.

~10%

NET SALES TO THIRD PARTIES INVESTED IN D&R IN 2023

Architect's render of our new biologics manufacturing plant in Lendava, Slovenia, expected to be operational in 2026.

Our six technology-focused development centers

Ljubljana (Slovenia)

Biosimilars, oral solids, complex injectables, nasals, ophthalmics

Hyderabad (India)

Oral solids

Cambridge (UK)

Device technology development

Kundl (Austria)

Oral solids, injectables, anti-infectives

Holzkirchen (Germany)

Biosimilars and transdermal technology

Rudolstadt (Germany)

Inhalation technology

ACCESS IS OUR PURPOSE

Pioneering access to medicines for patients around the world is at the root of our Purpose. It is the reason we do what we do.

We pioneer access at every stage of the value chain, from developing new formulations, devices and delivery mechanisms via innovations in manufacturing technology, through to reconfiguring supply chains to get medicines on time to where they are needed most.

And we are equally focused on ensuring sustainable access – for instance, through a leading global program to mitigate the growing threat of antimicrobial resistance and ensure that life-saving antibiotics continue to work the way they should.

See more of our Purpose in action / www.sandoz.com/stories

SANDOZ

Pioneering access for patients

Billions of people lack access to the medicines and healthcare services they need. We're here to help change that.

Our Purpose – **to pioneer access for patients** – drives everything we do. That begins with our core business, which makes quality medicines more affordable.

PATIENT TREATMENTS

>800

Estimated number of patient treatments provided in millions (2023)

SAVINGS DELIVERED TO US AND EU HEALTHCARE SYSTEMS

>18

Estimate in USD billion delivered by our key products (2023)

Lower cost means greater access

Off-patent medicines account for some 80% of prescribed treatments worldwide, at a fraction of the cost. This frees up resources to extend the reach of healthcare. In 2023, Sandoz products alone delivered more than USD 18 billion in savings to US and EU healthcare systems. Beyond direct savings, our products create competition, which drives down the cost of medicines overall. Biosimilars availability also makes it more feasible to provide access to new patient populations. For example, the UK National Institute for Health and Care Excellence (NICE) updated its guidance to allow patients with moderate rheumatoid arthritis to be treated with adalimumab, etanercept and infliximab, due to the cost-reducing effect of biosimilars. Previously, treatment with these molecules had been reserved for patients with severe cases. This means that 25,000 more patients in the UK now have access to effective treatment. As the world's leading provider of off-patent medicines, we play a major role in keeping healthcare sustainable. Our total social impact of key products in 2023, measured by direct health benefits to patients as well as the benefits of healthier patients to the economy and society more broadly, was estimated at USD 400 billion globally.

Reaching underserved markets

Many Sandoz products reach markets that might otherwise have very limited availability. For example, our products are available in nearly half of the world's lower middle-income countries, sometimes in the countries where the reference medicines are not. See page 229 for further information.

Significant access gaps also exist in high-income countries. We work to address those, too. In the US, for example, we make certain Sandoz medicines available through the federal Patient Assistance Program, which provides access for patients experiencing financial hardship, or for those who cannot afford the medications they need due to limited (or no) prescription coverage.

We work closely with two leading relief and development organizations that are focused on health, Americares and Direct Relief. Together we supply medicines to meet the medical needs of communities in crises and emergencies. We also provide regular product donations to support planned medical missions of humanitarian efforts around the world. In 2023 we donated more than USD 5 million in medications for this purpose.

Patients in focus

Success in biosimilars and generics is not just about developing and manufacturing affordable, high-quality medicines. It's essential to understand patient needs and perspectives.

We have four key pillars of patient engagement at Sandoz:

1.

We collaborate with patient organizations to improve access to medicines and help patients to access the medicines they need at the right time.

For example, see Act4Biosimilars on / **Page 47**

2.

We bring patient insights into our daily work, letting their needs shape the ways to pioneer access for patients.

See the box on innovation / **Page 52**

3.

We support biosimilars education to improve access to biologic medicines.

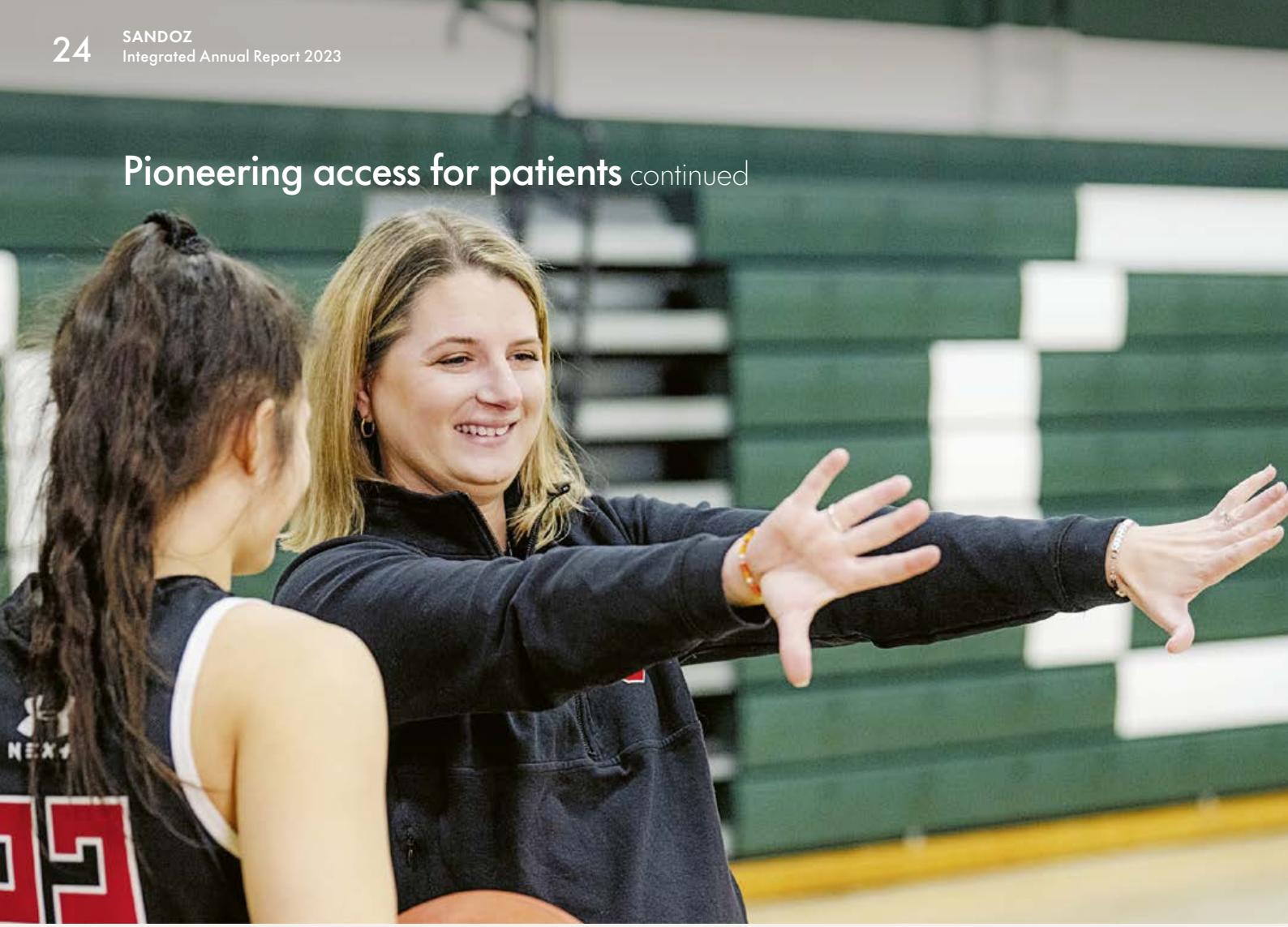
See our collaboration with Digestive Cancers Europe / **Page 47**

4.

We support the patient community by partnering, amplifying their voices and co-creating programs that address their needs.

Sandoz France co-created a public awareness campaign in partnership with nine patient associations, focusing on caregivers. Sonia Tropé, Director of the Association Nationale de Défense contre l'Arthrite Rhumatoïde (ANDAR): "This campaign, co-created with design thinking and in collaboration with associations from different disease areas, is helping to make caregivers more visible and support them as a critical component of care that is often overlooked." In 2023, the initiative received two leading industry awards: the "Prix Empreintes," which recognizes creative healthcare campaigns; and the "CSR Trophees PACTES," run by Leem, the French pharmaceutical trade association. A poster from that campaign is shown above.

Pioneering access for patients continued



Kacy doing what she loves best: coaching basketball.

Patients who inspire us

Overcoming obstacles

Kacy, now well into her thirties, was an avid basketball player with dreams of playing through college. Then things changed dramatically. After seeing 35 different doctors and specialists over a span of 11 years, she was eventually diagnosed with Multiple Sclerosis (MS).

Waking up each day with MS can look dramatically different from one day to the next. Kacy manages as best as she can with the help of meds, ice packs, hot showers, a good diet, staying hydrated and stretching and rolling out her muscles. She works vigorously with physical therapists. Yet sometimes nothing can make the symptoms better, and then she's forced to disrupt her life. At other times Kacy is amazed how quickly she can bounce back, even after a bad day – especially when people are counting on her.

Kacy values her large family and the team of medical practitioners who support her. Life would be easier for Kacy and others like her if people realized the amount of effort it takes for some people to stay strong. "Not everybody wakes up healthy every day," she says. "I don't take a single day for granted."

With Kacy's grit and positive attitude, she's still involved in basketball. She's been coaching for 19 years and loves to put her focus on her athletes and their success.

At Sandoz we're inspired by people like Kacy and the wider support network around her, to improve lives by pioneering access to medicines.

> "Not everybody wakes up feeling healthy every day. I don't take a single day for granted."

Max takes a positive attitude to managing the disruptions caused by Crohn's disease.

Advocating for others

In 2013, Max was diagnosed with Crohn's disease. It caused a lot of disruption in his life, with time off work, many foods off the menu and interruptions to his exercise routine. It also meant that travel and vacations became more of a concern in case he suffered a flare-up. He knows first-hand how critical it is to have access to appropriate treatments.

"It adds to the stress you're already trying to manage as part of controlling the disease. Depending on insurance, coverage and your employer, the impact on your financial situation can be huge."

Many people with Crohn's can't get the medicines they need because of the expense and, as a result, face the complications of not treating the disease. Biosimilars will certainly help to address this issue in this community and will make a difference in how patients will be able to manage their lives with a little more control. As Laura Wingate of the Crohn's & Colitis Foundation says, "Biosimilars can be life-changing for patients and their families and can play a critical role in overcoming health inequalities seen across the world."

"As an unpredictable disease, Crohn's affects my life in many ways, but a big one is dealing with treatment expenses."

It's for people like Max and Kacy that Sandoz is striving for new possibilities and driving access to medicines.

Pioneering access – Generics

From challenging patents to bringing the latest innovation to patients, we continue to deliver ‘first to market’ in generics in order to increase access.

ROBUST PIPELINE WITH MORE THAN

400

generics

Reaching millions of patients across more than 100 countries, and backed by a range of state-of-the-art technologies, formulations and devices, our global portfolio comprises approximately 1,500 products.

We have a strong and growing presence in complex generics such as injectables and respiratory inhalers. Sandoz generics cover therapeutic areas including cardiovascular, central nervous system, oncology, infectious diseases, pain and respiratory. Our broad portfolio includes a strong number one global position in generic[1] antibiotics, where we are the only company with a large-scale vertically integrated business based in Europe.

Through licensing arrangements, we help bring externally developed generics to market – an area in which we are a partner of choice. We offer significant advantages, including our geographic scale, commercial excellence, a strong and durable brand as well as regulatory and supply capabilities.

See / **Page 43**

Generics development

We have a broad and deep pipeline of more than 400 generic products in development, targeting approximately USD 170 billion of LoE[1] value. Standard generics, which represent approximately two-thirds of our generics pipeline, have relatively lower development and technical complexity and primarily comprise oral solids. Complex generics represent approximately one-third of our pipeline and include injectables, respiratory, and a variety of other technologies such as liquids, sprays, topicals and transdermal patches. We continue to identify and establish development expertise in emerging and highly complex technology areas such as oligonucleotides and long-acting injectables.

For more about Generics see / **Page 53**

Passionate about our Purpose

Grit Mueller is Site Manager of our Barleben and Osterweddingen manufacturing facilities, two of the cornerstones of our manufacturing network in Europe. She oversees the production, packaging and distribution of more than 11 billion tablets and capsules as well as more than 20 million tubes of creams and ointments. These form the basis for over 8,000 end products covering all major indication areas.

"I'm incredibly proud to be part of the Sandoz team – and proud to guarantee access to high-quality generics across Europe."

Grit Mueller
Site Manager, Barleben

1 Calculated as originator sales one year prior to loss of exclusivity (LOE-1). Analysis based on industry reports, databases and internal evaluations.

Pioneering access – Biosimilars

Sandoz is the global leader in biosimilars, with a total of ten approved and marketed products[1].

Sandoz biosimilars are available in more than 90 countries worldwide. Our extensive pipeline of 24 molecules targets about USD 200 billion in LoE[2] value.

We have a proven biosimilar track record, from development to commercialization, starting with Omnitrope® (somatropin), which was approved as the world's first biosimilar in 2006.

In 2015, we pioneered the US biosimilars market with the approval of Zarxio® (filgrastim).

EXPECTED MARKET GROWTH IN BIOSIMILARS[3]

19%

Compound annual growth rate, 2023-2032

1 As of March 2024.
2 Calculated as originator sales one year prior to loss of exclusivity (LOE-1). Analysis based on industry reports, databases and internal evaluations.
3 IQVIA Analytics Link in constant currencies excluding markets with no or limited operations for Sandoz (e.g. China, India, Bangladesh, Pakistan, Indonesia), using IQVIA definition of biocomparable products.

Pioneering access and winning

Sandoz is committed to biosimilar leadership in the long term. There's no better proof of that than the story of our – and the world's first – biosimilar medicine, Omnitrope® (somatropin), which was launched in Europe in April 2006.

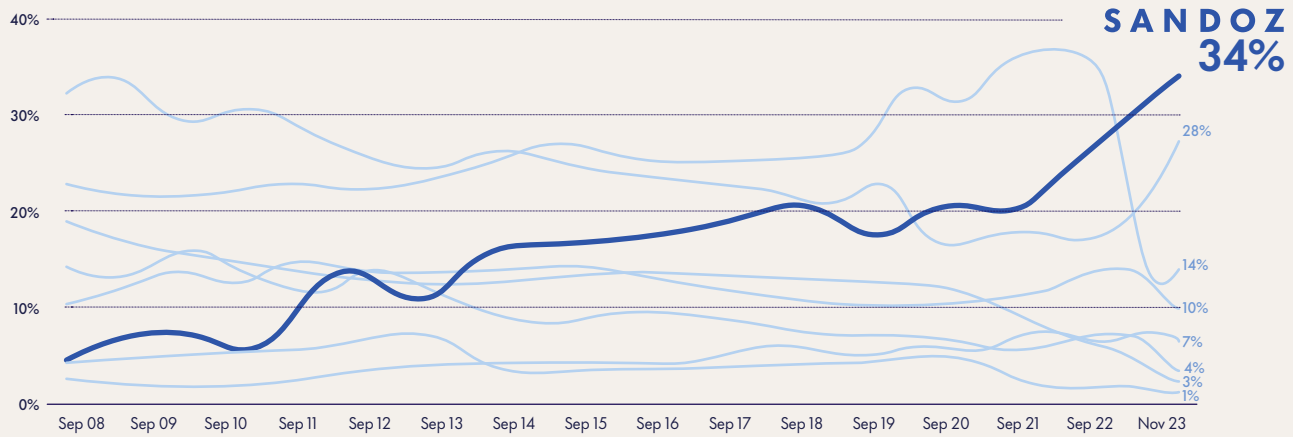
Nearly two decades later, after years of steady year-on-year growth in what is now a multi-player market, Omnitrope not only remains the leading biosimilar somatropin worldwide – it has even overtaken its reference medicine.

Omnitrope is a daily injectable treatment containing human growth hormone. It is designed to help children, as well as certain adults, with growth-hormone-related disorders and to support the healthy development of their bones and muscles.

As such, it falls into the overall area of endocrinology – one of three therapeutic categories, together with oncology and auto-immune disorders, that form the strategic core of the Sandoz biosimilar portfolio and pipeline. Within endocrinology, Sandoz is also working to bring several biosimilar insulins to market, in response to a significant unmet medical need.

Sandoz began development work on Omnitrope in 1996, a good ten years before it first came to market in Europe. It was also first to market with biosimilar somatropin in the US (launched in 2007 under a different regulatory pathway), in Canada and in Japan (both 2009).

Omnitrope: A tale of long-term leadership



Somatropin market share vs. competition, 2008–2023[1]

1 Based on IQVIA MIDAS rolling 12-month volume data, including originator products (once-daily products only).

CEO Richard Saynor on fighting antimicrobial resistance:

Securing the foundation of modern medicine

Sandoz is the leading global provider of generic antibiotics, offering more than 50 key medicines worldwide, including many of the off-patent medicines on the WHO's Essential Medicines List. As a global leader, we are committed to playing our part in combatting the unprecedented global health threat posed by antimicrobial resistance (AMR).

Antibiotics are the backbone of modern medicine, from enabling routine surgeries or treatments where the immune system is temporarily suppressed to treating millions of patients for infectious diseases that were previously considered fatal.

The spread of AMR, which occurs when microbes evolve to resist antimicrobial medicines, threatens to change all that. To quote Britain's former Chief Medical Officer, Dame Sally Davies, failing to curb AMR could spell "the end of modern medicine."

CEO Richard Saynor agrees: "AMR threatens to take us all back to the days when a prick from a rosebush could prove as deadly as falling off a cliff. This is a clear and present danger."

What can we do to stop that from happening?

A complicated reality

There are two common assumptions about how to tackle antimicrobial resistance (AMR): that the short-term answer is just to use fewer antibiotics, and that the long-term solution is all about new drugs. Reality, as ever, is more complicated.

"The starting point is that we don't want to reduce access to essential medicines," says CEO Richard Saynor. "We must not kill the cure."

Saynor points to two numbers that should drive global priorities: "A meta-analysis published in the Lancet[1] estimated that nearly 1.3 million annual deaths are directly attributable to AMR. That's as many as malaria and HIV combined. Yet 5.7 million people – four times the amount who die from AMR – die because they lack access to antibiotics."

Get access right

To effectively combat AMR, Saynor says, we need an approach that combines responsible access, responsible manufacturing, responsible use and innovation. Saynor points to the more than 50,000 health care professionals who were trained by Sandoz worldwide in 2023 in the responsible use of antibiotics. He also highlights the access piece: ensuring the right antibiotic is available for the right patient at the right time.

This means ensuring a stable supply of a broad range of high-quality antibiotics, backed by state-of-the-art surveillance data and diagnostics to understand the real clinical need. We would need this without AMR – but evolving global resistance patterns, as well as significant regional differences, make it even more critical.

1 https://doi.org/10.1016/S0140-6736(21)02724-0

Reliable framework needed

The AMR policy debate still focuses largely on incentives for new antibiotics, in what Saynor calls "a misguided search for a silver bullet." This is a critical part of the global response strategy, "but it is not the strategy."

The science is clear: new medicines will also face resistance once they enter clinical use.

"It's just evolution at work. You can delay it, but you can't stop it."

This imbalanced focus leads directly to the second major threat: the increasing dysfunctionality of the market framework for existing antibiotics.

"Antibiotics today are treated largely as commodities," Saynor says. "But there's one big difference: producers have to supply at fixed price levels, regardless of supply and demand changes. This is simply not sustainable. We need to change the operating framework, to introduce basic concepts such as inflation-linked pricing and tenders with criteria that go beyond price."

Calling for a global response

Saynor says: "Beating AMR will require a concerted global response across all four pillars of the global response strategy."

Patients must understand the threat of AMR and how to use antibiotics properly; healthcare providers must consider the consequences of every prescription; manufacturers must minimize environmental impacts and focus on reliable supply; and policymakers must prioritize the creation of stable, sustainable market frameworks. Given the number of stakeholders involved, Sandoz is active on a number of fronts, including leading the generic industry representation to the AMR Industry Alliance board and representing the industry on a European Commission expert body.

Saynor concludes: "Just as physicians have an underlying duty to 'first, do no harm,' anyone serious about the future of modern antibiotics should start from the principle of 'don't kill the cure.' Think of it as an extension of the Hippocratic Oath."

NOVEL WAYS DRIVE PERFORMANCE

Novel ways of delivering on our Purpose drive the financial results that allow us to continue reinvesting in the future of our business.

The continued strong performance of our innovative and leading biosimilars portfolio continued to drive overall sales growth through 2023, supported by a series of strategic milestones.

Highlights ranged from strong progress on biosimilar regulatory milestones, including FDA and EU approval for the first-ever multiple sclerosis biosimilar, manufacturing optimization (such as the inauguration of a new state-of-the-art antibiotic production facility in Austria) to commercial innovation (for example, our multi-year agreement with new CVS subsidiary Cordavis to expand the reach of a key new biosimilar).

2023 net sales to third parties

1 Growth in constant currencies.

See more of our Purpose in action /
www.sandoz.com/stories

SANDOZ


SANDOZ

Our business model

Our Purpose drives our strategy: pioneering access for patients.

Sandoz is the leading global company in off-patent medicines (biosimilars and generics), which account for around 80% of medicines worldwide at a fraction of the cost. This means we develop more affordable versions of high-quality medicines once their key patents have expired.

For us, pioneering access for patients means finding new ways to develop new products in line with patient needs, how we produce cutting-edge medicines at prices people can afford, and how we get the medicines to the patients who need them.

What we do

Our value chain has three main components: development and regulatory, manufacturing and supply, and commercial.

Development & regulatory (D&R)

We manage our development activity to ensure constant replenishment of our product pipeline to offset price erosion and to capitalize on new opportunities as they arise.

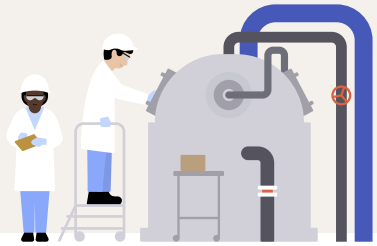
Our experience and reputation with regulators is key to ensuring timeline approval of products prior to commercialization.

Strong development pipeline

>400 Generics

24 Biosimilars

More about product development / **Page 18**



Manufacturing and supply

We maximize resources by finding a strategic balance between our own capabilities and working with partners, allowing us to retain core competencies but also enabling us to make the best use of our capital and other resources.

18 Sandoz-owned sites[1]

700+ external sites

More about operational improvements / **Page 42**

Commercial

Our global reach across 100+ countries means that we think globally but operate locally, providing us with the flexibility to deliver successfully against a range of market models.

Number of products on the market[2]

~1,500 Generics

10 Biosimilars

More about our commercial presence / **Page 36–41**

We reinvest

~9–10%

of net sales to third parties into D&R

Reinvestment drives expanding access

1 As of December 31, 2023.
2 As of March 2024.

Our competitive advantages

We are the only truly global biosimilars and generics manufacturer.

We offer reliable supply without compromising on quality while delivering at affordable prices under a strong and durable brand.

All these differentiators set us up to be the partner of choice in our industry.

Maximizing opportunity through partnerships

We choose partners such as Polpharma, Samsung Bioepis and Just-Evotec Biologics to target the greatest LoE[1] opportunities.

More about partnerships on / **Page 43**

Balancing supply and quality with price

While we make medicines more affordable, we never compromise on quality. From product development to manufacturing, to our suppliers and beyond, we maintain the highest standards.

More about quality on / **Page 54**

Generics mindset

We operate with agility, removing unnecessary complexity by combining the resources and long-term vision of a global pharmaceutical leader with the energy, drive and flexibility of a start-up.

More about our people on / **Page 62**

The value we create

The value we create for patients, society and the environment ultimately drives long-term shareholder returns.

For shareholders

With our scale and leadership in an attractive market, multiple growth drivers, ambitious margin expansion plans and a strong balance sheet, we offer a compelling investment proposition.

Midterm guidance (2028E)

Mid-single digit sales growth annually[2]

Core EBITDA margin
~24–26%

Dividend policy
30–40%
of core net income

For society

Healthcare systems are under pressure. By providing medicines at a competitive price, we are creating affordable access for hundreds of millions of patients, driving savings for governments and helping to protect public health.

Reaching a broad set of stakeholders

Patient treatments
>800
Estimated number of patient treatments provided in millions (2023)

Savings delivered to EU and US healthcare systems
>18
Estimate in USD billion delivered by our key products (2023)

Social impact
~400
Estimate in USD billion delivered by our key products (2023)

More about our ESG strategy on / **Page 60**

For the environment

Focusing on sustainability helps us to manage risk, minimize our impact on the environment, increase operational efficiency and protect our reputation.

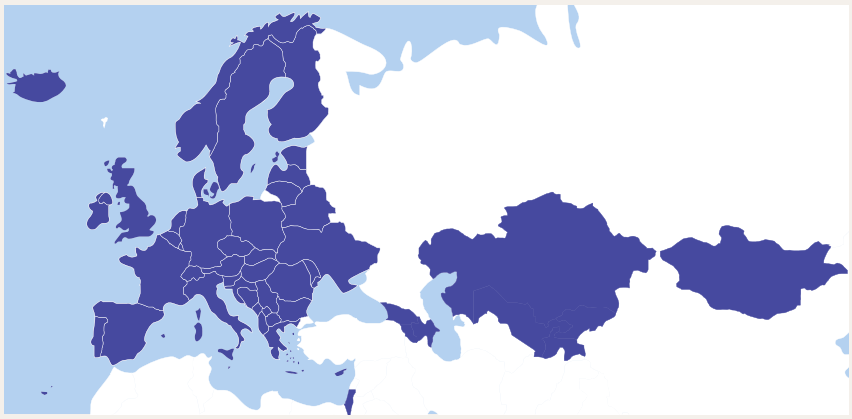
More about our ESG strategy on / **Page 60**

1 Calculated as originator sales one year prior to loss of exclusivity (LOE-1). Analysis based on industry reports, databases and internal evaluations.
2 Net sales growth in constant currencies.

Our global commercial presence

Europe

Sandoz is the largest biosimilars and generics company in Europe. We have a strong foundation and brand heritage with a commercial presence in over 40 markets.



NET SALES

USD 5.0bn

9% growth in constant currencies

MARKET SIZE BASED ON GROSS SALES[1]

USD 78bn

EST. MARKET COMPOUND ANNUAL GROWTH RATE BASED ON GROSS SALES, 2023-2032[1]

7%

Region Europe drove USD 5.0 billion in net sales in 2023, with growth of 9% in constant currencies, accounting for more than 50% of global Sandoz net sales.

Sandoz was the first company to launch a biosimilar in Europe in 2006 and is today the leading biosimilars company with ten commercialized products[2], ranking No. 1 by volume share in six of those ten products[3]. Our strong in-market portfolio, combined with our strong commercial capabilities, have enabled us to expand our market share from 24% to 27% in the past three years[4].

Sandoz also has a unique commercial platform with operations in more than 40 countries, and is a top three player in 80% of the markets where we are present,[3] including a direct sales presence in more than 30 countries across all three market types as described on page 52 – tender, substitution and share of voice markets.

As a frontrunner in driving market access and policy-shaping, we have significant expertise in navigating Europe's complex regulatory environment, securing both market access and sustainable pricing for our generic and biosimilar products.

Our strong commercial footprint, combined with our leading go-to-market capabilities, cover all important elements of successful commercial execution which also make us a partner of choice in Europe.

The European biosimilars and generics market is about USD 78 billion and expected to grow about 7% until 2032.[1] Sandoz Region Europe is well positioned to continuously deliver sustainable growth in this growing market.

1 IQVIA Analytics Link in constant currencies at gross price level and using standard IQVIA definitions (generics, early entry generics and biocomparable products), excluding Russia.
2 As of March 2024.
3 IQVIA MIDAS MAT09'23 for 29 markets in Europe, excluding Russia.
4 IQVIA MIDAS MAT09'21-23 in constant currencies for 29 markets in Europe, excluding Russia.
5 LoE value covered based on company analysis using Evaluate Pharma, extended by company forecasting. Analysis based on industry reports, databases and internal evaluations.

SHARE OF GROUP NET SALES 2023

52%

Building on our past performance we are confident we will successfully launch and drive value with our three key upcoming biosimilar launches, which are targeting about USD 6.5 billion of LoE value (or about USD 7.3 billion including the recently launched Natalizumab biosimilar). In generics, our strong pipeline, targeting over USD 47 billion[5] LoE value and leveraging our leading first-to-market launch capabilities will drive further growth.

We will continue to increase the proportion of biosimilars in our European portfolio, leveraging strategic partnerships for new products and technologies to expand the breadth and depth of our pipeline. We will also continuously seek opportunities to selectively invest in incremental M&A.

Finally, we will keep a strong focus on shaping the market environment through targeted policy initiatives to ensure a sustainable long-term framework for the success of this essential industry.

A first in our industry

In 2023 our production facility in Kundl, Austria (see page 56) became the first to meet the British Standards Institute's (BSI) international standard on Minimized Risk of Antimicrobial Resistance (AMR). It demonstrates that we are leaders in ensuring antibiotics are made responsibly by minimizing the risk of aquatic toxicity in the environment and the spread of AMR.

The certification was established by BSI, the business improvement and standards company, to attest to the responsible manufacturing of antibiotics in the global supply chain. It provides independent third-party verification of the steps being taken to ensure that waste streams containing antibiotic active pharmaceutical ingredient (API) and drug products are appropriately controlled during manufacturing. The BSI's rigorous evaluation will be maintained by annual surveillance to verify ongoing maintenance of the appropriate controls.

"This first-of-a-kind certification demonstrates that Sandoz, the global leader in generic antibiotic medicines, is taking the necessary steps to ensure responsible manufacturing of these critical medicines – a key pillar of the global AMR response strategy."

Stephanie Jedner, PhD
Site Head, Kundl

Our global commercial presence continued

North America

Sandoz is the fifth largest biosimilars and generics company in the US, and the second in Canada. Together these markets delivered USD 2.1 billion in net sales in 2023, a 3% increase in constant currencies.

NET SALES

USD 2.1bn

3% growth in constant currencies

MARKET SIZE BASED ON GROSS SALES[1]

USD 80bn

EST. MARKET COMPOUND ANNUAL GROWTH RATE BASED ON GROSS SALES, 2023-2032[1]

10%

The US is the largest pharmaceutical market in the world, offering substantial opportunities for those companies with the capabilities to compete, particularly in the rapidly emerging areas of biosimilars, and the large retail and hospital generics business.

This is exactly the focus for our North America region, where we will grow our biosimilars portfolio, as well as our hospital and retail generics business. To further fuel our strategic growth, we will leverage strategic partnerships that strengthen our pipeline. We've already started this shift in 2023, notably by launching the high-concentration formula of Sandoz biosimilar adalimumab in the US. As of 2024, we aim to launch four key biosimilars, including the first and only known natalizumab biosimilar in the US, in addition to one of the first denosumab biosimilars. We believe we are strongly positioned to be among the top performers across each of the expected launches. We are also anticipating significant generics launches, especially in 2026.

We are also focused on maintaining our strong customer relationships with key, high-value stakeholders including payers, providers, group purchasing organizations and distributors. We remain hyper-focused on ensuring the broadest patient access to our biosimilars, working closely with payer and pharmacy benefit managers to ensure appropriate coverage on formularies. In August 2023, Sandoz AG announced a multi-year agreement with Cordavis, a wholly owned new subsidiary of CVS Health®, to bring Hyrimoz® to patients in the US. In May 2023, we signed a distribution and collaboration agreement with Adalvo, one of the leading B2B global pharmaceutical companies, for exclusive Sandoz rights to commercialize six generic products in the US across key therapeutic areas, including antifungal/antibiotic, oncology and pulmonary. We offer all our customers a comprehensive and high-quality product portfolio, supply reliability, competitive contracting terms and excellent customer service.

1 IQVIA Analytics Link using constant currency exchange rate at gross price level and using standard IQVIA definitions (generics, early entry generics and biocomparable products) for US and Canada.

SHARE OF GROUP NET SALES 2023

22%

In response to rising healthcare costs, US states and private medical care providers have introduced reimbursement schemes and policies that favor the substitution of generics, including by statute. In addition, US payers and providers are increasingly recognizing the importance of biosimilars in reducing healthcare costs as a lower-cost alternative to existing biologic medicines and have introduced healthcare policies encouraging the development of biosimilar versions of existing biologic drugs. We are well positioned to win in this environment, thanks to our strong commercial expertise and infrastructure, long and strong global heritage and credibility, and supply reliability.

In Canada, we intend to continue the momentum of ten consecutive years of growth through strong loss of exclusivity (LoE) coverage, an extensive generic and biosimilar pipeline, a first-to-market approach, and impeccable commercial execution. Our portfolio breadth, unwavering customer focus and ability to launch robust patient support programs will help to drive leadership in growth areas such as biosimilars and complex generics.

Finding the win-win solution in Canada

Many countries still have to be convinced that biosimilars can be part of the solution to alleviating the burden of health care. Five years ago, Canada was among them – no single province or territory had adopted a biosimilar transition policy. Since then, the country has shown great leadership and worked with patient groups, healthcare professionals and other stakeholders to assure public payers that biosimilar transition policies are win-win solutions. By the end of 2023, nine of the 10 provinces and two territories will have adopted biosimilar transition policies. This truly makes Canada a biosimilar-friendly country.

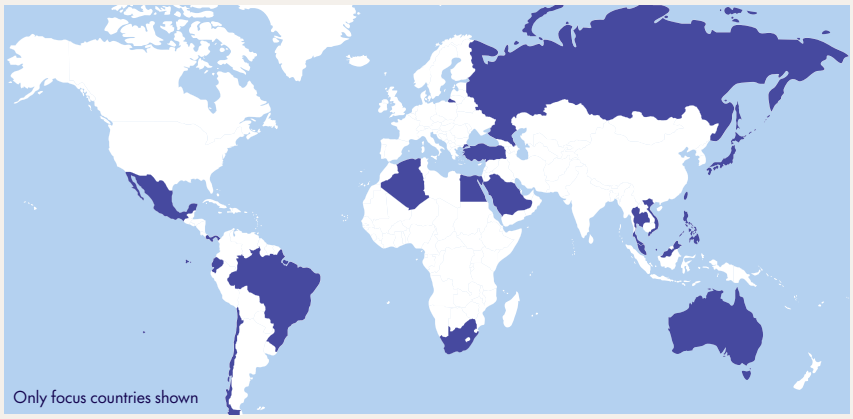
Sandoz is firmly positioned as the leader in biosimilars in Canada, with six marketed products, the majority of which are the most prescribed in their categories. Sandoz Canada offers continuity of care with patient support programs that make the transition from reference biologic medicines to biosimilars easy. These programs include clinical services, educational tools, reimbursement assistance and financial assistance.

For more information / **www.sandoz.com/canada**

Our global commercial presence continued

International

Serving more than 50 markets outside Europe and North America, with a direct commercial presence in over 20 countries in Latin America, Asia, Africa, the Middle East and Australia.



NET SALES

USD 2.5bn

9% growth in constant currencies

MARKET SIZE BASED ON GROSS SALES[1]

USD 75bn

EST. MARKET COMPOUND ANNUAL GROWTH RATE BASED ON GROSS SALES, 2023-2032[1]

5%

Region International has a lean organizational structure offering a harmonized and simplified portfolio, strong and consistent net sales growth over the last five years, doubling first-to-market launches and executing selective inorganic opportunities.

Region International contains share of voice, tender and substitution markets (see page 52 for an explanation of these market "archetypes"). As in Region Europe, Sandoz is well positioned to compete in all three environments as a partner of choice, putting our focus where we can have greatest impact.

Key Sandoz markets include Australia, Brazil, and Japan as well as several emerging economies. We strive for a balanced distribution of our business across the global regions and between mature and emerging markets. Going forward, we will continue to focus on commercial execution in all our international markets, prioritizing biosimilars and first-to-market complex generics launches.

Within Region International, we have implemented a geographic prioritization strategy, streamlining our operations and anchoring our efforts in high-return, high-growth go-to-market models, where we can leverage our broad global portfolio and pipeline.

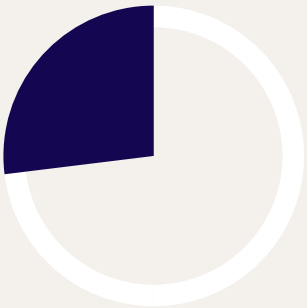
We constantly evaluate whether to maintain a direct commercial presence in our markets based on patient need, market size, projected growth and value creation potential.

We aim for consistent growth, focusing on first-to-market launches with accelerated regulatory timelines, whenever possible, in key global roll-out countries.

1 IQVIA Analytics Link in constant currencies at gross price level and using standard IQVIA definitions (generics, early entry generics and biocomparable products), excluding markets with limited or no operations for Sandoz, such as China, India, Pakistan, Indonesia and Bangladesh.

SHARE OF GROUP NET SALES 2023

26%



In Australia, for example, our annual net sales growth between 2020 and 2023 has grown by an average of 20% in constant currencies, when we have launched approximately 51 generic and two biosimilar products. In Brazil we have grown net sales by 16% in constant currencies between 2020 and 2023, launching approximately 29 generic products and four biosimilars in the same period. Shifting our focus from pharmacy sales to branded generics, antibiotics, hospital and biosimilar launches, we began a 10-year partnership with the Brazilian government in 2020, with two biosimilars launched to date (see box). Region International has also been strengthened by selective product and company acquisitions, such as Aspen's Japanese operations in 2020, containing a portfolio of off-patent medicines focusing on anesthetics and specialty brands. We also acquired GlaxoSmithKline's cephalosporin business in 2021 and the worldwide rights for leading global antifungal Mycamine® (micafungin sodium) from Astellas in 2023. These acquisitions have significantly reinforced our presence in Japan, in global antibiotics and anti-infectives overall.

Biosimilars in Brazil

In Brazil, we work together with the Government in Partnerships for Productive Development (PDP) to expand access to medicines considered strategic for the Unified Health System (SUS). In 2022, we licensed production of adalimumab biosimilar to the world-famous Butantan Institute in São Paulo, contributing to the national public production and benefiting more than 20,000 patients for the next 10 years.

"Rheumatoid arthritis (RA) can seem like an ending due to restricted mobility, pain and deformities. With better access to treatments, associated with good decisions and shared responsibilities, people living with RA can overcome this and give new meaning to their lives."

Priscila Torres
Advocacy Coordinator at Biored and Member of National Health Council in Brazil

Our plans for growth and margin improvement

About half of our targeted improvement in core EBITDA margin over the midterm will come from operational improvements.

Volume, product mix and organizational efficiencies will deliver the other half.

Responsibility for operational improvements lies with Sandoz Technical Operations (STO). Under their direction, we're building a simpler, more efficient supply and manufacturing network to grow the share of biosimilars and complex generics in our portfolio. We are optimizing the way we make and deliver small and large molecules, from anti-infectives to injectables and specialty dosage forms.

Sandoz Technical Operations is using four levers to meet this goal:

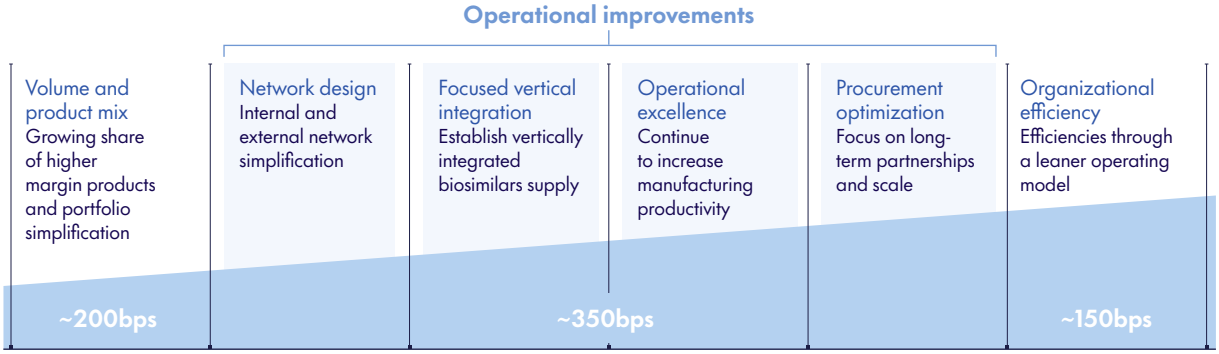
Network design
to ensure optimal capacity utilization. By 2025 we'll reduce our number of internal manufacturing facilities from 18 to 15, and by 2028 we'll reduce external manufacturing sites for finished products by half. These measures are helping us to increase asset efficiency, improve capital allocation, optimize our make-or-buy decisions and support our launches.

Operational excellence
will help us drive higher manufacturing productivity and better asset utilization. We'll make our manufacturing processes more robust, with end-to-end planning optimization, throughput time reduction as well as digitalization and robotization.

Focused vertical integration
particularly in biosimilars and anti-infectives, where we have industry-leading scale and know-how. We're investing more than USD 400 million to build a state-of-the-art biologics production plant in Slovenia and more than EUR 250 million to expand our antibiotics capacity in Austria and Spain (see page 18).

Procurement optimization
will focus on reducing complexity in our supply chain while building long-term strategic partnerships, by leveraging our scale through consolidation of suppliers and leveraging strategic partnerships. We will also reduce complexity through portfolio harmonization and simplification.

Rigorously focused on improving core EBITDA margin



Core EBITDA margin expansion from 18.1% in 2023 to ~24–26% by 2028

Partnerships

Partnerships – agreements to share the development, manufacture and supply of new biosimilars and generics – are another key growth lever.

Due to our global scale and leadership in biosimilars and generics and our broad capabilities, we have become the partner of choice for many firms. We offer these firms access to development, regulatory, manufacturing, or commercial capabilities to bring an asset to market.

Notable partners include Novartis, Just-Evotec Biologics, Polpharma, Samsung Bioepis, Bio-Thera, EirGenix, Gan & Lee and Pharmathen.

Partnerships are important value drivers in both development and manufacturing. In May 2023, we announced a key multi-year partnership with Just-Evotec. Just-Evotec offers an optimized proprietary ecosystem for cost-efficient, state-of-the-art drug development and manufacturing. This includes an advanced continuous manufacturing process which delivers enhanced quality and productivity in biologics production.

This highly efficient drug substance development platform complements our own capabilities, supporting expansion of our current pipeline from 15+ to 24 assets and the continued development of early-stage biosimilars. At a higher level, this strategic partnership is founded on a strong shared sense of purpose and commitment to use disruptive technology with lower operational costs to deliver high-quality biosimilars at scale to patients around the world.

We've agreed with Novartis to work together on the development of our biosimilar launch assets and pipeline over the next five years, with the possibility to extend the arrangement for an additional two years. This arrangement provides a combination of stability and flexibility for building up our biosimilar capabilities.

Sandoz Chairman Gilbert Ghostine, CEO Richard Saynor and Chief Scientific Officer Claire D'Abreu-Hayling visiting Just-Evotec Biologics at their J.POD® Redmond Washington (US) facility, January 2024.

DEMOCRATIZING BIOLOGICS

Democratizing access to biologics is central to how we help shape the future of healthcare at a time of ever-increasing budgetary pressures.

As the pioneer of biosimilars, Sandoz already plays a leading role in increasing access to potentially life-saving biologic medicines, the cutting edge of modern medicine in complex disease areas including oncology and autoimmune diseases.

And Sandoz is also determined to play a key role in driving further uptake of these critical medicines, which is still not where it needs to be after nearly two decades of market experience.

See more of our Purpose in action / www.sandoz.com/stories

SANDOZ

Why biologics matter

Removing a strain on healthcare systems

The global population is growing and aging, placing an ever-increasing financial strain on healthcare systems. Biosimilar medicines offer an economically viable solution to expand (i.e. "democratize") access to cutting-edge biologic treatments.

SANDOZ IS INVESTING

>500m

(USD) to expand biosimilar production capacity and technical development

Biologics are potentially life-altering treatment options for a range of complex conditions, including oncology and autoimmune diseases. Unlike generic medicines, which are chemically synthesized, they are generated directly from living cells and offer more targeted treatment options, for instance by binding to specific targets on the cell surface or in the cell.

The problem is their cost. In the US, biologics represent a small percentage of total prescriptions by volume, but IQVIA reports that they accounted for nearly half of total medicine spend in 2021.

Biosimilars can change that by introducing genuine competition into a field that is still far too short of it. Competition does not just lead to lower prices and accelerate access to existing biologics, it also spurs innovation in the form of enhancements to existing medicines and development of new treatments.

As the pioneer of biosimilars, Sandoz continues to lead the industry with ten marketed products[1] in nearly 100 countries and a strong and rapidly growing pipeline of 24 molecules. In anticipation of continued rapid growth – the global market is expected to increase five-fold in size over the next decade, reaching USD 122 billion in 2032 – Sandoz is investing more than USD 400 million in a new biosimilar production facility in Slovenia, as well as a further USD 100 million-plus in new development capabilities in Slovenia and Germany.

1 As of March 2024.

However, there is still much work to do.

A study conducted for Act4Biosimilars, a global initiative sponsored by Sandoz that aims to increase patient access to biologic medicines, showed that, despite nearly 20 years of biosimilar availability, the combined biosimilar adoption across 30 countries tracked by the initiative is at 14%.

Act4Biosimilars is an initiative led by a multidisciplinary steering committee of healthcare professionals, patient advocacy leaders, biosimilar experts and industry leaders from around the world. Its mission is to increase global biosimilar adoption by at least 30 percentage points in 30+ countries by 2030 – effectively tripling from the 14% estimate to at least 44%.

Driving access through advocacy

We are committed to pioneering access for patients. But we cannot do this alone. Private-public partnerships are key to help us make a change and impact patient outcomes.

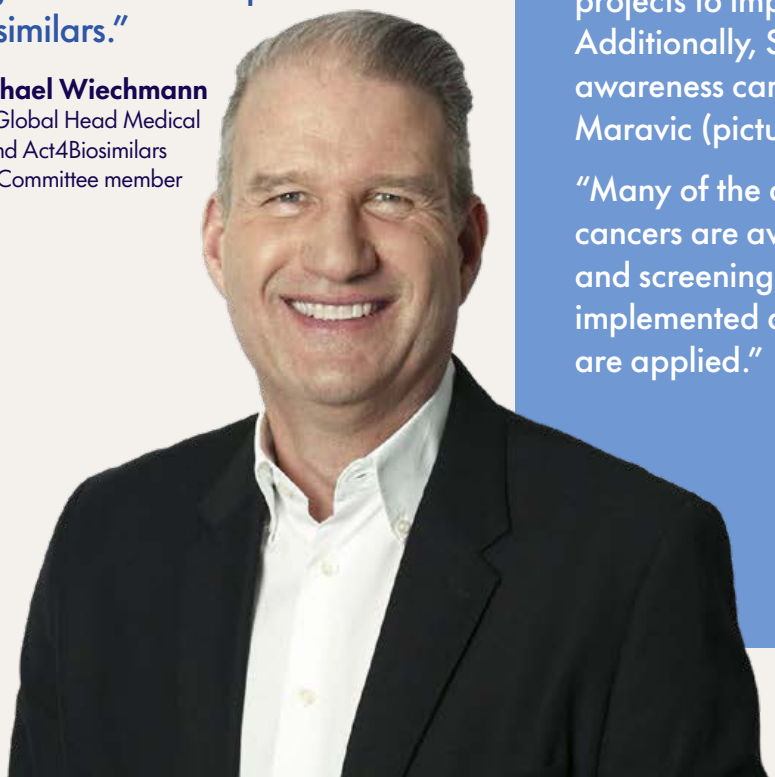
This past year we partnered with prominent media outlets POLITICO (Europe), The Washington Post (the U.S.), and BP Nikkei (Japan) to bring together key public health and policy thought leaders to address region-specific barriers to biosimilar adoption and opportunities for their improved uptake to bring value to all stakeholders involved.

As healthcare systems across the world continue to face pressures to deliver more sustainable impact for patients, we are uniquely positioned to play a leading role in driving important policy discussions around the need for implementing leaner, more streamlined yet robust regulatory pathways that ultimately support increased access to these life-changing medicines. We firmly believe it will take a collaborative approach to realize the true potential of biosimilars.

It encourages local stakeholders to use the Action Plan, a global roadmap for Act4Biosimilars, that outlines 12 goals, and accompanying steps countries can take, to increase biosimilar adoption on a global scale. These actions will help to increase equitable patient access to biologic medicines and support healthcare system sustainability.

"Act4Biosimilars provides the crucial information, strategies, tools and activities needed to equip and empower stakeholders around the globe to make biologics more widely available to patients. I'm proud to be part of this movement to create a healthier and more sustainable future through increased adoption of biosimilars."

Dr. Michael Wiechmann
Sandoz Global Head Medical Affairs and Act4Biosimilars Steering Committee member



Partnering to support patients

"The addition of a biological drug is the reason that I'm alive. We should now seize the opportunity of the widespread use of biologicals through biosimilars,"

says Barbara Moss, a patient advocate at a biosimilars event held by Digestive Cancers Europe (DiCE). We partner with patient organizations like DiCE to support their biosimilar education projects to improve access to biologics. Additionally, Sandoz supports DiCE's awareness campaigns as Zorana Maravic (pictured), CEO of DiCE says,

"Many of the deaths from digestive cancers are avoidable, if preventive and screening programs are implemented and if best practices are applied."

Our biologics

Our biosimilars pipeline

We have tripled the number of biosimilar assets in our pipeline over the past five years. Our pipeline now comprises a total of 24[1] molecules, including three high-value upcoming launches.

The pipeline targets reference medicines with a total sales value of more than USD 200 billion, with approximately two-thirds of that value in the key therapeutic areas of oncology and autoimmune diseases.

Of those 24 molecules, three are due to be launched in the next several years and six are in clinical or regulatory stages. The rest are in early-stage development.

Biosimilars timeline for public launch

2006
Omnitrope® (somatropin)
Launched in Europe in 2006, now available in Europe, North America and International markets. Therapeutic area: endocrinology.

2009
Zarzio® / Zarxio® (filgrastim)
Launched in Europe in 2009 and the US in 2015, now available in Europe, North America and International markets. Therapeutic area: oncology (supportive care).

2017
Rixathon® (rituximab)
Launched in Europe in 2017, now available in Europe, Canada and International markets. Therapeutic areas: oncology (blood cancers), immunology (rheumatology).

2018/2023
Hyrimoz® (adalimumab)
Low-concentration formula launched in Europe in 2018, low- and high-concentration formula available in Europe, North America and International markets since 2023. Therapeutic area: immunology (rheumatology, gastroenterology, dermatology).

Our marketed products[1]

2007
Binocrit® (epoetin alfa)
Launched in Europe in 2007, now available in Europe and International markets. Therapeutic area: oncology supportive care.

2017
Erelzi® (etanercept)
Launched in Europe in 2017, now available in Europe and International markets. Therapeutic area: immunology (rheumatology, dermatology).

2018
Ziextenzo® (pegfilgrastim)
Launched in Europe in 2018, now available in Europe, North America and International markets. Therapeutic area: oncology (supportive care).

2018
Zessly® (infliximab)
Launched in Europe since 2018. Therapeutic area: immunology (rheumatology, gastroenterology, dermatology).

1 As of March 2024.

Our biosimilar pipeline continues to advance, with candidates selected based on four main strategic considerations: major upcoming loss of exclusivities (LoEs[1]), first-to-market or exclusive opportunities, ability to leverage our strong commercial footprint and lifecycle/IP opportunities.

The global biosimilar market is expected to increase five-fold in value, to USD 122 billion in annual sales by 2032. We fully intend to retain a strong leadership position as the market develops, in line with our goal of democratizing access to biologics.

Three upcoming launches

2024

Tyruko© (natalizumab) (reference medicine Tysabri):

Approved by the US FDA in August 2023; launched in EU in February 2024. The first-ever approved biosimilar for multiple sclerosis, targeting USD 2bn in reference medicine sales. Tyruko has been developed by Polpharma biologics.

Biosimilar denosumab (reference medicines Prolia/XGeva):

Most advanced program in industry, indicated for bone diseases/oncology, targeting USD 7bn in reference medicine sales.

Biosimilar aflibercept (reference medicine Eylea):

Strong target product profile including pre-filled syringe at launch, indicated for ophthalmology, targeting USD 11bn in reference medicine sales.

2024

Cimerli© (ranibizumab) (reference medicine LUCENTIS):

In March 2024 we acquired Cimerli©, a treatment for multiple retinal diseases that was launched in October 2022.

In development

5

FURTHER BIOSIMILARS UNDER REGULATORY REVIEW

Biosimilar ustekinumab (reference medicine Stelara):

Commercialization deal with Samsung Bioepis announced in September 2023, indicated for autoimmune disorders including Crohn's disease, targeting USD 10bn in reference medicine sales. Phase III results announced late 2023.

1

FURTHER BIOSIMILAR IN CLINICAL TRIALS

1 Calculated as originator sales one year prior to loss of exclusivity (LOE-1). Analysis based on industry reports, databases and internal evaluations.

OPTIMIZING OUR PRESENCE

Optimizing our presence, by leveraging our global strengths across a range of market models, is how we get more medicines to the people who need them.

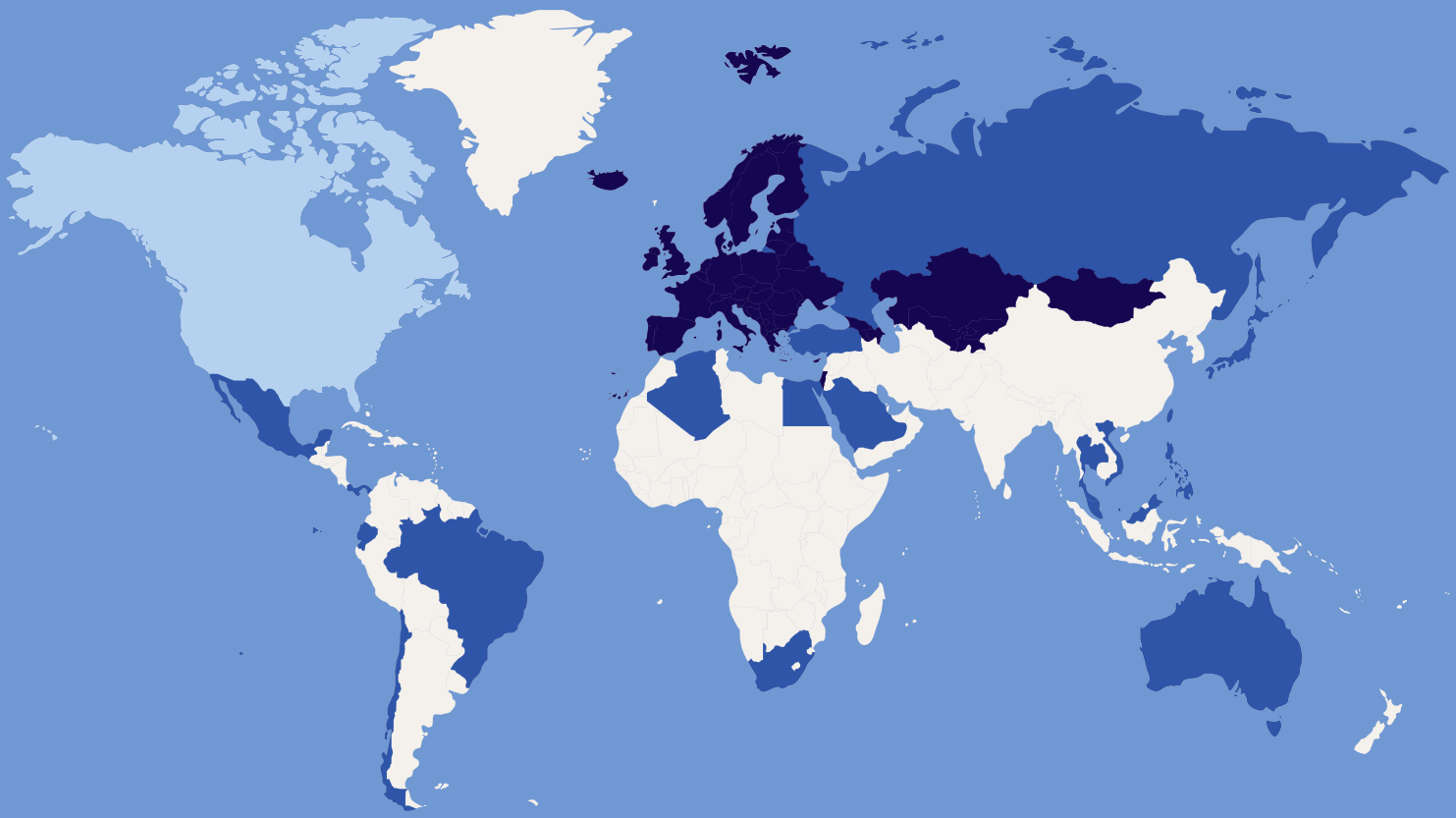
As the only company with a leading global presence in both generic and biosimilar medicines, Sandoz offers approximately 1,500 medicines covering most major therapeutic areas.

We leverage that global portfolio to maximize our global impact, as the only company with a top five presence in all three major regions. Present in more than 100 countries, we focus on building our existing leadership in Europe, while expanding rapidly in North America and seizing opportunities in selected Region International markets where we can make a difference for patients.

See more of our Purpose in action /
www.sandoz.com/stories

SANDOZ

Global reach with local insight.



Net sales to third parties by region, 2023

Global scale and a European champion

52%
Europe
USD 5.0bn
+9%[1]

26%
International
USD 2.5bn
+9%[1]

22%
North America
USD 2.1bn
+3%[1]

1 Growth in constant currencies in 2023 versus prior year

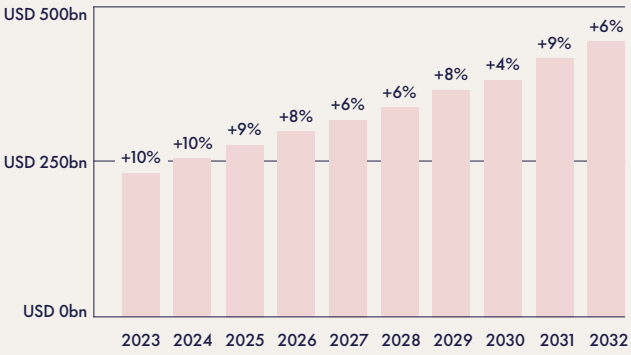
Market overview

Off-patent medicines are key to making healthcare systems affordable.

Around 80% of prescription volumes globally are filled by off-patent medicines – at only 20% of total medication costs.

In 2023, the global market accounted for about USD 233[1] billion in gross sales. The market is projected to grow at a compound annual growth rate of about 7% between 2023 and 2032.

Off-patent market size (2023-2032)[1]



The market is driven by growing and aging populations, as well as the increasing prevalence of chronic disease. These demographic changes drive demand for generics as a way to contain rising health care costs. Increasing loss of exclusivity (LoE), or when innovative medicines lose patent protection, create opportunities for the off-patent industry to meet these demands.

Medicines can lose patent protection at different times in different countries. National regulators and governments may also set initial prices for off-patent medicines with the intention of lowering them over time. Only companies that truly combine global scale with local market knowledge can capture economies of scale in these challenging conditions.

In any given country, the market for off-patent medicine generally falls into one of three main types. In tender markets, a formal and competitive process is managed through central payers such as governments, insurance companies and wholesalers. In substitution markets, pharmacists are allowed to substitute brand-name drugs with generics, if available. In share-of-voice markets, physicians have greater discretion prescribing branded medicines or generics to patients.

A country can also have multiple pharmaceutical distribution channels, such as national or regional tender channels, as well as hospital, retail and digital channels. The US, by far the largest pharmaceutical market in the world, is driven by strong competition and buyer consolidation, which has resulted in declining prices for off-patent medicine in recent years. However, it also offers substantial opportunities for those companies with the scale and capabilities to compete, particularly in complex generics and the rapidly emerging areas of biosimilars.

In summary, the off-patent market is growing globally yet highly fragmented geographically, with a mix of local, regional and global players, all offering varying reach and coverage.

Innovating to meet patient needs

Sometimes our products improve upon the reference medicine. For example, our rapid infusion application for biosimilar rituximab enables a 90-minute infusion, compared to three to four hours for the reference medicine. Apart from lowering its cost, this is an important advance for cancer patients who use these treatments.

We also incorporate patient insights into product design, for example with our high-concentration formulation of the adalimumab biosimilar. This biosimilar uses the Sensoready® auto-injector pen, which is designed with patients in mind, offering an increased shelf life and extension of Out of Fridge Period.

For more information / **www.sandoz.com/innovation**

1 IQVIA Analytics Link in constant currencies excluding markets with no or limited operations for Sandoz (e.g. China, India, Bangladesh, Pakistan, Indonesia, among others), using IQVIA definition: generics, early-entry generics and biocomparable products.

The generics market

Generics are therapeutically equivalent versions of marketed, branded prescription pharmaceuticals in terms of dosage form, safety, strength, route of administration, quality, performance characteristics and intended use.

Generics are sold at substantially lower cost than their originator-owned brand counterparts – according to the U.S. Food and Drug Administration, up to 85% less expensive – ensuring significant savings for health systems and patients.

Read more on generics / **Page 26**

The biosimilars market

Biosimilars are synthesized from living organisms, tissues or cells. Such products have no clinically meaningful differences compared to their reference medicines. Like generics, they provide affordable opportunities for healthcare systems to expand patient access to biologic therapeutics, which are typically very expensive, thereby relieving pressure on healthcare budgets.

Biosimilars have a larger molecular size and more complex structure compared to small-molecule generics, adding cost and complexity to their development and manufacturing. Biosimilars development may take six to nine years and cost USD 100–300 million per candidate. A simple small molecule generic, by contrast, can cost as little as USD 1–2 million and take approximately two years to develop.

The global biosimilars market was estimated to be worth approximately USD 25 billion in 2023 and is projected to reach USD 122 billion by 2032[1]. It is a relatively new segment within the off-patent medicines industry, having steadily gained traction over the past 20 years, beginning with the European Medicines Agency's introduction of a dedicated route for their approval in 2003. The EU has since approved the highest number of biosimilars worldwide, paving the way for the adoption and development of biosimilars globally.

Biosimilars have rapidly gained market share in the US across multiple product categories since the market opened in 2010. Over 40 biosimilars are now approved in the US across 11 molecules. As in Europe, the US biosimilars market is expected to grow significantly over the next few years, with more than 70 key biologic products set to lose exclusivity by 2032 (33 by 2028), representing about USD 170 billion in LoE[2] value, of which the biosimilars in our pipeline target roughly USD 80 billion[3].

Biosimilar products are also expected to grow significantly outside Europe and North America, from USD 2 billion in gross sales in 2022, and expected to grow at a compound annual growth rate of 18% through 2032, reaching USD 9 billion[1]. Selected countries that have shown rapid adoption and increased market share of biosimilars include Japan, Australia and Brazil, among others.

Read more on biosimilars / **Page 28**

1 IQVIA Analytics Link in constant currencies excluding markets with no or limited operations for Sandoz (e.g. China, India, Bangladesh, Pakistan, Indonesia, among others), using IQVIA definition of biocomparable products.

2 Calculated as originator sales one year prior to loss of exclusivity (LOE-1). Analysis based on industry reports, databases and internal evaluations.

3 Analysis based on industry reports, databases and internal evaluations.

Quality

We are committed to the quality, safety and efficacy of our products – for patients as well as for society at large.

Quality is a competitive advantage for Sandoz. It is a hallmark of the Sandoz brand. We are committed to ensuring that all our marketed products meet the highest standards because patient safety is our highest priority.

WE DELIVERED

100%

Success rate over 121 regulatory inspections, 2021–2023

All our facilities, including our development centers, operate under strict regulations from regulatory health authorities, and in compliance with the World Health Organization's Current Good Manufacturing / Laboratory Practices (cGMP and cGLP). All customer complaints regarding product quality are tracked and taken very seriously. As per our procedure we investigate the complaints to identify the root cause and drive corrective and preventive actions if required. We work closely with the health authorities to provide timely and accurate information to patients. Suppliers and partners are required to adhere to the same high standards that we expect of our own people and processes (see also page 68). We actively monitor our third-party network and partners through audits, incoming product inspection and testing and rigorous quality agreements. Health authorities also demand and review quality standards through coordinated inspections, import authorizations and other monitoring and control mechanisms. After 137 health authority inspections over the last three years, our success rate remains 100%.

As the global leader in generic antibiotics, we are committed to shaping an environment that sustains the effectiveness of all antibiotics (see page 30). As of 2023, we have announced investments totaling over EUR 250 million at Kundl (Austria) and Palafolls (Spain) to support increased global demand for essential antibiotics and to ensure the sustainability of our European-based production network. Through these investments and other measures we increased our manufacturing capacity for amoxicillin and other key penicillin products in Kundl by over 20% in 2023. We expect to add another 25% in 2024, reinforcing our position as a trusted source of antibiotics in Europe.

Our high-quality in-house global manufacturing network.

Sandoz Centers of Excellence:

Striving for the highest standards of safety and quality

As the global leader in off-patent treatments, it is our responsibility to ensure the quality, safety and efficacy of all our medicines. This is why we've established Centers of Excellence (CoEs). Their primary objective is to ensure newly developed medicines are safe and comply with health authority guidelines to maintain the highest safety standards across the whole drug development life cycle.

Our first CoE was established in 2019 to maximize expertise across both the development and manufacturing networks. In 2020, we added a CoE focusing specifically on nitrosamines, a substance that has come under increasing attention by health authorities. We have also established a CoE for Extractables and Leachables (E&L), which proactively evaluates impurities in specific kinds of products and medical devices.

Making our products safer and better for patients

All our CoEs play a crucial role in ensuring the safety of our medicines for patients. They allow us to apply uniform evaluation and control standards across our entire network, resulting in safer and more reliable products. Our CoEs are highly efficient and science-driven, making good on our responsibility as a global leader in off-patent medicines.

Contributing to a safer industry

We also share the expertise of our CoEs with our alliance partners and suppliers on a regular basis. Our individual experts share their learnings to cross-industry platforms and organizations.

Expanding our network

Securing Europe's supply of antibiotics

Kundl, Austria

In 2023 we opened our expanded production facility for penicillin, the leading category of antibiotics worldwide, through a joint investment with the Austrian government. The expansion not only strengthens Europe's supply of antibiotics, but it does so in a sustainable way – minimizing CO_2 emissions and water use.

Sandoz has the only major remaining vertically integrated production network for penicillins in Europe. The investment in Kundl strengthens our industrial presence in Europe, reinforces our commitment to environmental responsibility, and reaffirms our determination to be the world's leading and most valued biosimilars and generics company.

In 2023 the facility became the first to meet the BSI's international standard on Minimized Risk of Antimicrobial Resistance (AMR), demonstrating that we are leaders in responsible production (see page 30). Antibiotics are the backbone of modern medicine – and the Kundl plant is a testament to the resilience of European manufacturing.

Kundl expansion delivers a smaller environmental footprint:

8,000
fewer tons CO_2 p.a.

300,000
fewer road kilometers p.a.

4,000
less tons of waste p.a.

150,000
less m^3 water consumed p.a.

40,000
less mwH of energy used p.a.

See our ESG strategy / **Page 60**

See more of our Purpose in action / **www.sandoz.com/stories**

ZEROING IN ON ESG

SANDOZ

At Sandoz, we have a clear Purpose: pioneering access for patients. Supporting our work to drive access is a focus on sustainable operations, making Sandoz a great place to work and strong corporate governance. This strong ESG focus is the foundation for the wider impact we have on our employees, our healthcare systems and our society.

Learn more about our material priorities / **www.sandoz.com/materiality**

Four pillars anchor our ESG strategy

Pioneering access for patients is at the core of what we do. Strong corporate governance, sustainable operations, and a focus on making Sandoz a great place to work advance that mission.

Access

We deliver access to medicines and democratize biologics worldwide.

As the leading global provider of off-patent medicines, Sandoz leverages our strengths to make quality medicine accessible to more patients whenever and wherever they need it.

Read more about Access on / **Page 20**

Environment

We incorporate environmental responsibility, driving down our carbon footprint and preserving natural resources.

Sandoz operates with a sustainability mindset, and we know that responsible environmental practices are not only good for the environment, they also can result in greater operating efficiencies, which is core to our strategy.

See more on Environment / **Page 66**

People

We champion diversity, equity, and inclusion.

At Sandoz we know that our people are central to our work of pioneering access to patients, and we champion diversity, equity, and inclusion among our more than 20,000 employees in 100+ markets worldwide.

See more on People / **Page 62**

Corporate governance

Our strong corporate governance practices mean we can face the challenges ahead.

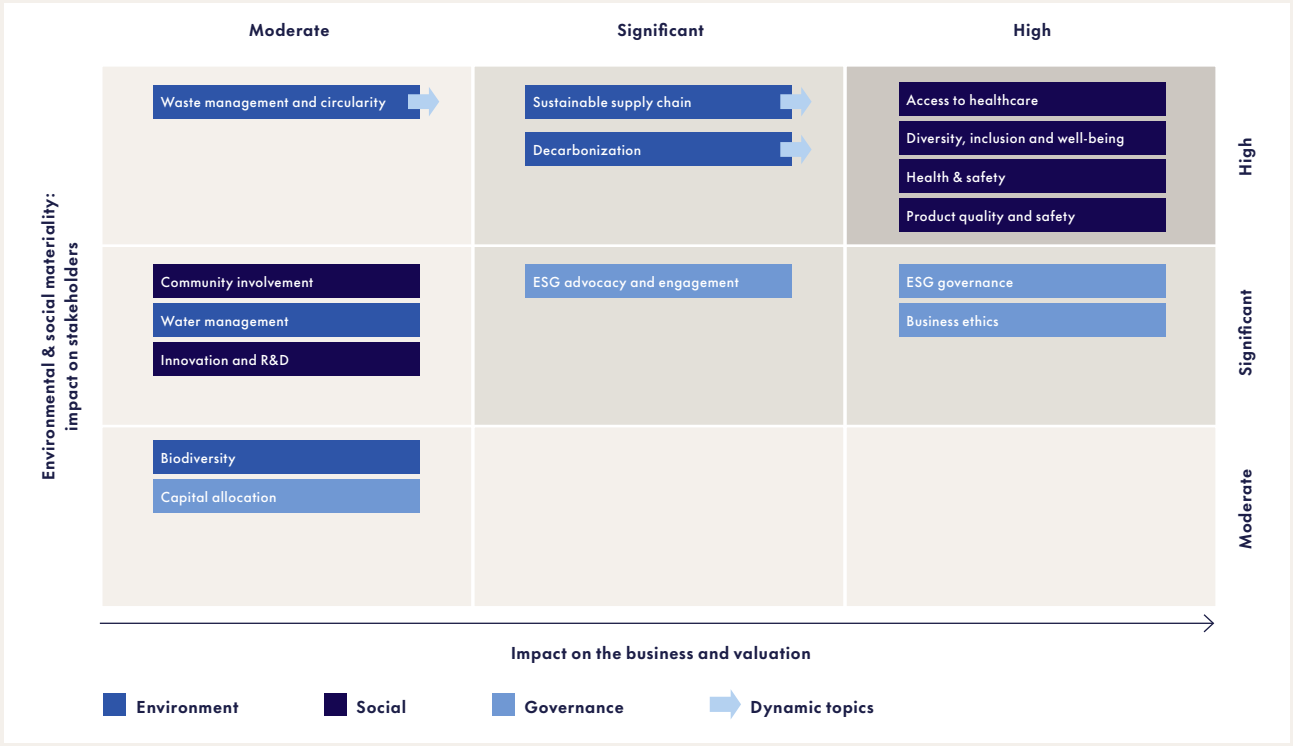
Sandoz corporate governance practices enable us to innovate and manage risks as we drive toward sustainable financial performance and long-term value creation.

Read more about Corporate governance on / **Page 70**

Our material issues

In 2023 we assessed our material issues by engaging with employees, peers, investors and regulators. We also used patient insights. We are now assessing our material issues on the principle of "double materiality," in line with the EU's Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy. We will publish the results of that assessment in our 2024 Integrated Annual Report.

For details on the methodology behind both assessments, please see / **Page 226**



Our people

Our people, our culture, our Purpose

Our culture is our collective identity and enables our performance as a company to advance our common Purpose: **pioneering access for patients.**

"Like many of my colleagues, I joined from an innovative medicines company to help patients gain access to high-quality, affordable medicines. Almost five years on, I am just as excited at the ability to make an impact on human health as I was back then."

My role today is to lead Biosimilars and Oncology for the Thai market. We are there to help patients during those most challenging times, helping to ease the burden of cost so they can focus on their health and well-being. But we as a team can only be as impactful as those we have working here, and I am truly blessed to be surrounded by smart, dedicated colleagues all focused on our collective responsibility.

The culture here is truly unique! Underpinned by our values, we experience a feeling of belonging, where, regardless of background, everyone is supported, encouraged to innovate and to challenge the status quo.

Now as an independent company, the future is exciting! We have a great pipeline, we are investing in state-of-the-art development and manufacturing. For employees, we have an opportunity to keep growing, learning and shaping the future of Sandoz for us, for investors and for the half a billion patients we serve."

Sukanya Preedeewong
Head of Oncology & Biosimilars, Thailand

To achieve our Purpose, we must be able to attract, develop and engage talent. We offer our employees a range of benefits, which vary between countries based on local market practice but generally include comprehensive health, life and accident insurance, well-being and retirement benefits, as well as vacation policies. In addition, we ensure that our employees are rewarded and recognized for their individual and collective contributions.

All these measures, combined with our strong brand recognition and market leadership, position us to attract and retain a talented workforce. Our success is reflected in our outstanding scores on the employer-rating website Glassdoor, where 83% of our employees say they would recommend Sandoz to a friend and where our collective company rating of 4.1[1] surpasses global pharmaceutical industry benchmarks.

Learning and development

Learning and development is a priority for us. Our focus on continuous development, feedback and recognition helps support employees in reaching their career aspirations. Our employees are regularly trained on standard operating procedures (SOPs), guidelines and compliance policies, as well as on new requirements from health authorities. Employee training status is regularly monitored by function leads and reported to management.

Employees of all levels can benefit from on-the-job training, coaching, mentoring and communities of belonging (CoBs). Managers use tools that enhance the technical skills and personal growth of employees. Teams and organizations, including part-time employees and contractors, are offered opportunities in the form of self-paced resources and programs that promote continuous growth and development.

1 Glassdoor.com, accessed January 2024, current employee scores only.

Developing our future leaders

We aim to develop strong leaders and build a deep talent pipeline. This is supported through ongoing and periodic reviews of the organization, talent in current roles, and ensuring we develop the experience and capabilities necessary across our workforce. We are focusing on developing leaders across the organization, aligned with our Purpose, values and culture. We believe leaders drive culture and culture drives performance.

We focus on succession planning through talent review processes that identify and accelerate successors' readiness to fill senior positions. We track the share of positions filled with internal candidates to measure our success. Thirty-eight percent of open positions were filled by internal candidates in 2023.

Employee engagement

We will establish our first Culture & Engagement survey in 2024. The objective is to boost our culture by active listening to everyone at our company to learn how our employees feel, what they need and how our culture is evolving. It will provide a helpful read on a diverse set of opinions in Sandoz, in all geographies, all units and at all levels. Participation is voluntary and responses are strictly confidential.

Diversity, equity and inclusion

At Sandoz, diversity, equity and inclusion are at the heart of all we do, starting at the top of our organization, with women representing 37% of senior leadership, 44% of our Board of Directors and 50% of our Executive Committee. Our inclusive culture ensures all differences are valued, all practices are fair, and everyone feels respected and heard (see box). We strongly believe that when we feel valued and accepted, we can make our greatest contributions. We do not tolerate discrimination, harassment, abuse of authority, retaliation, bullying or workplace incivility. Diversity, equity and inclusion targets focused on increasing the percentage of women in senior management roles are included in the Long-Term Incentive Plan for senior leadership at Sandoz.

Sandoz values

Our values are the result of co-creation across our business: beginning with input from all employees via a culture survey, pressure-tested by leaders, then signed off by the Sandoz Leadership Team. These values distill how we act when we're at our best, doing all we can to drive business growth and access for patients.

Team up to break barriers.

Work together to drive access.

Collaboration is more important than ever in our new organizational setup. To make sure patients get the vital treatments they need, we must work together to drive access.

Be as ambitious as our Purpose.

Be bold to make change happen.

We want to change the status quo and find new ways to pioneer access for patients, and thereby expand the role Sandoz plays as a leader in its industry. We must be bold to make change happen.

Lead by example.

Commit to making a difference.

Our future is ours to shape. We must make our Purpose personal, take accountability and commit to making a difference for patients and for our company.

Open minds open doors.

Create new opportunities.

We must be open-minded – open to ideas, open to possibilities, open to change – to create new opportunities for patients, for our business, and for ourselves and our teams.

Read more about us / **www.sandoz.com/careers/people-and-culture**

Our people continued

Being an inclusive organization that prioritizes diversity, equity, inclusion and belonging takes commitment, intent, and accountability.

Fair and competitive wages

We compensate employees based on principles including competitive benchmarking, and internal and external consistency. The principles are structured to strengthen the entrepreneurial, performance-oriented values of Sandoz. We also emphasize personal accountability and underline the importance of competence and integrity as drivers of sustainable business success. Our leaders' remuneration incorporates equity in Sandoz to align leadership behavior and shareholder interests (see page 91).

Pay equity is monitored through the pay equity analysis at country level based on a company plan. Part of the plan is pay transparency by sharing with the employees the relative position of the annual base salary to the external and internal benchmark. The objective assessment of the candidate's relevant experience, education and competencies is a basis of the offer process. Historical salary comparisons are removed from the offer process. A gender balance in management positions is targeted to contribute to gender pay equity.

Human rights and labor standards

Sandoz commitment to human rights underscores our dedication to responsible business practices that respect the dignity and rights of all individuals. We proactively strive to prevent and mitigate potential adverse human rights impacts across our operations, products, services and value chain.

Our comprehensive approach includes special attention to vulnerable groups and continuous improvement to ensure our actions remain aligned with evolving global expectations. For more information on governance of the human rights agenda, see page 68. For information on our risk-based measures, see page 123.

Performance management

Our performance management approach is based on individual and collective objectives, teamwork and frequent feedback. The aim is to continually improve business performance while helping our employees and teams to reach their full potential. Peers as well as managers provide regular, timely and constructive feedback. Employees are recognized for their accomplishments, with an emphasis on collaboration, contributing to others' success and achieving more together.

Employee concerns

We establish channels for open communication, from regular feedback sessions to formal conflict resolution processes. Additionally, Sandoz has implemented an employee assistance program to provide support for personal or work-related issues. Transparent communication about our policies, changes and decisions also helps to address concerns. We engage in a meaningful social dialogue with employee representative bodies in accordance with local law and regulations. Ultimately, we aim to create a culture of trust. Listening to and acting on employee feedback helps us create a safe and inclusive workplace.

More policies are available on our website /
www.sandoz.com/policy

Attracting and retaining diverse talent:

- Identifying potential barriers in our processes and practices to attracting diverse talent
- Living up to our commitments as an inclusive employer

Fostering an inclusive mindset and behavior:

- Enhancing inclusive leadership and bringing our Culture and Values to life into our programs
- Building a holistic approach to mental health that reaches everyone

Creating equity for underrepresented groups:

- Defining commitments to underrepresented groups, depending on local context, such as gender and LGBTQ+
- Embedding equity through policies, guidelines and principles

Enabling a sense of belonging:

- Supporting our Communities of Belonging with representatives of the Sandoz Leadership Team
- Maintaining active dialog through structured listening programs

We leverage data from global reporting dashboards and our culture and engagement survey to monitor the achievements of the Culture & Inclusion objectives. By 2025 we aim to cover 100% of employees with pay equity and living wage studies.

*LGBTQ+: Lesbian, gay, bisexual, transgender, queer

It's important to note that no single approach to employee concerns guarantees success. We believe that we have developed a holistic approach that is customized to Sandoz needs and creating a supportive work environment.

Whistleblowing

We maintain an integrity line, called SpeakUp, where employees and third parties can safely and, if desired, anonymously report potential misconduct. SpeakUp is managed by our People & Organization function and guarantees that all concerns will be acted upon with the highest ethical standards. Employees can also contact any manager or their People & Organization, Corporate Security, Ethics, Risk & Compliance, Privacy or Legal representative to share a concern. Reports are reviewed by the Sandoz SpeakUp Office, which will determine further actions, including referral for investigation or review. Investigations are fact-based, confidential and impartial. Every half-year, the SpeakUp Office prepares a report which summarizes the misconduct reports received during the respective six-month period. Such reports will subsequently be reviewed by the Board of Directors.

We do not tolerate retaliation in any form. Any form of retaliation reported will be investigated and remediated with the strongest measures.

Employee well-being

The well-being of our employees is vitally important. It's a natural extension of our Purpose. We aim to go beyond mere compliance by encompassing the holistic well-being, including mental and physical health, of our employees in our approach.

We empower our managers to provide flexibility to our employees in working onsite and remotely whenever feasible. This promotes teamwork, inclusion, belonging and personal growth as well as happiness and productivity. Through our inclusive culture, shaped by our values (see page 62), we seek to create an environment where everyone thrives.

Health, safety and environment

Safe workplace conditions are constantly monitored through our internal Health, Safety, and Environment (HSE) management system, which covers all our sites and all the people who work in them – Sandoz employees, contractors and third-party personnel. Our lost-time injury and illness frequency rate (LTIFR) was 0.24 in 2023.

At Sandoz, HSE is based on the following three principles:

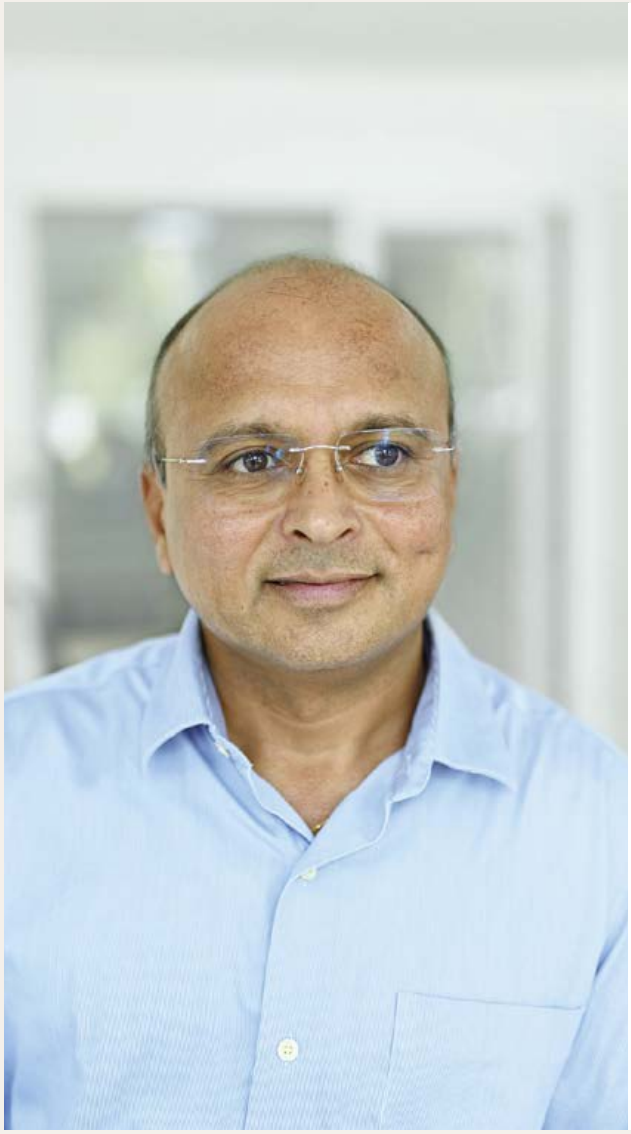
- **Prevent:** our people are trained to prevent harm. We identify and mitigate HSE risks.
- **Promote:** we share ideas and use technology to promote better HSE practices.
- **Protect:** we protect our people, our patients, our communities and our environment.

Our global HSE policy is applicable to all employees at Sandoz and describes our principles, commitments and processes. Legal requirements of occupational health and safety are followed to effectively manage occupational safety hazards. The Sandoz occupational health program ensures the health and well-being of our employees, both physical and mental. Our HSE management system aligns with relevant standards (e.g. ISO 14001 and ISO 45001) and industry guidance.

Climate change and the environment

By reducing our carbon footprint, responsibly managing waste and water and engaging with our supply chain, we can increase our sustainability impact.

We're leveraging alternative energy sources and driving efficiencies in our operations to reduce our climate impact. For better water and waste management, we're embedding circularity and sustainable design into our products. We're also working with our suppliers to improve their performance, helping promote sustainability in our supply chain.



Decarbonizing our operations

We're always seeking ways to leverage green energy sources that reduce our carbon footprint. So, it makes perfect sense to team up with Sunsure Energy, one of India's leading industrial-focused renewable energy power producers. In 2023, Sandoz India signed a Power Purchase Agreement (PPA) for 20 MWp with Sunsure, which will set up a dedicated solar power project in its solar park in Maharashtra. This agreement will meet the green power requirement through open access supply for our manufacturing plant in Kalwe, Navi Mumbai to procure 31 million kilowatt-hours (kWh) of green power per year, representing 65% of our current power needs. This will enable Sandoz India to avoid an estimated 26,000 tonnes of CO_2 per year. We expect it will also enable us to save substantially on energy costs over time.

SANDOZ INDIA ESTIMATED TO REDUCE CO_2 EMISSIONS BY

26,000 tonnes
per year

Pictured: Sudhir Bhandare, Head – Technical Operations, Kalwe

We are committed to science-based greenhouse gas emission reduction targets.

Our commitment to decarbonization

In January 2024, Sandoz submitted a Commitment Letter to the Science Based Targets initiative (SBTi) that confirms our intent to set science-based carbon emissions reduction targets in line with the Paris Agreement Goals to limit global warming to 1.5 degrees Celsius above pre-industrial levels. We also committed to work to reach net zero emissions by 2050.

We will spend up to the next 24 months validating our baseline carbon emissions as a standalone company and developing a plan to reduce Scope 1, Scope 2, and Scope 3 emissions. We intend to set decarbonization targets for 2030 and 2035 respectively, and we plan to report annually on our progress. We will submit that plan for validation by the end of January 2026.

Our executives are incentivized to both follow through on this plan and achieve the targets set out by the commitment, with long-term incentives tied to SBTi validation of our decarbonization plan and achieving the goals as validated by the SBTi.

Active engagement with our suppliers is essential to our decarbonization strategy, as supplier-related emissions account for more than 90% of our total greenhouse gas emissions. Our Third-Party Code includes specific expectations for suppliers regarding compliance with environmental sustainability regulations and active collaboration to achieve Sandoz environmental goals and improvements (see page 69).

We are also focused on achieving external certifications for our operations when appropriate. Currently eight of our locations are covered by ISO 14001 (environmental management) and four are covered by ISO 50001 (energy management).

Task Force on Climate-related Financial Disclosures (TCFD)

Sandoz supports the recommendations of the Task Force on Climate-related Financial Disclosures.

We are committed to reducing the impact of our business activities on the environment and have set clear targets covering climate, water and waste (see page 68). These targets relate to both our own manufacturing operations and to our wider supply chain.

While we believe our business strategy is well-adapted to current climate risks and opportunities, we continue to work to improve our approach where possible, particularly as it relates to risk management and governance of climate issues.

GOVERNANCE	STRATEGY	RISK MANAGEMENT	METRICS AND TARGETS
Disclose the organization's governance around climate-related risks and opportunities.	Disclose the actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning where such information is material.	Disclose how the organization identifies, assesses, and manages climate-related risks.	Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.
Board oversight **/ Page 68**	ESG strategy **/ Page 60**	Risks and opportunities **/ Page 117**	CO_2 metrics and KPIs **/ Pages 67 and 230**
Management's role **/ Page 68**	Scenario planning **/ Page 117**	Integration into overall risk management **/ Page 114**	Details on Scope 1 and Scope 2 emissions **/ Page 230**

Zeroing in on ESG continued

Responsibly managing waste and water

We are focused on minimizing the risk of discharge of active pharmaceutical ingredients (APIs) or other chemicals into water systems, especially because of our strong commitment to mitigate antimicrobial resistance (AMR) (see page 30). Our teams perform wastewater analyses on a regular basis to ensure water quality before it reaches public wastewater systems. We do not send solid APIs into landfill through our waste streams.

We are committed to minimizing the environmental impact of production on water systems, which we track by measuring the ratio of predicted environmental concentration (PEC) to the predicted no-effect concentration (PNEC), a standard measure of risk of harm from the presence of a given substance in the environment. We aim to achieve a PEC/PNEC ratio of less than one for all manufacturing sites by the end of 2030. Management incentives are tied to reaching this goal. We also aim to require a PEC/PNEC ratio of less than one for all Tier-1 API suppliers by 2030.

In 2023, the Sandoz production site in Kundl, Austria was the first in the world to achieve a new international standard on Minimized Risk of Antimicrobial Resistance, established by the British Standards Institution (BSI). The certification provides independent third-party verification of steps being taken to ensure that waste streams containing API and drug products are appropriately controlled. We aim to secure the BSI's AMR certification for all relevant products and sites by the end of 2024. We plan to require this certification of Tier-1 antibiotic suppliers by 2030.

Alongside improving energy efficiency in our production process, we're continuously exploring how to introduce more sustainable alternatives and ecofriendly solutions in packaging and transport. We're leveraging circular economy opportunities where possible. This includes a focus on more sustainable packaging design and addressing the recyclability of packaging after use. We commit to sending zero waste to landfill by 2030. In the past five years, Sandoz has not been subject to material fines in connection to environmental liabilities.

For full details of our progress in managing waste and water in 2023, see / **Page 231**

Sustainable supply chain

Our suppliers are critical to our success. We choose our partners based on their capabilities and competitiveness, as well as their ability to meet our high health, safety and environment (HSE) and environmental, social and governance (ESG) standards. These standards encompass human rights, environmental compliance, animal welfare, anti-bribery, data privacy, responsible minerals, trade sanctions, and more. This comprehensive approach underscores our commitment to ethical business practices and sustainability throughout our supply chain.

Governance of ESG practices

The Board of Directors holds ultimate responsibility for our ESG strategy. The Board has assigned responsibility for ESG strategy and review of targets to the Human Capital & ESG Committee. Several Board members have expertise in ESG matters, including our Board Chair. Management oversight of our sustainability agenda is led by the Chief Executive Officer, in partnership with the other members of the Executive Committee and the Sandoz Leadership Team.

A management-level ESG Council has also been established to guide ESG decision-making within the Group.

Our Board of Directors' endorsement of the Human Rights Commitment Statement exemplifies our commitment to upholding human rights. We assign accountability to Sandoz General Counsel and Chief Compliance Officer for implementing this commitment.

Ethics and corporate integrity

The Board's Audit Risk and Compliance Committee (ARCC) holds responsibility for managing and overseeing ethics and corporate integrity matters. This structure ensures independent and high-level oversight of our ethical commitments, solidifying our dedication to upholding the highest standards across our operations. See also page 76.

Our Code of Ethics serves as a guiding compass, reflecting our commitment to excellence in patient care, societal impact and internal collaboration. Our code assists employees in navigating complex situations, ensuring that they uphold the highest ethical standards for the benefit of patients, society and colleagues. Training on our Code of Ethics is mandatory for all employees and is reiterated annually. We maintain an anonymous whistleblowing service that is open to employees as well as third parties for any case of potential misconduct (see page 65). All our employees are trained in our Code of Ethics.

Our commitment to ethics extends to our relationships with third parties. Our Third-Party Code outlines stringent ethical standards that we expect from suppliers and business partners (see page 121).

Sustainable Development Goals

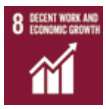
Sandoz supports the achievement of the United Nations Sustainable Development Goals (SDGs), and we believe that strengthened health systems and better access to healthcare can positively impact all of them. Our work has the most impact on SDGs 3, 5, 8, 10 and 12.

Good Health and Well-Being

"Ensure healthy lives and promote well-being for all at all ages." Sandoz core business to strengthen healthcare systems through affordable medicines; democratize biologics; and promote responsible manufacturing, access, and use of antibiotics squarely supports Goal 3.

Gender Equality

"Achieve gender equality and empower all women and girls." Fostering diversity, equity, and inclusion is at the core of our ESG strategy and at the core of our business, which depends on more than 20,000 employees around the world.



Decent Work and Economic Growth

"Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all." Sandoz provides high-quality jobs to employees in all regions of the globe. Access to affordable healthcare within stronger health systems is crucial to long-term economic growth.

Reduced Inequalities

"Reduce inequality within and among countries." Sandoz provides products that explicitly target the need for affordable and accessible medicines, often by disadvantaged and marginalized populations. Sandoz products are sold in more than 100 countries, including 85 low- and lower-middle-income countries (LMICs).

Responsible Consumption and Production

"Ensure sustainable consumption and production patterns." Sandoz incorporates environmental responsibility in the way we operate, driving down our carbon footprint, preserving natural resources, managing waste and water sustainably, and promoting a greener supply chain.

Partnerships

We can't reach any of these targets by ourselves. We partner with a range of organizations and belong to a number of industry alliances, including the following:

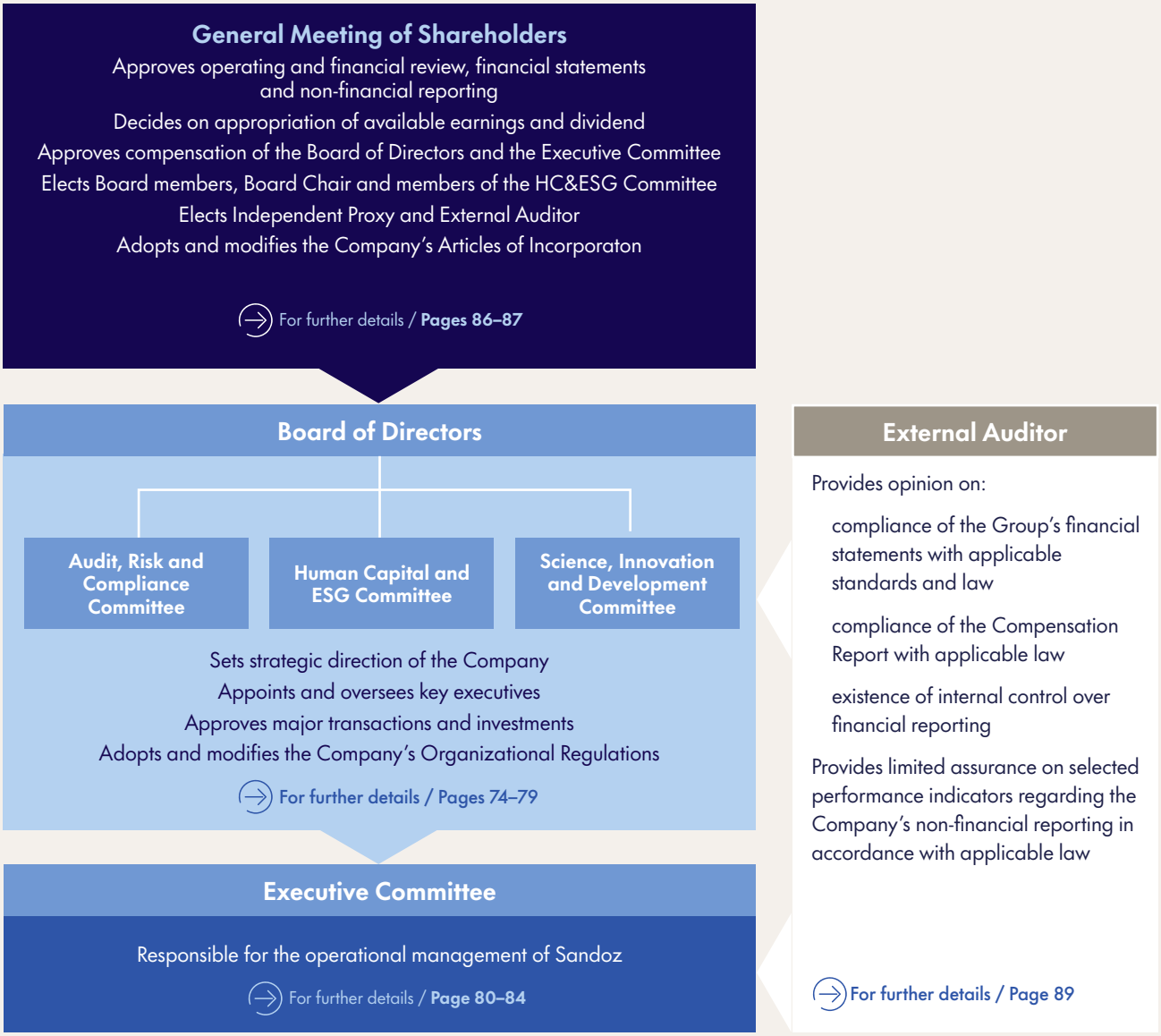
- AMR Industry Alliance
- Pharmaceutical Supply Chain Initiative
- International Generics and Biosimilar Medicines Association
- Medicines for Europe
- Association for Accessible Medicines

These partnerships help us set the industry's public policy agenda, champion policy solutions that emphasize the value of competition and, above all, the importance of patient access.

Corporate Governance

Corporate governance framework

Sandoz is committed to an effective corporate governance framework that supports its sustainable development and ensures long-term value creation. The principles and rules behind this commitment are described in a number of corporate documents, in particular the Articles of Incorporation, the Organizational Regulations, the Code of Ethics and various internal policies (www.sandoz.com/corporate-governance). This Corporate Governance Report has been established in compliance with all relevant Swiss legal requirements regarding corporate governance, including the SIX Swiss Exchange's Directive on Information relating to Corporate Governance and the standards established in the Swiss Code of Best Practice for Corporate Governance. It covers the period from the spin-off of Sandoz from Novartis and the first day of trading of Sandoz Group AG on October 4, 2023, to the end of the financial year on December 31, 2023.



Group structure and shareholders

Our heritage goes back to the formation of the small chemicals company Kern & Sandoz in 1886.

Novartis AG was created in 1996 through the merger of Sandoz and Ciba-Geigy, discontinuing both brands, before Sandoz was re-established as the umbrella brand for the off-patent medicines business of Novartis.

In August 2022, Novartis announced the intention to separate the Sandoz business from the rest of Novartis by way of a 100% spin-off. At an extraordinary general meeting of shareholders of Novartis AG held on September 15, 2023, the shareholders approved the spin-off, which was implemented on October 4, 2023. Also on October 4, 2023, the shares of Sandoz Group AG began trading on the SIX Swiss Exchange. To separate the Sandoz business from Novartis, the Sandoz subsidiaries, assets and liabilities were transferred, or are in the process of being transferred, to Sandoz such that Sandoz now holds the business formerly constituting the Sandoz business of Novartis.

Sandoz is a multinational group of companies operating in the off-patent medicines segment. It specializes in the development, manufacturing and marketing of generic pharmaceuticals and biosimilars. All of these business and functional activities are managed globally on a vertically integrated basis.

Listed companies

Sandoz Group AG, the Group's holding company, is a company organized under the laws of Switzerland and registered in the Canton of Zug. Its registered office is located at Suurstoffi 14, CH-6343 Rotkreuz, Switzerland, and the operational headquarters of the Group are domiciled in Basel, Switzerland.

Market capitalization as of December 31, 2023: CHF 11.6bn.

Non-listed Group companies

The subsidiaries and associated companies of the Sandoz Group are shown in Note 34 to the Consolidated Financial Statements which can be found on pages 193–195.

Significant shareholders

The major shareholders of Sandoz Group AG as of December 31, 2023 are listed in the table below, which is based on notifications on the SIX Swiss Exchange online notification platform: www.ser-ag.com/en/resources/notifications-market-participants/significant-shareholders.html.

Shareholder	% holding of share capital as of December 31, 2023
BlackRock, Inc., New York[1]	6.04%
Novartis AG, Basel[1, 2]	4.30%
(Through Novartis-Mitarbeiter-beteiligungsstiftung, Novartis Forschungsstiftung, Novartis Stiftung für Kaderausbildung, Novartis Stiftung für Mensch und Umwelt, Basel)	
Sandoz – Fondation de Famille, Vaduz	4.15%
Through Emasan AG, Basel	
UBS Fund Management (Switzerland) AG, Basel[1]	3.24%

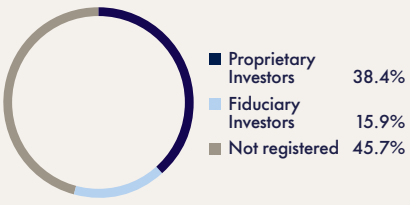
[1] Not or only partially registered in the share register

[2] Reporting for the consolidated invidual holdings of the group of invested foundations

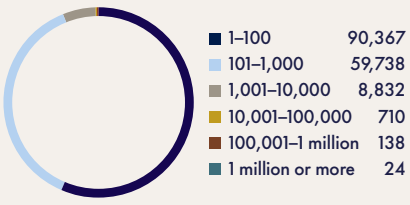
Shareholder structure

As of December 31, 2023, Sandoz Group AG had 159,809 registered shareholders.

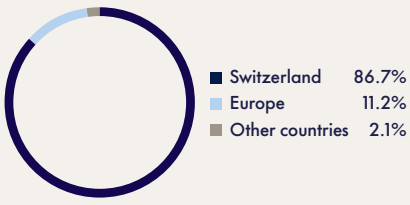
Composition of shareholder body
by category of investors



Distribution of registered shares
by size of shareholding



by region



Cross-shareholdings

The Group does not have and has not entered into any cross-shareholdings with other companies relating to equity or voting rights.

Capital structure

On December 31, 2023, the share capital of Sandoz Group AG was composed of 431,000,000 registered shares, fully paid in, each with a nominal value of CHF 0.05.

Shares are listed on the SIX Swiss Exchange (ISIN: CH1243598427, symbol: SDZ). Sandoz also maintains a sponsored Level I ADR (American Depositary Receipts) program. The ADRs are quoted and traded in US dollars on the over-the-counter market in the US (CUSIP: 799926100, symbol: SDZNY). One ADR equals one Sandoz share and indirectly has the same voting rights. The ADRs are not listed on any US national securities exchange. Sandoz Group AG is not subject to the reporting requirements of US federal securities laws as a result of the Sandoz ADR program. On December 31, 2023, the Company held 1,070,754 own shares in treasury.

Capital band and conditional capital

The Board of Directors is authorized at any time until September 18, 2028, to conduct one or more increases of the share capital within the upper limit of CHF 22,627,500, corresponding to 452,550,000 registered shares with a par value of CHF 0.05 each (the "Capital Band"), for the purpose of issuing shares to directors, employees or advisors of the Company or companies controlled by it in connection with any type of share-based participation or incentive plans, schemes or arrangements ("Employee Participation Plans"). The Board of Directors is not authorized to decrease the share capital within the Capital Band.

The Board of Directors shall determine the number of shares to be issued, the type of payment required for subscription, the date of issue and the commencement of dividend entitlement. The shares issued shall be fully paid in.

Existing shareholders' subscription rights shall be excluded. The Board of Directors is authorized to allocate the shares to be issued as it deems appropriate (including to any company controlled by it or any third party involved in the administration of Employee Participation Plans) to fulfil or cover existing or future obligations to deliver shares under an Employee Participation Plan.

The new registered shares issued in the Capital Band are subject to the transfer restrictions of Article 6 of the Articles of Incorporation.

The Articles of Incorporation can be found at www.sandoz.com/corporate-governance.

The Company aims to protect existing shareholders against dilution resulting from granting any share-based participation or incentive plans to employees. For details on such plans, please refer to Note 29 to the Consolidated Financial Statements on pages 178–182.

No conditional capital exists as of December 31, 2023.

Changes in capital

For changes in share capital that occurred in 2023, please refer to Note 22 to the Consolidated Financial Statements on page 162.

Shares, participation certificates, dividend-right certificates

Shares are issued as uncertificated securities (in the sense of the Swiss Code of Obligations) and as book entry securities (in terms of the Swiss Act on Intermediated Securities). All shares have equal voting rights and carry equal entitlements to dividends. No participation certificates or dividend-right certificates have been issued.

Limitations on transferability

There are no restrictions on the transferability of the shares. For registration restrictions, please refer to section "Shareholders' participation rights – Voting rights, restrictions and representation" on page 86.

Convertible bonds and options

Sandoz Group AG has not issued convertible or exchangeable bonds, warrants, options or other securities granting rights to shares.

Board of Directors

As of December 31, 2023, the Board of Directors of Sandoz Group AG was composed of the following individuals:

Board of Directors

Gilbert Ghostine (Board Chair)
Karen J. Huebscher (Vice-Chair)
Shamiram R. Feinglass
Urs Riedener
François-Xavier Roger
Aarti Shah
Yannis Skoufalos
Remco Steenbergen
Maria Varsellona

Independence

All Board members are non-executive and independent, pursuant to applicable corporate governance rules and Sandoz independence criteria, as outlined in Appendix II to the Organizational Regulations (www.sandoz.com/corporate-governance). The Human Capital and ESG Committee annually submits to the full Board a proposal concerning the determination of the independent status of all Board members, considering all relevant facts and circumstances of which it is aware.

Composition

The composition of the Sandoz Board is well balanced in terms of gender and age diversity and consists of individuals with varied geographic, cultural and professional backgrounds.

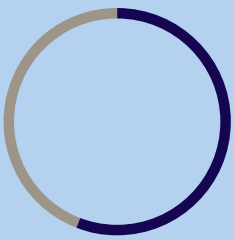
Competencies

Our Board members offer the experience, skills and knowledge as shown below. This diverse skill set is in line with the Company's purpose to pioneer access for patients and will be regularly re-assessed by the Human Capital and ESG Committee.

Board skills distribution

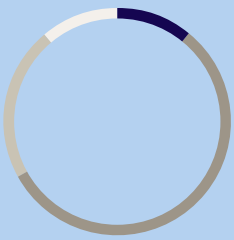
	CEO experience	International markets	Industry expertise	Supply chain / operations network	Finance / accounting	Regulatory / risk / compliance	Technology / information security	Human capital / ESG / governance	Strategy / M&A / transformation
Gilbert Ghostine	✓	✓				✓		✓	✓
Karen J. Huebscher	✓	✓	✓		✓	✓	✓		✓
Shamiram R. Feinglass			✓	✓		✓			✓
Urs Riedener	✓	✓		✓		✓		✓	✓
François-Xavier Roger		✓	✓		✓	✓			✓
Aarti Shah			✓				✓	✓	✓
Yannis Skoufalos		✓		✓				✓	✓
Remco Steenbergen		✓			✓				✓
Maria Varsellona		✓				✓		✓	✓

Gender



Male	56%
Female	44%

Age



<55	11%
55–60	56%
61–65	22%
>65	11%

Nationality[1]

American	28%
British	5.5%
Canadian	5.5%
Dutch	11%
French	11%
Greek	5.5%
Italian	11%
Lebanese	5.5%
Swiss	17%

[1] Please note that three Board members have dual nationalities. Each of these nationalities is counted as a half in the above chart.

Elections and term of office

Board members (including the Board Chair) and the members of the Human Capital and ESG Committee shall be elected individually at the Annual General Meeting of Shareholders for a term of office lasting until the next Annual General Meeting of Shareholders.

According to Article 22, paragraph 3 of the Articles of Incorporation, a member shall not serve on the Board for more than 10 years or beyond the age of 70. The Board may, in special circumstances and if deemed in the best interest of the Company, propose exceptions to this rule and submit them to the General Meeting of Shareholders for approval.

Number of permitted activities outside Sandoz Group

According to Article 36 of the Articles of Incorporation, the following limitations on mandates apply:

- No Board member may hold more than six additional mandates in other companies, of which no more than four mandates shall be in other listed companies. Board chairs of other listed companies count as two mandates.
- The following mandates are not subject to these limitations:
  - Mandates in companies which are controlled by the Company.
  - Mandates which a Board member holds at the request of the Company or companies controlled by it. No Board member shall hold more than five such mandates.

The Articles of Incorporation can be found at www.sandoz.com/corporate-governance.

Internal organizational structure

Allocation of tasks within the Board

The Board is responsible for the ultimate direction of the Group. It is responsible for the overall direction and oversight of management and holds the ultimate decision-making authority for all matters which are not reserved to the authority of the General Meeting of Shareholders or to other executive bodies of the Company by law, the Articles of Incorporation or the Organizational Regulations.

The tasks and duties of the Board, as well as those of the Board Chair, the Vice Chair and the Lead Independent Director, are set out in Articles 12, 19, 20 and 21 of the Organizational Regulations (www.sandoz.com/corporate-governance).

The Board has delegated certain duties and responsibilities to its three committees. Each committee is led by a Board-elected committee chair, as set out in the Organizational Regulations and further described below in section "Committees of the Board." These committees enable the Board to work in an efficient and effective manner, ensuring a thorough review and discussion of issues, while giving the Board more time for deliberation and decision-making.

Working methods of the Board and its committees

The Board meets at the invitation of the Board Chair as often as may be required. This includes regular meetings and additional special meetings to deal with ad hoc matters. Board committees typically meet the day before the meetings of the full Board at the invitation of the respective committee chair. Board meetings are held as virtual, hybrid and physical meetings. Participants join physically when possible.

Since October 4, 2023, the Board met three times. The attendance record was 96%.

The Human Capital and ESG Committee (HC&ESGC) met three times and the Audit, Risk and Compliance Committee (ARCC) as well as the Science, Innovation and Development Committee (SIDC) each met once. The attendance record for the HC&ESGC and the SIDC was 100% and for the ARCC 75%.

Each Board meeting lasted on average four hours, whereof the ad hoc meetings lasted on average one hour and 30 minutes and the regular meeting one full day. The ARCC meeting lasted three hours and 15 minutes, the SIDC meeting two hours and 30 minutes and each HC&ESGC meeting on average two hours.

The Board Chair attended all committee meetings as a guest. In addition, several members of the Executive Committee and the senior management attended some of the Board and committee meetings at the invitation of the respective chairperson.

The Board will conduct an annual self-assessment to evaluate its performance and the performance of its committees. This assessment will cover topics including Board composition, purpose, scope and responsibilities, processes and governance, meetings and pre-reading materials as well as team effectiveness, leadership and culture. Periodically, the evaluation will be conducted by an external expert.

Training

The Chairman ensures, in alignment with the HC&ESGC, that new Board members are provided with an onboarding program and existing Board members receive appropriate ongoing training. The Board consults external experts on specific topics where necessary.

In 2023, the designated Board members were provided with a tailor-made onboarding program by external experts and received a corporate legal training prior to their formal election. In addition, the Board members completed an e-training on adverse event reporting and have been educated on the Company's Ad Hoc Policy, the Insider Trading and Management Transactions Policy and their respective duties.

Board of Directors continued

Committees of the Board

The Board has an Audit, Risk and Compliance Committee (ARCC), a Human Capital & ESG Committee (HC&ESGC) and a Science, Innovation and Development Committee (SIDC), each consisting of no fewer than three Board members with relevant qualifications, expertise and skills. In addition to these permanent Board Committees, the Board may establish ad hoc committees.

The members of the HC&ESGC are elected individually by the shareholders at the Annual General Meeting of Shareholders for a term of office lasting until completion of the next Annual General Meeting of Shareholders. If there are vacancies at the HC&ESGC, the Board shall appoint substitutes for the remaining term of office. The members and chairpersons of both the ARCC and the SIDC are appointed by the full Board.

The tasks of each of these committees are set forth in their respective charters, which are attached to the Organizational Regulations.

As of December 31, 2023, the composition of the Board committees was as follows:

	Audit, Risk and Compliance Committee	Human Capital and ESG Committee	Science, Innovation and Development Committee
Gilbert Ghostine			
Karen J. Huebscher	✓[1]		✓ (Chair)
Shamiram R. Feinglass			✓
Urs Riedener		✓ (Chair)	
François-Xavier Roger	✓[1] (Chair)		✓
Aarti Shah		✓	✓
Yannis Skoufalos		✓	
Remco Steenbergen	✓[1]	✓	
Maria Varsellona	✓	✓	

[1] Qualified Financial Expert

Definition of areas of responsibility

The Board has delegated the responsibility for the management and oversight of the operational business to the Chief Executive Officer (CEO) and the Executive Committee. The responsibilities of the CEO and the Executive Committee are specified in Articles 22 and 24 of the Organizational Regulations.

The Organizational Regulations can be found at www.sandoz.com/corporate-governance.

Changes to the Board of Directors announced in 2024

As announced by the Company on February 1, 2024, Francois-Xavier Roger will step down from the Board of Directors as of March 31, 2024. On March 5, 2024, it was further announced that Remco Steenbergen will not stand for re-election at the 2024 Annual General Meeting of Shareholders due to his appointment as Chief Financial Officer and member of the Sandoz Executive Committee effective as of July 1, 2024. The Board of Directors will propose Messrs. Graeme Pitkethly, Mathai Mammen and Michael Rechsteiner as new Board members for election at the Annual General Meeting of Shareholders on April 30, 2024.

A diverse and independent Board

Gilbert Ghostine
Board Chair since March 2023
Nationality: Lebanese/Canadian
Year of birth: 1960

Gilbert Ghostine is the former CEO of Geneva-based Firmenich. He led Firmenich between 2014 and 2023 until its merger with DSM in May 2023 to create the world's leading beauty, nutrition and well-being company. He is an experienced business leader with a track record of growing and transforming businesses in competitive industries. Gilbert Ghostine held executive and senior leadership positions at Firmenich and Diageo in a career spanning three decades. He currently serves on the board of directors at Danone, where he is a member of the audit and CSR committees, and on the board of directors at Four Seasons Hotels and Resorts, where he chairs the remuneration and nomination committee. Gilbert Ghostine holds a master's degree in business administration from Saint Joseph University, Lebanon, and completed Harvard Business School's Advanced Management Program.

Karen J. Huebscher, Ph.D.
Board member and Vice-Chair since August 2023
Nationality: Swiss/British
Year of birth: 1963

Karen J. Huebscher, Ph.D., is the former CEO of Solvias Group, a Swiss contract research firm, which she led between 2014 and 2021. Before, Karen J. Huebscher founded a start-up and held senior leadership roles at Novartis, including global head investor relations from 2000 to 2006, head of M&A and executive committee member, as well as site head for the vaccines and diagnostics division between 2006 and 2011. She also built the biosimilars commercial team for a multinational manufacturer, and at Solvias, the company developed a core expertise in complete analytical testing packages for biosimilar product filings.

Karen J. Huebscher holds a doctorate in natural sciences from ETH Zurich and a master's degree in business administration from IMD. Since 2012, she has served as board member of Tecan Group, a Swiss listed company, and currently chairs the audit committee and is a member of the nomination and governance committee. She is also a board member of BBI Solutions, a UK-based diagnostic reagents company, and a member of the foundation board at IMD Business School.

Shamiram R. Feinglass, M.D.
Board member since August 2023
Nationality: American
Year of birth: 1967

Shamiram R. Feinglass, M.D., MPH, is a physician and former corporate executive and government leader. She was chief medical officer for diagnostics and life sciences and vice president, global medical affairs and policy, diagnostics and life sciences at Danaher (2014–2022). Prior to that, she led global medical and regulatory affairs at Zimmer, Inc (2009–2013), and was a Commander in the United States Public Health Service and Senior Medical Officer at the Centers for Medicare and Medicaid Services (2002–2008). Shamiram Feinglass holds an AB from Smith College and a doctor of medicine (MD) from Emory University School of Medicine as well as a master of public health from Emory University School of Public Health, US.

Board of Directors continued

Urs Riedener
Board member since August 2023
Nationality: Swiss
Year of birth: 1965

Urs Riedener was CEO of the Swiss consumer goods company Emmi Group between 2008 and 2022. Before joining Emmi Group as CEO, he was a member of the executive board and head of the marketing department at Migros-Genossenschafts-Bund. Urs Riedener holds a master's degree in marketing and trade from the University of St. Gallen (HSG), Switzerland. He also serves as chairman of the board of Emmi Group AG and chairs its personnel and compensation committee, is a member of the advisory board of Schwarz Group, Germany, and a board member of Bystronic AG, Switzerland, where he chairs the compensation and nomination committee.

François-Xavier Roger
Board member since August 2023
Nationality: French
Year of birth: 1962

François-Xavier Roger has been CFO of Nestlé S.A., the world's largest food company, since 2015. Between 2013 and 2015 he was CFO of Takeda Pharmaceuticals, one of the largest publicly listed companies in Japan, and prior to that, CFO of Millicom, a NASDAQ-listed global mobile phone operator based in Luxembourg, between 2008 and 2013. François-Xavier Roger also worked in finance roles for global food company Danone in Asia and Paris and spent 14 years with predecessor companies of what today is Sanofi, one of the leading companies in the global pharmaceutical industry. He also served on the boards of directors of Takeda Pharmaceuticals between 2013 and 2015 and of Britannia Industries, India, between 2000 and 2008.

François-Xavier Roger holds a degree in accounting from Audencia Business School in France and a master's degree in business administration from Ohio State University, US.

Aarti Shah, Ph.D.
Board member since August 2023
Nationality: American
Year of birth: 1964

Aarti Shah, Ph.D., was chief information and digital officer and senior vice president of Eli Lilly and Company between 2016 and 2021, a US-headquartered pharmaceutical company. She held other business and functional roles of increasing responsibility over her successful 27-year career with Eli Lilly, including a global brand development leader role between 2013 and 2016. Aarti Shah holds a doctorate in applied statistics from the University of California at Riverside, US. Since 2020, she is a member of the board of directors and a member of the audit committee at NVIDIA Corporation and serves as a member of the board of trustees of Northwestern Mutual, where she is a member of the audit and the distribution & technology committees. In addition, she serves as a trustee for the non-profit organization Shrimad Rajchandra Love and Care USA.

Yannis Skoufalos
Board member since August 2023
Nationality: Greek/American
Year of birth: 1957

Yannis Skoufalos was supply chain officer of privately held Blue Triton between 2021 and 2022. Between 2011 and 2019, he was global product supply officer of Procter & Gamble, a US-headquartered consumer goods company, and held other supply chain roles of increasing responsibility over his successful 35-year career with Procter & Gamble. He holds a master of science degree in food engineering and a bachelor of science degree in chemical engineering from the University of Leeds, UK.

Since November 2023, Yannis Skoufalos serves on the board of directors of Aimia Inc, a public company focused on long-term investments in public and private companies. He is also a member of the board of directors of Sustana Group, a recycled paper fiber company privately held by Blackstone, and a senior advisor to Blackstone on supply network matters. From 2020 until November 2023, Yannis Skoufalos served as a member of the board of directors of Hostess Brands.

Remco Steenbergen
Board member since August 2023
Nationality: Dutch
Year of birth: 1968

Remco Steenbergen has been Group CFO of Deutsche Lufthansa AG, the largest airline group in Europe, since 2021. Between 2018 and 2020 he was Group CFO of Barry Callebaut based in Switzerland. Prior to that, he worked in multiple executive business and finance roles for Philips (1998–2018) and KPMG (1986–1998) in the Netherlands, the United Kingdom, Taiwan, Belgium, Ireland and the United States. Remco Steenbergen holds a master's degree in business administration from IMD Business School in Lausanne, Switzerland, and a post-doctoral degree in accounting from Erasmus University in Rotterdam, the Netherlands.

Maria Varsellona
Board member since August 2023
Nationality: Italian
Year of birth: 1970

Maria Varsellona has been chief legal officer and company secretary of Unilever, a UK-headquartered consumer goods company, since 2022. Between 2019 and 2022 she was general counsel and company secretary of Swiss-headquartered industrial company ABB. From 2014 to 2019, she was chief legal officer of Finland-headquartered telecom company Nokia, as well as president of Nokia Technologies (2018–2019) and vice chair of Nokia Shanghai Bell (2016–2018). She has also been general counsel of Switzerland-headquartered Tetra Pak and held senior roles in General Electric's oil and gas business. Maria Varsellona holds a juris doctor degree from the University of Palermo, Italy. She served as a non-executive director on the board of Nordea Bank between 2016 and 2020 and on the board of ABB India between 2020 and 2022.

Executive Committee

As of December 31, 2023, the Sandoz Executive Committee was composed of the following individuals:

Executive Committee

Richard Saynor
Chief Executive Officer
Francisco Ballester
President International
Colin Bond[1]
Chief Financial Officer
Pierre Bourdage
Chief Commercial Officer
Claire D'Abreu-Hayling
Chief Scientific Officer
Glenn A. Gerecke
Chief Manufacturing and Supply Officer
Rebecca Guntern
President Europe
Keren Haruvi
President North America
Tripti Jha
Chief People Officer
Ingrid Sollerer
General Counsel and Chief Compliance Officer

Number of permitted activities outside Sandoz Group

According to Article 36 of the Articles of Incorporation, the following limitations on mandates apply:

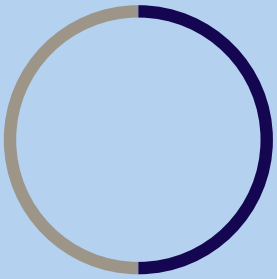
- No member of the Executive Committee may hold more than one additional mandate in another company. Members of the Executive Committee are not allowed to hold mandates as chairs of the board of directors of other listed companies.
- The following mandates are not subject to these limitations:
  - Mandates in companies which are controlled by the Company.
  - Mandates which a member of the Executive Committee holds at the request of the Company or companies controlled by it. No member of the Executive Committee shall hold more than five such mandates.

The Articles of Incorporation can be found at www.sandoz.com/corporate-governance.

Management contracts

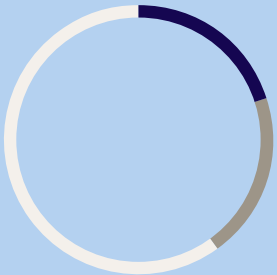
The Board and the Executive Committee have not delegated any managerial powers to persons or legal entities outside the Group.

Gender



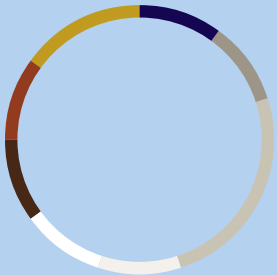
Male	50%
Female	50%

Age



<45	20%
45–50	20%
>50	60%

Nationality[2]



American	15%
Austrian	10%
British	25%
Canadian	10%
Indian	10%
Israeli	10%
Spanish	5%
Swiss	15%

[1] As announced on March 5, 2024, Colin Bond will retire as Chief Financial Officer and will be succeeded by Remco Steenbergen effective July 1, 2024.

[2] Please note that two Executive Committee members have dual nationality. These nationalities are counted as a half in the above chart.

An Executive Committee focused on delivering results on our strategic objectives

Richard Saynor
Chief Executive Officer since 2019
Nationality: British
Year of birth: 1967

Richard Saynor has led Sandoz since 2019, offering a proven track record as a senior leader in both innovation-driven and generics/biosimilars pharmaceutical companies. Prior to joining Sandoz, he was senior vice president for classic & established products, commercial & digital platforms at GSK. Previously he served in several commercial senior leadership roles at Sandoz. Richard Saynor is a pharmacist by training and began his pharmaceutical business career as a sales representative at G.D. Searle in the UK. He earned his bachelor's degree in pharmacy from the University of Bradford, UK. Richard Saynor currently serves as the inaugural chair of the CEO Advisory Committee of the International Generics & Biosimilars Association (IGBA).

Francisco Ballester
President International since 2019
Nationality: Spanish/American
Year of birth: 1961

Francisco Ballester has managed Region International since 2019. He is responsible for driving business growth and access for patients in markets outside of North America and Europe while developing the highly diverse talent in the region. He served previously as president of the Latin America region as well as general manager of Novartis Pharma in Spain, where he built a high-performance culture that resulted in the company's recognition as Spain's best place to work. Francisco Ballester earned a bachelor of science degree in pharmacy from the University of Valencia, followed by a master's degree in business administration from the Universitat Politècnica de Valencia. He is a member of the Health Management and Policy Advisory Council of the Miami Herbert Business School.

Colin Bond
Chief Financial Officer since 2022
Nationality: Swiss/British
Year of birth: 1960

Colin Bond has been CFO of Sandoz since May 1, 2022. Previously he was CFO of Vifor Pharma from 2016 to 2022, and CFO of Evotec AG from 2010 to 2016. During his early career, he worked as auditor and management consultant for Proctor & Gamble, Arthur Andersen and PricewaterhouseCoopers. He is a fellow of the Institute of Chartered Accountants in England and Wales and member of the Royal Pharmaceutical Society of Great Britain. Colin Bond holds a bachelor of science degree in pharmacy and a master's degree in business administration from London Business School. He is a member of the board of directors BioPharma Credit PLC and served as a board member of Siegfried Holding AG from 2013 until April 2023.

Executive Committee continued

Pierre Bourdage
Chief Commercial Officer since 2022
Nationality: Canadian
Year of birth: 1979

Pierre Bourdage has responsibility for the global commercial strategy and operations of Sandoz, including (1) integrated strategies for biosimilars, generics and anti-infectives, (2) pipeline strategy and value oversight, (3) licensing, M&A, divestments and integrations, (4) high value launches, (5) global marketing, medical affairs, data analytics and portfolio operations, (6) Business-to-Business unit. Prior to assuming this role in 2022, he was Global Head of Biopharmaceuticals business unit and had responsibility for all end-to-end aspects of the biosimilars business across strategy, commercial, portfolio, development, manufacturing and alliances. Pierre Bourdage has more than 20 years of experience at Novartis, Alcon and Sandoz, working across multiple geographies and in different leadership roles. He holds a bachelor's degree in commerce from Concordia University, Montreal, has participated in several executive development programs, and was awarded a postgraduate certificate in leadership capability, with distinction, from Glasgow Caledonian University, UK.

Claire D'Abreu-Hayling
Chief Scientific Officer since 2022
Nationality: British
Year of birth: 1964

Claire D'Abreu-Hayling has over 30 years of experience as a pharmaceutical executive working in drug product development and global research and development. She is responsible for the global product development network including infrastructure strategy, development capabilities, scientific pipeline execution and talent management across both generics and biosimilars. Prior to assuming her current role, she held the position of Head of Product Development. Before Sandoz, she spent 15 years in senior roles at Teva Pharmaceuticals in the UK. She also worked with Sanofi and GSK early in her career. Claire D'Abreu-Hayling earned a bachelor of science degree in chemistry from the University of the West Indies in Trinidad & Tobago, as well as a master of science degree in pharmaceutical analysis and quality control from the University of London. She is a member of the board of directors of Black Phoenix Enterprise Ltd. in the UK.

Glenn A. Gerecke
Chief Manufacturing and Supply Officer since 2022
Nationality: American
Year of birth: 1959

Glenn A. Gerecke is responsible for manufacturing, supply chain and distribution around the world. He joined Sandoz in 2022, having previously held senior operational roles at Phlow Corporation, Teva Pharmaceuticals and Bristol Myers Squibb. Glenn A. Gerecke has led shop floor and manufacturing support teams, multiple-technology manufacturing sites, regional manufacturing operations, as well as global engineering/facilities and human resources organizations for more than 35 years. He holds a bachelor of science degree in chemical engineering from Worcester Polytechnic Institute, as well as master's degrees in business and management from the University of Massachusetts and Worcester Polytechnic Institute, respectively, and a doctorate in business from Capella University.

Rebecca Guntern
President Europe since 2020
Country President Switzerland since 2023
Nationality: Swiss
Year of birth: 1972

Rebecca Guntern has been leading the European commercial organization across more than 40 countries since 2020. She is a senior business leader with over 25 years of international experience in the pharmaceutical and healthcare industry. She joined Sandoz in 2007 as Head of Sales and has held positions of increasing leadership responsibility since then. Prior to joining Sandoz, Rebecca Guntern worked for other leading pharmaceutical companies such as Roche and Merck Sharpe & Dohme.

Rebecca Guntern serves as vice president of Medicines for Europe (MfE) and is a regular contributor to industry discussions and initiatives in areas such as biosimilars, supply chain solutions, regulatory and economic policies. She is also a member of the board of directors of BKW AG in Switzerland, where she chairs the nomination and compensation committee. She holds a master's degree in pharmacy from the University of Basel as well as a bachelor's degree in business administration.

Keren Haruvi
President North America since 2021
Nationality: Israeli
Year of birth: 1980

Keren Haruvi leads the commercial and country organization in the United States as well as Canada. Prior to joining Sandoz in 2021, she served as global head of M&A at Novartis International AG. She brings over 20 years of experience in the pharmaceutical industry across regions, marked by success in leading major M&A deals, enterprise innovations, and complex market strategies for large-scale, sustainable growth. Keren Haruvi holds a master's degree of business administration (finance) from Bar-Ilan University and bachelor's degrees in both economics and chemistry from Tel Aviv University. She is the chair and a board member of the Association of Accessible Medicines.

Tripti Jha
Chief People Officer since May 1, 2023
Nationality: Indian
Year of birth: 1977

Tripti Jha was named Chief People Officer in May 2023, having worked most recently as chief talent and transformation officer at Novartis. She brings over 23 years of experience and a proven track record in driving impactful human resources strategy, developing people and organization culture. She also brings extensive experience of working with executive committees and board of directors. Previously, she held various senior, global and country or site-level positions within the Novartis group. Prior to joining Novartis, she worked with CARE, a leading humanitarian global organization on improving access to healthcare for underserved and underprivileged sections of the society. She graduated with a master of arts degree in social work from Tata Institute of Social Sciences, India, and served as president of the Students' Union at Miranda House, University of Delhi.

Executive Committee continued

Ingrid Sollerer
Group General Counsel since 2019 and Chief Compliance Officer since December 1, 2023
Nationality: Austrian
Year of birth: 1974

Ingrid Sollerer has been responsible for the Company's legal affairs since 2019 and has additionally taken over the leadership of the Sandoz Global Ethics, Risk and Compliance (ERC) organization on December 1, 2023. She joined Novartis in Austria in 1998, followed by seven years in the Novartis Group M&A and antitrust teams in Basel. She joined Sandoz in 2007, heading Legal for Europe, Africa, and the Middle East, and taking on global legal responsibility for anti-infectives, oncology injectables and biopharmaceuticals. In 2016 she joined Novartis Oncology in the US as global head legal oncology strategy and business development, and cell & gene. Ingrid Sollerer holds a doctorate (PhD) in law from Leopold-Franzens University in Innsbruck, Austria, and has completed courses in finance from the Harvard Business School and in healthcare systems from the Harvard T.H. Chan School of Public Health. She is the chair of the foundation board of Stiftung Menschen für Menschen Karlheinz Böhms Äthiopienhilfe, an organization providing aid for self-development in Ethiopia.

Compensation, shareholdings and loans

Detailed information on the compensation of the Board and Executive Committee members can be found in the Compensation Report on pages 91–111.

The compensation and equity holdings of the Board and the Executive Committee and their related parties are disclosed in the Compensation Report on pages 100 and 102 for the members of the Executive Committee and on pages 106 and 107 for the Board members.

The principles applicable to performance-related pay and to the allocation of equity securities, convertible rights, and options are defined in Articles 33 and 34 of the Articles of Incorporation.

The rules with respect to the additional amount of compensation for members of the Executive Committee appointed after the approval of the aggregate amount of compensation at the General Meeting of Shareholders are set out in Article 32 of the Articles of Incorporation.

According to Article 37 of the Articles of Incorporation, no loans or credits shall be granted to the members of the Board or the Executive Committee.

The rules on the vote on compensation at the Annual General Meeting of Shareholders are set out in Article 31 of the Articles of Incorporation.

The Articles of Incorporation can be found at www.sandoz.com/corporate-governance.

Shareholders' participation rights

Shareholder engagement

Shareholder engagement is fundamental to our commitment to governance and transparency, and the feedback we receive during these engagements helps us create long-term and sustainable value.

Sandoz conducts regular outreach to investors throughout the year. While the Board Chair, CEO and CFO, together with Investor Relations, are accountable for ensuring effective shareholder engagement, other senior managers from within and outside the Executive Committee also participate in these meetings.

Voting rights, restrictions and representation

Shareholders have the right to vote and to execute all other rights as granted under Swiss law and the Articles of Incorporation (see, in particular, Articles 17 and 18 of the Articles of Incorporation).

Each share registered with the right to vote entitles the holder to one vote at General Meetings.

Article 6, paragraph 2 of the Articles of Incorporation provides that to be registered with voting rights, a shareholder must declare that he or she acquired the shares in his or her own name and for his or her own account. According to Article 6, paragraph 3 of the Articles of Incorporation, the Board may register nominees with the right to vote. The share register is an internal, non-public register subject to statutory confidentiality and data privacy.

Article 6, paragraph 2 of the Articles of Incorporation provides that no shareholder shall be registered with the right to vote for more than 5% of the registered share capital. Given that shareholder representation at general meetings has traditionally been comparatively low in Switzerland, Sandoz Group AG considers registration restrictions necessary to prevent a minority shareholder from dominating a General Meeting. The Board may, upon request, grant an exemption. Considerations include whether the shareholder supports the Company's goal of creating sustainable value and has a long-term investment horizon. An exemption is in force for JP Morgan Chase Bank, N.A., New York, acting as ADR depositary for Sandoz Group AG.

Article 6, paragraph 3 of the Articles of Incorporation provides that the Board may register nominees with the right to vote in the share register to the extent of up to 0.5% of the registered share capital as set forth in the commercial register. Registered shares held by a nominee that exceed this limit may be registered in the shareholders' register if the nominee discloses the names, addresses and the number of shares of the persons for whose account it holds 0.5% or more of the registered share capital as set forth in the commercial register.

According to Article 6, paragraph 4 of the Articles of Incorporation, corporate bodies and partnerships or other groups or persons or joint owners who are interrelated to one another or who act in concert to circumvent registration restrictions are treated as one person or nominee for the purposes of the restrictions on registration.

The registration restrictions may be changed by resolution of the General Meeting, with approval of at least two-thirds of the votes represented at the meeting.

The Articles of Incorporation can be found at www.sandoz.com/corporate-governance.

General meetings of shareholders

The Annual General Meeting of Shareholders (AGM) must be held within six months after the close of the financial year of the Company (December 31). According to Article 14 of the Articles of Incorporation, the Board may provide that shareholders who cannot be present at the AGM may exercise their rights electronically. An extraordinary General Meeting of Shareholders may be requested by the Board or shareholders representing at least 5% of the share capital.

Invitation and voting instructions

Registered shareholders will receive personal invitations to the General Meetings along with a registration/proxy form at least 20 days before the date of the meeting. By returning the registration/proxy form, shareholders can order an admission card for the AGM or appoint a representative of choice by means of a written proxy or the Independent Proxy to vote their shares on their behalf.

If the Independent Proxy is appointed, shareholders can also give voting instructions on alternative or additional motions related to the agenda items either (i) following the recommendations of the Board for such alternative or additional motions, or (ii) opposing such alternative or additional motions. They can also abstain from voting.

ADR holders

ADR holders have the rights enumerated in the deposit agreement, such as the right to give voting instructions and to receive dividends. The ADR depositary of Sandoz Group AG – JP Morgan Chase Bank, N.A., New York – holds the shares underlying the ADRs and is registered as a shareholder in the Company's share register. An ADR is not a share, and an ADR holder is not a shareholder of Sandoz Group AG. Each ADR represents one share. ADR holders exercise their voting rights by instructing the depositary to exercise their voting rights.

Agenda

Shareholders representing shares with an aggregate nominal value of at least 0.5% of the registered share capital may request that an item be included in an AGM agenda. Such requests must be made in writing at least 45 days before the meeting, specifying the requested item and proposal. If an explanatory statement is to be included in the notice of meeting, it must be submitted within the same deadline and formulated in a short, clear and concise manner.

Entries in the Share Register

The relevant date determining the right of shareholders to participate in the AGM based on entries in the Company's share register is set by the Board and announced in the invitation to the AGM.

Powers

According to Article 19 of the Articles of Incorporation, the following powers are vested exclusively in the AGM:

- Adoption and amendment of the Articles of Incorporation
- Election and removal of the Board members, the Board Chair, the members of the Human Capital & ESG Committee, the Independent Proxy and the Auditors
- Approval of the management report, the consolidated financial statements and the report on non-financial matters
- Approval of the financial statements and decision on the appropriation of available earnings shown on the balance sheet, in particular with regard to dividends (including any repayment of the statutory capital reserves and the approval of interim dividends and the interim financial statements required for such purpose)
- Approval of the aggregate amounts of compensation of the Board of Directors and the Executive Committee in accordance with Article 31 of the Articles of Incorporation
- Granting of discharge to the members of the Board and the Executive Committee
- Delisting of the shares of Sandoz Group AG
- Decision on matters that are reserved by law or by the Articles of Incorporation to the AGM

Statutory quorums

The General Meeting passes resolutions and elections with an absolute majority of the votes represented at the meeting. However, under Article 20 of the Articles of Incorporation, an approval of two-thirds of the votes represented at the meeting is required for:

- Alteration of the purpose of Sandoz Group AG
- Consolidation of shares, unless the approval of all affected shareholders is required
- Increase of the share capital out of equity, against contributions in kind or by way of set off against a receivable and the grant of special rights
- Restriction or suspension of subscription rights
- Introduction of a conditional capital or a capital band
- Implementation of restrictions on the transfer of registered shares, and the removal of such restrictions
- Creation of shares with increased voting powers
- Change of the currency of the share capital
- Introduction of the deciding vote for the chair at the AGM
- Introduction of a provision in the Articles of Incorporation allowing the AGM to be held abroad
- Delisting of the shares of Sandoz Group AG
- Change of location of the registered office of Sandoz Group AG
- Introduction of an arbitration clause in the Articles of Incorporation
- Merger, split or transformation of Sandoz Group AG under the Merger Act (subject to mandatory provisions)
- Dissolution of Sandoz Group AG

The Articles of Incorporation can be found at www.sandoz.com/corporate-governance.

Changes of control and defense measures

The Articles of Incorporation of Sandoz Group AG do not contain provisions for opting out or opting up. There are no change-of-control clauses included in agreements and schemes benefiting members of the Board of Directors or the Executive Committee or other management members.

Management of information and monitoring tools of the Board of Directors

Information and control instruments vis-à-vis the Executive Committee

The Board's information and control instruments vis-à-vis the Executive Committee include a steady flow of information from senior management, monthly financial reports, a comprehensive and integrated risk management framework and the independent evaluation of the Group's risk management and internal control system by the Internal Audit function.

Risk management

The Board has ultimate oversight of the Enterprise Risk Management (ERM) system and regularly reviews the most significant risks and how these risks are managed. In doing so, the Board is supported by its committees. Furthermore, the Internal Audit function provides an independent evaluation of risk management. Further information can be found on pages 114–116.

ERM framework

The Ethics, Risk & Compliance (ERC) function provides an integrated framework to obtain a holistic view of the Group's risks and mitigation actions. Under the leadership of the General Counsel and Chief Compliance Officer, the Head Enterprise Risk and Emergency Management is responsible for the overall ERM process. This process is managed and coordinated with risk owners along the value chain and covers, but is not limited to, risks associated with:

- Business objectives and strategies
- Manufacturing topics
- Product development and portfolio
- Financial compliance and management aspects, such as tax, treasury and insurance
- Compliance, regulatory and legal aspects
- Technology and information security matters
- Commercial execution, such as marketing and selling practices
- Health, safety and environmental aspects
- People and organization aspects
- External factors, such as the social, political and economic environment

Internal controls are evaluated annually by the external Auditor and by Internal Audit according to a program approved by the Audit, Risk and Compliance Committee.

SpeakUp Office

Sandoz also maintains a whistleblower program, called "SpeakUp," through which employees and third parties can report potential misconduct. Reports are reviewed by the SpeakUp Office, which will determine further actions, including referral for investigation or review. Investigations are fact-based, confidential and impartial.

Internal Audit

The purpose of Internal Audit is to assist the Board and management in discharging their governance responsibilities by providing independent assurance and advice on the effectiveness, efficiency and adequacy of processes and controls that support Sandoz in achieving its objectives, managing its major risks and ensuring compliance with applicable policies, laws and regulations.

In 2023, all internal audits were performed in accordance with the audit plan defined and approved prior to the separation of Sandoz from Novartis. The audit plan for 2024 has been approved by the Audit, Risk and Compliance Committee in December 2023.

Auditors

Duration of the mandate and term of office of the Lead Auditor

On behalf of the Board, the Audit, Risk and Compliance Committee (ARCC) selects and nominates the external Auditor for election at the AGM.

KPMG was selected as external Auditor in a fair, non-discriminatory, transparent and balanced tender process and commenced its auditing mandate for Sandoz Group AG in 2023. Marc Ziegler, Auditor in charge, and Stephane Nussbaumer, Group Engagement Partner, started their roles in 2023. In accordance with the Company's Organizational Regulations, the ARCC, together with KPMG, will ensure that the auditing partners will rotate at least every five years.

Auditing fees and additional fees

The ARCC monitors and pre-approves the fees paid to the external Auditor for all audit and non-audit services. It has developed and approved a policy outlining the engagement of the independent auditor firm to ensure that the independence of the external Auditor is maintained. The policy can be downloaded at: www.sandoz.com/corporate-governance. All other services are pre-approved by the ARCC on a case-by-case basis.

The total audit fee for the Group audit of Sandoz and for the statutory audits of the Company's subsidiaries for the financial year 2023 amounted to USD 4.9 million. USD 0.3 million additional fees for other assurance services for non-recurring transactions or local healthcare regulations were paid by the Sandoz Group to KPMG in 2023.

During the first nine months of 2023 KPMG performed an audit of selected Sandoz entities as part of the Novartis Group. Those costs amounted to USD 2.6 million.

Due to the limitation of the audit rotation period, a few Sandoz Group entities continued to have statutory audit services with PricewaterhouseCoopers (PwC). In 2023, PwC fees for audit services amounted to USD 0.4 million.

Audit services include work performed to issue opinions on consolidated financial statements and parent company financial statements of Sandoz Group AG, to issue opinions related to the existence of the Group's internal control over financial reporting, and to provide reports on local statutory financial statements.

Information instruments to the Board and the ARCC

The ARCC, acting on behalf of the Board, is responsible for overseeing the activities of the external Auditor. Since October 4, 2023, the ARCC held one meeting which was attended by the external Auditor. Furthermore, the Auditor in charge met several times with the chair of the ARCC during the reporting period. Outside of the reporting period, the external Auditor presented their final audit report to the ARCC in the first quarter of 2024.

The ARCC recommended to the Board to approve the audited consolidated financial statements and the separate parent company financial statements of Sandoz Group AG for the year ended December 31, 2023. The Board proposed the acceptance of these financial statements for approval by the shareholders at the next AGM.

The ARCC annually evaluates the qualifications, performance and independence of the external Auditor, including considering whether the external Auditors' quality controls are adequate and whether the provision of permitted non-audit services is compatible with maintaining the external Auditor's independence, taking into account the opinions of management and Internal Audit. Based on this, the ARCC once a year determines whether the external Auditor should be proposed to the shareholders for re-election at the next AGM.

The ARCC obtains and reviews a report from the external Auditor at least annually regarding (1) the external Auditor's internal quality-control procedures; (2) any material issues raised by the most recent quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm; (3) any steps taken to deal with any such issues; and (4) all relationships between the external Auditor and the Group.

The ARCC discusses with the external Auditor the results of their audits, any unusual items or disclosures contained in the audits and the matters required by standards enacted or declared applicable by the Swiss Federal Audit Oversight Authority (FAOA) and requests a formal written statement from the external Auditor documenting such discussion.

Information Policy

Sandoz is committed to open and transparent communication with the financial community, patients, suppliers and other key stakeholders. The Group disseminates information about material developments in its business in a broad and timely manner that complies with the rules of the SIX Swiss Exchange and any other applicable regulations.

Sandoz publishes reports bi-annually, in the form of a Half-Year and Annual Report. Its Integrated Annual Report provides information on the Group's financial and non-financial results and operations. Additionally, Sandoz reports net sales for the first three and nine months of the year and issues press releases from time to time regarding business developments.

An overview of the information regarding non-financial reporting can be found on pages 220–243.

An archive containing financial results and other relevant releases, as well as all related materials, is available at www.sandoz.com/financials.

Blackout periods

According to the Group's Global Insider Trading and Management Transactions Policy, employees who have access to material non-public information on a regular basis are designated as Continuing Insiders and are banned from trading in Sandoz Group AG securities during "blackout" periods. Blackout periods commence on the first trading day of each quarter and end at the beginning of the first trading day after the subsequent release of the quarterly topline, half-year and/or annual results.

Limited exceptions for the expiry of options or warrants within such a period apply.

In 2023, the following blackout period applied:

October 4, 2023 (first day of trading), until (and including) October 24, 2023

Investor Relations

Investor Relations manages the Group's interactions with the financial community and other key stakeholders. Sandoz observes a quiet period between the time net sales or results of the Group become known internally and the public release of this information. In this period, Investor Relations shall only hold meetings on an exceptional basis and exclusively cover previously disclosed information. More information is available at www.sandoz.com/resources.

Website information

Company website
www.sandoz.com

Corporate Governance
www.sandoz.com/corporate-governance

Annual General Meeting of Shareholders
www.sandoz.com/agm

Corporate calendar
www.sandoz.com/corporate-calendar

Financial data
www.sandoz.com/financials

Press releases
www.sandoz.com/news-and-events

Ad hoc notices distribution
www.sandoz.com/media-release-subscription
www.sandoz.com/media-releases

Contact information
www.sandoz.com/resources

Compensation Report

Shareholder letter from the Chair of the Human Capital & ESG Committee

This inaugural Compensation Report outlines Sandoz compensation principles and policy for the members of the Board of Directors and the Executive Committee.

Urs Riedener, Chair of the Human Capital & ESG Committee.

Dear Shareholders,

On behalf of the Board of Directors and the Human Capital & ESG Committee (HC & ESGC), I am pleased to present the 2023 Compensation Report, which covers the period from spin-off date October 4, 2023, to December 31, 2023, in line with Swiss law.

Activities of the HC & ESGC in 2023

It was an exciting year for Sandoz as on October 4, 2023, it became an independent company with listing on the SIX Swiss Exchange. Following the spin-off, the HC & ESGC and the Board focused on creating a dedicated compensation philosophy and principles for Sandoz, as well as the compensation framework applicable to the Board members, the Executive Committee, and the wider employee population, details of which are provided for the first two groups in the main body of the report. In addition, the HC & ESGC followed a comprehensive approach in selecting a peer group of companies for external compensation benchmarking.

At the end of the financial year, the HC & ESGC and Board evaluated the performance of the CEO and other members of the Executive Committee against targets set at the start of 2023, when Sandoz was still part of the Novartis Group, and determined the level of payout of incentive awards.

As detailed in the Listing Prospectus, all employees (including the CEO and Executive Committee members) who forfeited Novartis equity-based compensation at the spin-off date received replacement awards through the Equity Restoration Plan (Keep Whole and Refill Awards). Replacement awards were granted using the equity instrument that was most closely aligned to the forfeited award.

Finally, the HC & ESGC and Board decided on the compensation structure applicable to Executive Committee members for 2024, including the performance metrics for the Annual Incentive and Long-Term Incentive. The metrics are taken directly from the Sandoz business plan which was shared with shareholders prior to the spin-off, and the Board considered market practice, the feedback of shareholders and advice from its Independent Advisor.

2024 Annual General Meeting

At the 2024 Annual General Meeting (AGM) we will ask shareholders to approve the maximum aggregate total compensation for members of the Board of Directors for the period of their term of office from the 2024 AGM to the 2025 AGM. Shareholders will also be asked to approve the maximum aggregate compensation for members of the Executive Committee for the financial year 2025. Additionally, we will ask shareholders to express their opinion on this Compensation Report through an advisory vote.

The Committee appreciates your trust and investment in Sandoz.

Yours sincerely,

Urs Riedener

Chair of the Human Capital & ESG Committee

1. Executive Committee and Board compensation at a glance

Summary of compensation arrangements for the Executive Committee

Framework

The compensation of the members of the Executive Committee consists of fixed and variable compensation. Details are set out in the table below.

Exhibit 1.1: Structure of Executive Committee compensation

Structure	Component	Purpose
Fixed compensation and benefits	Annual Base Salary	Reflects the individual's responsibility, skills and experience
	Pension and other benefits	Provides appropriate savings for retirement, risk insurance and other benefits applicable in the local market
Variable compensation linked to performance	Annual Incentive	Rewards achievement of short-term financial and non-financial objectives related to the business strategy
	Long-Term Performance Plan (Performance Share Units)	Drives long-term alignment with shareholder value; equity-based and subject to achievement of long-term performance conditions

Executive Committee compensation October 4, 2023 – December 31, 2023

The following table shows the compensation for the CEO as the highest paid member and the total aggregate amounts for the other nine members of the Executive Committee. The Annual Incentive amount shown is only for the period from October 4, 2023 to December 31, 2023. No awards under the Long Term Performance Plan (LTPP) in Sandoz equity were granted (the grant in 2023 was made in January prior to spin-off).

Exhibit 1.2: Executive Committee compensation October 4, 2023 – December 31, 2023

Executive Compensation CHF From 10/04/2023 to 12/31/2023	Annual Base Salary [1]	Retirement, insurance benefits	Annual Incentive 2023 [2]	LTPP 2023-2025 [3]	Other benefits	Total compensation
Richard Saynor (CEO, highest paid)	287,433	46,095	450,608	-	115,728	899,864
Aggregate amount of nine other Executive Committee members	1,195,223	272,029	1,511,524	-	785,199	3,763,975
Totals in CHF (10 members)	**1,482,656**	**318,124**	**1,962,132**	**-**	**900,927**	**4,663,839**

[1] Annual Base Salary for the period from 10/04/2023 to 12/31/2023.

[2] Annual Incentive 2023 for the period from 10/04/2023 to 12/31/2023.

[3] Performance Share Units (PSUs) at grant. No LTPP awards for the performance cycle 2023-2025 in Sandoz equity were granted in the period from 10/04/2023 to 12/31/2023. The first Sandoz LTPP award will be granted in early 2024 for the performance period 2024-2026. There are current unvested LTPP awards that were granted under the Novartis LTPP. The treatment of the time-portions of earlier LTPP awards falling into the period post-spin-off are covered in section 2.3 Transition from previous equity plans (Equity Restoration Plan).

Summary of compensation arrangements for the Board of Directors

Framework

The compensation of the members of the Board of Directors consists of fixed fees only, with no variable incentive components. Fees comprise a fixed fee for Board of Directors membership. Additional fixed fee(s) are payable to the Vice Chair as well as to the Chairs and members of Board committees. The Board Chair and the other members of the Board receive at least 50% of their fees in the form of unrestricted ordinary Sandoz shares. They may choose to receive more than 50% of their fees in Sandoz shares. Board members are expected to build and retain a significant shareholding in Sandoz following minimum ownership guidelines. The fees in shares are delivered in two instalments in arrears, all fee portions in cash are paid in four instalments in arrears.

Exhibit 1.3: Structure of Board compensation

		Additional fees [1]						
CHF	Fee for Board membership [1]	Vice Chair	Chair ARCC [2]	Chair HC & ESGC [2]	Chair SIDC [2]	Member ARCC [2]	Member HC & ESGC [2]	Member SIDC [2]
Board Chair	850,000	-	-	-	-	-	-	-
Other members of the Board	200,000	50,000	60,000	50,000	50,000	40,000	30,000	30,000

[1] These fees are payable for the term of office, which is the period from one AGM to the next. The Board fees are paid in Swiss francs (see details in section 3.1 Compensation Policy for the Board of Directors). For the term of office from spin-off date (October 4, 2023) to the 2024 AGM, fees are prorated (see details in section 3.2 2023 Compensation for the Board of Directors).

[2] Board Committees: "ARCC" Audit, Risk and Compliance Committee; "HC & ESGC" Human Capital & ESG Committee; "SIDC" Science, Innovation and Development Committee.

Board compensation in 2023

The table below shows the total compensation of the members of the Board of Directors in the period from October 4, 2023 to December 31, 2023. The fees in cash were paid. The fees due in shares as disclosed were earned in this period, but not paid. They will be paid in 2024 together with the fee portions in shares due for the period from January 1, 2024 to the 2024 AGM.

Exhibit 1.4: Board compensation October 4, 2023 – December 31, 2023

Board of Directors fees CHF	Fees paid in cash	Fees due in shares [1]	Other payments [2]	Total fees paid and due in period
Total fees for the period from 10/04/2023 to 12/31/2023	350,583	447,000	24,253	821,836

[1] Fees due in shares were earned in the period from 10/04/2023 to 12/31/2023. The shares will be delivered in 2024 (see section 3.2.1 for more information).

[2] Company-paid mandatory social security contributions for fees paid in cash and the pro-rata fees due in shares.

2. Executive Committee compensation

2.1 Compensation philosophy and principles for the Executive Committee

2.1.1 Compensation philosophy

Sandoz ambition is to be the world's leading biosimilars and generics company. The total rewards package allows Sandoz to attract and retain top talent in a highly competitive market. Compensation is aligned to the business performance objectives and values. The compensation framework encourages entrepreneurship while deterring excessive risk-taking that might achieve short-term financial gain while undermining the long-term health of the Company.

Compensation principles:

- **Competitive Total Rewards** – Sandoz provides competitive compensation and benefits required to compete for top talent. Benefits are competitive to local market practice and include retirement, insurance, and social benefits as well as local perquisites. The elements of Total Rewards are aligned to strategy and culture.
- **Pay for Performance** – All employees have variable pay linked to company and individual performance. Executive Committee members receive a significant proportion of their pay as variable compensation that is linked to company performance.
- **Ethics and Values** – Business results are achieved through ethical practices, reflected also in the Sandoz Values and the Code of Ethics. Malus and clawback apply where incentive compensation is earned in a manner contravening the law, internal policies or guidelines.
- **Shareholder Alignment** – Executive Committee members receive the highest proportion of their pay in Sandoz equity to align with shareholder interests. They must meet minimum share ownership requirements (see section 2.2.8 Share ownership guidelines).

2.1.2 Benchmarking Executive Committee compensation

Sandoz aims to recruit top executive talent with deep expertise, the requisite competencies and proven performance within the healthcare industry (generics, biosimilars, pharma, consumer health). Significant competition exists for top global executive talent, particularly in the US, which is an important source of talent for Sandoz and a strategic growth market. Benchmarking data is just one point of reference for the Board, to ensure pay remains competitive. The Board also pays attention to the pay of the wider workforce, in particular when determining increases.

The HC & ESGC and the Board refer mainly to two peer groups of companies of similar size and scale of operations in generics, biosimilars, pharma and other healthcare, and some consumer goods companies. The first group is headquartered in Europe, and separately the second group is headquartered in the US. Total compensation is targeted around median to 75th percentile of the European peer group (taking into account global talent competition). Given the US is an important market for talent and growth, the US peer group is used for global referencing of compensation competitiveness.

The comparator companies in these two peer groups were selected as part of the spin-off process. The composition of the peer groups will be kept under review to ensure they remain relevant for Sandoz.

Exhibit 2.1.2: Executive Committee compensation peer group

Europe	US
Alcon SA	Amgen Inc
Beiersdorf Aktiengesellschaft	Bausch Health Companies Inc
Danone SA	Baxter International Inc
Essity AB	Biogen Inc
Fresenius Medical Care AG & Co KGaA	Catalent Inc
Givaudan SA	Colgate-Palmolive Company
Glanbia plc	ICON Public Ltd
GSK plc	Newell Brands Inc
Haleon plc	Organon & Co
Hikma Pharmaceuticals plc	Perrigo Company plc
Ipsen Pharma SA	The Clorox Company
Jazz Pharmaceuticals plc	Viatris Inc
Lonza Group AG	Zoetis Inc
Merck KgaA	
Smith & Nephew plc	
UCB SA	
Teva Pharmaceutical Industries Ltd	

2.2 Compensation framework for the Executive Committee

2.2.1 Compensation overview

The compensation of the members of the Executive Committee consists of fixed and variable compensation. Fixed compensation comprises the base salary as well as participation in local benefits programs.

Variable compensation comprises annual and long-term incentive awards, which are granted on an annual basis. Details are set out in the following table.

Exhibit 2.2.1.1: Structure of Executive Committee compensation

	Purpose	Vehicle	Target opportunity	Performance metrics
Annual Base Salary	Reflects the individual's responsibility, skills, and experience	Cash	Not applicable	Not applicable. However, increases take into account individual performance and development in role
Pension and other benefits	Provides retirement savings, risk insurances, and other benefits	Tailored to local market practices and regulations	Retirement benefit provisions are consistent with other employees in the same market. Risk insurances and other benefits depend on local practice	Not applicable
Annual Incentive	Rewards achievement of annual financial and non-financial goals from the business plan	Cash	Target Annual Incentive is determined as a percentage of base salary (see below). Actual payout is based on performance, between 0%–200% of target	Annual financial and individual/strategic objectives
Long Term Performance Plan ("LTPP")	Ensures long-term alignment with shareholder value and accountability for long-term financial success	Equity	Target LTPP award is determined as a percentage of base salary (see below). Actual vesting is based on performance, between 0%–200% of target	Three-year performance period with metrics related to financial, innovation and ESG objectives, cliff vesting at expiry of performance period

The overall balance between fixed and variable components of the compensation of the Executive Committee reflects the Company's strong focus on performance and ensures alignment with shareholders' long-term interests.

The table below shows the ratios of fixed and variable compensation of the CEO and other members of the Executive Committee, both at target and maximum opportunity. The ratios shown are on an annualized basis assuming the target and maximum compensation in the period from October 4, 2023 to December 31, 2023 apply to 12 months and LTPP was granted in this period.

Exhibit 2.2.1.2: Executive Committee pay ratios 2023

	Fixed vs. variable compensation at target payout		Fixed vs. variable compensation at maximum payout	
Members of the Executive Committee	Fixed compensation [1]	Variable compensation [2]	Fixed compensation [1]	Variable compensation [2]
Chief Executive Officer	22%	78%	12%	88%
Other nine members (range)	28%–31%	69%–72%	16%–19%	81%–84%

[1] Base salary, excluding retirement, insurance, and other benefits

[2] Including Annual Incentive and hypothetical LTPP awards 2023-2025 based on the relevant target levels effective on December 31, 2023 (see sections 2.2.3 AI, 2.2.4 LTPP)

2.2.2 Fixed compensation elements and benefits

The Annual Base Salary is a fixed compensation element. It is reviewed annually considering the market value of the role and benchmark information of peer companies as well as individual development of the incumbents in their roles, their performance, macroeconomic conditions, and other relevant factors.

The members of the Executive Committee are enrolled in local benefit plans for retirement income savings, insurance for disability and loss of life. These plans are in line with local legislation and market practice.

2.2.3 Annual Incentive

Annual Incentive awards are provided to employees, including Executive Committee members. The payout of the Annual Incentive award for Executive Committee members depends on the level of achievement of Company annual financial objectives along with non-financial objectives. The awards are offered on an annual basis and are payable in the year following the performance period.

Effective on December 31, 2023, the target Annual Incentives for the members of the Executive Committee were as follows:

Exhibit 2.2.3: Targets of Annual Incentive awards

Position	Target Annual Incentive (payout based on performance between 0%–200% of target, capped)
Chief Executive Officer	110% of Annual Base Salary
Other nine members of the Executive Committee	80%–90% of Annual Base Salary

The financial performance objectives for the Annual Incentive 2023 were set by the Novartis Board of Directors at the start of the performance year. The Sandoz Board of Directors ratified the objectives in October 2023 at the time of the spin-off and evaluated performance versus objectives at the end of the financial year 2023. The financial performance metrics of the Annual Incentive 2023 are disclosed in section 2.4.2 Annual Incentive awards 2023.

From 2024, the Board of Directors will set the annual objectives at the start of the performance year. At the end of the year, the HC & ESGC will assess the performance of the Executive Committee members and, based on a recommendation from the CEO, determine their Annual Incentive payouts. The Board of Directors, based on a recommendation from the Board Chair and the HC & ESGC, will determine the payout for the CEO.

For each Annual Incentive cycle, the calculated payments resulting from achievement against the applicable objectives will be reviewed by the HC & ESGC (and the Board, for the CEO) and an assessment will be made as to whether they are a fair reflection of the performance of the Company and the individual. If appropriate, payments may be adjusted downward (including to zero) or, in unusual circumstances, upward (but subject to the overall plan limits set out above, with rationale disclosed to shareholders). Please see section 2.2.5 Malus and clawback conditions for more information.

2.2.4 Long Term Performance Plan

In the period of this report from October 4, 2023 to December 31, 2023, no grant under the Long Term Performance Plan (LTPP) was made to members of the Executive Committee. All current, unvested LTPP awards were granted under the Novartis equity plans, of which the treatment of the portions falling into the period post spin-off is covered in section 2.3 Transition from previous equity plans (Equity Restoration Plan).

For the future, the Board of Directors has adopted an LTPP framework for annual long-term incentive awards effective from the first grant, which will be in early 2024 for the 2024-2026 performance cycle. This first LTPP grant will be disclosed in the Compensation Report 2024. The performance metrics that apply to the LTPP 2024–2026 are disclosed for information in section 2.6 Executive Committee compensation framework from January 2024.

Under the LTPP, members of the Executive Committee as well as certain other senior leaders will be eligible to receive a target number of Performance Share Units (PSUs) on the date of grant. These PSUs are contingent rights to receive, at the end of a three-year cliff-vesting period (at the vesting date), a certain number of shares, which may be higher or lower than the target number of PSUs contingent upon performance achievements. The target value of the PSUs granted as a percentage of salary will depend on the level of responsibility of the relevant executive. The actual number of shares that will eventually be received at vesting will depend on the extent that pre-determined performance conditions have been met and is subject to continued employment. PSUs carry dividend equivalents that are paid in shares at the end of the LTPP cycle.

The CEO and CFO will be required to hold the shares vesting under the LTPP (net of applicable tax and social security withholdings) for a minimum of two years after the vesting date.

The LTPP target values for members of the Executive Committee as part of their compensation packages will be as follows:

Exhibit 2.2.4: Targets of LTPP awards

Position	Target Long Term Performance Plan (Vesting based on performance, 0%–200% of target, capped)
Chief Executive Officer	250% of Annual Base Salary
Other nine members of the Executive Committee	140%–180% of Annual Base Salary

For each future LTPP cycle, the potential payments in shares resulting from achievements against the applicable objectives will be reviewed by the HC & ESGC and the Board. Before payments are made, they will make an assessment as to whether the achievements are a fair reflection of the performance of the Company.

2.2.5 Malus and clawback conditions

Any incentive compensation payable to Executive Committee members is subject to malus and clawback rules. This means that the Board of Directors for the CEO, and the HC & ESGC for the other Executive Committee members, may decide – subject to applicable laws – to reduce any unpaid or unvested incentive compensation (malus), or to recover incentive compensation that has been paid or has vested in the past (clawback). This applies in cases where the payout has resulted from a violation of laws or conflicts with internal management standards, including Company and accounting policies. These rules apply to both, Annual Incentive and LTPP awards.

2.2.6 Employment terms and conditions

All Executive Committee members have a 12-month notice period during which they are entitled to their contractual base salary, pro rata Annual Incentive, retirement, insurance, and other local benefits. No new LTPP grants are made during the notice period.

Members of the Executive Committee may be relocated or assigned to other countries for business purposes. These executives receive relocation support, international benefits, tax equalization, and perquisites that are in line with the Company's policies for international mobility and transfers.

For Executive Committee members that leave due to voluntary resignation or termination by the Company for misconduct or poor performance, all variable compensation elements (Annual Incentive and unvested LTPP awards) are forfeited.

For Executive Committee members that are determined by the HC & ESGC (for the CEO by the Board) to be "good leavers", for example in cases of retirement, termination by the Company (for reasons other than performance or conduct) and change of control, the Annual Incentives are prorated for the period of employment and payable at the end of the notice period or upon leaving the Company. In the same events, unvested LTPP awards are released on the original payment or vesting date with no acceleration; however, they are prorated for the period of employment and subject to an assessment of the applicable performance conditions. All LTPP awards are subject to forfeiture if a good leaver joins a competitor company as defined in the applicable plan rules, before the original vesting date.

In the case of death or long-term disability, full accelerated vesting of LTPP awards (either based on the performance to date, or, if unavailable, at target level) is applied.

In line with the prohibitions on certain types of compensation arrangements outlined in the Swiss Code of Obligations, Executive Committee members are not entitled to any severance payments.

2.2.7 Buy-out awards

Externally recruited new members of the Executive Committee may be eligible for replacement of equity-based or other compensation elements that forfeited when leaving the former employer. The vesting conditions and the award instruments of such replacement compensation are comparable to those foregone.

2.2.8 Share ownership guidelines

Executive Committee members are expected to build and retain a significant shareholding in Sandoz to align their interests with those of other shareholders. The minimum requirements are as follows:

Exhibit 2.2.8: Executive Committee minimum share ownership guidelines

Position	Minimum ownership requriement	Timeframe
Chief Executive Officer	3x Annual Base Salary	Within 5 years of appointment
Other members of the Sandoz Executive Committee	2x Annual Base Salary	Within 5 years of appointment

Unvested PSUs, which are still subject to performance conditions, do not count towards the minimum share ownership requirement.

Executive Committee members must retain all Sandoz shares received from the Company until the minimum ownership level is met (net of applicable taxes). The CEO and the CFO are required to hold the shares received under the LTPP for a minimum of two years after the vesting date.

2.3 Transition from previous equity plans (Equity Restoration Plan)

As detailed in the Listing Prospectus, all employees, including the CEO and the Executive Committee members, who forfeited Novartis equity-based compensation at the spin-date, received replacement awards through the Equity Restoration Plan including Keep Whole and Refill Awards.

The CEO and other members of the Executive Committee were previously employed on Novartis contracts when Sandoz was part of the Novartis Group. A set of carefully designed transition arrangements was developed to ensure that the executives did not systematically gain or lose from the spin-off of Sandoz because they: (1) did not participate in the Sandoz dividend-in-kind distribution, and (2) were subject to "good leaver" provisions (from Novartis), in the case of certain awards, that resulted in the proration of these awards, and forfeiture of a portion.

For the avoidance of doubt, these arrangements did not, in the opinion of the Board of Directors, represent additional remuneration but rather ensured that participants (both Executive Committee members and other employees) were treated consistently with shareholders. There were three main elements to the transitional arrangements, as follows.

2.3.1 Dividend-in-kind

At the Sandoz spin-off from Novartis on October 4, 2023, all Novartis shareholders, including the Sandoz Executive Committee members and other employees, holding vested Novartis shares or unvested awards in the form of restricted Novartis shares, received the Sandoz dividend-in-kind resulting from the spin-off. This dividend-in-kind was provided in a ratio of one Sandoz share distributed for every five Novartis shares held.

2.3.2 Keep Whole Awards

Employees, including Executive Committee members who held unvested Restricted Stock Units (RSUs) and/or Performance Stock Units (PSUs) awarded under Novartis equity programs did not receive the dividend-in-kind resulting from the spin-off. Because the value of the underlying Novartis share decreased due to the Sandoz spin-off, participants would have experienced a devaluation of the award value equal to their pro rata share of the value of the Sandoz business. As a result, immediately following the spin-off, Sandoz granted equity awards to its employees, including Executive Committee members, to compensate for the devaluation of their unvested awards in RSUs or PSUs referred to hereinafter as Keep Whole Awards. The Keep Whole Awards in Sandoz PSUs were granted at target level, subject to Sandoz performance conditions as defined for the Refill Awards.

These awards were granted in the equivalent equity instrument as the underlying Novartis award and had a value equivalent to the dividend-in-kind that each PSU or RSU would have received, had the unit been a Novartis share.

The Keep Whole Award value was provided in the same ratio as the dividend-in-kind, i.e., a ratio of one Sandoz unit distributed for every five Novartis units held.

2.3.3 Refill Awards

Unvested Novartis PSU and RSU awards held by Sandoz employees, including Executive Committee members, granted under Novartis equity plans were prorated for time of service to Novartis from the beginning of the performance or the vesting period to the spin-off date. The values of the forfeited Novartis PSU and RSU awards were replaced by Sandoz PSU and RSU awards of equivalent value, referred to hereinafter as Refill Awards. The prorated amounts of performance-based units for time of service to Novartis were retained in Novartis PSUs and remain subject to Novartis performance conditions and terms for the remainder of their performance period. The Refill Awards and Keep Whole Awards in Sandoz PSUs were granted at target level, subject to Sandoz performance conditions.

The performance conditions of Sandoz PSUs issued under the 'Equity Restoration Plan' for the period of service to Sandoz following the spin-off were approved by the Sandoz Board.

2.4 2023 Compensation for the Executive Committee

2.4.1 Executive Committee compensation 2023

The total aggregate compensation awarded to members of the Executive Committee in the period from October 4, 2023 (spin-off date) to December 31, 2023 was CHF 4,663,839 as set out in exhibit 2.4.1 Executive Committee compensation 2023 below. This amount is within the budget approved by the single shareholder of Sandoz prior to spin-off.

The values of vesting and forfeiture of long-term incentive awards and other equity awards in Novartis shares and their replacement by Sandoz shares under the Equity Restoration Plan (Refill Awards, Keep Whole Awards) are not included in the table above and consequently not included in the value of total compensation. Their treatment is outlined in section 2.3 Transition from previous equity plans (Equity Restoration Plan) of this report.

All numbers disclosed in exhibit 2.4.1 represent payments or benefits for the period from October 4 to December 31, 2023, i.e., 89 days. Monthly payments and benefits are reported as they are made or provided in the period. Annual or one-time payments are prorated for the relevant period and considered earned or received in the period of the report.

Exhibit 2.4.1: Executive Committee compensation 2023

	Fixed compensation		Variable compensation		Additional	Total	Ratio
	Annual Base Salary [1]	Retirement, insurance benefits [2, 3]	Annual Incentive 2023 [4]	LTPP awards 2023-2025 [5]	Other benefits [6]	Total compensation [7]	Fixed / Variable compensation [8]
Executive Compensation CHF	**Amount in cash**	**Amount value**	**Amount in cash**	**PSU value at grant**	**Amount**	**Amount**	**%**
Richard Saynor (CEO, highest paid)	287,433	46,095	450,608	-	115,728	899,864	20% / 80%
Aggregate amount of the nine other Executive Committee members	1,195,223	272,029	1,511,524	-	785,199	3,763,975	27% / 73%
Total	**1,482,656**	**318,124**	**1,962,132**	**-**	**900,927**	**4,663,839**	**25% / 75%**

All numbers disclosed in this table were audited.

[1] The Annual Base Salaries of the total of 10 Executive Committee members post spin-off date are based on the individual contractual arrangements. They represent only base salaries paid for the period from 10/04/2023 to 12/31/2023.

[2] The total of retirement and insurance include the actual contributions paid to the relevant Company benefit-plans for the period from 10/04/2023 to 12/31/2023. The post-employment benefits under defined benefit plans in Switzerland and the retiree-medical benefit plans in the US are included according to IAS24, prorated to the period from 10/04/2023 to 12/31/2023.

[3] The total also includes company-paid mandatory contributions to governmental social security systems in the amount of CHF 32,722. This amount represents the total of company contributions required to secure the right to the maximum future social benefits.

[4] The value of the Annual Incentive award disclosed is the amount earned for the performance year pro-rata for the period from 10/04/2023 to 12/31/2023. The amounts will be paid in cash in March 2024.

[5] No LTPP awards for the performance cycle 2023-2025 in Sandoz equity were granted in the period from 10/04/2023 to 12/31/2023.

[6] The amounts of other benefits include the Company-provided perquisites, values of benefits in kind, values of benefits in cash paid or values promised to be paid in cash or in kind to the CEO and to the other members of the Executive Committee. They include mostly relocation and international assignment benefits (e.g., moving, housing, schooling, family support, tax and social security gross-up and equalization, etc.). All values are prorated for the period from 10/04/2023 to 12/31/2023.

[7] Payments to Executive Committee members were made in CHF, USD, CAD, and EUR. The exchange rates were: 1 USD to 0.8986 CHF, 1 CAD to 0.6659 CHF, 1 EUR to 0.9717 CHF (average annual exchange rates 2023).

[8] Variable compensation includes the Annual Incentive 2023 and hypothetical LTPP awards 2023-2025 based on the Annual Base Salaries and LTPP target levels effective on December 31, 2023, prorated for 89 days (10/04 – 12/31/2023). The same assumption was made to calculate the ratios disclosed in exhibit 2.2.1.2. The prorated amount of the LTPP award of the CEO is CHF 731,507, the prorated amount of the nine other members of the Executive Committee is CHF 1,752,567 (prorated for 89 days).

Further details to the compensation for the Executive Committee in the table above:

The Refill Awards are a replacement of Novartis equity awards prorated for time of service to Sandoz effective from the spin-off date. The total value includes the prorated LTPP awards for the periods; 2021–2023 (3 months refilled), 2022–2024 (15 months refilled), 2023–2025, (27 months refilled), and any other unvested award made originally in Novartis equity. The prorated values of the LTPP awards and other equity awards were replaced with Sandoz equity-units, which were granted on October 4, 2023, at the closing market price of CHF 24.35. The total value also includes the Keep Whole Awards, which are based on the initial number of unvested Novartis Restricted Share Units and Performance Share Units held by members of the Executive Committee. The Sandoz units were awarded at a ratio of 1:5, i.e., one Sandoz unit was granted for every five Novartis units initially held. The Keep Whole Awards were granted at the same price as the Refill Awards.

As Novartis granted the 2023–2025 LTPP awards in January of 2023 in Novartis equity prior to Sandoz becoming an independent company, and prior to the appointment of the members of the Executive Committee of Sandoz, there were no LTPP awards granted by Sandoz. Therefore, equity compensation disclosed in this report does not include LTPP awards.

As a principle, Sandoz will report the LTPP awards in future at the value at grant in accordance with Swiss market practice. The normal basis for disclosure of performance-based LTPP awards in a regular year is the value of the PSUs at grant, reflecting the assumption that the awards will vest at 100% achievement, excluding any share price movement that may occur and any dividend equivalent that may be awarded over the performance period. The future payout will be determined only after the conclusion of the performance period of three years when the awards vest. Awards may vest based on performance between 0% and 200% of the target number of PSUs (capped).

Sandoz became an independent, listed company on October 4, 2023. Therefore, no disclosure of compensation paid by Sandoz to members of the Executive Committee in the previous year 2022, or comparison to compensation in the year 2022 is applicable.

2.4.2 Annual Incentive awards 2023

CEO Balanced Scorecard

In 2023, the CEO led the Company to deliver on both sales and profitability, external guidance, and achieve a strong performance versus financial targets set in January 2023 when Sandoz was a division of its former parent company. All regions grew, and biosimilars grew by double digits, driven by key products including Omnitrope and recently launched Hyrimoz.

As part of his strategic objectives, the CEO successfully led Sandoz to become a standalone public company listed on the SIX Swiss stock exchange and the global leader in generic and biosimilar medicines. Sandoz advanced its pipeline, delivered key launches, grew market value globally, and started to simplify and optimize the business to improve margins. Sandoz secured FDA and EMA approval for key biosimilar products and launched Hyrimoz high frequency concentration in the US and Europe. The Company announced the new partnership with Just-Evotec Biologics to develop and manufacture multiple biosimilars in the coming years. Sandoz opened a new penicillin production facility in Austria and continues to be the established global leader in generic antibiotics, an important role Sandoz plays in society. The CEO led the formation of the Executive Committee and embedded our pioneering and entrepreneurial culture guided by the four clear Values and new Code of Ethics.

Since Sandoz listed as a public company on October 4, 2023, shareholders benefited from a 12.8% return in the last three months of the year (opening price October 4, closing price December 29, 2023).

The Annual Incentive award payout percentage for the CEO was 140% of target (within the range of 0–200%). This payout level is based on a balanced scorecard including 60% Sandoz Group financial metrics and 40% strategic objectives. The financial metrics of the scorecard are: Net sales weighted 24%, operating income weighted 18%, and free cash flow weighted 18% as shown in exhibit 2.4.2.

Exhibit 2.4.2: Balanced Scorecard CEO Annual Incentive award 2023

Balanced Scorecard of 60% financial metrics, 40% strategic objectives	Weight	Achievements
Financial metrics		Threshold / Target / Maximum
Net Sales	24%	
Operating Income	18%	
Free Cash Flow (as % of Sales)	18%	
Total financial metrics	60%	
Strategic objectives*	40%	
Total Annual Incentive, payout factor	**100%**	140%

* focused on operational readiness for spin, key launches in biosimilars, driving volumes and expansion of market share, and strategy for margin expansion.

Other members of the Executive Committee

The Annual Incentive awards of the other nine members of the Executive Committee (excluding the CEO) were based on a compensation structure that applied to the entire transitional year 2023. Until the date of spin-off, these nine individuals were part of the former parent company's senior management below Executive Committee level. The Annual Incentive payout percentages for these nine other members of the Sandoz Executive Committee (excluding the CEO) were in a range between 146% and 171% of target (within the payout range of 0–200%), which applied to the Annual Incentive award for the full year.

The payout percentages are the result of a multiplicative double performance multiplier comprising a business performance factor (BPF), measuring the achievement of Sandoz Group financial performance, and an individual payout factor (IPF), measuring the achievement of individual financial and non-financial objectives. The BPF is composed of the achievements of four equally weighted financial metrics: Net Sales, Core Operating Income, Free Cash Flow, Core Operating Margin. The BPF is multiplied with the IPF, which results in the final payout percentages. From 2024 onwards, the Annual Incentive of the Executive Committee members will be based on a balanced scorecard, described in section 2.6 Executive Committee compensation framework from January 2024. The multiplicative BPF and IPF will be discontinued.

2.4.3 Refill Awards LTPP 2021-2023

If employed by Novartis in January 2021 (and if eligible at that time), certain employees, including some Executive Committee members, received a performance-based Novartis Long-Term Incentive award in Performance Share Units (PSUs) for the performance period 2021–2023. At the spin-date, these awards were split into two periods. Thirty-three of the 36 of the awards remained in Novartis equity and were subject to Novartis performance conditions (not disclosed in this report). The other portions were forfeited (see also section 2.3 Transition from previous equity plans, Equity Restoration Plan).

Following forfeiture, the Executive Committee members received Sandoz Refill Awards equivalent to 3/36 months of the original PSU awards, which are subject to performance conditions set by the Sandoz Board of Directors in October 2023. The Refill Awards with respect to the Novartis LTPP cycle 2021–2023 granted in Sandoz PSUs have a performance period of three months and will vest in January 2024.

Given the short performance period, and to focus on targets from the Sandoz business plan that were set in the ordinary course of business, the Board of Directors decided to apply the

Sandoz 2023 business performance factor (BPF) to the vesting of the LTPP Refill and Keep Whole Awards 2021–2023 of the members of the Executive Committee. The BPF is based on the achievements of four equally weighted financial metrics: Net Sales, Core Operating Income, Free Cash Flow, Core Operating Margin as described in section 2.4.2 Annual Incentive awards 2023.

The prorated Keep Whole and Refill Awards in PSUs of the CEO and of any other members of the Executive Committee (if applicable) vested at 144% of target (within a range of 0–200%) based on the BPF as described above. During the relevant performance period of these Keep Whole and Refill Awards no dividends were paid and therefore no dividend equivalents are payable.

2.4.4 Payments to former members of the Executive Committee (audited)

During the period from October 4, 2023 to December 31, 2023, there were no former members of the Executive Committee and therefore no payments were made.

2.5 Shareholdings of members of the Executive Committee

As at December 31, 2023, the total number of shares or American Depositary Receipts (Level I ADR) owned by each of the members of the Executive Committee and "persons closely linked [1]" to them is set out in the table below (exhibit 2.5).

Exhibit 2.5: Shareholdings of members of the Executive Committee

Executive Committee member	Vested shares and ADRs [2]	Unvested RSUs [3]	Unvested PSUs [4]	Total
Richard Saynor Chief Executive Officer	1,316	2,513	87,194	91,023
Francisco Ballester President International	9,319	826	25,015	35,160
Colin Bond Chief Financial Officer	84	206	27,024	27,314
Pierre Bourdage Chief Commercial Officer	0	5,029	21,166	26,195
Claire D'Abreu-Hayling Chief Scientific Officer	113	705	19,350	20,168
Glenn Gerecke Chief Manufacturing and Supply Officer	0	12,183	16,071	28,254
Rebecca Guntern President Europe	5,935	7,698	46,307	59,940
Keren Haruvi President North America	0	3,613	33,384	36,997
Tripti Jha Chief People Officer	744	14,342	32,706	47,792
Ingrid Sollerer General Counsel and Chief Compliance Officer	23,142	6,694	23,558	53,394
Total	**40,653**	**53,809**	**331,775**	**426,237**

All numbers disclosed in this table were audited.

[1] Persons closely linked are (i) their spouse or equivalent, (ii) their children below age 18, (iii) any legal entity that they own or control otherwise, and (iv) any legal or natural person which is acting as their fiduciary.

[2] Ordinary Sandoz shares listed at the Swiss Stock Exchange SIX and Level I ADR (OTC-quoted in the US) held by the members of the Executive Committee and "persons closely linked".

[3] The numbers of unvested RSUs are as granted under Novartis equity plans and replaced with Sandoz RSUs under the Equity Restoration Plan (see section 2.3).

[4] The numbers of unvested PSUs are as granted. The numbers of PSUs at vesting and converted to shares may be lower or higher depending on the payout of the awards.

Sandoz became an independent, listed company on October 4, 2023. Therefore, no disclosure of shareholdings in Sandoz of the previous year 2022 or a comparison to shareholding in the year 2022 is applicable.

2.6 Executive Committee compensation framework from January 2024

The compensation structure and system applicable to the CEO and the members of the Executive Committee were reviewed by the HC & ESGC in 2023 to ensure alignment with future strategic business objectives, the external peer groups, and best practices in compensation design for Sandoz executives.

The HC & ESGC and the Board carefully evaluated the relevance of the performance indicators used for the variable incentive plans and the payout ranges and decided on the following metrics for performance cycles beginning in January 2024 of the Annual Incentive and LTPP plans:

Annual Incentive 2024

The Executive Committee Annual Incentive will be based on the following Group financial and ESG (Access) metrics:

Exhibit 2.6.1: Performance metrics Annual Incentive 2024

Metric	Weight
Net sales % growth	30%
Core EBITDA margin	30%
Free Cash Flow	30%
ESG Access: Number of patients treated with biosimilars	10%

The overall performance assessment of the CEO will be based on achievements of Group financial and ESG performance metrics, and on individual strategic objectives set by the Board.

The overall performance assessment of the other members of the Executive Committee will be based on achievements of Group financial and ESG performance metrics, and on individual contributions to overall company performance, including role modelling of Sandoz values and culture.

The Board for the CEO and the HC & ESGC for the other members of the Executive Committee will make the final assessment of performance and payout, within the following ranges:

Exhibit 2.6.2: Payout ranges Annual Incentive 2024

Final assessment	Payout (% of target Annual Incentive)
Outstanding	170% – 200% (cap)
Exceeds expectations	130% – 160%
Meets expectations	90% – 120%
Below expectations	0% – 90%

Long-Term Performance Plan (LTPP) 2024-2026

The LTPP design will include financial, innovation, and ESG performance metrics. These metrics align to the strategic long-term performance objectives of Sandoz. The LTPP metrics for the 2024–2026 performance cycle will be as follows:

Exhibit 2.6.3: Performance metrics LTPP 2024-2026

Metric	Weight
Financial: Core EBITDA margin	30%
Financial: Core EPS	30%
Innovation: Percentage of sales from biosimilars	20%
ESG: Environmental Sustainability and Diversity, Equity and Inclusion	20%

The Core EBITDA margin is evaluated at the endpoint after the three-year performance period. The Core EPS target is a cumulative three-year target. Innovation and advancement of the scientific pipeline will be measured as a percentage of sales from biosimilars, evaluated at the endpoint after a three-year period. ESG will be split equally into two categories: 10% on Environmental Sustainability targets and 10% on Diversity, Equity and Inclusion targets.

3. Board of Directors compensation

3.1. Compensation policy for the Board of Directors

3.1.1 Fees

Based on proposals from the HC & ESGC, the Board of Directors sets the level of compensation for its Chair and the other members in line with relevant benchmark companies, specifically other Swiss multinational companies of comparable size represented in the Swiss Market Index (SMI) as well as the Swiss Market Index Mid (SMIM), reflecting the Swiss legal and governance environment. The relevant benchmarks are from the following comparator companies.

Exhibit 3.1.1.1: Peer group for Board compensation

ABB	Adecco	Alcon
Barry Callebaut	Clariant	Geberit
Givaudan	Kühne + Nagel	Holcim
Lonza	Richemont	Schindler
Sika	SGS	Sonova
Straumann	Swatch	Swisscom

The compensation of the members of the Board of Directors consists of fixed compensation only, with no variable pay elements, incentives, financial instruments (e.g., share options). Fees comprise a fixed fee for Board of Directors membership, and additional fixed fee(s) for the Vice Chair as well as the Chairs and members of Board committees.

The Board Chair's time commitment to his role and his responsibilities are considerably higher than other members of the Board of Directors. This is reflected in the Board Chair fee for a term of office. On the other hand, the Board Chair does not receive any separate compensation for work or participation in Board committees.

The Company does not offer its retirement or insurance pension plans to members of the Board of Directors or pay contributions to such plans. If the Company is required by law in selected cases to provide mandatory retirement and insurance benefits, a basic plan is offered with contributions up to regulatory limits.

Exhibit 3.1.1.2: Structure of Board compensation

	Fees payable for a term of office [1]
Board Chair fee	**850,000**
Board membership fee	**200,000**

Additional fees: [2]	Vice-Chair	Committee Chair	Committee member
Vice Chair	50,000		
Audit, Risk and Compliance Committee		60,000	40,000
Human Capital and ESG Committee		50,000	30,000
Science, Innovation and Development Committee		50,000	30,000

[1] The term of office is the period from the AGM in one year to the next. For the term of office from spin-off date 10/04/2023 to the 2024 AGM, fees are prorated (see details in section 3.2 2023 Compensation for the Board of Directors).

[2] The Board Chair does not receive additional fees for participation in any of the Board committees.

The Board Chair and the other members of the Board receive at least 50% of their total fees in the form of unrestricted ordinary Sandoz shares based on the market value on the day the shares are granted. In a regular term of office from the AGM in one year to the next the shares are delivered in two instalments in arrears. All members of the Board may choose to receive more than 50% of their fees in Sandoz shares. The remaining fees are paid in cash in four instalments in arrears during a regular term of office.

Sandoz pays mandatory company-contributions to the governmental social security systems where applicable. Members of the Board bear the cost of their own mandatory employee social security contributions, if any.

Members of the Board are reimbursed for normal business expenses (e.g., transport, hotels, meals) during business travel when attending Board meetings, based on the Company's travel and expense policy.

The Board of Directors compensation policy does not provide for any severance or termination-related payments.

3.1.2 Share ownership guidelines

Board members are expected to build and retain a significant shareholding in Sandoz shares, to align their interests with those of other shareholders. The minimum requirements are as follows:

Exhibit 3.1.2: Board minimum share ownership guidelines

Position	Minimum ownership requirement	Timeframe
Board Chair	1x Board Chair fee	Within four years of joining the Board of Directors
Other Board members	1x Board membership fee	Within four years of joining the Board of Directors

Board members must retain all Sandoz shares received from the Company until the minimum ownership requirement is met (net of the applicable taxes).

Members of the Board of Directors are required to maintain their minimum ownership requirement during their full tenure, and for a year after leaving the Board of Directors.

3.2 2023 Compensation for the Board of Directors

3.2.1 Fees of members of the Board of Directors

The audited table below sets out the compensation paid in cash to the members of the Board of Directors in the period from October 4, 2023 to December 31, 2023. In this period, no fees were paid in shares.

The actual pro rata fee paid in cash for the period from October 4 to December 31, 2023 as disclosed is contingent upon the elected payment of the fees in shares for the period from spin-off date to the 2024 AGM.

The payment of the fee portions in shares for the prorated term of office from October 4, 2023 to the 2024 AGM will be made in 2024. The shares will be allocated at the closing market price on grant date. A further payment of the fees in cash will also be made in 2024.

The table on the right-hand side below, which is displayed for information purposes, shows the pro-rata fee portions due in shares earned in the period reported. These prorated fee portions are based on the gross value of the fee in shares due in 2024 and will be payable together with the fee portions due for the period from January 1, 2024 to the 2024 AGM. The actual number of shares allocated will be after applicable tax and social security deductions based on the value of shares.

Exhibit 3.2.1: Board fees 2023

Board compensation in CHF		Fees paid in the period 10/04 – 12/31/2023				Fees due in the period 10/04 – 12/31/2023		
Board Member	Board Function [1]	Fees paid in cash [2]	Other payments [3]	Fees paid in shares [4]	Total paid 2023 [5]	Other payments due [6]	Fees in shares due [7]	Total paid / due 2023 [8]
Gilbert Ghostine	Board Chair	123,958	4,675	-	**128,633**	-	106,250	**234,883**
Karen Huebscher	Vice-Chair Chair ad int of the SIDC Member of the ARCC	49,583	4,016	-	**53,599**	658	42,500	**96,757**
François-Xavier Roger	Chair of ARCC Member of the SIDC	-	-	-	**-**	3,843	72,500	**76,343**
Urs Riedener	Chair of the HC & ESGC	-	-	-	**-**	3,313	62,500	**65,813**
Shamiram Feinglass	Member of the SIDC	33,542	-	-	**33,542**	-	28,750	**62,292**
Aarti Shah	Member of the SIDC Member of the HC & ESGC	37,917	-	-	**37,917**	-	32,500	**70,417**
Yannis Skoufalos	Member of the HC & ESGC	26,833	-	-	**26,833**	-	34,500	**61,333**
Remco Steenbergen	Member of the HC & ESGC Member of the ARCC	39,375	-	-	**39,375**	-	33,750	**73,125**
Maria Varsellona	Member of the HC & ESGC Member of the ARCC	39,375	7,041	-	**46,416**	707	33,750	**80,873**
Total fees paid/due in the period from 10/04 to 12/31/2023		**350,583**	**15,732**	**-**	**366,315**	**8,521**	**447,000**	**821,836**

All numbers disclosed in this table were audited.

[1] ARCC: Audit, Risk and Compliance Committee; HC & ESGC: Human Capital & ESG Committee; SIDC: Science, Innovation and Development Committee.

[2] Fees paid in cash in arrears in the period from spin-off date 10/04/2023 to 12/31/2023.

[3] Other payments from spin-off date 10/04/2023 to 12/31/2023. The total amount includes CHF 15,731 for mandatory contributions paid by Sandoz to governmental social security systems for all member of the Board of Directors, which grant the right to the maximum future insured government pension benefit.

[4] All fees in shares for the period from spin-off date 10/04/2023 to 2024 AGM will be delivered in 2024. The value of the shares then delivered will include the fees due for the period from spin-off date 10/04/2023 to 12/31/2023 (see the table on the right).

[5] Total of fees paid, and other payments made from spin-off date 10/04/2023 to 12/31/2023.

[6] Company-paid social security contributions due on the fee portion in shares, which grant the right to the maximum future insured government pension benefit.

[7] Values of the portions of fees in shares earned in the period 10/04/2023 to 12/31/2023. The shares will be allocated in 2024, together with the fee in shares earned in the period 01/01/2024 to the 2024 AGM.

[8] Total of the fees, including the accrued portion of the value of shares for the period 10/04/2023 to 12/31/2023. Additional social security contributions are due based on the value of the shares.

The total of fees paid within the period covered in this report and the remainder of fees payable to members of the Board of Directors for the first term of office from the spin-off date to the 2024 AGM will be within the maximum aggregated budget of CHF 1,989,000. This prospective budget for the first term was approved by the single shareholder prior to the spin-off date.

Sandoz became an independent, listed company on October 4, 2023. Therefore, no disclosure of compensation paid by Sandoz to members of the Board of Directors in the previous year 2022, or comparison to compensation in the year 2022 is applicable.

3.2.2 Payments to former members of the Board of Directors

During the period from October 4, 2023 to December 31, 2023, there were no former members of the Board of Directors and therefore no payments were made.

3.3 Shareholdings of members of the Board of Directors

As at December 31, 2023, the total number of shares owned by each of the members of the Board of Directors and "persons closely linked[1]" to them is set out in the table below.

Exhibit 3.3: Shareholdings of members of the Board

Board member	Function[2]	Shares at December 31, 2023[3]
Gilbert Ghostine	Board Chair	38,500
Karen Huebscher	Vice-Chair, a.i. Chair of the SIDC, member of the ARCC	7,750
François-Xavier Roger	Chair of the ARCC, member of the SIDC	0
Urs Riedener	Chair of the HC & ESGC	186
Shamiram Feinglass	Member of the SIDC	0
Aarti Shah	Member of the SIDC, member of the HC & ESGC	0
Yannis Skoufalos	Member of the HC & ESGC	0
Remco Steenbergen	Member of the HC & ESGC, member of the ARCC	0
Maria Varsellona	Member of the HC & ESGC, member of the ARCC	0
Total		**46,436**

All numbers disclosed in this table were audited.

[1] Persons closely linked are (i) their spouse or equivalent, (ii) their children below age 18, (iii) any legal entity that they own or control otherwise, and (iv) any legal or natural person which is acting as their fiduciary.

[2] ARCC: Audit, Risk and Compliance Committee; HC & ESGC: Human Capital & ESG Committee; SIDC: Science, Innovation and Development Committee.

[3] Ordinary Sandoz shares listed at the Swiss Stock Exchange SIX held by the Board member and "persons closely linked" (no Level I ADRs quoted in the US were held).

Sandoz became an independent, listed company on October 4, 2023. Therefore, no disclosure of shareholdings in Sandoz of the previous year 2022 or a comparison to shareholding in the year 2022 is applicable.

4. Compensation governance

4.1 Human Capital & ESG Committee

The Board of Directors determines the overall compensation philosophy and principles and is responsible for approving all compensation payable to the members of the Board of Directors and the CEO.

The HC & ESGC supports the Board of Directors with respect to rewards topics by:

- Recommending the compensation philosophy and principles for the members of the Board and the Executive Committee.
- Preparing the proposals to the general meeting of shareholders regarding the prospective compensation budgets for the Board of Directors and the Executive Committee.
- Preparing the Compensation Report.
- Determining the fixed and variable compensation of members of the Executive Committee other than the CEO.

Approval and authority levels on compensation matters are as follows.

Exhibit 4.1: Authority levels

	CEO	Board Chair	HC & ESGC	Board of Directors	General meeting of shareholders
Compensation principles and policies			Propose	Approve	
Maximum aggregate compensation of the Board of Directors			Propose	Endorse	Approve (binding vote)
Maximum aggregate compensation of the Executive Committee			Propose	Endorse	Approve (binding vote)
Individual compensation of Board Chair and other members of the Board of Directors			Propose	Approve	
CEO remuneration		Propose	Review	Approve	
Individual remuneration of nine other members of the Executive Committee	Propose	Review	Approve		
Remuneration report			Propose	Approve	Advisory vote

The HC & ESGC meets at least four times a year. It comprises fully independent members of the Board of Directors. Between October 2, 2023 and December 31, 2023 the HC & ESGC held two meetings. The Board Chair, CEO, Chief People Officer, and other members of management may attend HC & ESGC meetings as guests by invitation as required. However, no executive is present when their own compensation is discussed. The Chair of the HC & ESGC provides an update to the Board of Directors on decisions made with respect to the compensation of the other nine members of the Executive Committee.

In the period from October 2, 2023 to December 31, 2023, the Committee's members were: Urs Riedener (Chair), Aarti Shah, Yannis Skoufalos, Remco Steenbergen, Maria Varsellona (members).

Between October 2, 2023 and December 31, 2023, the HC & ESGC received independent compensation advice from Deloitte AG. The independent advisor from Deloitte AG including their team that advised and supported the HC & ESGC, are not responsible or rewarded for work beyond such support provided to the HC & ESGC and the People & Organization function on executive compensation.

4.2 Shareholders' say-on-pay

At an Extraordinary General Meeting of shareholders held on August 17, 2023, Novartis (as the sole shareholder of the Company at the time) approved the aggregate maximum compensation for: (i) the members of the Board of Directors for the period until the 2024 AGM, ii) separately, the members of the Executive Committee for the remainder of the financial year 2023, and for the financial year 2024.

The 2023 Compensation Report (this report) will be subject to a consultative vote at the 2024 AGM.

Going forward, in line with Swiss law and the Articles of Incorporation, the Board of Directors will annually submit to the General Meeting of shareholders for vote and approval the maximum aggregate amount of compensation for: (i) the Board of Directors payable for the upcoming term of office (i.e., in the period from one AGM to the next), and separately, the maximum

aggregate amount of compensation for the Executive Committee payable in the following financial year. Given the variable nature of a significant portion of compensation of the Executive Committee, the proposed maximum aggregate amount will typically be higher than the compensation paid or awarded.

The Compensation Report of any future financial year will be subject to a non-binding advisory vote of shareholders at the next AGM.

4.3 External mandates

The external mandates of the members of the Executive Committee in other companies or organizations effective as of December 31, 2023 (according to the Swiss Code of Obligations, Art. 734e, activities in other companies) are as follows:

Exhibit 4.3.1: Activities of the members of the Executive Committee

Name	Role	Organization
Richard Saynor	na	na
Francisco Ballester	Member of the Health Management and Policy Advisory Council	Miami Herbert Business School, Coral Gables FL, USA
Colin Bond	Member of the board of directors	BioPharma Credit plc, New York, USA
Pierre Bourdage	na	na
Claire D'Abreu Hayling	Member of the board of directors	Black Phoenix Enterprise Ltd, London UK
Glenn A. Gerecke	na	na
Rebecca Guntern	Member of the board of directors	BKW AG, Berne, Switzerland
	Vice-president	Medicines for Europe, Brussels, Belgium
Keren Haruvi	Chair and board member	Association of Accessible Medicines, Washington DC,USA
Tripti Jha	na	na
Ingrid Sollerer	na	na

The information in this table was audited.

The external mandates of the members of the Board of Directors in other companies or organizations effective as of December 31, 2023 (according to the Swiss Code of Obligations, Art. 734e, activities in other companies) are as follows:

Exhibit 4.3.2: Activities of the members of the Board of Directors

Name	Role	Organization
Gilbert Ghostine	Member of the board of directors, member of the audit committee, member of the CSR committee	Danone SA, Paris, France
	Member of the board of directors, chair of the nomination and remuneration committee	Four Seasons Hotels and Resorts, Toronto, Canada
Karen J. Huebscher	Member of the board of directors	BBI Solutions, Crumlin, UK
	Founder and managing director	Fibula Medical AG, Sarnen, Switzerland
	Member of the foundation board	IMD Business School, Lausanne, Switzerland
	Member of the board of directors, chair of the audit committee, member of the nomination and governance committee	Tecan Group AG, Männedorf, Switzerland
Shamiram R. Feinglass	Member of the board of directors	Association of American Medical Colleges, Washington, DC USA
	Member of the research and innovation board	Children's National Medical Center, Washington, DC USA
	Member and advisor of the global network	The Aspen Institute, Washington, DC USA
	Co-chair of the mental health roundtable and senior fellow	Health Evolution, USA

The information in this table was audited.

Name	Role	Organization
Urs Riedener	Member of the board of directors, chair of the compensation and nomination committee	Bystronic AG, Zurich, Switzerland
	Chair of the board of directors, chair of the nomination and compensation committee, chair of the agricultural council	Emmi Group AG, Lucerne, Switzerland
	Member of the foundation board	Emmi Pension Fund, Lucerne, Switzerland
	Member of the advisory board	Schwarz Unternehmenstreuhand KG, Neckarsulm, Germany
	Member of the executive committee	Institute for Marketing and Customer Insights, University of St. Gallen
François-Xavier Roger	Chief Financial Officer	Nestlé SA, Vevey, Switzerland
	Chair of the board of directors	Nestlé Ventures[1]
	Chair of the board of directors	Nutrition Wellness Venture[1]
Aarti Shah, PhD	Member of the board of directors, member of the audit committee	NVIDIA Corporation, Santa Clara, CA USA
	Member of the board of trustees, member of the audit committee, member of the distribution and tech committee	Northwestern Mutual, Milwaukee, WI USA
	Advisor, consultant	ZS Associates Group Inc., Evanstone, IL USA
	Advisor	L&T Technology Services (LTTS), Vadodara, India
	Advisor	World 50 Grop Inc., Atlanta, GA USA
Yannis Skoufalos[2]	Member of the board of directors	Aimia Inc, Montreal, Canada
	Senior advisor on supply network matters	Blackstone Inc, New York, NY USA
	Member of the board of directors	Sustana Group, Maryland, Ohio, Wisconsin, USA
	Founder and managing director	Yannis Skoufalos Strategic Solution LLC, Bay Harbour Island, FL USA
Remco Steenbergen	Chief Financial Officer, member of the management board	Deutsche Lufthansa AG, Cologne, Germany
	Member of the board of directors	Lufthansa Technik AG, Hamburg, Germany[3]
	Chair of the board of directors	Airplus AG, Neu-Isenburg, Germany[3]
	Member of the board of directors	Swiss International Airlines AG, Kloten, Switzerland[3]
Maria Varsellona	Chief legal officer and group secretary	Unilever plc, London UK

The information in this table was audited.

[1] Legal entities are owned by Nestlé SA.

[2] Yannis Skoufalos was a member of the board of directors, the talent and compensation committee, the nomination and governance committee, of Hostess Brands, Lenexa, KS USA; he stepped down in November 2023.

[3] Companies are owned by Deutsche Lufthansa AG.

4.4 Loans and other payments (audited)

Sandoz does not allow loans to be granted to current or former members of the Executive Committee or to "persons closely linked" to them. Likewise, no loans may be granted to current or former members of the Board of Directors or to "persons closely linked" to them. As such, no loans were granted in 2023, and there were no outstanding loans on December 31, 2023.

During the period from October 4, 2023 to December 31, 2023, no other payments or waivers of claims other than those set out in the tables (including their footnotes) contained in this Compensation Report were made to current or former members of the Executive Committee or to current or former members of the Board of Directors, nor to any "person closely linked" to them.

For the purpose of the statements above, "persons closely linked" are (i) their spouse or equivalent, (ii) their dependent children below age 18, (iii) any legal entities that they own or otherwise control, and (iv) any legal or natural person who is acting as their fiduciary.

4.5 Articles of Incorporation

The Articles of Incorporation of Sandoz Group AG include provisions with respect to the compensation of the Board of Directors and the Executive Committee as follows:

- The General Meeting of Shareholders' approval of compensation paid to members of the Board and the Executive Committee are set forth in Article 31.
- The additional amount for compensation payable to members of the Executive Committee externally appointed after the General Meeting of Shareholders has already approved the compensation of the Executive Committee are set forth in Article 32.
- The general compensation structure and principles, including the allocation of equity securities, financial instruments or similar units, are set forth in Article 33.
- The variable compensation of members of the Executive Committee based on performance metrics are set forth in Article 34.
- The agreements with members of the Board of Directors and employment agreements with members of the Executive Committee are set forth in Article 35.
- The rules with respect to mandates of members of the Board of Directors and the Executive Committee in other companies are set forth in Article 36.
- The rules with respect to loans or credits granted to members of the Board and the Executive Committee are set forth in Article 37.

The Articles of Association are available on the website of Sandoz Group AG: https://www.sandoz.com/about-sandoz/company-overview/corporate-governance/

4.6 References

The Sandoz Compensation Report is written in accordance with Articles 734a to 734e of the Swiss Code of Obligations, and section 5 of the Annex to the Directive on Corporate Governance (DCG) of the SIX Swiss Exchange.

The report also takes into account the best practice expectations of investors and the Swiss Code of Best Practice for Corporate Governance issued by the Swiss Business Federation economiesuisse.

4.7 Notes to the Group's audited financial statements

The total expense related to compensation and benefits paid, granted, or promised to members of the Board of Directors and the Executive Committee in the financial year 2023 are set out in the Group's audited financial statements, note 30. Transactions with related parties, paragraph "Executive Officers and Non-Executive Directors compensation". The expense follows measurement and disclosure rules according to the Group's accounting policies and International Financial Reporting Standards (IFRS).

It should be noted that the compensation and benefits disclosed in this report are not aligned with those disclosed in the note 30 to the financial statements due to the different regulations that apply in each case and the different reporting periods and standards.

KPMG audit report

Report of the statutory auditor

To the General Meeting of Sandoz Group AG, Risch

Report on the Audit of the Remuneration Report

Opinion
We have audited the Remuneration Report of Sandoz Group AG (the Company) for the year ended 31 December 2023. The audit was limited to the information pursuant to Art. 734a-734f of the Swiss Code of Obligations (CO) in the sections marked 'audited', including the respective footnotes, on pages 100, 102, 106, 107, 109 and 110 of the Remuneration Report.

In our opinion, the information pursuant to Art. 734a-734f CO in the accompanying Remuneration Report complies with Swiss law and the Company's articles of incorporation.

Basis for Opinion
We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Remuneration Report" section of our report. We are independent of the Company in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information
The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the tables marked 'audited' in the Remuneration Report, the consolidated financial statements, the stand-alone financial statements and our auditor's reports thereon.

Our opinion on the Remuneration Report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Remuneration Report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the audited financial information in the Remuneration Report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Board of Directors' Responsibilities for the Remuneration Report
The Board of Directors is responsible for the preparation of a Remuneration Report in accordance with the provisions of Swiss law and the Company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of a Remuneration Report that is free from material misstatement, whether due to fraud or error. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibilities for the Audit of the Remuneration Report

Our objectives are to obtain reasonable assurance about whether the information pursuant to Art. 734a-734f CO is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Remuneration Report.

As part of an audit in accordance with Swiss law and SA-CH, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the Remuneration Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

KPMG AG

Marc Ziegler
Licensed Audit Expert
Auditor in Charge

Anita Benz
Licensed Audit Expert

Basel, 12 March 2024

KPMG AG, Grosspeteranlage 5, CH-4002 Basel

Risk management

At Sandoz we aim to address evolving global uncertainties and risks through our integrated risk management approach which aligns our risk profile to our purpose and strategy to ensure successful implementation of our strategy and achieving our objectives.

We take an Enterprise Risk Management (ERM) approach to identify, assess and treat risks so that we can minimize their potential impact and support the achievement of our long-term purpose and business strategy. Below are the principal risks that have resulted from a comprehensive ERM process undertaken throughout 2023. For a more comprehensive view of our risks, see "Risk Factors" on page 16 of our August 2023 Listing Prospectus, which is available on our website.

The assessment below has been validated by the Executive Committee and our Audit, Risk & Compliance Committee. We will perform a comprehensive assessment every year for validation by our Board and management. Enterprise Risk Management is an ongoing process that continuously monitors the implementation of action plans to address material risks.

In parallel we are committed to undertaking a materiality assessment that considers the views of a broad range of internal and external stakeholders, looking at a three- to five-year horizon. A summary of the 2023 assessment is on page 61 and details on the methodology and approach going forward are available on page 226.

Risks

Expand leadership in biosimilars and accelerate growth

Strategic levers: 1 5

Risk description	Potential impact	Examples of mitigation measures
This risk addresses factors that may constrain our ability to acquire the assets to further grow our biosimilars business, whether developed in-house, through partnerships or M&A. It also considers technology and capacity constraints in our ability to manufacture them. Inflation and price erosion are also considered as key drivers of this risk.	Sandoz fails to meet strategic objective of leadership in biosimilars.	• Monitor M&A opportunities that are aligned with strategic priorities. • Focus on early in-licensing through balanced strategic partnerships • Expand production capacity internally and externally • Pre-launch and in-market portfolio value optimization through product commercialization strategies, product manufacturing strategies, Cost of Goods Sold (COGS) competitiveness and complexity reduction.

Pipeline competitiveness and development strategy

Strategic levers: 2 3 5

Risk description	Potential impact	Examples of mitigation measures
In addition to biosimilars (see above), our ability to meet our financial targets depends on having a competitive pipeline of products and successful allocation of resources and funding to develop such a pipeline in a timely way	Sandoz fails to achieve predicted growth.	• Closely monitor pipeline execution, considering risks vs. return. • Assure effective budget allocation in line with strategic objectives.

Key to strategic levers:

1 Attractive market fundamentals 2 Leadership and scale 3 Multiple drivers of sustainable top-line growth
4 Margin improvement 5 Strong cash flow generation supporting shareholder-friendly capital allocation
6 Sustainability and impact linked to business success

Sandoz Technical Operations strategy and transformation

Strategic levers: 4

Risk description	Potential impact	Examples of mitigation measures
This risk covers potential failure to execute on our operational excellence strategy, achieve cost competitiveness, optimize our supply and procurement network, as well as to vertically integrate our biosimilars supply chain.	Sandoz fails to achieve predicted margin improvement or fails to meet supply obligations.	• Monitoring of strategic projects execution and third-party cost improvements against plan, following established governance. • Improve operations, including operational excellence, internal and external network optimization, direct spend optimization and vertical integration in anti-infectives and biosimilars.

Technology

Strategic levers: 2

Risk description	Potential impact	Examples of mitigation measures
This risk considers potential catastrophic loss of IT (e.g. from cyber attacks).	Sandoz operations are disrupted leading to loss in revenue, supply shortages and/or reputational damage.	• Cyber awareness campaigns including Information Security trainings have been established. Security Operations Center to monitor the environment is created and security incident management process in place and tested. • Perform effective application rationalization exercise and plan expedited exit from transitional service agreements (TSA) with Novartis.

Expectations of customers, investors and other stakeholders

Strategic levers: 6

Risk description	Potential impact	Examples of mitigation measures
These risks concern our own commitments on environmental, sustainability, society and governance (ESG) matters, including our objectives to expand access to medicines, as well as society's evolving expectations in this regard.	Sandoz suffers reputational damage with investors and other key stakeholder groups.	• Design and implement a strong ESG strategy that meets the needs of Sandoz stakeholders. • Perform a gap analysis of reporting requirements to mitigate potential risk exposures and implement required changes in the reporting and ESG performance management process. • ESG governance infrastructure and a team of subject matter experts to achieve ESG strategic objectives.

People and organization

Strategic levers: 6

Risk description	Potential impact	Examples of mitigation measures
This risk considers critical needs for skilled talent, especially in strategic competencies such as biologics and engineering. It also considers retention pressure in general, due to factors such as the high pace of transformation, uncertainty around the employee value proposition as a standalone company, and the constantly evolving set of skills required by automation and digitalization.	Sandoz fails to attract, engage and retain necessary talent, and so fails to achieve intended organizational transformation and cultural change.	• Create a holistic plan to build/ buy/ borrow required capabilities based on pre-defined critical skillsets required; and further strengthen succession planning for the key roles. • Reduce organizational anxiety through enhanced proactive change management and communication. • Evolve the employee value proposition and strengthen employer brand in critical markets.

Risk management continued

Product supply and quality

Strategic levers: 4

Risk description	Potential impact	Examples of mitigation measures
This risk is concerned with disruptions in our supply chain that could either make us unable to maintain continuity of product supply, and/or to meet evolving quality regulations. Disruptions could be caused by factors such as increasing geopolitical tensions, trade sanctions, sourcing issues, high number of product lifecycle activities; all leading to potential unavailability of raw materials, Active Pharmaceutical Ingredient (API), Drug Product (DP) or Finished Product (FP). Internal and contracted production constraints could also prevent us from meeting unexpected demand. Evolving regulatory requirements further amplify the risk exposure.	Sandoz loses revenue and/or suffers reputational damage, especially in the market.	• Long-term supply plans in place to ensure demand / supply alignment. • Implementation of biosimilars Sales and Operations Planning (S&OP) coordinating Sandoz Technical Operations (STO), External Supply Operations (ESO) and regions. • Continuous demand monitoring and capacity outlook considering key lifecycle activities and emerging supply risks. • Close monitoring of evolving regulatory requirements and implementation of remediation strategies.

Regulatory, ethics and compliance

Strategic levers: 6

Risk description	Potential impact	Examples of mitigation measures
These risks concern the challenges arising from evolving regulatory requirements and societal expectations and non-compliance with local laws. We also consider our ability to detect and mitigate risks from the conduct of third parties.	Sandoz suffers reputational damage with investors and other key stakeholder groups.	• Establish relevant support functions and operating model in Legal and Compliance, in line with required governance standards and resource / skill requirements to provide best-in-class integrated assurance across the value chain. • Implement robust Third-Party Risk Management (TPRM) framework and governance to manage risks to facilitate supply chain continuity and meet regulatory requirements. • Monitor new and updated regulatory requirements and ways of working and consistently up-date risk assessments, global policies and frameworks as needed.

Finance

Strategic levers: 5

Risk description	Potential impact	Examples of mitigation measures
This risk covers the major threats to achieving our planned margin expansion. It also considers insufficient insurance coverage for property, business interruption and liability risks, foreign exchange risks as well as controls on fraud.	Sandoz fails to achieve predicted margin improvement and /or revenue targets.	• Run structure and processes improvement projects across the organization to achieve the strategic objectives and the respective planned EBITDA margin. • Adapt to the insurance market and define a strategy for risk mitigation and a business continuity plan for key processes with high liability risk. We are also evaluating captive structure options.

Geopolitics, macroeconomics and natural disasters

Strategic levers: 6

Risk description	Potential impact	Examples of mitigation measures
This risk considers the range of macroeconomic and geopolitical developments that could affect our business, including increasing natural and climate-related disasters (see also Task Force on Climate-related Financial Disclosures, page 67).	Sandoz fails to achieve predicted margin improvement and /or revenue targets.	• Business Continuity and Sandoz Emergency Management taskforce in place for our associates and operations in conflict areas. Proactive management of Trade Sanctions risks and trade sanctions risk governance. • Business Continuity and Emergency planning roadmap for anticipated emerging risks.

Further information on ESG-related risks

A. Physical and transition climate risks and opportunities

1. Scope and definitions

After our spin-off in 2023, we conducted a climate change risk assessment to identify Sandoz climate-related risks and opportunities as a stand-alone company. The objective was to identify our relevant climate-related risks, our resilience to these risks, and opportunities presented by successful mitigation. Potential risks and opportunities were assessed across different climate scenarios and time horizons as outlined in the Representative Concentration Pathways (RCP) and the Shared Socioeconomic Pathways (SSP). We considered two climate scenarios, namely scenario RCP 2.6, which aligns with the Paris Agreement, and RCP8.5, which considers a business-as-usual trend. This analysis follows the Intergovernmental Panel on Climate Change (IPCC) and the IFRS-TCFD (International Financial Reporting Standards – Task Force on Climate-related Financial Disclosures) recommendations. We have considered time horizons spanning from medium term, 2030, and long term, 2050.

1.1. Scenario RCP 2.6

GHG emissions will decline more than twofold by 2050, with a 1.5–2°C rise in average global temperature by 2100 and the achievement of carbon neutrality by 2080. This scenario ensures the achievement of the Paris Agreement. Under this scenario, the world develops along the lines of a green, low-carbon and electrified economic model at an accelerated pace, focusing on slowing down the growth of resource consumption. Resource and energy intensity are declining rapidly in all sectors because of decisive measures taken by developed and developing countries to achieve climate neutrality. In addition to reducing GHG emissions, carbon capture technologies are in development for hard to abate sectors.

1.2. Scenario RCP 8.5

GHG emissions will continue to grow through 2100, with an increase in global average temperature of 4°C by 2100. Global development patterns remain unchanged. Economic development is achieved through intensive growth, which entails increased consumption of materials and energy and exploitation of natural resources. Some countries introduce decarbonization measures, but this is insufficient to reduce the global economy's resource and energy intensity. GHG emissions continue to rise throughout the century.

2. Our approach

In 2023, we conducted a screening study to investigate our physical risks at 70 of the most critical Sandoz sites, including a financial quantification of the risks identified based on asset value and net revenue for our 28 most critical. We defined materiality thresholds and calculated each site's vulnerability level for the physical risks analyzed. Furthermore, we qualitatively assessed Sandoz transitional risks and opportunities, including the participation of multiple business functions, i.e. ESG strategy and communications, risk, finance, procurement and supply chain, and technical operations.

It is important to note here that the items presented in the table below are gross risks rather than net risks. These risks and their risk ratings are presented in their entirety, without accounting for any mitigating strategies or actions that may already be taken by Sandoz to address them. The identification of the below gross risks will serve as a basis for identifying, evaluating, and developing climate-related mitigation strategies to manage potential impacts to the business going forward. Through proactive risk management efforts, we strive to minimize the likelihood and impact of these risks and enhance our overall resilience as an organization.

Further information on ESG-related risks continued

Physical risks (RCP 8.5)

Risk	Risk category	Description	Rating 2030/2050	Potential impact	Examples of mitigation measures
Heat extreme	Acute and Chronic	Maximum temperatures and heatwaves	Low / Low	All regions will experience varying levels of increases in heatwaves and maximum temperatures. Heatwaves could increase by up to twice their current intensity in some areas. This could lead to reduced revenues and higher costs from disruptions in operations in the affected areas. The largest potential increases are expected to occur in the following countries: **2030:** Panama, Ecuador, Denmark, India **2050:** Panama, Ecuador, China, Egypt, Israel	Analysis on existing or needed risk mitigation measures will be conducted in 2024.
Water extreme	Acute and Chronic	Water stress, riverine floods, coastal floods, total precipitation, extreme precipitation, and longest dry spell	High / High	The magnitude of extreme water events is expected to increase globally. However, the risk of riverine flooding is projected to decrease as water resources become scarcer while other risks continue to increase. The largest increases are expected to occur in the following countries: **2030:** India, Kazakhstan, Israel, United Arab Emirates, Italy, the Netherlands **2050:** India, Macedonia, Israel, Kazakhstan, United Arab Emirates, Italy, the Netherlands.	Analysis on existing or needed risk mitigation measures will be conducted in 2024.
Wildfire	Acute	Extreme fire days and season fire length	Low / Medium	Extreme fire conditions are anticipated to increase for most locations. The largest increases are expected to occur in the following countries: **2030:** Macedonia, Turkey, Romania, South Africa **2050:** South Africa, Romania, Macedonia, Spain	Analysis on existing or needed risk mitigation measures will be conducted in 2024.
Cold extreme	Acute	Frost days, ice days and lowest temperatures	High / Low	Globally, the risk of extreme cold is expected to decrease. However, certain regions will continue to be impacted by extreme cold in the near term. The most significant impact from extreme cold will likely be in the following countries: **2030:** Austria, Romania, Slovenia, Russia, Ukraine, Poland **2050:** Russia, Romania, Ukraine, Latvia	Analysis on existing or needed risk mitigation measures will be conducted in 2024.

Transition risks (RCP 2.6)

Risk	Risk category	Description	Rating 2030/2050	Potential impact	Examples of mitigation measures
Carbon pricing and taxes	Policy and Legal	Emerging carbon pricing policies may result in additional expenses for Sandoz direct operations. Sandoz is potentially exposed to pass-through costs within the supply chain (e.g., transportation, distribution, production), which increase the cost of doing business.	Low / Medium	• Carbon pricing exposure and potential for increased operational costs related to fuel and electricity consumption • Reduction in Scope 2 emissions due to country-level grid decarbonization • Increased transportation and shipping costs, passed on by suppliers • Compliance and reporting requirements	• Development of Sandoz decarbonization strategy and setting of SBTi GHG reduction targets and commitments • Switch to renewable energy sources • Energy efficiency measures and new manufacturing technologies • Monitoring regulatory and market developments in carbon pricing to inform its strategy
Energy price volatility	Market	Energy costs and policies create a risk and opportunity for Sandoz. Mandates and regulation of the energy markets affect Sandoz choices of energy sources ultimately impacting energy costs, including cost of operations and cost of goods sold, and its ability to meet GHG targets.	Low / Medium	• Increased operational costs due to fuel and electricity consumption. • Increased transportation and shipping costs, passed on by suppliers.	• Increasing use of renewable energy while looking for opportunities to minimize exposure to fossil fuels • Identification of energy efficiencies and new manufacturing technologies to decrease energy consumption across the company • Sandoz purchasing strategy aims to provide price certainty and budgetary control

Further information on ESG-related risks continued

Risk	Risk category	Description	Rating 2030/2050	Potential impact	Examples of mitigation measures
Emerging policies and regulatory changes	Policy and Legal	Evolving environmental regulations may lead to changes in the approval processes for pharmaceutical products, potentially affecting time-to-market and requiring Sandoz to adapt to new regulatory standards.	Medium / High	• Write-offs, asset impairment, and early retirement of existing assets due to policy changes. • Increased operating costs (e.g., higher compliance costs, increased insurance premiums). • Increased costs resulting from fines and legal action. • Increased talent and legal counsel costs.	• Conduct annual environmental compliance assessments at relevant sites, taking into account regional and global regulations to identify emerging requirements. If compliance gaps are identified, Sandoz documents them and takes measures to close them. • Maintain an internal control framework to track regulations and ensure compliance
Reputational impacts	Reputation	Stakeholder perception of Sandoz commitment to sustainable and ethical healthcare practices may influence its reputation and patient trust, affecting market share and brand value.	Low / Medium	• If Sandoz actions do not keep pace with expectations, the company may experience higher turnover or lower employee loyalty. • Perception that Sandoz is not responsive to sustainability trends could impact the company's ability to attract investment, complete repairs, or maintain good relationships with customers. • Conversely, enhancing Sandoz reputation could improve access to capital and stakeholder relations, as well as improving employee engagement and satisfaction.	• Transparent reporting in line with sustainability reporting standards and regulatory requirements and incorporating sustainability principles in the company's strategy and business demonstrate Sandoz awareness and commitment to creating a positive impact. The company commits to analyzing its climate risks and providing relevant disclosures to its stakeholders. Sandoz is in the process of establishing a decarbonization strategy and roadmap, with SBTi-approved GHG reduction targets.

B. Primary risks with respect to human rights

Sandoz recognizes and addresses significant risks related to human rights:

Healthcare Rights: Ensuring access to quality medicines, responsible development and registration practices, ethical promotional interactions, and product safety contribute to upholding the rights of patients and communities.

Labor Rights: Our commitment to fair and ethical labor practices encompasses prohibition of modern slavery, child labor prevention, non-discrimination, fair working conditions, and safeguarding freedom of association and collective bargaining for our associates and partners.

Local Communities and Environmental Rights: Respecting the rights of local communities and promoting environmental sustainability aligns with our commitment to social responsibility.

New Technologies, Data Protection, and Human Rights: As technology advances, we address data privacy concerns and other human rights implications, ensuring responsible use of innovative solutions.

Due Diligence (i.e., how we manage this risk): Our due diligence process is built around a risk-based approach. We systematically evaluate potential and actual adverse human rights impacts throughout our value chain. We embed responsible business conduct in our policies and procedures, assess risks, and prioritize areas for attention.

Evaluation and risk assessment: Continuous improvement is a core principle of our approach. Regular reviews of progress, identification of improvement areas, and transparent reporting contribute to the ongoing effectiveness of our strategy. Adapting to changing societal expectations, emerging human rights challenges, and best practices is vital to maintain relevance and impact.

C. Third-party risk management

Our independent third-party risk management framework (TPRM) adopts a risk-based assurance approach for assessing and managing risks when interacting with third parties. The framework covers third parties that are both upstream and downstream to our own operations, including wholesalers, distributors, suppliers and vendors, research and collaborators, universities, business development and in and out licensing partners. Our TPRM program covers a broad spectrum of risk areas, with particular concern for human rights.

Financial Report

Performance overview

Overview

2023 was an extraordinary year for Sandoz, becoming the independent global leader in generic and biosimilar medicines following the separation from our former parent. This was achieved while delivering on our business objectives and advancing on our strong pipeline.

Topline growth momentum continued in 2023, with net sales[1] reaching USD 9.6 billion, up 7% in constant currencies (cc). All regions grew during the year, with Europe contributing the strongest performance and continued double digit growth of biosimilars.

Core EBITDA benefited from higher sales, favorable product mix and lower price erosion than the historical average. This was more than offset by inflation on input costs and higher investments aligned with sales growth and costs for standing up Sandoz as an independent Group.

An explanation of non-IFRS measures as defined by Sandoz, including core EBITDA, core net income, core diluted earnings per share, free cash flow, net debt, and the reconciliation of core results, can be found in the section Supplementary financial information.

The following table sets forth our key financial measures for the years ending December 31, 2023 and 2022:

(USD millions unless indicated otherwise)	2023	2022	Change in USD	Change in %	Change in cc %
Net sales to third parties	**9,647**	**9,069**	**578**	**6**	**7**
EBITDA	**914**	**1,741**	**(827)**	**(48)**	**(37)**
Net income	**80**	**850**	**(770)**	**(91)**	**(76)**
Diluted earnings per share (USD)	0.18	1.97	(1.79)	(91)	(76)
Core EBITDA	**1,743**	**1,931**	**(188)**	**(10)**	**0**
% of net sales to third parties	*18.1*	*21.3*			
Core net income	**953**	**1,220**	**(267)**	**(22)**	**(8)**
Core diluted earnings per share (USD)	2.20	2.83	(0.63)	(22)	(8)
Free cash flow	**(234)**	**832**	**(1,066)**		
Net debt	**3,115**	**2,980**	**135**		
Net debt to core EBITDA ratio	1.8x	1.5x			

[1] Net sales in this section refers to net sales to third parties.

Our financial performance

Net sales

Net sales were USD 9.6 billion, up 7% in constant currencies compared to 2022. Volume contributed 10 percentage points of growth, partially offset by price erosion of 3 percentage points, a significant reduction compared to 6 percentage points in 2022. Growth was driven by strong demand, product launches and continued performance of Omnitrope® and Hyrimoz®.

The following table sets forth our net sales for the years ending December 31, 2023 and 2022 by business:

(USD millions unless indicated otherwise)	2023	2022	Change in %	Change in cc %
Generics	7,432	7,141	4	5
Biosimilars	2,215	1,928	15	15
Total net sales to third parties	**9,647**	**9,069**	**6**	**7**

Net sales of generics were USD 7.4 billion, up 5% in cc versus prior year, driven by strong volume demand and recent launches. The first half of the year was particularly strong due to an exceptional cough and cold season and the contribution from apixaban, an anticoagulant medication, in Europe.

Net sales of biosimilars were USD 2.2 billion, up 15% in cc versus prior year. This strong double digit biosimilar growth reflects the launch of Hyrimoz® high concentration formulation as well as ongoing strong demand for our first ever biosimilar Omnitrope®, where we are the market leader, capturing 34% market share[2].

The following table sets forth our net sales for the years ending December 31, 2023 and 2022 by region[1]:

(USD millions unless indicated otherwise)	2023	2022	Change in %	Change in cc %
Europe	5,023	4,503	12	9
North America	2,129	2,094	2	3
International	2,495	2,472	1	9
Total net sales to third parties	**9,647**	**9,069**	**6**	**7**

Net sales in Europe were USD 5.0 billion, up 9% in cc versus prior year, driven by sales related to an extraordinary cough and cold season and demand for new generic launches such as apixaban in the first half of the year, and strong performance of our biosimilars.

Net sales in North America were USD 2.1 billion, up 3% in cc versus prior year. North America moved from stabilization to growth, driven primarily by strong demand for Omnitrope®, the launch of Hyrimoz® in the US and price erosion lower than in the prior year.

Net sales in International were USD 2.5 billion, up 9% in cc versus prior year, driven by strong demand in key markets and growth across the biosimilar portfolio.

[1] Net sales to third parties by location of customer.

[2] Based on Company analysis using data from IQVIA PADDS Nov'23 data, using volume data, including originator products.

Operating results

(USD millions unless indicated otherwise)	2023	2022	Change in %	Change in cc %
Net sales to third parties	**9,647**	**9,069**	**6**	**7**
Gross profit	**4,564**	**4,378**	**4**	**8**
Operating income	**375**	**1,239**	**(70)**	**(53)**
EBITDA	**914**	**1,741**	**(48)**	**(37)**
Core results				
Core gross profit	**4,913**	**4,726**	**4**	**7**
% of net sales to third parties	*50.9*	*52.1*		
Core operating income	**1,488**	**1,705**	**(13)**	**(2)**
% of net sales to third parties	*15.4*	*18.8*		
Core EBITDA	**1,743**	**1,931**	**(10)**	**0**
% of net sales to third parties	*18.1*	*21.3*		

Core gross profit amounted to USD 4.9 billion compared to USD 4.7 billion in the prior year, resulting in a core gross profit margin of 50.9% compared to 52.1% in 2022. The favorable contribution from volume and product mix were offset by the impact of higher input costs, and a 1.2 percentage point negative impact from foreign exchange.

Core EBITDA was USD 1.7 billion versus USD 1.9 billion in the prior year, resulting in a core EBITDA margin of 18.1% compared to 21.3% in 2022. Contribution from higher sales were more than offset by higher input costs as expected, investments in sales and marketing to support our new product launches, standalone costs of 1.3 percentage points, and a 1.7 percentage point negative impact from foreign exchange.

EBITDA was USD 0.9 billion versus 1.7 billion in the prior year. Core adjustments for EBITDA in 2023 were USD 829 million compared to USD 190 million in 2022, driven by legal costs of USD 576 million, separation costs of USD 155 million and rationalization of manufacturing sites and other of USD 98 million. Legal costs included the settlement agreement with the class of direct purchaser plaintiffs in the US multidistrict antitrust litigation that was announced on February 29, 2024. As a new public company, this settlement underscores our commitment to integrity and sound governance and is an encouraging step toward putting allegations of legacy conduct behind us.

Non-operating results

(USD millions unless indicated otherwise)	2023	2022	Change in %	Change in cc %
Operating income	**375**	**1,239**	**(70)**	**(53)**
Net financial result	(245)	(137)	(79)	(71)
Income taxes	(50)	(252)	80	47
Effective tax rate (%)	*38*	*23*		
Net income	**80**	**850**	**(91)**	**(76)**
Core results				
Core operating income	**1,488**	**1,705**	**(13)**	**(2)**
Core net financial result	(251)	(115)	(118)	(71)
Core income taxes	(284)	(370)	23	9
Core effective tax rate (%)	*23*	*23*		
Core net income	**953**	**1,220**	**(22)**	**(8)**
Core diluted earnings per share (USD)	2.20	2.83	(22)	(8)

Core net financial result was an expense of USD 0.3 billion compared to an expense of USD 0.1 billion in 2022. The increase was primarily a result of interest expenses related to financing from our former parent prior to the spin-off, financing facilities put in place at the separation and the bond issues in the fourth quarter.

The core effective tax rate was 23%, in line with prior year.

Core net income was USD 1.0 billion compared to USD 1.2 billion in 2022 mainly driven by lower core EBITDA and higher interest expense, partly offset by lower income tax.

Core diluted earnings per share was USD 2.20 with a weighted average number of shares of 431.2 million.

Cash flow and free cash flow

(USD millions)	2023	2022	Change in USD
Net cash flows from operating activities	**362**	**1,223**	**(861)**
Net working capital	3,722	3,065	657
Net CAPEX	586	386	200
Free cash flow	**(234)**	**832**	**(1,066)**

The Group generated net cash flows from operating activities of USD 0.4 billion, compared with USD 1.2 billion in the prior year, driven primarily by an increase in net working capital, separation costs, a legal settlement and manufacturing optimization.

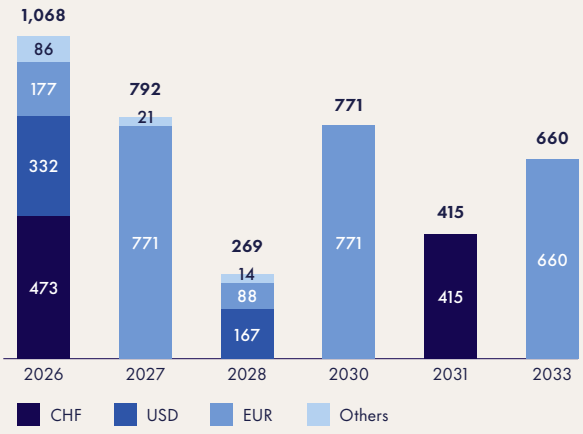
The increase in net working capital was primarily due to an increase in inventory of USD 0.6 billion to USD 2.7 billion, with USD 0.2 billion supporting the strong topline growth of the business, USD 0.2 billion from higher input costs and USD 0.2 billion due to the transfer of inventories from our former parent at the separation and additional quantities to ensure operational continuity post spin.

Net CAPEX was USD 0.6 billion, compared with USD 0.4 billion in the prior year. This increase is mainly due to the acquisitions of intangible assets such as Mycamine® and investments in development and manufacturing sites in Germany and Slovenia.

Free cash flow amounted to a negative USD 0.2 billion, compared with USD 0.8 billion in the prior year, due primarily to lower cash flow from operating activities and higher net CAPEX.

Liquidity, financial debt, and net debt

Non-current financial debt by maturity and currency (USD millions)



Completion of spin-off from Novartis

The spin-off was effected on October 4, 2023. Immediately prior to the separation and spin-off, Sandoz entered into a credit facility agreement. This borrowing arrangement consisted of an unsecured bridge facility for USD 2.6 billion, multiple term loans for USD 0.8 billion and a revolving credit facility for USD 1.25 billion. On September 28, 2023, Sandoz drew down the totality of the bridge facility and term loan facilities and settled all financial receivable and liabilities positions with the former parent.

Post spin, the Group successfully issued dual-tranche CHF senior unsecured fixed rate notes of CHF 0.8 billion and triple-tranche EUR senior unsecured fixed rate notes of EUR 2.0 billion with maturities ranging from 2026 to 2033. Proceeds were used to refinance the bridge facility and for general corporate purposes. The revolving credit facility has not been drawn upon and remained undrawn as of December 31, 2023.

Maturity profile

As of December 31, 2023, Sandoz maturity profile is well balanced with an average maturity of non-current financial debt of approximately five years and a fixed/floating rate of total financial debt of 73% and 27%, respectively. As a result, the weighted average interest rate on total non-current financial debt was 3.9% in 2023.

Credit profile

Sandoz strives to retain a solid investment grade credit profile and aims to balance interest and refinancing risks, demonstrated by a strong balance sheet and well-diversified funding mix. As of December 31, 2023, the long-term credit rating for the Group is Baa2 (stable outlook) with Moody's Investors Service and BBB (stable outlook) with S&P Global Ratings, placing the Group in a strong position.

(USD millions unless indicated otherwise)	2023	2022	Change in USD
Non-current financial debts	3,975	30	3,945
Other net financial liabilities/receivables to/from former parent	–	2,839	(2,839)
Current financial debts and derivative financial instruments	284	185	99
Total financial debts	**4,259**	**3,054**	**1,205**
Cash and cash equivalents	(1,109)	(74)	(1,035)
Derivative financial instruments	(35)	–	(35)
Less total liquidity	**(1,144)**	**(74)**	**(1,070)**
Net debt	**3,115**	**2,980**	**135**
Net debt to core EBITDA ratio	1.8x	1.5x	

Total financial debts increased to USD 4.3 billion as a result of the borrowings from the term loan facilities and the issuances of the CHF and EUR senior fixed rate notes, replacing predominantly the net financing provided by the former parent (USD 2.8 billion). Current financial debt and derivative financial instruments were USD 0.3 billion on December 31, 2023, compared to USD 0.2 billion on December 31, 2022.

Total liquidity increased to USD 1.1 billion on December 31, 2023, compared to USD 0.1 billion on December 31, 2022, as a result of the opening cash following the spin-off and remaining net proceeds from the refinancing of the bridge facility. The Group invests its excess liquidity mainly in term deposits with short-term maturities and with major regulated financial institutions on a well risk-diversified basis.

Net debt remained largely constant at USD 3.1 billion on December 31, 2023, compared to USD 3.0 billion on December 31, 2022, corresponding to a net debt to core EBITDA ratio of 1.8x.

Consolidated financial statements of the Group

Consolidated income statements

(For the years ended December 31, 2023 and 2022)

(USD millions unless indicated otherwise)	Note	2023	2022
Net sales to third parties	6	**9,647**	**9,069**
Sales to former parent	30	302	207
Net sales		**9,949**	**9,276**
Other revenues	6	30	30
Cost of goods sold		(5,415)	(4,928)
Gross profit		**4,564**	**4,378**
Selling, general and administration		(2,389)	(2,127)
Development and regulatory		(926)	(833)
Other income		94	111
Other expense	7	(968)	(290)
Operating income		**375**	**1,239**
Interest expense	8	(202)	(89)
Other financial income and expense	8	(43)	(48)
Income before taxes		**130**	**1,102**
Income taxes	9	(50)	(252)
Net income		**80**	**850**
Attributable to:			
Shareholders of Sandoz Group AG		*77*	*848*
Non-controlling interests		*3*	*2*
Basic earnings per share (USD)	10	0.18	1.97
Diluted earnings per share (USD)	10	0.18	1.97

The accompanying Notes form an integral part of the consolidated financial statements.

Consolidated statements of comprehensive income

(For the years ended December 31, 2023 and 2022)

(USD millions)	Note	2023	2022
Net income		**80**	**850**
Other comprehensive income			
Items that are or may be recycled into the consolidated income statement			
Currency translation effects, net of taxes	11	766	(143)
Fair value adjustments on debt securities, net of taxes	11	(1)	–
Total of items that are or may be recycled		**765**	**(143)**
Items that will never be recycled into the consolidated income statement			
Actuarial (losses)/gains from defined benefit plans, net of taxes	11	(30)	75
Total of items that will never be recycled		**(30)**	**75**
Total comprehensive income		**815**	**782**
Attributable to:			
Shareholders of Sandoz Group AG		*812*	*780*
Non-controlling interests		*3*	*2*

The accompanying Notes form an integral part of the consolidated financial statements.

Consolidated balance sheets

(At December 31, 2023 and 2022)

(USD millions)	Note	2023	2022
Assets			
Non-current assets			
Property, plant and equipment	12	1,585	1,791
Right-of-use assets	13	265	113
Goodwill	14	7,589	7,437
Intangible assets other than goodwill	14	1,562	1,454
Deferred tax assets	15	716	713
Financial assets	16	41	33
Other non-current assets	16	100	40
Total non-current assets		**11,858**	**11,581**
Current assets			
Inventories	17	2,700	2,124
Trade receivables	18	2,615	2,207
Receivables from former parent	30	–	91
Income tax receivables	19	321	28
Other financial receivables from former parent	30	–	1,012
Derivative financial instruments	20	35	–
Cash and cash equivalents	20	1,109	74
Other current assets	21	736	440
Total current assets without assets held for sale		**7,516**	**5,976**
Assets held for sale	4	56	–
Total current assets		**7,572**	**5,976**
Total assets		**19,430**	**17,557**
Equity and liabilities			
Equity			
Invested capital		–	8,748
Share capital	22	24	–
Treasury shares	22	0	–
Reserves		8,621	–
Equity attributable to the shareholders of Sandoz Group AG		**8,645**	**8,748**
Non-controlling interests		9	12
Total equity		**8,654**	**8,760**
Liabilities			
Non-current liabilities			
Financial debts	23	3,975	30
Lease liabilities	13	255	88
Deferred tax liabilities	15	252	286
Provisions and other non-current liabilities	24	596	479
Total non-current liabilities		**5,078**	**883**
Current liabilities			
Trade payables		1,593	1,100
Payables to former parent	30	–	257
Financial debts and derivative financial instruments	25	284	185
Other financial liabilities to former parent	30	–	3,851
Lease liabilities	13	54	31
Current income tax liabilities	19	572	231
Provisions and other current liabilities	26	3,160	2,259
Total current liabilities without liabilities held for sale		**5,663**	**7,914**
Liabilities held for sale	4	35	–
Total current liabilities		**5,698**	**7,914**
Total liabilities		**10,776**	**8,797**
Total equity and liabilities		**19,430**	**17,557**

The accompanying Notes form an integral part of the consolidated financial statements.

Consolidated statements of changes in equity

(For the years ended December 31, 2023 and 2022)

				Reserves				
(USD millions)	Share capital	Treasury shares	Invested capital [1]	Retained earnings	Total value adjustments	Equity attributable to Sandoz Group AG shareholders	Non-controlling interests	Total equity
Total invested capital at January 1, 2022	**–**	**–**	**8,257**	**–**	**(104)**	**8,153**	**10**	**8,163**
Net income	–	–	848	–	–	848	2	850
Other comprehensive income [2]	–	–	–	–	(68)	(68)	–	(68)
Total comprehensive income	**–**	**–**	**848**	**–**	**(68)**	**780**	**2**	**782**
Movements of financing provided to former parent [3]	–	–	(132)	–	–	(132)	–	(132)
Other transactions with former parent [4]	–	–	(101)	–	–	(101)	–	(101)
Hyperinflation accounting impacts	–	–	48	–	–	48	–	48
Total of other invested capital movements	**–**	**–**	**(185)**	**–**	**–**	**(185)**	**–**	**(185)**
Total invested capital at December 31, 2022	**–**	**–**	**8,920**	**–**	**(172)**	**8,748**	**12**	**8,760**
Net income/(loss)	–	–	197	(120)	–	77	3	80
Other comprehensive income [2]	–	–	–	–	735	735	–	735
Total comprehensive income	**–**	**–**	**197**	**(120)**	**735**	**812**	**3**	**815**
Movements of financing provided by former parent [3]	–	–	330	–	–	330	–	330
Other transactions with former parent [4]	–	–	(1,250)	–	–	(1,250)	–	(1,250)
Distribution by former parent of share capital and reserves [5]	24	0	(8,186)	8,162	–	–	–	–
Equity-based compensation	–	–	–	26	–	26	–	26
Hyperinflation accounting impacts	–	–	(11)	(10)	–	(21)	–	(21)
Changes in non-controlling interests	–	–	–	–	–	–	(6)	(6)
Total of other equity movements	**24**	**0**	**(9,117)**	**8,178**	**–**	**(915)**	**(6)**	**(921)**
Total equity at December 31, 2023	**24**	**0**	**–**	**8,058**	**563**	**8,645**	**9**	**8,654**

[1] Invested capital presented in the balance sheet as of December 31, 2022 includes total value adjustments.

[2] See Note 11.

[3] See Note 27.4.

[4] Other transactions with former parent represents the movements in invested capital resulting from the preparation of the financial statements in accordance with the basis of presentation described in Note 2.

[5] See Note 22.

The accompanying Notes form an integral part of the consolidated financial statements.

Consolidated statements of cash flows

(For the years ended December 31, 2023 and 2022)

(USD millions)	Note	2023	2022
Net income		**80**	**850**
Adjustments to reconcile net income to net cash flows from operating activities			
Reversal of non-cash items and other adjustments	27.1	1,474	958
Interest received		29	8
Interest paid		(160)	(80)
Other financial receipts		14	–
Other financial payments		(44)	(39)
Income taxes paid		(245)	(273)
Net cash flows from operating activities before working capital and provision changes		**1,148**	**1,424**
Payments out of provisions and other net cash movements in non-current liabilities		(123)	(165)
Change in net current assets and other operating cash flow items	27.2	(663)	(36)
Net cash flows from operating activities		**362**	**1,223**
Purchases of property, plant and equipment		(364)	(278)
Proceeds from sale of property, plant and equipment		34	9
Purchases of intangible assets		(261)	(149)
Proceeds from sale of intangible assets		5	32
Purchases of financial assets		(5)	(6)
Proceeds from sale of financial assets		2	1
Purchases of other non-current assets		(7)	–
Acquisitions and divestments of businesses, net	27.3	(18)	(39)
Net cash flows used in investing activities		**(614)**	**(430)**
Cash flows used in financing activities with former parent, net	27.4	(2,670)	(791)
Proceeds from issuance of non-current financial debts	27.5	6,449	16
Repayments non-current financial debts	27.5	(2,627)	–
Change in current financial debts	27.5	121	43
Payments of lease liabilities	27.5	(42)	(37)
Other financing cash flows, net		11	–
Net cash flows from/(used in) financing activities		**1,242**	**(769)**
Net change in cash and cash equivalents before effect of exchange rate changes		**990**	**24**
Effect of exchange rate changes on cash and cash equivalents		45	10
Net change in cash and cash equivalents		**1,035**	**34**
Cash and cash equivalents at January 1		74	40
Cash and cash equivalents at December 31		**1,109**	**74**

The accompanying Notes form an integral part of the consolidated financial statements.

Principal currency translation rates

(For the years ended December 31, 2023 and 2022)

	Average for year			Year-end		
(USD per unit)	2023	2022	Change in %	2023	2022	Change in %
Australian dollar (AUD)	0.665	0.695	(4)	0.683	0.678	1
Brazilian real (BRL)	0.200	0.194	3	0.206	0.189	9
Canadian dollar (CAD)	0.741	0.769	(4)	0.755	0.738	2
Swiss franc (CHF)	1.113	1.048	6	1.189	1.081	10
Euro (EUR)	1.082	1.054	3	1.107	1.065	4
British pound (GBP)	1.243	1.237	0	1.275	1.207	6
Polish zloty (PLN)	0.238	0.225	6	0.255	0.227	12
Japanese yen (JPY (100))	0.713	0.766	(7)	0.707	0.757	(7)
Russian ruble (RUB (100))	1.185	1.481	(20)	1.111	1.380	(19)

Notes to the Sandoz Group consolidated financial statements

1. Description of business

Sandoz Group AG, Risch, Switzerland and the subsidiaries it controls (collectively "Sandoz" or the "Group") is a multinational group of companies specializing in the development, manufacturing and marketing of generics and biosimilars. The principal subsidiaries controlled by Sandoz are disclosed in Note 34.

At the Extraordinary General Meeting of Novartis AG shareholders held on September 15, 2023, Novartis AG ("Novartis Group", "Novartis" or "former parent") shareholders approved the proposed 100% spin-off of Sandoz through the distribution of a dividend in kind of Sandoz shares to Novartis shareholders, and of Sandoz American Depository Receipts ("ADR") to Novartis ADR holders.

On October 4, 2023, Sandoz became an independent publicly traded company through a pro rata distribution by Novartis of 100% of the then outstanding shares of Sandoz to Novartis AG shareholders (the "spin-off"). Each Novartis shareholder and Novartis ADR holder received one share of Sandoz and one Sandoz ADR for every five shares of Novartis share and Novartis ADR held at the close of business on October 3, 2023, respectively. On October 4, 2023, Sandoz shares began trading under the stock symbol "SDZ" on the SIX Swiss Exchange ("SIX").

The consolidated financial statements of Sandoz comprise of consolidated balance sheets, consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2023 and 2022.

2. Basis of preparation

The accompanying consolidated financial statements present our historical financial position, results of operations, comprehensive income, and cash flows in accordance with International Financial Reporting Standards ("IFRS") Accounting Standards as issued by the International Accounting Standards Board ("IASB"), including the basis of preparation as described in this note and with the accounting policies as described in Note 3 to these consolidated financial statements.

The preparation of consolidated financial statements requires management to make certain estimates and assumptions, either at the balance sheet date or during the year, that affect the reported amounts of assets and liabilities as well as revenues and expenses. Actual outcomes and results could differ from those estimates and assumptions.

Prior to the spin-off, the business of Sandoz did not form a separate legal group of companies in all years presented. The combined financial statements were prepared on a standalone basis and were derived (carved out) from Novartis AG's consolidated financial statements and accounting records of the Novartis Group, that were prepared in accordance with IFRS Accounting Standards, as issued by the IASB.

IFRS Accounting Standards does not provide specific principles or guidance for the preparation of combined financial statements for carve-out financial statements, and accordingly in preparing the combined financial statements certain accounting and allocation conventions commonly used in practice for the preparation of carve-out financial statements were applied. The assets and liabilities included in the combined balance sheets were measured at the carrying amounts recorded in Novartis Group consolidated financial statements.

They include all Sandoz subsidiaries and all Sandoz business operated within Novartis Group subsidiaries. At spin-off, Sandoz constitutes a legal group of consolidated companies and the financial statements are prepared on a consolidated basis.

The financial statements prior to spin-off include the revenue, expenses, assets and liabilities within Novartis subsidiaries that are attributable to the Sandoz business and exclude the revenue, expenses, assets and liabilities within Sandoz subsidiaries not attributable to the Sandoz business.

These financial statements prior to the spin-off exclude, in all years presented, the assets, liabilities and results of operations of the biotechnology manufacturing services to other companies' activities and the Coartem brand that effective as of January 1, 2023, in connection with a Novartis Group business reorganization, were transferred to the Innovative Medicines Division of Novartis; previously this business was part of the Sandoz Division within the Novartis Group.

Goodwill related to Sandoz has been included in these financial statements based on the allocation of goodwill in the Novartis Group accounts. The amount included has been adjusted using the relative fair value approach for businesses that have been retained by Novartis.

The financial statements prior to spin-off include intangible assets and property, plant and equipment and the related charges which are specific to Sandoz or where Sandoz is deemed the major user.

For the period prior to spin-off, right-of-use assets where Sandoz is the major user have been included in the financial statements together with the related lease liabilities, interest expenses and amortization.

Up until the spin-off, liabilities and expenses relating to incentives in the form of Novartis AG shares that are provided to employees of Sandoz under the share award scheme of the Novartis Group have been included in the financial statements. Concurrent with the spin-off, such awards were settled in shares of Novartis, in proportion to the amount of the vesting period completed. The remaining unvested Novartis awards were replaced and restored with Sandoz awards as governed by the

Sandoz equity restoration plan with terms and vesting schedules substantially similar to the replaced Novartis awards.

Legal proceedings attributable to the Sandoz business to which Sandoz or its subsidiaries are a party have been reflected in the financial statements and related disclosures.

Novartis Operations (formally Novartis Technical Operations) managed the production, supply chain and quality of the Innovative Medicines Division and the Sandoz Division of the Novartis Group. Certain Novartis manufacturing sites perform production services for both the Sandoz and Innovative Medicines Divisions of Novartis Group (''multi-divisional manufacturing sites''). The financial statements, for periods prior to the spin-off include the carrying value of the manufacturing sites where the majority of the production is attributable to Sandoz (the major user). The inventory, sales and production costs of these multi-divisional manufacturing sites that is attributable to the products of the Sandoz and Innovative Medicines Divisions of Novartis Group were accounted for and reported separately by the Sandoz and Innovative Medicines Divisions of Novartis Group within Novartis Group accounting systems. The supply chains of the Sandoz and Innovative Medicines Divisions of Novartis Group each manage separately the distribution of their respective products produced in these multi-divisional manufacturing sites. As a result, there was no requirement for interdivisional trading arrangements between the Sandoz and Innovative Medicines Divisions of Novartis Group for the products produced in these multi-divisional manufacturing sites. Manufacturing costs attributable to the Sandoz business' products produced in these multi-divisional manufacturing sites were recognized in the combined financial statements at cost of production.

Effective July 1, 2023, the multi-divisional production sites were legally restructured to separate the manufacturing activities of Sandoz and Novartis. This, in some countries, also included a change in allocation of production capacities and activities between Sandoz and Novartis, resulting in a net asset transfer from Sandoz to Novartis and the implementation of supply agreements between the two businesses.

For periods prior to the spin-off, the financial statements include the attribution of certain assets and liabilities that were historically held at the Novartis corporate level that are specifically identifiable or attributable to Sandoz on a standalone basis and were recognized on the combined balance sheets through retained earnings in invested capital. The most significant of which were defined benefit plans, current and deferred income taxes, financial debts, and financial investments.

Novartis managed its global currency exposure by engaging in hedging transactions where management deems appropriate. The income and expenses related to these hedging transactions, have been allocated to Sandoz based on the estimated currency exposure of Sandoz operations were recorded to other financial income and expense in the income statements and recognized directly through retained earnings in invested capital.

Novartis used a centralized approach to cash management and financing of operations. The majority of the Sandoz subsidiaries were party to Novartis cash pooling arrangements with several financial institutions to maximize the availability of cash for general operating and investing purposes. Under these cash pooling arrangements, cash balances were swept by Novartis regularly from the Sandoz bank accounts. The net position with the Novartis cash pooling accounts at the end of each reporting period were reflected in the balance sheet in "Other financial receivables from former parent" or "Other financial liabilities to former parent". Financing transactions between Novartis and Sandoz that were specifically related to the operation of the Sandoz business, were reflected in the balance sheet in "Other financial receivables from former parent" or "Other financial liabilities to former parent". The related interest income and expense attributable to these financial receivables from former parent and financial liabilities to former parent are recognized in the income statements in the line interest income and interest expense, respectively. The funding structure reflected in these financial statements is not necessarily representative of the financing that would have been reported if Sandoz operated on a standalone basis during the periods presented, nor is it indicative of the financing structure that may arise post spin-off. Prior to spin-off, the financial receivable and liabilities positions with the former parent were settled by securing third-party financing.

Novartis third-party debt and the related interest expense were not allocated to Sandoz when Sandoz subsidiaries were not the legal obligor of the debt and when Novartis borrowings were not directly attributable to the Sandoz business. The financial statements for periods prior to the spin-off include third-party debt and the related interest expense when the Sandoz subsidiaries were the legal obligor of the debt and when the borrowings were directly attributable to the Sandoz business.

Both before and after the spin-off, Sandoz employees participated in a defined benefit pension and other post-retirement plans sponsored by Novartis, in some countries these are single employer plans dedicated to the Sandoz business employees and in other countries these are plans where employees of Sandoz and employees of the Novartis Group are participants. The net defined benefit and other post-retirement plan liabilities and pension costs attributable to Sandoz are included in the consolidated financial statements for periods prior to and after the spin-off, to the extent that the corresponding pension obligations and plan assets under those plans transferred to Sandoz at the time of spin-off or will subsequently transfer pursuant to the Employee Matters Agreement entered into with Novartis. Refer to Note 28 for additional disclosure on post-employment benefits for employees.

For the period in 2023 prior to the spin-off, income taxes attributable to the Sandoz business were determined using the separate tax return approach, under which current income taxes, including uncertain tax positions, and deferred income taxes are calculated as if a separate tax return had been prepared in each tax jurisdiction. In various tax jurisdictions,

Sandoz and Novartis businesses operated within the same legal entity prior to the spin-off and certain Sandoz subsidiaries were part of a Novartis tax group. This required an assumption that the subsidiaries and operations of Sandoz in those tax jurisdictions operated on a standalone basis and constitute separate taxable entities. Actual outcomes and results could differ from these separate tax return estimates, including those estimates and assumptions related to the realization of tax benefits within these Novartis tax groups. The surviving legal entity approach has been used for the uncertain tax positions in the financial statements prior to spin-off.

Under the surviving legal entity approach prior to spin-off, the uncertain tax positions have been reported in the event they affect deferred tax assets and/or reflect potential income tax liabilities that would be legally retained by surviving Sandoz legal entities. Upon spin-off, taxes have been recorded in the legal entity in which they are incurred; refer to Note 9 for additional disclosures on income taxes.

Sandoz invested capital in the financial statements prior to spin-off represents the excess of total assets over total liabilities. As the Sandoz business did not constitute a separate group of legal entities invested capital is presented with no separate presentation of share capital. In addition to the items described above, invested capital was impacted by the following:

- Currency translation adjustments of Sandoz legal entities were included in the financial statements. For Sandoz business operating within Novartis Group legal entities, over which Sandoz has control, currency translations were allocated between the Sandoz business and the Novartis business by applying allocation keys based on net assets of each respective business, and the portion allocated to the Sandoz business included in the financial statements.
- Other transactions with Novartis Group as shown on the statements of changes in invested capital represents the movements in invested capital resulting from the preparation of the financial statements in accordance with the basis of presentation described in this Note 2.
- Movements of financing provided to Novartis Group as shown on the statements of changes in invested capital and on the cash flow statements primarily represent the net contributions from Sandoz to Novartis Group.
- Certain loans from Novartis Group were excluded liabilities as they were equity loans in nature or were subject to an equity recapitalization and were recognized directly in invested capital.
- Dividend and other equity transactions between Sandoz and Novartis Group were recognized directly in invested capital.

Upon spin-off, Sandoz invested capital has been allocated to share capital, and retained earnings to constitute the equity of the Group.

For the periods prior to the spin-off, the financial statements include charges and allocation of expenses related to certain Novartis business support functions and Novartis corporate general and administration functions from Novartis Operations (formally the Customer & Technology Solutions (CTS) and before CTS formerly Novartis Business Services) and Novartis corporate general and administration functions. Sandoz considers the charges and allocation methodology and results to be reasonable. However, the charges and allocations may not be indicative of the actual expense that would have been incurred had Sandoz operated as an independent, publicly traded company for the periods prior to the spin-off. The following is a brief description of the nature of these charges and allocations:

- Human resources operations, real estate and facility services, including site security and executive protection, procurement, information technology, commercial and medical support services and financial reporting and accounting operations.
- Areas of corporate governance, including board of directors, corporate responsibility and other corporate functions, such as tax, corporate governance and listed company compliance, investor relations, internal audit, treasury, communications functions and the net interest on the net defined benefit liability that were not charged or allocated to the Sandoz business in the past.

Following the spin-off, the consolidated financial statements no longer include any allocations from Novartis.

Agreements entered between Sandoz and Novartis in connection with the spin-off govern the relationship between the parties following the spin-off and provide for the allocation of various assets, liabilities, rights and obligations. These agreements also include arrangements for transition services to be provided on a temporary basis between the parties.

Where the legal completion of local transfer of assets and liabilities from the former parent has been delayed, Transitional Distribution Services Agreements (TDSA) were put in place between Sandoz and Novartis to ensure continuity of trade. Such agreements also govern economic benefits that are transferred between the parties and will accrue to the party in control of the trade. Such benefits to be received or paid by Sandoz are included in Other current assets and Provisions and other current liabilities, respectively. In cases where Novartis is providing such services but the Group remains the principal in the trade, the relevant sales, profits, related assets and liabilities have been recognized in the results. Alternatively, where the Group is performing activities on behalf of the former parent as agent, the relevant sales, profits, related assets and liabilities have not been recognized in the results. Such activities are of a temporary nature and result from the spin- off.

As from spin-off date, Novartis is considered a third party to all transactions with Sandoz.

3. Material accounting policies

Scope of consolidation

The consolidated financial statements include all entities over which Sandoz Group AG, directly or indirectly has control (generally as a result of owning more than 50% of the entity's voting interest). Consolidated entities are also referred to as "subsidiaries". Prior to spin-off, the financial statements were presented on a combined carve-out basis.

In cases where Sandoz does not fully own a subsidiary, it has elected to value any remaining outstanding non-controlling interest at the time of acquiring control of the subsidiary at its proportionate share of the fair value of the net identified assets.

The Group's financial year-end is December 31, which is also the annual closing date of the individual entities' financial statements incorporated into the consolidated financial statements.

Foreign currencies

The consolidated financial statements of the Group are presented in US dollars (USD). The functional currency of a subsidiary is generally the local currency of that respective entity. The functional currency used for the reporting of certain Swiss and foreign finance entities is USD instead of their respective local currencies. This reflects the fact that the cash flows and transactions of these entities are primarily denominated in this currency.

For subsidiaries not operating in hyperinflationary economies, the subsidiary's results, financial position and cash flows that do not have USD as their functional currency are translated into USD using the following exchange rates:

- Income, expense and cash flows for each month using the average exchange rate, with the US dollar values for each month being aggregated during the year
- Balance sheet using year-end exchange rates
- Resulting exchange rate differences are recognized in other comprehensive income

For subsidiaries operating in hyperinflationary economies, the impact of the restatement of the non-monetary assets and liabilities with the general price index at the beginning of the period is recorded in retained earnings in equity. The subsequent gains or losses from the net monetary position are recorded in "Other financial income and expense" in the consolidated income statement. This gain or loss on the net monetary position is derived as the difference resulting from the restatement of non-monetary assets, owners' equity and items in the statement of comprehensive income and the adjustment of index-linked assets and liabilities.

Non-current assets held for sale or held for distribution to owners

Non-current assets are accounted for as assets held for sale or as related to discontinued operations when their carrying amount is to be recovered principally through a sale transaction or distribution to owners and a sale or distribution to owners is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell and any resulting impairment is recognized. Assets related to discontinued operations and assets of a disposal group held for sale are not depreciated or amortized. The prior year consolidated balance sheet is not restated.

If in a subsequent period, the criteria for classification as held for sale are no longer met, the recoverable amount of assets and liabilities are reclassified out of assets held for sale into the respective balance sheet lines and the prior year consolidated balance sheet is not restated. The cumulative amount of depreciation and amortization not recorded since the date of their classification as assets held for sale, and any required adjustments to the recoverable amounts of assets are recognized in the consolidated income statement.

Acquisition of assets and businesses

Assets separately acquired are recorded at cost, which includes the purchase price and any directly attributable costs for bringing the asset into the condition to operate as intended. Expected costs for obligations to dismantle and remove property, plant and equipment and restore the site when it is no longer used are included in their cost.

Acquired businesses are accounted for by applying the acquisition method unless the optional concentration test is applied. The optional concentration test allows for an election on a transaction-by-transaction basis to account for the acquired business as an asset separately acquired when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The acquisition method requires that the assets acquired and liabilities assumed be recorded at their respective fair values on the date the Group obtains control. The excess of the fair value of the total purchase consideration transferred over the fair value of the acquired assets and assumed liabilities is recognized as goodwill. The valuations are based on information available at the acquisition date. Acquisition-related costs are expensed as incurred.

The application of the acquisition method requires certain estimates and assumptions to be made, especially concerning the fair values of the acquired intangible assets, inventories, property, plant and equipment and the liabilities assumed at the acquisition date, and the useful lives of the intangible assets and property, plant and equipment. Estimates of fair value require the use of valuation techniques. These valuations require the use of management assumptions and estimates, including the value of comparable assets in the market, amount and timing of future cash flows, outcomes and costs of research and development activities, probability of obtaining regulatory approval, long-term sales forecasts, actions of competitors, discount rates and terminal growth rates. The section "Impairment of goodwill and intangible assets" in this Note provides additional information on key assumptions that are highly sensitive in the estimation of fair values using valuation techniques.

Property, plant and equipment

Property, plant and equipment is depreciated on a straight-line basis in the consolidated income statement over the estimated useful life of the individual asset. Freehold land is not depreciated. The related depreciation expense is included in the costs of the functions using the asset.

Property, plant and equipment is assessed for impairment whenever there is an indication that the balance sheet carrying amount may not be recoverable using cash flow projections over the useful life.

The following table shows the estimated useful life by major categories for property, plant and equipment:

	Useful life
Buildings	20 to 40 years
Machinery and other equipment	
Machinery and equipment	5 to 20 years
Furniture and vehicles	5 to 10 years
Computer hardware	3 to 7 years

Government grants obtained for construction activities, including any related equipment, are deducted from the gross acquisition cost to arrive at the balance sheet carrying value of the related assets.

Leases and right-of-use assets

As lessee, at inception and upon the modification of a contract the Group assesses whether the contract contains a lease. The Group elected to allocate the consideration in the contract to the lease and non-lease components on the basis of the relative standalone price of each component.

The Group recognizes a right-of-use asset and a corresponding lease liability for all arrangements in which it is a lessee, except for leases with a term of 12 months or less (short-term leases) and low-value leases. For these short-term and low-value leases, the Group recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease.

The lease liability is initially measured at the present value of the future lease payments as from the commencement date of the lease to the end of the lease term. The lease term includes the period of any lease extension that management assesses as reasonably certain to be exercised by the Group. The lease payments are discounted using the interest rate implicit in the lease or, if not readily determinable, the Group's incremental borrowing rate for the asset subject to the lease in the relevant market.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever there is a change to the lease terms or expected payments under the lease, or a modification that is not accounted for as a separate lease.

The portion of the lease payments attributable to the repayment of lease liabilities is recognized in cash flows used in financing activities, and the portion attributable to the payment of interest is included in cash flows from operating activities.

Right-of-use assets are initially recognized on the balance sheet at cost, which comprises the amount of the initial measurement of the corresponding lease liability, adjusted for any lease payments made at or prior to the commencement date of the lease, any lease incentive received, and any initial direct costs incurred by the Group, and expected costs for obligations to dismantle and remove right-of-use assets when they are no longer used.

Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease over the shorter of the useful life of the right-of-use asset or the end of the lease term.

Right-of-use assets are assessed for impairment whenever there is an indication that the balance sheet carrying amount may not be recoverable using cash flow projections for the useful life.

Goodwill and intangible assets

Goodwill

Goodwill arises on applying the acquisition method on the acquisition of a business and is the excess of the fair value of the consideration transferred to acquire the business over the underlying fair value of the net identified assets acquired. It is allocated to a group of cash-generating units (CGU), that is expected to benefit from the synergies of the combination, and which is usually represented by the single operating segment. Goodwill is tested for impairment annually at the level of this group of CGUs, and any impairment charges are recorded under "Other expense" in the consolidated income statement.

Intangible assets available for use

The Group has the following classes of available-for-use intangible assets: currently marketed products; technologies and other intangible assets (including software).

Currently marketed products represent the composite value of acquired intellectual property (IP), patents, distribution rights and product trade names. Intangibles in this category include rights to currently marketed products, which, in the generics industry are typically perpetual rights, as these are not limited by patent expiry. We consider such perpetual product rights to continue to have potential future economic benefits for Sandoz beyond their economic useful life, either through divestment or future use, and are therefore not systematically retired from the balance sheet due to passage of time. Technologies represent identified and separable acquired know-how used in the research, development and production processes.

Significant investments in internally developed and acquired computer software are capitalized and included in the "Other" category, and amortized once available for use. Intangible assets available for use with a definite useful life are amortized over their estimated useful lives on a straight-line basis and are evaluated for potential impairment whenever facts and circumstances indicate that their carrying value may not be recoverable.

The following table shows the estimated useful life by major categories for intangible assets available for use and the line in the consolidated income statement in which the amortization and any potential impairment charge is recognized:

	Useful life	Income statement line for amortization and impairment charges
Currently marketed products	5 to 15 years	"Cost of goods sold"
Technologies	10 to 20 years	"Cost of goods sold" or "Development and regulatory"
Other (including software)	3 to 12 years	In the relevant functional expense

Intangible assets not yet available for use

Acquired research and development intangible assets that have not yet obtained marketing approval are recognized as in-process research and development (IPR&D).

IPR&D is not amortized but is evaluated for potential impairment on an annual basis or when facts and circumstances warrant. Any impairment charge is recorded in the consolidated income statement under "Development and regulatory." Once a project included in IPR&D has received marketing approval from a regulatory authority, it is transferred to the "Currently marketed products" category.

Impairment of goodwill and intangible assets

An asset, a CGU or a grouping of CGUs is considered impaired when its balance sheet carrying amount exceeds its estimated recoverable amount, which is defined as the higher of its fair value less costs of disposal and its value in use. Usually, the Group applies the fair value less costs of disposal method for its impairment assessment. In most cases, no directly observable market inputs are available to measure the fair value less costs of disposal. Therefore, an estimate is derived indirectly and is based on net present value techniques utilizing post-tax cash flows and discount rates. In the limited cases where the value-in-use method would be applied, net present value techniques would be applied using pre-tax cash flows and discount rates.

Fair value less costs of disposal reflects estimates of assumptions that market participants would be expected to use when pricing the asset or CGU, and for this purpose, management considers the range of economic conditions that are expected to exist over the remaining useful life of the asset. These valuations are classified as 'Level 3' in the fair value hierarchy.

The estimates used in calculating the net present values are highly sensitive and depend on assumptions specific to the nature of the Group's activities with regards to:

- Amount and timing of projected future cash flows
- Sales forecasts
- Actions of competitors (launch of competing products, marketing initiatives, etc.)
- Sales erosion rates, and timing of the entry of other generic competition
- Outcome of development and registration activities (bioequivalence, results of clinical trials, etc.)
- Profit margins
- Appropriate terminal growth rate
- Appropriate discount rate

Generally, for intangible assets with a definite useful life, the Group uses cash flow projections for the whole useful life of these assets. For goodwill, the Group utilizes cash flow projections for a five-year period (change from a three-year period applied in prior years) with a terminal value based on cash flow projections usually in line with inflation rates for later periods. These projections are based on the five-year strategic plan of Sandoz as a standalone Group, as opposed to the three-year plans in the prior years as a Division of Novartis. We believe that utilizing the forecasting period used by Sandoz management for planning purposes ensures that the financial impacts of the Group's strategy and plans are properly reflected in the valuation of the business for goodwill testing purposes. This change in the forecasting is fully in line with the relevant IFRS Accounting Standards guidance and the change in this valuation parameter has no impact on the outcome of the test in 2023.

Probability-weighted scenarios are typically used. Discount rates used consider the Group's estimated weighted average cost of capital, adjusted for specific asset, country and currency risks associated with cash flow projections, to approximate the discount rate that market participants would use to value the asset.

Due to the above factors, actual cash flows and values could vary significantly from forecasted future cash flows and related values derived using discounting techniques.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, and other short-term and highly liquid investments with original maturities of three months or less which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank overdrafts are usually presented within current financial debts on the consolidated balance sheets except in cases where a right of offset has been agreed with a bank which then allows for presentation on a net basis.

Derivative financial instruments

Derivative financial instruments are initially recognized in the balance sheet at fair value and are remeasured to their current fair value at the end of each subsequent reporting period. The valuation of a forward exchange rate contract is based on the discounted cash flow model, using interest rate curves and forward rates at the reporting date as observable inputs.

Options are valued based on a modified Black-Scholes model using volatility and exercise prices as major observable inputs.

The Group enters into certain derivative financial instruments for the purpose of hedging to reduce the volatility in the Group's performance due to the exposure to various business-related risks. The risk mitigation is obtained because the derivative's value or cash flows are expected, wholly or partly, to offset changes in the value or cash flows of the recognized assets or liabilities. The overall strategy is aiming to mitigate the currency and interest rate risk of positions that are contractually agreed, and to partially mitigate the exposure risk of selected anticipated transactions.

The derivative financial instruments do not meet the criteria to qualify for hedge accounting or are not designated in a hedge relationship. Changes in the fair value of the derivative instruments are recognized immediately in "Other financial income and expense" in the consolidated income statement.

Inventories

Inventory is valued at the lower of acquisition or production cost determined on a first-in, first-out basis and net realizable value. This value is used for the "Cost of goods sold" in the consolidated income statement. Unsaleable inventory is fully written off in the consolidated income statement under "Cost of goods sold."

Trade receivables

Trade receivables are initially recognized at their invoiced amounts, including any related sales taxes less adjustments for estimated revenue deductions such as rebates, chargebacks and cash discounts.

Provisions for doubtful trade receivables are established using a forward-looking expected credit loss model (ECL), which includes possible default events on the trade receivables over the entire holding period of the trade receivable. These provisions represent the difference between the trade receivable's carrying amount in the consolidated balance sheet and the estimated collectible amount. Charges for doubtful trade receivables are recorded as marketing and selling costs recognized in the consolidated income statement within "Selling, general and administration" expenses.

Legal and environmental liabilities

The Group and its subsidiaries are subject to contingencies arising in the ordinary course of business, such as patent litigation, environmental remediation liabilities and other product-related and commercial litigation, and governmental investigations and proceedings. A provision is recorded when Sandoz has a present obligation as a result of a past event and there is a probable outflow of resources for which a reliable estimate can be made of the outcome of the legal or other disputes against the subsidiary.

Contingent consideration

In an acquisition of a business, it is necessary to recognize contingent future amounts due to previous owners, representing contractually defined potential amounts as a liability. Usually for the Group, these are linked to milestone or royalty payments related to certain assets and are recognized as a financial liability at fair value, which is then remeasured at each subsequent reporting date. These estimations typically depend on factors such as technical milestones or market performance and are adjusted for the probability of their likelihood of payment, and are appropriately discounted to reflect the impact of time.

Changes in the fair value of contingent consideration liabilities in subsequent periods are recognized in the consolidated income statement in "Cost of goods sold" for currently marketed products and in "Development and regulatory" for IPR&D.

The effect of unwinding the discount over time is recognized in "Interest expense" in the consolidated income statement.

Defined benefit pension plans and other post-employment benefits

The liability in respect of defined benefit pension plans and other post-employment benefits is the defined benefit obligation calculated annually by independent actuaries using the projected unit credit method. The current service cost for such post-employment benefit plans is included in the personnel expenses of the various functions in which employees are employed, while the net interest on the net defined benefit liability or asset is recognized as "Other expense" or "Other income."

Treasury shares

Treasury shares are initially recognized at cost. Treasury shares are deducted from consolidated equity at their nominal value of CHF 0.05 per share. On purchases or sales of treasury shares with third parties, or the value of services received for the shares allocated to employees as part of the share-based compensation arrangements, the differences between the nominal value and the transaction price are recorded in "Retained earnings" in the consolidated statement of changes in equity.

Revenue recognition

Revenue on the sale of the Group's products and services, which is recorded as "Net sales to third parties" in the consolidated income statement, is recognized when a contractual promise to a customer (performance obligation) has been fulfilled by transferring control over the promised goods and services to the customer, substantially all of which is at the point in time of shipment to or receipt of the products by the customer or when the services are performed. If contracts contain customer acceptance provisions, revenue is recognized upon the satisfaction of the acceptance criteria. If a contract contains more than one performance obligation, the consideration is allocated based on the standalone selling price of each performance obligation. The amount of revenue recognized is based on the consideration the Group expects to receive in exchange for its goods and services, when it is highly probable that a significant reversal will not occur.

The consideration the Group receives in exchange for its goods or services may be fixed or variable. Variable consideration

is recognized when it is highly probable that a significant reversal will not occur. The most common elements of variable consideration are listed below:

- Rebates and discounts granted to wholesalers, retailers, government agencies (including US Medicaid and US Federal Medicare programs), government supported healthcare systems, private health systems, pharmacy benefit managers, managed healthcare organizations, purchasing organizations and other direct and indirect customers, as well as chargebacks are provisioned and recorded as revenue deductions at the time the related revenues are recorded, or when the incentives are offered. These rebates and discounts, applied using provision rates, are estimated based on the terms and conditions in the individual states, plans and customer agreements, historical experience, product sales and growth rate, population growth, product pricing including inflation impacts, the mix of contracts and products, the level of inventory in the distribution channel, regulations, contracts, channels and payers, as appropriate to the individual rebate and discount arrangements.
- Cash discounts are offered to customers to encourage prompt payment and are provisioned and recorded as revenue deductions at the time the related sales are recorded.
- Shelf stock adjustments are generally granted to customers to cover the inventory held by them at the time a price decline becomes effective. Revenue deduction provisions for shelf stock adjustments are recorded when the price decline is anticipated, based on the impact of the price decline on the customer's estimated inventory levels.
- Sales returns provisions are recognized and recorded as revenue deductions when there is historical experience of the Group agreeing to customer returns and the Group can reasonably estimate expected future returns. In doing so, the estimated rate of return is applied, determined on the basis of historical experience of customer returns and considering any other relevant factors. This is applied to the amounts invoiced, also considering the amount of returned products to be destroyed versus products that can be placed back in inventory for resale. Where shipments are made on a resale or return basis, without sufficient historical experience for estimating sales returns, revenue is only recorded when there is evidence of consumption or when the right of return has expired.

Net sales to third parties and provisions for revenue deductions are adjusted periodically to reflect experience and to reflect actual amounts as rebates, refunds, discounts and returns are processed. There is often a time lag between recording of revenue deductions and the final accounting for them. The provision represents estimates of the related obligations, requiring the use of judgment when estimating the effect of these revenue deductions. In exercising judgment, management makes use of analysis of historic actual data where this is considered as a good indicator of expected claims, and continuously monitors the level of deductions versus actual claims processed.

"Other revenue" includes income from royalty and milestone income from the out-licensing of intellectual property when Sandoz retains an interest in the intellectual property through a license. Royalty income earned from a license is recognized when the underlying sales have occurred. Milestone income is recognized at the point in time when it is highly probable that the relevant milestone event criteria are met, and the risk of reversal of revenue recognition is remote. "Other revenue" also includes revenue from activities such as manufacturing or other services rendered, to the extent such revenue is not recorded under net sales to third parties and is recognized when control transfers to the third party and our performance obligations are satisfied.

Development, regulatory and research

Internal development, registration and research costs are fully charged to "Development and regulatory" in the consolidated income statement in the period in which they are incurred. The Group considers that regulatory and other uncertainties inherent in the development of new products preclude the capitalization of internal development expenses as an intangible asset until marketing approval from a regulatory authority is obtained in a major market such as the United States, the European Union, Switzerland or Japan.

Payments made to third parties, such as contract research and development organizations in compensation for subcontracted research and development that are deemed not to transfer intellectual property to the Group, are expensed as internal development and research expenses in the period in which they are incurred. Such payments are only capitalized if they meet the criteria for recognition of an internally generated intangible asset, usually when marketing approval has been received from a regulatory authority in a major market.

Payments made to third parties to in-license or acquire intellectual property rights, compounds and products, including initial upfront and subsequent milestone payments, are capitalized, as are payments for other assets, such as technologies to be used in research and development activities. If additional payments are made to the originator company to continue performing research and development activities, an evaluation is made as to the nature of the payments. Such additional payments will be expensed if they are deemed to be compensation for subcontracted research and development services not resulting in an additional transfer of intellectual property rights to the Group. Such additional payments will be capitalized if they are deemed to be compensation for the transfer to the Group of additional intellectual property developed at the risk of the originator company. Subsequent internal research and development costs in relation to IPR&D and other assets are expensed since the technical feasibility of the internal research and development activity can only be demonstrated by the receipt of marketing approval for a related product from a regulatory authority in a major market.

Costs for post-approval studies performed to support the continued registration of a marketed product are recognized as marketing expenses. Costs for activities that are required by

regulatory authorities as a condition for obtaining marketing approval in a major market are capitalized and recognized as currently marketed products.

Inventory produced ahead of regulatory approval is capitalized if approval is virtually certain, in other cases fully provisioned under "Cost of goods sold" in the consolidated income statement, as its ultimate use cannot be assured. If this inventory can be subsequently sold, the provision is released to "Cost of goods sold" in the consolidated income statement, when approval is virtually certain by the appropriate regulatory authority.

Share-based compensation

Each of the periods presented include expense related to incentive compensation provided to eligible Sandoz employees in the form of equity-settled or cash-settled awards, including restricted stock units ("RSUs"), performance stock units ("PSUs") and restricted shares ("RSs"). The Group expenses the fair values of RSUs, PSUs and RSs granted to employees as compensation over the related vesting periods within the various functions where the employees are employed, after adjusting for assumptions related to forfeiture during the vesting period.

Unvested restricted shares and RSUs are only conditional on the provision of services by the plan participant during the vesting period. They are valued at fair value on the grant date. As RSUs do not entitle the holder to dividends, the fair value is based on the share price at the grant date adjusted for the net present value of the dividends expected to be paid during the holding period.

PSUs granted under Sandoz plans are subject to the achievement of certain performance criteria during the vesting period and require plan participants to provide services during this period. The performance criteria are based solely on internal performance metrics and are conditional on the provision of service by plan participants during the vesting period, and therefore the expense is recognized on a straight-line basis over the vesting period and is determined based on assumptions concerning the expected performance against the internal performance metrics throughout the vesting period. The assumptions are based on Sandoz targets for those performance metrics, and the expected forfeitures due to plan participants not meeting their service conditions. The assumptions are periodically adjusted over the vesting period. Any change in estimates for past services is recorded immediately as an expense or income in the consolidated income statement and amounts for the remaining vesting period are expensed on a straight-line basis. As a result, at the end of the vesting period, the charge during the entire vesting period represents the amount that will finally vest. The number of equity instruments that finally vest is determined at the vesting date.

If a plan participant leaves for reasons other than retirement, disability or death, then unvested restricted shares, RSUs and PSUs are forfeited, unless determined otherwise by the provision of the plan rules or by the Human Capital and ESG Committee of the Sandoz Group AG Board of Directors; for example, in connection with a reorganization or divestment, including through a spin-off.

Government grants

Grants from governments or similar organizations are recognized at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants received to compensate costs are deferred and recognized in the consolidated income statement over the period necessary to match them against the related costs that they are intended to compensate. The accounting policy for property, plant and equipment describes the treatment of any related grants.

Restructuring charges

Restructuring provisions are recognized for the direct expenditures arising from the restructuring, where the plans are sufficiently detailed and where appropriate communication to those affected has been made. Charges to increase restructuring provisions are included in "Other expense" in the consolidated income statements.

Healthcare contributions

Healthcare cost contribution levies and fees under governmental programs that require the Group to contribute to a country's healthcare costs, other than programs described in "Revenue recognition" in this Note, are recognized in "Other expense" in the consolidated income statement. Provisions for healthcare cost contributions are adjusted to the actual amounts levied. The provision represents estimates of the related obligations, requiring the use of judgment when estimating the effect of these healthcare cost contributions.

Income taxes

Income taxes comprise current income taxes and deferred income taxes and are recognized in the same periods as the revenues and expenses to which they relate. Income taxes include interest and penalties incurred during the period, insofar as they are considered an income tax. Income taxes related to items recognized directly to other comprehensive income or to equity are recognized together with the corresponding item, to which the income tax is attributable, directly in other comprehensive income or in equity.

Deferred income taxes are determined using the comprehensive liability method and are calculated on the temporary differences that arise between the tax base of an asset or liability and its carrying value in the balance sheet prepared for purposes of these consolidated financial statements, except for those temporary differences related to investments in subsidiaries, where the timing of their reversal can be controlled and it is probable that the difference will not reverse in the foreseeable future. Since the retained earnings are reinvested, withholding or other taxes on eventual distribution of a subsidiary's retained earnings are only recognized when a dividend is declared or has been planned. Furthermore, deferred income taxes

are recognized for the net tax effects of net operating loss carryforwards and tax credits.

The carrying amount of deferred tax assets is reduced to the extent that it is not probable that sufficient taxable profits will be available to enable all or part of the asset to be recovered. In evaluating our ability to recover our deferred tax assets in the jurisdiction from which they arise, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies, and results of recent operations.

The estimated amounts for current and deferred tax assets or liabilities, including amounts related to any uncertain tax positions, are based on applicable tax law and regulations in the various tax jurisdictions, in which the Group operates, which are subject to interpretations based on currently known facts and circumstances.

Tax returns are based on an interpretation of tax laws and regulations, and reflect estimates based on these judgments and interpretations. The tax returns are subject to examination by the competent taxing authorities, which may result in an assessment being made requiring payments of additional tax, interest or penalties.

The calculation of income tax assets and liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across our global operations and applying management estimates and judgments related to the ability to recover deferred tax assets in the jurisdiction from which they arise. As a result, inherent uncertainties exist in the estimates of the tax positions. Tax liabilities for uncertain tax provisions are recognized on the consolidated balance sheets within current income tax liabilities.

Earnings per share

Basic earnings per share is based on the weighted average number of registered shares outstanding. Diluted earnings per share is based on the weighted average number of registered shares outstanding and all dilutive potential registered shares outstanding.

Impact of new IFRS Accounting Standards, amendments and interpretations in 2023

IAS 12 Pillar Two amendments

The IASB has issued amendments to IAS 12 Income Taxes implementing a mandatory temporary exception to recognize and disclose deferred tax assets and liabilities related to Pillar Two Income Taxes. This amendment applies to income taxes arising from tax law enacted or substantially enacted to implement the Pillar Two model rules published by the Organization for Economic Co-operation and Development (OECD), including tax law that implements qualified domestic minimum top-up taxes.

In application of the exception, the Group is not recognizing nor disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes. The Group is continuing to assess the impact on its future financial performance with main focus on its most material jurisdictions and is preparing for the future implementation of the new rules.

Impact of new IFRS Accounting Standards, amendments and interpretations in 2022

There were no new IFRS Accounting Standards adopted by the Group in 2022. In addition, new IFRS Accounting Standards amendments or interpretations that became effective in 2022 did not have a material impact to the Group's consolidated financial statements.

Based on the Group's assessment, there were no IFRS Accounting Standards, amendments or interpretations not yet effective in 2022 that would have been expected to have a material impact on the Group's consolidated financial statements.

Impact of new IFRS Accounting Standards, amendments and interpretations in issue but not yet effective.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures

The Group is in the process of evaluating its existing structured payable arrangements in preparation for the recently issued qualitative and quantitative disclosure requirements Supplier Finance Arrangements, which amended IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: disclosures effective for annual periods beginning January 1, 2024. The amendments introduce additional disclosure requirements for companies that enter into these arrangements and require no change in the classification and presentation of the related liabilities and cash flows.

There are no other IFRS Accounting Standards, amendments or interpretations not yet effective that would be expected to have a material impact on the Group's consolidated financial statements.

4. Significant transactions

Significant transactions in 2023

Completion of spin-off from Novartis

The spin-off was effected on October 4, 2023 as described in Note 1. Prior to the spin-off, on September 28, 2023, Sandoz borrowed USD 3.3 billion against a bridge facility (USD 2.6 billion) and term loans (USD 0.8 billion) in USD and EUR currencies and secured a revolving credit facility of USD 1.25 billion. The open financial receivables and liabilities positions with the former parent were settled through this third-party financing.

On November 17, 2023, Sandoz refinanced the USD 2.6 billion bridge facility through the issuance of CHF and EUR senior fixed rate notes. These notes consisted of CHF notes for an aggregate total of CHF 0.8 billion issued by Sandoz Group AG with maturities in 2026 to 2031 and EUR notes of an aggregate total of EUR 2.0 billion issued by Sandoz Finance B.V. with maturities ranging from 2027 to 2033. The total notional amount of the

CHF and EUR notes was USD 3.0 billion, and the remaining net proceeds are retained for general corporate purposes.

Development and commercialization agreement with Samsung Bioepis

On September 11, 2023, Sandoz entered into a development and commercialization agreement with Samsung Bioepis. The agreement provides Sandoz with the exclusive rights to commercialize biosimilar ustekinumab in Europe and North America. The total consideration payable by Sandoz amounts to USD 125 million which includes USD 45 million of upfront payment that was paid in 2023 and up to USD 80 million potential payments subject to regulatory and commercialization milestones.

Legal restructuring of multi-divisional production sites

Effective July 1, 2023, the multi-divisional production sites were legally restructured to separate the manufacturing activities of Sandoz and Novartis, resulting in a net asset transfer from Sandoz to Novartis and the implementation of supply agreements between the two businesses.

The financial statements until June 30, 2023 included the net assets of these multi-divisional production sites based on a major user concept, reflecting the economic usage in the period.

This restructuring resulted in a reduction of Sandoz total assets and total liabilities and invested capital of USD 350 million. The reduction in total assets comprised a net decrease in property, plant and equipment of USD 487 million made up of a transfer from Sandoz of USD 6 million and a distribution out of USD 482 million, right-of-use assets increased by USD 88 million, other financial assets increased by USD 6 million, inventories increased by a net USD 50 million which comprised USD 110 million being transferred from Novartis and USD 60 million being transferred out, other current assets of USD 7 million were also transferred out. The reduction to total invested capital and liabilities comprised a reduction of USD 601 million to invested capital, an increase of USD 121 million to lease liabilities (USD 7 million short term) and USD 130 million payables to Novartis.

In preparation of this site restructuring, assets held by Sandoz on June 30, 2023 and transferred to Novartis on July 1, 2023, were reclassified as assets held for distribution to shareholders as at June 30, 2023 in accordance with IFRS 5 as this was the date that the criteria for reclassification were met. The disposal group, assets classified as held for distribution to shareholders, consisted of the following:

(USD millions)	June 30, 2023
Assets held for distribution to shareholders	
Property, plant and equipment	482
Inventories	60
Other current assets	7
Total	**549**

There were no cumulative income or expenses included in the income statement or statement of other comprehensive income relating to the disposal group.

Mycamine® product rights acquisition

On January 23, 2023, Sandoz entered into an asset purchase agreement with Astellas Pharma Inc. to acquire worldwide product rights for systemic antifungal agent Mycamine®. The transaction closed on August 28, 2023. Under the terms of the agreement Sandoz made an upfront payment of USD 64 million on closing and will pay potential sales-based milestone payments totaling USD 35 million as these become due. The transaction was accounted for as asset purchase upon closing.

China business divestment and portfolio agreement

On December 3, 2023, Sandoz entered into an agreement with Aspen Global Inc. (Aspen) to swap the Sandoz China legal entity with Aspen's well-established surgical anesthesia portfolio for hospital administration in Europe and a cash component. As consideration for the acquisition, upon closing, Aspen is paying up to USD 101 million, with USD 20 million contingent upon the sales performance of the pipeline products. For the anesthesia portfolio, Aspen will receive a consideration of up to USD 60 million, with USD 10 million contingent on the sales performance of the anesthetic products. The deal is expected to close by June 30, 2024.

As of December 31, 2023, total assets classified as held for sale related to the China business amounted to USD 56 million, of which USD 23 million represents goodwill. Liabilities classified as held for sale amounted to USD 35 million, of which USD 27 million represents provisions and other current liabilities.

Significant transactions in 2022

There were no significant transactions in 2022.

5. Operating segment

Sandoz is a multinational group of companies operating in the off-patent medicines segment and specializes in the development, manufacturing and marketing of generic pharmaceuticals and biosimilars.

Sandoz is engaged in a single business activity consisting of developing, manufacturing and marketing off-patented generic and biosimilar medicines and operates as a single operating segment. All of these business and functional activities are managed globally on a vertically integrated basis.

The Executive Committee (EC) is responsible for overseeing the business operations of Sandoz, including financial performance and fulfilment of the Group's purpose, strategic priorities, and targets. It is considered that the EC is the Sandoz Chief Operating Decision Making body as it is responsible for allocating resources and assessing the performance of the operating segment of the Group.

The ability of the Group to develop, produce, deliver and commercialize a wide range of off-patent medicine products is central to the EC decision-making process. In assessing performance, the EC reviews financial information on an integrated basis for the Group as a whole, substantially in the form of, and on the same basis as, the Group's IFRS financial statements.

Resources, in particular capital expenditure, in-licensing, and research, development and registration, are allocated on a Group-wide basis.

6. Revenues and geographic information

Net sales to third parties by business information

The following table presents net sales to third parties by business for the years ended December 31, 2023 and 2022:

(USD millions)	2023	2022
Generics	7,432	7,141
Biosimilars	2,215	1,928
Total net sales to third parties	**9,647**	**9,069**

Geographic information

The following table shows countries that accounted for more than 10% of at least one of net sales to third parties or total of selected non-current asset as well as the net sales to third parties by region for the years ended December 31, 2023 and 2022:

	Net sales to third parties [1]				Total of selected non-current assets [2]			
(USD millions)	2023	%	2022	%	2023	%	2022	%
Country								
Switzerland	363	4	288	3	1,805	16	1,529	14
United States	1,617	17	1,639	18	3,510	32	3,541	33
Germany	1,240	13	1,174	13	2,225	20	2,131	20
Other	6,427	66	5,968	66	3,543	32	3,614	33
Total Sandoz	**9,647**	**100**	**9,069**	**100**	**11,083**	**100**	**10,815**	**100**
Region								
Europe	5,023	52	4,503	50				
North America	2,129	22	2,094	23				
International	2,495	26	2,472	27				
Total Sandoz	**9,647**	**100**	**9,069**	**100**				

[1] Net sales to third parties by location of customer.

[2] Total of selected non-current assets comprise total of property, plant and equipment; right-of-use assets; goodwill; intangible assets and other non-current assets, excluding post-employment benefit assets.

Information about major customers

At December 31, 2023 the Group's largest, second-largest and third-largest customers account for approximately 12%, 7% and 6% of net sales to third parties, respectively (2022: 10%, 8% and 9%, respectively).

The highest amounts of trade receivables outstanding for these same three customers amounted to approximately 8%, 14% and 10%, respectively, of the trade receivables at December 31, 2023 (2022: 8%, 16% and 15%, respectively).

Other revenues

(USD millions)	2023	2022
Royalty income	18	18
Milestone income	4	3
Other[1]	8	9
Total other revenues	**30**	**30**

[1] Other includes revenue from activities such as manufacturing or other services rendered, to the extent such revenue is not recorded under net sales.

7. Other expense

Other expense includes litigation and settlement costs, additions to provisions for product liability, governmental investigations and other legal matters, related legal expenses, additions to restructuring provisions and certain integration and separation costs related to the spin-off. Other expense amounted to USD 968 million in 2023 compared to USD 290 million in the previous year. The increase versus prior year is mainly driven by higher legal provisions and related costs; see Note 24 for the movement schedule on provisions for product liability, governmental investigations and other legal matters, and separation costs of USD 120 million reported in other expense.

8. Interest expense and other financial income and expense

Interest expense

(USD millions)	2023	2022
Interest expense[1]	(190)	(79)
Interest expense on lease liabilities	(8)	(3)
Expense arising from discounting long-term liabilities	(7)	(10)
Capitalized borrowing costs[2]	3	3
Total interest expense	**(202)**	**(89)**

[1] Increase in interest expense is primarily a result of expenses incurred on financing facilities, of which bridge facility, term loans and notes, and financial liabilities from former parent. For further information on interest expense of the Group from former parent, see Note 30.

[2] Capitalized borrowing costs represent the portion of interest expense that was capitalized to property, plant and equipment, see Note 12.

Other financial income and expense

(USD millions)	2023	2022
Interest income[1]	31	8
Monetary loss from hyperinflation accounting	(10)	(18)
Financial expense	(3)	(6)
Currency result, net	(61)	(32)
Total other financial income and expense	**(43)**	**(48)**

[1] Interest income includes interest of the Group from former parent, see Note 30.

9. Income taxes

The significant components of income tax expense are as follows:

(USD millions)	2023	2022
Current income tax expense	(93)	(282)
Deferred tax income	43	30
Income tax expense	**(50)**	**(252)**

Analysis of tax rate

Sandoz has a substantial business presence in many countries and is therefore subject to income taxes in different tax jurisdictions. This leads to differences in income and expense items that are non-taxable or non-deductible (permanent differences) or are taxed at different statutory tax rates in those tax jurisdictions. As a result, there is a difference between the applicable tax rate and effective tax rate.

The applicable tax rate changes from year to year due to changes in the mix of the Group's pre-tax income and changes in statutory tax rates since it is calculated as the weighted average tax rate based on the pre-tax income of each subsidiary. The 2022 applicable tax rate is lower than 2023 mainly due to the geographical allocation of income and loss before taxes across jurisdictions. The lower overall Group pretax income had an unfavorable geographical tax impact on certain reconciling items, mostly affecting disallowed expenditures and tax and credits allowances.

The main elements contributing to the difference between the Group's overall applicable tax rate and the effective tax rate are shown in the following table:

	2023 (USD millions)	2023 (%)	2022 (USD millions)	2022 (%)
Applicable tax charge/rate	**47**	**36.2**	**273**	**24.8**
Effect of disallowed expenditures	29	22.3	32	2.9
Effect of utilization of tax losses brought forward from prior periods	(1)	(0.8)	–	–
Effect of income taxed at reduced rates	–	–	(1)	(0.1)
Effect of income not subject to tax	(2)	(1.5)	(1)	(0.1)
Effect of tax credits and allowances	(18)	(13.8)	(19)	(1.8)
Effect of tax rate change on current and deferred tax assets and liabilities	–	–	(9)	(0.8)
Effect of (derecognition of previously recognized)/recognition of previously unrecognized deferred tax assets[1]	(10)	(7.7)	3	0.3
Effect of prior-year items	(1)	(0.8)	(8)	(0.7)
Effect of changes in uncertain tax positions	(1)	(0.8)	(11)	(1.0)
Effect of other items	7	5.4	(7)	(0.6)
Effective tax charge/rate	**50**	**38.5**	**252**	**22.9**

[1] Includes the effect of recognition of prior year's tax losses carry-forward in the United States. See Note 15 for further details.

The effective tax rate fluctuates primarily on, among other factors, changes in pre-tax income between countries with varying statutory tax rates, effect of disallowed expenditures, effect of tax credits and allowances, effect of prior-year items, effect of derecognition and reversals of derecognition of deferred tax assets, changes in uncertain tax positions and changes in tax laws. The table above provides the details of the significant items that impact the comparability of the effective tax rate year over year. The utilization of tax-loss carry-forwards lowered the tax charge by USD 0.6 million in 2023 and by USD 0.1 million in 2022. The total tax expense for 2022 includes tax benefits for losses realized by the US Sandoz operations that were realized by the Novartis tax group of which these entities were included. In December 2021, the OECD issued model rules for a new global minimum tax framework (Pillar Two) for which Sandoz is within the scope. A number of governments in countries in which Sandoz operates have enacted tax legislation to comply with Pillar Two, including Switzerland that in December 2023 partially implemented Pillar two, whereby effective from January 1, 2024, a 15% minimum taxation will be assessed on Pillar Two qualifying profits earned by companies domiciled in Switzerland (Qualified Domestic Minimum Top-Up Tax). The timing of implementation and the specific provisions of any further Pillar Two tax regulations in Switzerland remains subject to further assessment. The Group estimates that the impact of these changes to tax legislation would not be material to our consolidated financial position, income statement and cash flows.

10. Earnings per share

Basic earnings per share (EPS) is calculated by dividing net income attributable to the shareholders of Sandoz Group AG for the period by the weighted average number of registered shares outstanding during the period. For the year ended December 31, 2023, the weighted average number of shares outstanding was 429.9 million shares. For periods prior to the spin-off, the denominator for basic earnings per share uses the number of shares distributed on the date of the spin-off.

Diluted EPS is computed based on the weighted average number of registered shares outstanding for the year plus the dilutive effect of shares granted as part of the Group's equity-based incentive plans, as described in Note 29, using the treasury share method. The average market value of the Group's shares for the purposes of calculating the potentially dilutive effects of unvested equity-based awards was based on quoted market prices for the period that the unvested awards were outstanding (October 4, 2023 to December 31, 2023).

For the year ended December 31, 2023, the weighted average diluted number of shares outstanding was 1.3 million, which includes the potential conversion of 3.4 million unvested equity-based awards. As a result, there were 2.1 million anti-dilutive shares excluded from the computation of diluted EPS for the period presented.

The average market value of the Group's shares for the purposes of calculating the potentially dilutive effects of unvested equity-based awards was based on quoted market prices for the period that the unvested awards were outstanding.

	2023	2022
Net income attributable to shareholders of Sandoz Group AG (USD millions)	**77**	**848**
Number of shares (in millions)		
Weighted average number of shares outstanding used in basic earnings per share	429.9	429.9
Adjustment for vesting of restricted shares, restricted share units and perfomance-based restricted share units	1.3	–
Weighted average number of shares in diluted earnings per share	**431.2**	**429.9**
Basic earnings per share (USD)	0.18	1.97
Diluted earnings per share (USD)	0.18	1.97

11. Changes in consolidated statement of comprehensive income

The consolidated statements of comprehensive income include the Group's net income for the year as well as all other valuation adjustments recorded in the Group's consolidated balance sheet, which under IFRS Accounting Standards are not recorded in the consolidated income statement. These include actuarial gains and losses on defined benefit pension plans, currency translation effects and fair value adjustments on debt securities, all net of taxes.

(USD millions)	Fair value adjustments on financial instruments	Actuarial gains/(losses) from defined benefit plans	Cumulative currency translation effects	Total value adjustments attributable to Sandoz Group AG shareholders	Non-controlling interest	Total value adjustments
Value adjustments at January 1, 2022	**–**	**(109)**	**5**	**(104)**	**–**	**(104)**
Defined benefit plans net of taxes of USD -18 million	–	75	–	75	–	75
Currency translation effects net of taxes of USD nil	–	–	(143)	(143)	–	(143)
Total value adjustments in 2022	**–**	**75**	**(143)**	**(68)**	**–**	**(68)**
Value adjustments at December 31, 2022	**–**	**(34)**	**(138)**	**(172)**	**–**	**(172)**
Defined benefit plans net of taxes of USD 6 million	**–**	(30)	–	(30)	–	(30)
Fair value adjustments on debt securities net of taxes of USD nil	(1)	–	–	(1)	–	(1)
Currency translation effects net of taxes of USD nil[1]	–	–	766	766	–	766
Total value adjustments in 2023	**(1)**	**(30)**	**766**	**735**	**–**	**735**
Value adjustments at December 31, 2023	**(1)**	**(64)**	**628**	**563**	**–**	**563**

[1] Currency translation effects in 2023 include USD 0.5 billion of currency translation gains allocated from the former parent.

In 2023 and 2022, no cumulative currency translation gain or losses were recycled through the income statement.

12. Property, plant and equipment

The following table summarizes the movements of property, plant and equipment during 2023:

(USD millions)	Land	Buildings	Construction in progress	Machinery and other equipment	Total
At January 1, 2023					
Cost	99	1,403	381	3,084	4,967
Accumulated depreciation and impairment	(1)	(791)	(29)	(2,355)	(3,176)
Net book value	**98**	**612**	**352**	**729**	**1,791**
At January 1, 2023	**98**	**612**	**352**	**729**	**1,791**
Transfer to assets held for sale	–	(1)	–	–	(1)
Transfers with former parent[1]	(46)	(189)	(72)	(140)	(447)
Reclassifications[2]	–	40	(157)	117	–
Additions	10	19	279	61	369
Disposals and derecognitions	–	–	–	(9)	(9)
Depreciation charge	–	(44)	–	(145)	(189)
Impairment charge	–	–	(4)	(2)	(6)
Reversal of impairment charge	–	1	1	–	2
Currency translation effects	5	22	16	32	75
At December 31, 2023	**67**	**460**	**415**	**643**	**1,585**
At December 31, 2023					
Cost	69	1,011	432	2,518	4,030
Accumulated depreciation and impairment	(2)	(551)	(17)	(1,875)	(2,445)
Net book value	**67**	**460**	**415**	**643**	**1,585**
Commitments for purchases of property, plant and equipment[3]					197
Capitalized borrowing costs					3

[1] Transfers with former parent are transfers of assets between the Group and the former parent in the ordinary course of business and accounted for at the IFRS carrying value of the respective asset. Of the total net transfers, USD 482 million relates to the legal restructuring of multi-divisional production sites. See Note 4.

[2] Reclassifications between various asset categories due to completion of plant and other equipment under construction.

[3] For further disclosures on committments for purchases of property, plant and equipment, see Note 31.

The following table summarizes the movements of property, plant and equipment during 2022:

(USD millions)	Land	Buildings	Construction in progress	Machinery and other equipment	Total
At January 1, 2022					
Cost	107	1,503	300	3,205	5,115
Accumulated depreciation and impairment	(3)	(824)	(17)	(2,468)	(3,312)
Net book value	**104**	**679**	**283**	**737**	**1,803**
At January 1, 2022	**104**	**679**	**283**	**737**	**1,803**
Transfers with former parent[1]	(3)	(18)	3	32	14
Reclassifications[2]	–	36	(126)	90	–
Additions	3	19	209	53	284
Disposals and derecognitions	(3)	(10)	(1)	(18)	(32)
Depreciation charge	–	(56)	–	(143)	(199)
Impairment charge	(1)	–	–	(1)	(2)
Reversal of impairment charge	1	–	–	2	3
Currency translation effects	(3)	(38)	(16)	(23)	(80)
At December 31, 2022	**98**	**612**	**352**	**729**	**1,791**
At December 31, 2022					
Cost	99	1,403	381	3,084	4,967
Accumulated depreciation and impairment	(1)	(791)	(29)	(2,355)	(3,176)
Net book value	**98**	**612**	**352**	**729**	**1,791**
Commitments for purchases of property, plant and equipment					136
Capitalized borrowing costs					3

[1] Transfers with former parent are transfers of assets between the Group and the former parent in the ordinary course of business and accounted for at the IFRS carrying value of the respective asset.

[2] Reclassifications between various asset categories due to completion of plant and other equipment under construction.

13. Right-of-use assets and lease liabilities

The following table summarizes the movements of the right-of-use assets:

(USD millions)	2023	2022
At January 1	**113**	**130**
Additions[1]	215	32
Depreciation charge	(49)	(37)
Impairments	(9)	–
Lease contract terminations[2]	(9)	(7)
Currency translation effects	4	(5)
At December 31	**265**	**113**

[1] In 2023, of the total additions, USD 88 million relates to the legal restructuring of multi-divisional production sites. See Note 4.

[2] Lease contract terminations also includes modifications to existing leases that result in reductions to the right-of-use assets, and reductions due to sub-leasing.

The following table shows the right-of-use assets carrying value at December 31, 2023 and 2022, and the depreciation charge for the years 2023 and 2022, by underlying class of asset:

(USD millions)	December 31, 2023 carrying value	Depreciation charge 2023	December 31, 2022 carrying value	Depreciation charge 2022
Land	2	–	2	–
Buildings	196	28	81	19
Vehicles	28	16	17	14
Machinery and equipment, and other assets	39	5	13	4
Total right-of-use assets	**265**	**49**	**113**	**37**

The following table shows the lease liabilities by maturity at December 31, 2023 and 2022:

(USD millions)	Lease liabilities 2023	Lease liabilities undiscounted 2023	Lease liabilities 2022	Lease liabilities undiscounted 2022
Less than one year	54	63	31	34
Between one and two years	45	54	25	27
Between two and three years	39	46	21	22
Between three and four years	29	35	16	17
Between four and five years	19	24	9	10
After five years	123	209	17	22
Total lease liabilities	**309**	**431**	**119**	**132**
Less current portion of lease liabilities	(54)	(63)	(31)	(34)
Non-current portion of lease liabilities	**255**	**368**	**88**	**98**
Commitments for leases not yet commenced		**–**		**11**

At December 31, 2023 and 2022, there were no material future cash outflows, including extension options, excluded from the measurement of lease liabilities. In 2023 and 2022, there were no material sales and leaseback transactions. As a result of the legal restructuring of multi-divisional production sites, see Note 4, the lease liabilities increased by USD 121 million.

Non-enforceable extension options of up to 10 years have not been included within the measurement of our leases for December 31, 2023 and 2022. The undiscounted cash flows of such extension options, based upon current contractual terms, are USD 113 million.

The following table provides additional disclosures related to right-of-use assets and lease liabilities for 2023 and 2022:

(USD millions)	2023	2022
Interest expense on lease liabilities[1]	8	3
Total cash outflows for leases	50	40
Thereof:		
Payments of interest[2]	8	3
Payments of lease liabilities	42	37

[1] The average interest rate is 3.7% (2022: 2.7%).

[2] Included within total net cash flows from operating activities.

14. Goodwill and intangible assets

The following table summarizes the movements of goodwill and intangible assets in 2023:

	Goodwill	Intangible assets other than goodwill				
(USD millions)	Total	In-process research and development	Technologies	Currently marketed products	Other intangible assets	Total
At January 1, 2023						
Cost	7,682	302	1,001	7,915	278	9,496
Accumulated amortization and impairment	(245)	(67)	(894)	(6,893)	(188)	(8,042)
Net book value	**7,437**	**235**	**107**	**1,022**	**90**	**1,454**
At January 1, 2023	**7,437**	**235**	**107**	**1,022**	**90**	**1,454**
Transfer to assets held for sale[1]	(23)	–	–	(1)	–	(1)
Reclassifications[2]	–	(97)	–	97	–	–
Additions	–	66	4	126	64	260
Amortization charge	–	–	(31)	(179)	(20)	(230)
Impairment charge[3]	–	(10)	–	(34)	–	(44)
Currency translation effects	175	20	3	89	11	123
At December 31, 2023	**7,589**	**214**	**83**	**1,120**	**145**	**1,562**
At December 31, 2023						
Cost	7,842	283	1,031	10,250	359	11,923
Accumulated amortization and impairment	(253)	(69)	(948)	(9,130)	(214)	(10,361)
Net book value	**7,589**	**214**	**83**	**1,120**	**145**	**1,562**

[1] Transfer to assets held for sale relates to the China business divestment and portfolio agreement. See Note 4.

[2] Reclassification between in-process research and development and currently marketed products as a result of product launches of acquired in-process research and development.

[3] Includes an impairment of USD 34 million related to currently marketed products in Japan and USD 10 million related to in-licensing deals.

The following table summarizes the movements of goodwill and intangible assets in 2022:

	Goodwill	Intangible assets other than goodwill				
(USD millions)	Total	In-process research and development	Technologies	Currently marketed products	Other intangible assets	Total
At January 1, 2022						
Cost	7,938	252	1,045	8,045	268	9,610
Accumulated amortization and impairment	(255)	(66)	(883)	(6,873)	(207)	(8,029)
Net book value	**7,683**	**186**	**162**	**1,172**	**61**	**1,581**
At January 1, 2022	**7,683**	**186**	**162**	**1,172**	**61**	**1,581**
Reclassifications[1]	–	(4)	–	4	–	–
Additions	–	56	–	66	41	163
Transfers, disposals and derecognitions[2]	–	–	–	(1)	(1)	(2)
Amortization charge	–	–	(33)	(178)	(11)	(222)
Impairment charge[3]	–	(1)	(15)	(19)	–	(35)
Currency translation effects	(246)	(2)	(7)	(22)	–	(31)
At December 31, 2022	**7,437**	**235**	**107**	**1,022**	**90**	**1,454**
At December 31, 2022						
Cost	7,682	302	1,001	7,915	278	9,496
Accumulated amortization and impairment	(245)	(67)	(894)	(6,893)	(188)	(8,042)
Net book value	**7,437**	**235**	**107**	**1,022**	**90**	**1,454**

[1] Reclassification between in-process research and development and currently marketed products as a result of product launches of acquired in-process research and development.

[2] Derecognition of assets that are no longer being used or developed and are not considered to have a significant disposal value or other alternative use.

[3] Includes an impairment of USD 15 million related to the write-down of Fougera core technology, USD 10 million related to Fougera currently marketed products and USD 9 million relating to Naldemedine currently marketed products in Japan.

As at December 31, 2023, the most significant intangible assets within the currently marketed products category are the mature oncology brands portfolio (Novartis' acquisition of GlaxoSmithKline (GSK) portfolio in 2015), the Cephalosporin portfolio (the Sandoz acquisition of GSK's cephalosporin antibiotics business in 2021) and the Aspen portfolio (the Sandoz acquisition of the Japanese portfolio of Aspen Global Incorporated in 2020). As at December 31, 2023, the carrying value and remaining amortization period for the mature oncology portfolio is USD 258 million and five years, respectively (2022: USD 291 million and six years), for the Cephalosporin portfolio USD 265 million and eight years, respectively (2022: USD 256 million and nine years), and for the Aspen portfolio USD 114 million and seven years, respectively (2022: USD 145 million and eight years).

Goodwill is allocated to the single operating segment of the Group, which comprise a group of smaller cash-generating units. The valuation method of the recoverable amount of the goodwill is based on the fair value less costs of disposal.

The following assumptions are used in the calculations:

	2023	2022
Terminal growth rate	1%	1%
Discount rate (post-tax)	8%	8%

The discount rates consider the Group's weighted average cost of capital, adjusted to approximate the weighted average cost of capital of a comparable market participant.

The fair value less costs of disposal, for the valuation of goodwill, is compared to available market valuation information and reviewed for the impact of reasonably possible changes in key assumptions. In particular, we considered an increase in the discount rate, a decrease in the terminal growth rate, and certain negative impacts on the forecasted cash flows. These reasonably possible changes in key assumptions did not indicate an impairment.

Note 3. Material accounting policies "Impairment of goodwill and intangible assets" provides additional disclosures on how the Group performs goodwill and intangible asset impairment testing.

15. Deferred tax assets and liabilities

(USD millions)	Property, plant and equipment	Intangible assets	Pensions and other benefit obligations of employees	Inventories	Tax loss carry-forward	Other assets, provisions and accruals	Total
Gross deferred tax assets at January 1, 2023	27	43	36	321	13	326	766
Gross deferred tax liabilities at January 1, 2023	(83)	(161)	–	(9)	–	(86)	(339)
Net deferred tax balance at January 1, 2023	**(56)**	**(118)**	**36**	**312**	**13**	**240**	**427**
At January 1, 2023	**(56)**	**(118)**	**36**	**312**	**13**	**240**	**427**
Credited/(charged) to income	(5)	9	5	(1)	24	11	43
Charged/(credited) to equity	26	(5)	(12)	(2)	3	(5)	5
Credited to other comprehensive income	5	–	6	–	–	3	14
Other movements	(4)	(8)	1	–	(1)	(13)	(25)
Net deferred tax balance at December 31, 2023	**(34)**	**(122)**	**36**	**309**	**39**	**236**	**464**
Gross deferred tax assets at December 31, 2023	28	69	36	334	39	366	872
Gross deferred tax liabilities at December 31, 2023	(62)	(191)	–	(25)	–	(130)	(408)
Net deferred tax balance at December 31, 2023	**(34)**	**(122)**	**36**	**309**	**39**	**236**	**464**
After offsetting the following amount of deferred tax assets and liabilities within the same tax jurisdiction, the balance amounts to:							157
Deferred tax assets at December 31, 2023							716
Deferred tax liabilities at December 31, 2023							(252)
Net deferred tax balance at December 31, 2023							**464**

(USD millions)	Property, plant and equipment	Intangible assets	Pensions and other benefit obligations of employees	Inventories	Tax loss carry-forward	Other assets, provisions and accruals	Total
Gross deferred tax assets at January 1, 2022	26	23	60	352	15	308	784
Gross deferred tax liabilities at January 1, 2022	(80)	(161)	(2)	(7)	–	(111)	(361)
Net deferred tax balance at January 1, 2022	**(54)**	**(138)**	**58**	**345**	**15**	**197**	**423**
At January 1, 2022	**(54)**	**(138)**	**58**	**345**	**15**	**197**	**423**
Credited/(charged) to income	(1)	13	2	(32)	–	48	30
Charged to equity	–	(1)	–	–	–	(1)	(2)
Credited/(charged) to other comprehensive income	–	–	(23)	–	–	1	(22)
Other movements	(1)	8	(1)	(1)	(2)	(5)	(2)
Net deferred tax balance at December 31, 2022	**(56)**	**(118)**	**36**	**312**	**13**	**240**	**427**
Gross deferred tax assets at December 31, 2022	27	43	36	321	13	326	766
Gross deferred tax liabilities at December 31, 2022	(83)	(161)	–	(9)	–	(86)	(339)
Net deferred tax balance at December 31, 2022	**(56)**	**(118)**	**36**	**312**	**13**	**240**	**427**
After offsetting the following amount of deferred tax assets and liabilities within the same tax jurisdiction, the balance amounts to:							53
Deferred tax assets at December 31, 2022							713
Deferred tax liabilities at December 31, 2022							(286)
Net deferred tax balance at December 31, 2022							**427**

A deferred tax liability in the amount of USD 4 million has been recognized for the expected withholding tax on future dividends from a foreign subsidiary. Other than that, no deferred tax liabilities have been recognized for the withholding tax and other taxes that would be payable on the remittance of earnings of foreign subsidiaries, as the Group has the ability to control any future reversal and the unremitted earnings are retained in the foreign subsidiaries for reinvestment. The total unremitted earnings retained for reinvestment in the Group's foreign subsidiaries that would be subject to withholding tax or other taxes if remitted to the Group are estimated at approximately USD 0.4 billion in 2023 (2022: USD 0.3 billion).

The Sandoz US subsidiaries net deferred tax assets amounted to USD 226 million at December 31, 2023 (2022: USD 314 million). Management assessed the available positive and negative evidence, including, among others, (i) cumulative loss incurred over the three-year period ended December 31, 2023 (ii) the most recent forecast approved by management, (iii) the high likelihood that the factors that have contributed to past and cumulative (taxable) losses in its US subsidiaries operations will not recur and therefore are not considered indicative for the future profitability of the US subsidiaries operations, (iv) expected near-term biosimilar launches, supported by the first quarter 2023 approval from the US FDA for biosimilar Hyrimoz® (adalimumab-adaz), (v) the expected transition in the next few years of the US subsidiaries operational

business model into a limited risk distributor model that will provide a stable profit on sales and (vi) the fact that under the US tax legislation losses can be carried forward indefinitely. Based on the available positive and negative evidence assessed, management concluded that it is probable that sufficient taxable profits will be generated by its US subsidiaries operations in future years to recover the December 31, 2023 net deferred tax asset of USD 226 million.

The gross value of tax-loss carry-forwards that have or have not been recognized as deferred tax assets, with their expiry dates, is as follows:

(USD millions)	Unrecognized	Recognized	2023 total	Unrecognized	Recognized	2022 total
One year	7	–	7	11	–	11
Two years	10	–	10	7	3	10
Three years	14	–	14	10	–	10
Four years	23	–	23	13	–	13
Five years	20	–	20	23	–	23
More than five years	414	320	734	577	52	629
Not subject to expiry	67	57	124	77	19	96
Total	**555**	**377**	**932**	**718**	**74**	**792**

Deferred tax assets related to taxable losses and deductible temporary differences of the Group's subsidiaries are recognized to the extent it is considered probable that future taxable profits will be available against which such losses can be utilized in the foreseeable future. The 2023 total balance is higher than 2022 mainly due to the generation and recognition of tax-losses carry-forward arising from separation costs.

16. Financial and other non-current assets

Financial assets

(USD millions)	2023	2022
Debt securities	21	15
Other long-term receivables	6	7
Long-term loans, advances and security deposits	14	11
Total financial assets	**41**	**33**

Other non-current assets

(USD millions)	2023	2022
Deferred compensation plans	16	19
Prepaid post-employment benefit plans[1]	2	1
Other non-current assets[2]	82	20
Total other non-current assets	**100**	**40**

[1] Note 28 provides additional disclosures related to post-employment benefits.

[2] Other non-current assets includes a prepayment of USD 41 million related to the collaboration agreement with Just Evotec Biologics, Inc.

17. Inventories

(USD millions)	2023	2022
Raw material, consumables	209	183
Work in progress	988	742
Finished products	1,864	1,508
Inventory provisions	(361)	(309)
Total inventories, net	**2,700**	**2,124**

Inventories expensed through cost of goods sold amounted to USD 4.8 billion (2022: USD 4.4 billion). Inventory write-down provisions during the year amounted to an expense of USD 318 million (2022: 260 million), reversal of write-down provisions amounted to an income of USD 65 million (2022: 40 million), both are included in cost of goods sold.

18. Trade receivables

(USD millions)	2023	2022
Total gross trade receivables	2,640	2,223
Provisions for doubtful trade receivables	(25)	(16)
Total trade receivables, net[1]	**2,615**	**2,207**

[1] Trade receivables with former parent are considered as third party receivables at December 31, 2023 whereas they were reported on a separate line of the balance sheet at December 31, 2022. See Note 30.

The following table summarizes the movement in the provisions for doubtful trade receivables:

(USD millions)	2023	2022
At January 1	**(16)**	**(23)**
Provisions for doubtful trade receivables charged to the consolidated income statement	(21)	(8)
Utilization of provisions for doubtful trade receivables	2	2
Reversal of provisions for doubtful trade receivables credited to the consolidated income statement	11	12
Currency translation effects	(1)	1
At December 31	**(25)**	**(16)**

The following table shows the trade receivables that are not overdue as specified in the payment terms and conditions established with the Group's customers, as well as an analysis of overdue amounts and related provisions for doubtful trade receivables:

(USD millions)	2023	2022
Not overdue	2,426	2,099
Past due for not more than one month	109	89
Past due for more than one month but less than three months	46	13
Past due for more than three months but less than six months	32	9
Past due for more than six months but less than one year	19	–
Past due for more than one year	8	13
Provisions for doubtful trade receivables	(25)	(16)
Total trade receivables, net	**2,615**	**2,207**

Trade receivable balances represent amounts due from our customers, which are mainly drug wholesalers, retailers, private health systems, government agencies, managed care providers, pharmacies and government-supported healthcare systems. We particularly monitor the level of trade receivables in countries deemed to have an elevated credit risk. We consider macroeconomic environment, historical experience, country and political risk, in addition to other relevant information when assessing risk. These risk factors are monitored regularly to determine any adjustments in risk classification. A significant part of the past due trade receivables from elevated credit risk countries are due from local governments or from government-funded entities. Deteriorating credit and economic conditions as well as other factors in these elevated credit risk countries have resulted in, and may continue to result in, an increase in the average length of time that it takes to collect these trade

receivables and may require the Group to re-evaluate the expected credit loss amount of these trade receivables in future periods. At December 31, 2023, amounts past due for more than one year are not significant in elevated credit risk countries.

Total trade receivables include amounts denominated in the following major currencies:

(USD millions)	2023	2022
US dollar (USD)	978	868
Euro (EUR)	681	509
Canadian dollar (CAD)	93	85
Russian ruble (RUB)	88	99
Australian dollar (AUD)	81	41
Swiss franc (CHF)	74	39
Japanese yen (JPY)	72	57
Polish zloty (PLN)	70	48
Brazilian real (BRL)	68	52
British pound (GBP)	58	49
Other currencies	352	360
Total trade receivables, net	**2,615**	**2,207**

19. Income tax receivables and current income tax liabilities

Income tax receivables of USD 321 million and current income tax liabilities of USD 572 million at December 31, 2023 include liabilities and recoverable amounts related to the Tax Matter Agreements with Novartis. See Note 32 for further details on income tax receivables.

Sandoz Group AG and Novartis AG entered into a Tax Matters Agreement governing the allocation of tax liabilities arising prior, as a result of and subsequent to the spin-off. As of October 4, 2023, entities of Sandoz Group will act as a primary obligor to the tax authorities for which Sandoz Group shall be identified and hold harmless by Novartis Group.

20. Derivative financial instruments and cash and cash equivalents

Derivative financial instruments

(USD millions)	2023	2022
Derivative financial instruments	35	–
Derivative financial instruments	**35**	**–**

Cash and cash equivalents

(USD millions)	2023	2022
Current accounts	560	74
Time deposits and short-term investments with original maturity less than 90 days	549	–
Total cash and cash equivalents	**1,109**	**74**

21. Other current assets

(USD millions)	2023	2022
VAT receivable	182	157
Withholding tax recoverable	2	1
Prepaid expenses	135	134
Other receivables and current assets[1]	417	148
Total other current assets	**736**	**440**

[1] The increase in other receivables and current assets at December 31, 2023 versus prior year is mainly driven by the deposited settlement amount of USD 99.5 million relating to the opioid litigations in the United States (see Note 24 for further details) and various receivables from Novartis related to the separation agreements.

22. Equity

The following table shows the movement in the share capital:

(USD millions)	December 31, 2022	Movement in the year	December 31, 2023
Share capital[1]	–	24.0	24.0
Treasury shares	–	(0.1)	(0.1)
Outstanding share capital	**–**	**23.9**	**23.9**

[1] On October 4, 2023, the date of the spin-off, 431.0 million shares of the Group's common stock were distributed to Novartis shareholders and Novartis ADR holders. As of the date of the spin-off, the Novartis investment in the Novartis AG Sandoz business were redesignated as Sandoz shareholders' equity and were allocated between share capital, treasury shares and reserves.

The Sandoz Group AG share capital consists of registered shares with a nominal value of CHF 0.05 each. No capital band and conditional capital exists.

The following table shows the movement in the shares:

	2023			2022		
Number of outstanding shares (in millions)	Total Sandoz shares	Total treasury shares	Total outstanding shares	Total Sandoz shares	Total treasury shares	Total outstanding shares
At January 1	**–**	**–**	**–**	**–**	**–**	**–**
Distribution by former parent of share capital	431.0	–	431.0	–	–	–
Distribution by former parent of treasury shares	–	(1.1)	(1.1)	–	–	–
Purchases of treasury shares	–	–	–	–	–	–
Total movements	**431.0**	**(1.1)**	**429.9**	**–**	**–**	**–**
At December 31	**431.0**	**(1.1)**	**429.9**	**–**	**–**	**–**

The following table summarizes the treasury shares movements:

	2023		2022	
	Number of outstanding shares (in millions)	Equity impact (USD millions)	Number of outstanding shares (in millions)	Equity impact (USD millions)
Distribution by former parent of treasury shares	(1.1)	(0.1)	–	–
Purchases of treasury shares	–	–	–	–
Total	**(1.1)**	**(0.1)**	**–**	**–**

23. Non-current financial debts

(USD millions)	2023	2022
Notes	3,090	–
Liabilities to banks and other financial institutions	885	30
Revolving credit facility	–	–
Total non-current financial debts	**3,975**	**30**

All notes and loans are initially recorded at the amount of proceeds received, net of transaction costs. They are subsequently carried at amortized cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognized as a charge to the consolidated income statement over the period of the relevant note and loans. Financial debts contain only general default covenants. The Group is in compliance with these covenants.

The percentage of fixed-rate financial debts to total financial debts was 73% at December 31, 2023. The weighted average interest rate on total non-current financial debts in 2023 was 3.9% (2022: 5.5%). Note 32 contains a maturity table of the Group's future contractual interest payment commitments. The revolving credit facility remained undrawn as of December 31, 2023. The Group has obtained an uncommitted guarantee facility from a bank in the amount of CHF 50 million as of December 31, 2023.

The following table provides a breakdown of notes:

Coupon	Currency	Notional amount (millions)	Issuance year	Maturity year	Issuer	Issue price	2023 (USD millions)	2022 (USD millions)
2.125%	CHF	400	2023	2026	Sandoz Group AG, Switzerland	100.014%	473	–
2.600%	CHF	350	2023	2031	Sandoz Group AG, Switzerland	100.125%	415	–
3.970%	EUR	700	2023	2027	Sandoz Finance B.V., Netherlands	99.990%	771	–
4.220%	EUR	700	2023	2030	Sandoz Finance B.V., Netherlands	99.966%	771	–
4.500%	EUR	600	2023	2033	Sandoz Finance B.V., Netherlands	99.945%	660	–
Total notes							**3,090**	**–**

The following tables provide a breakdown of total non-current financial debts by maturity and currency:

Breakdown by maturity

(USD millions)	2023	2022
2026	1,068	–
2027	792	30
2028	269	–
After 2028	1,846	–
Total	**3,975**	**30**

Breakdown by currency

(USD millions)	2023	2022
Euro (EUR)	2,467	–
Swiss franc (CHF)	888	–
US dollar (USD)	499	–
Others	121	30
Total	**3,975**	**30**

The following table shows the comparison of balance sheet carrying value and fair value of notes:

(USD millions)	2023 Balance sheet	2023 Fair value	2022 Balance sheet	2022 Fair value
Notes	3,090	3,226	–	–
Total	**3,090**	**3,226**	**–**	**–**

The fair values of notes are determined by quoted market prices (classified as level 1 in the fair value hierarchy). Liabilities to banks and other financial institutions are recorded at carrying amounts, which are a reasonable approximation of the fair values.

24. Provisions and other non-current liabilities

(USD millions)	2023	2022
Accrued liability for employee benefits:		
Defined benefit pension plans[1]	189	151
Other long-term employee benefits and deferred compensation	54	61
Other post-employment benefits[1]	17	25
Environmental remediation provisions	50	47
Provisions for product liabilities, governmental investigations and other legal matters	132	87
Contingent consideration	93	85
Other non-current liabilities	61	23
Total provisions and other non-current liabilities	**596**	**479**

[1] Note 28 provides additional disclosures related to post-employment benefits.

The Group believes that its total provisions are adequate based upon currently available information. However, given the inherent difficulties in estimating liabilities in this area, the Group may incur additional costs beyond the amounts provided. Management believes that such additional amounts, if any, would not be material to the Group's financial condition but could be material to the results of operations or cash flows in a given period.

Environmental remediation provisions

The following table shows the movements in the environmental liability provisions:

(USD millions)	2023	2022
At January 1	**53**	**57**
Cash payments	(1)	(1)
Currency translation effects	2	(3)
At December 31	**54**	**53**
Less current provision	(4)	(6)
Non-current environmental remediation provisions at December 31	**50**	**47**

The significant components of the environmental remediation provisions consist of costs to sufficiently clean and refurbish contaminated sites to the extent necessary and to continue surveillance at sites where the environmental remediation exposure is less significant.

The environmental provisions are related to the remediation activities in Spain. The provisions are reassessed periodically and adjusted as necessary.

The expected timing of the related cash outflows as of December 31, 2023 is currently projected as follows:

(USD millions)	Expected cash outflows
Due within two years	8
Due later than two years, but within five years	31
Due later than five years, but within 10 years	10
Due after 10 years	5
Total environmental remediation provisions	**54**

Provisions for product liabilities, governmental investigations and other legal matters

The Group has established provisions for governmental investigations and other legal matters where a potential cash outflow is probable, and the Group can make a reliable estimate of the amount of the outflow. These provisions represent the Group's current best estimate of the total financial effect for the matters described below and for other less significant matters. Potential cash outflows reflected in a provision might be fully or partially offset by insurance or other third-party recoveries in certain circumstances.

The Group has not established provisions for potential damage awards for certain additional legal claims against its subsidiaries if the Group currently believes that a payment is either not probable or cannot be reliably estimated. These not-provisioned-for matters include individual product liability cases and certain other legal matters. Plaintiffs have alleged claims in these matters and the Group does not believe that information about the amount sought by plaintiffs, if that is known, would be meaningful with respect to those legal proceedings. This is due to a number of factors, including, but not limited to, the stage of proceedings, the entitlement of parties to appeal a decision and clarity as to theories of liability, damages and governing law. Therefore, it is not practicable to provide information about the potential financial impact of these matters. In addition, in some of these matters there are claims for punitive or multiple (treble) damages, civil penalties and disgorgement of profits that in the view of the Group are either wholly or partially unspecified, or wholly or partially unquantifiable at present; the Group believes that information about these amounts claimed by plaintiffs generally is not meaningful for purposes of determining a reliable estimate of a loss that is probable or more than remote.

A number of other legal matters are in such early stages or the issues presented are such that the Group has not made any provisions since it cannot currently estimate either a potential outcome or the amount of any potential losses. For these reasons, among others, the Group generally is unable to make a reliable estimate of possible loss with respect to such cases. It is therefore not practicable to provide information about the potential financial impact of those cases.

There might also be cases for which the Group was able to make a reliable estimate of the possible loss or the range of possible loss, but the Group believes that publication of such information on a case-by-case basis would seriously prejudice the Group's position in ongoing legal proceedings or in any related settlement discussions. Accordingly, in such cases, information has been disclosed with respect to the nature of the contingency, but no disclosure is provided as to an estimate of the possible loss or range of possible loss.

Note 31 contains additional information on contingencies.

Summary of significant legal proceedings

The following is a summary of significant legal proceedings to which the Group or its subsidiaries are currently a party or were a party and that concluded in 2023.

Investigations and related litigations

Opioid litigations in the United States and Canada

Sandoz entities are named as defendants in opioids litigation in the US and Canada. In the US, Sandoz is named in more than 600 complaints filed in multidistrict litigation ("MDL") in US federal court in the Eastern District of Ohio, as well as approximately 45 lawsuits filed outside the MDL in state and federal courts. The plaintiffs are various United States political subdivisions (including certain cities, counties, states, other governmental agencies and tribes), school districts, hospitals and third-party payors, and they seek civil damages under various state law grounds, including consumer protection and nuisance, allegedly arising from the manufacture, promotion, sale and distribution of opioids. Sandoz and representatives of the plaintiffs have entered into a conditional settlement which will become effective only when, among other things, at least 85% of the plaintiffs elect to participate in the settlement. On November 30, 2023, the MDL court entered an order directing the creation of a Qualified Settlement Fund administered by a court appointed settlement referee. In December 2023, Sandoz deposited the settlement amount of USD 99.5 million into the Qualified Settlement Fund, and those funds will be distributed to plaintiffs pursuant to court orders after the settlement becomes effective. Sandoz will have no role in the fund distribution process and is released from further claims from the participating plaintiffs. Sandoz expressly does not admit liability or wrongdoing. In Canada, Sandoz has been named in six class actions initiated by the provinces of British Columbia, Ontario, Alberta, Saskatchewan, and Québec. The claims are being vigorously contested.

Explanatory proceedings by Polish Competition Authority with potential antitrust investigation in Poland

On August 22, 2023, Sandoz Polska Sp. z.o.o. received a request for information within explanatory proceedings to determine whether, in connection with the distribution of products containing somatropin, applicable antitrust provisions might be violated that would justify the initiation of an anti-monopoly investigation. Violations of such antitrust provisions are sanctioned with material fines or penalties, among other things. Although we believe that we are not in violation of applicable antitrust laws, an adverse outcome of such anti-monopoly investigation, including related fines and penalties, could have a material adverse effect on our financial condition and results of operations.

Government generic pricing antitrust investigations, antitrust class actions

Since 2016, Sandoz Inc. has received a grand jury subpoena and a civil investigative demand and interrogatories from the

Antitrust and Civil Divisions of the US Department of Justice (DOJ), and a subpoena and interrogatories from the Attorney General of the State of Connecticut in connection with those agencies' investigations into alleged price fixing and market allocation of generic drugs in the United States as well as alleged federal False Claims Act (FCA) violations. In 2020, Sandoz Inc. reached a resolution with the DOJ Antitrust Division, pursuant to which Sandoz Inc. paid USD 195 million and entered into a deferred prosecution agreement (DPA). The Sandoz Inc. resolution related to instances of misconduct at the Company between 2013 and 2015 with regards to certain generic drugs sold in the United States. Under the terms of that agreement, Sandoz Inc. will continue to take steps to enhance its compliance program, employee training and monitoring, and will continue to cooperate with the US government's ongoing investigation into the generic pharmaceutical industry. The term of the DPA has concluded and the charging document was dismissed with prejudice on March 23, 2023.

Sandoz Inc. also finalized a resolution with the DOJ Civil Division and in 2021 paid USD 185 million plus interest from the date of the agreement in principle, to settle related claims arising under the FCA, and entered into a corporate integrity agreement with the Office of Inspector General (OIG) of the US Department of Health and Human Services (HHS). This resolution with the DOJ resolves all federal government matters related to price fixing allegations.

Since the third quarter of 2016, Sandoz Inc. and Fougera Pharmaceuticals Inc. have been sued alongside other generic companies in numerous individual and putative class action complaints by direct and indirect private purchasers and by more than 50 US states and territories, represented by their respective Attorneys General. Plaintiffs claim that defendants, including Sandoz Inc., engaged in price fixing and market allocation of generic drugs in the United States, and seek damages and injunctive relief. The litigation includes complaints alleging product-specific conspiracies, as well as complaints alleging the existence of an overarching industry conspiracy and assert claims for damages and penalties under federal and state antitrust and consumer protection acts. The majority of the cases have been for pretrial purposes in the United States District Court (USDC) for the Eastern District of Pennsylvania, and the claims are being vigorously contested. Cases not consolidated into the multi-district litigation are stayed.

In February 2024, Sandoz Inc. and its subsidiary Fougera Pharmaceuticals Inc. entered into a settlement agreement with the class of direct purchaser plaintiffs in the multidistrict litigation. Under the terms of the agreement, Sandoz Inc. will pay USD 265 million in exchange for a full release of all claims asserted against it in the direct purchaser class action by the settlement class members. The settlement is subject to court approval and contains covenants that could impact the final payment amount. The amount of the settlement has been included in the company's 2023 financial results. Following approval of this settlement, Sandoz US will continue to vigorously defend the remaining claims brought by individual plaintiffs, States Attorneys General and two plaintiff classes concerning indirect and downstream purchases and damages claims under state law.

Sandoz Inc., Sandoz Canada Inc., and Fougera Pharmaceuticals Inc. have been named in a class action in Ontario Canada alleging price fixing in the Canadian generic pharmaceutical market. The claims are being vigorously contested.

United States Narrow Exceptions Regulatory Proceedings

Sandoz Inc. participates in the US Medicaid Drug Rebate Program and pays rebates on its sales to state Medicaid programs for covered outpatient drugs dispensed to Medicaid beneficiaries and paid for by a state Medicaid program. Participating manufacturers pay higher rebates for innovator drugs than for non-innovator generic drugs. The Centers for Medicare & Medicaid Services ("CMS") of the US Department of Health and Human Services administers the Medicaid Drug Rebate Program. CMS has implemented an application process by which a manufacturer may seek to have a drug that was approved by FDA as an innovator drug to be classified as a non-innovator drug for which lower rebates may be paid. These applications are commonly known as requests for "narrow exceptions". If a narrow exception application is denied, or if a non-innovator drug is reclassified as an innovator drug, the applicant may become liable for additional Medicaid rebate payments.

Sandoz Inc. has submitted numerous applications to CMS seeking narrow exceptions, with mixed results. Sandoz Inc. has sought reconsideration of adverse results and these matters are pending. For applications that are denied, Sandoz Inc. may commence proceedings to challenge CMS' decision as arbitrary and capricious. For any applications that are ultimately and finally rejected, Sandoz Inc. may incur liability for higher rebates for current and past periods for the product at issue. That liability may include rebates for historical periods when the drug was classified as a non-innovator drug, effectively extending back to the date of the drug's initial approval potentially without constraint by a statute of limitations.

Product liability litigation

Taxotere® (docetaxel)

Sandoz is a defendant in more than 3,100 US product liability actions involving docetaxel, an oncology product, many of which have been transferred to a multidistrict litigation in the Eastern District of Louisiana. The complaints allege misleading marketing and that Sanofi, as innovator, and several 505(b)(2) NDA holders (including Sandoz) failed to warn of the risk of permanent alopecia/hair loss. Cases have also been filed against Sandoz Inc. in New Jersey state court. In 2018 the Mississippi Attorney General filed an action in Mississippi state court against all taxotere/docetaxel manufacturers seeking damages under the state's Consumer Protection Act for allegedly misleading marketing. In January 2022, a new multidistrict litigation was created in the Eastern District of Louisiana for claims related to alleged eye injuries caused by the use of docetaxel, including approximately 40 cases filed naming Sandoz. The claims are being vigorously contested.

Amiodarone

Sandoz entities are named in one multi-plaintiff US product liability case in New Jersey federal court involving amiodarone, a cardiac drug indicated to treat life-threatening arrhythmias that have not responded to other treatment. The complaint alleges failure to warn, off-label promotion, and failure to include medication guides to pharmacies. The claims are being vigorously contested.

Sartans and ranitidine

Since 2018, claims have been brought against Sandoz and other pharmaceutical companies alleging injury from carcinogenic impurities found in valsartan and valsartan/ HCT film-coated tablets and/or losartan marketed or manufactured by Sandoz. Claims have also been brought alleging injury from carcinogenic impurities in ranitidine-containing medicines. These claims also include several putative class actions in Canada, a multidistrict litigation in Florida and individual cases in US State courts. All of these claims are being vigorously contested. In 2020, Sandoz terminated its supply agreement with Huahai and initiated arbitration proceedings, claiming damages and indemnification in connection with the supply of these drugs to Sandoz. The arbitration proceedings are continuing.

Reclast

An affiliate of Sandoz is a defendant in more than 20 US product liability actions involving Reclast and alleging atypical femur fracture injuries, all of which are in New Jersey state or federal court and in California state court, coordinated with claims against other bisphosphonate manufacturers. The claims are being vigorously contested.

Other matters

Treprostinil litigation

In 2019, Sandoz and its marketing partner RareGen LLC (RareGen) sued United Technologies Corporation (UTC) and Smiths Medical ASD, Inc. (Smiths) in New Jersey federal court asserting federal antitrust and state law unfair trade claims, and Sandoz separately sued UTC asserting breach of a 2015 patent settlement agreement, with all of the claims relating to conduct restricting the use of cartridges necessary for administering subcutaneous injections to only the branded drug and not any generic Treprostinil. In November 2020, Sandoz and RareGen settled with Smiths. In March 2022, the court granted UTC's motion for summary judgment and dismissed the federal antitrust and state unfair trade claims and granted Sandoz's motion for summary judgment on the breach of contract claim. Sandoz will proceed to a damages trial against UTC on the breach of contract claim.

Bimatoprost

Sandoz filed its ANDA for a generic of Allergan's Latisse® (bimatoprost) in December 2010. In 2011, Sandoz was first sued for patent infringement of two patent families after having filed its Abbreviated New Drug Application ("ANDA") for a generic of Allergan's (now AbbVie's) Latisse® (bimatoprost 0.03% topical solution) in December 2010. Sandoz successfully defended against these claims in three separate litigations, and after obtaining FDA approval, Sandoz launched its generic product in December 2016. In July 2017 Sandoz was sued for the fourth time, on a related patent by the same plaintiffs, seeking recovery of their lost profits. A jury trial concluded on March 31, 2023. The jury found that the patent was not invalid, and infringed, and ordered Sandoz to pay damages in the amount of USD 39 million, plus interest. Sandoz has appealed the decision.

Apixaban Patent Infringement Litigation in the Netherlands

Sandoz and Teva together challenged the validity of a patent regarding apixaban in the United Kingdom ("UK"), while Teva had commenced proceedings to revoke the equivalent patent in the Netherlands. After revoking the patent in the first instance in the UK in April 2022, Sandoz notified Bristol Myers Squibb ("BMS"), the patent owner, of its intention to launch in May 2022. In response, BMS requested a preliminary injunction to stop that launch, which was rejected by the Dutch court in May 2022. BMS did not appeal that decision. As a result, Sandoz launched its apixaban product in the Netherlands. BMS then initiated patent infringement proceedings against Sandoz, and Sandoz counterclaimed to revoke the compound patent. On March 26, 2023, after the Enlarged Board of the European Patent Office had issued a decision (called "G2/21") on the legal principle underlying the validity challenge, BMS applied for a second preliminary injunction against Sandoz and against a potential new market entrant.

This was dismissed in May 2023, whereby the judge confirmed that the G2/21 decision did not change the reasoning in the May 2022 decision rejecting the first preliminary claim. This time, BMS appealed the decision seeking a speedy decision. On August 15, 2023, the Dutch Court of Appeals overturned that decision and enjoined Sandoz and all other Generics companies from selling apixaban in the Netherlands. The proceedings on the merits were heard on October 13, 2023, and a decision is expected in H1 2024.

Concluded legal matters

Ziextenzo® Lanham Act litigation

In 2022, Sandoz Inc. filed a false advertising action against Amgen Inc. in the United States District Court for the Central District of California. Sandoz alleges Amgen engaged in an advertising campaign that falsely states pegfilgrastim prefilled syringe products are less effective and less safe than Amgen's pegfilgrastim on-body device marketed as Neulasta® Onpro®. Sandoz sought damages and injunctive relief. The parties settled the matter in August 2023 and the matter is now concluded.

Summary of product liability, governmental investigations and other legal matters provision movements

(USD millions)	2023	2022
At January 1	**109**	**125**
Cash payments	(1)	(38)
Releases of provisions	(7)	(4)
Additions to provisions	535	39
Currency translation effects	1	(13)
At December 31	**637**	**109**
Less current portion	(505)	(22)
Non-current product liabilities, governmental investigations and other legal matters provisions at December 31	**132**	**87**

In 2023, there were USD 535 million additions to the provisions for legal matters.

Prior to the spin-off, the Company was part of the Novartis Group internal insurance scheme which covers certain costs related to product liability and other legal matters and continues to provide coverage for such matters where coverage was confirmed by the insurer prior to spin-off. The provision for such matters, at each balance sheet date, is included in the provisions in the table above with a corresponding receivable from Novartis Group recorded within other current assets, in these financial statements, for claims where coverage has been confirmed by the insurer. The amounts are determined on the basis of external actuarial valuation.

The Group believes that its total provisions for investigations, product liability, arbitration and other legal matters are adequate based upon currently available information. However, given the inherent difficulties in estimating liabilities, there can be no assurance that additional liabilities and costs will not be incurred beyond the amounts provided.

25. Current financial debts and derivative financial instruments

(USD millions)	2023	2022
Bank and other financial debts[1]	269	184
Derivative financial instruments	15	1
Total current financial debts and derivative financial instruments	**284**	**185**

[1] Weighted average interest rate 15.6% (2022: 15.2%).

The carrying amounts of current financial debts approximate the estimated fair value due to the short-term nature of these instruments.

26. Provisions and other current liabilities

(USD millions)	2023	2022
Taxes other than income taxes	121	118
Restructuring provisions	55	51
Accrued expenses for goods and services received but not invoiced	266	171
Accruals for royalties	16	15
Accrued interests on financial debts	29	2
Provisions for deductions from revenue	1,620	1,415
Accruals for compensation and benefits, including social security	420	342
Environmental remediation liabilities	4	6
Deferred income	8	3
Provisions for product liabilities, governmental investigations and other legal matters[1]	505	22
Accrued share-based payments[2]	1	17
Contingent considerations	–	16
Other payables	115	81
Total provisions and other current liabilities	**3,160**	**2,259**

[1] Note 24 provides additional disclosures related to legal provisions.

[2] Note 29 provides additional disclosures related to equity-based participation plans for employees.

Provisions are based upon management's best estimate and adjusted for actual experience. Such adjustments to historic estimates have not been material.

Provisions for deductions from revenue

The following table shows the movement of the provisions for deductions from revenue:

(USD millions)	2023	2022
At January 1	**1,415**	**1,312**
Payments/utilizations	(7,658)	(7,576)
Adjustments of prior years charged to income statement[1]	(54)	(109)
Current year income statement charge	7,773	7,839
Change in provisions offset against gross trade receivables	145	(29)
Transfer to liabilites held for sale	(10)	–
Currency translation effects	9	(22)
At December 31	**1,620**	**1,415**

[1] 2022 relates to the release of revenue deductions in the US and Germany due to lower than expected claims.

The provisions for deductions from revenue include specific healthcare plans, program rebates as well as non-healthcare plans and program-related rebates, returns and other deductions. The provisions for deductions from revenue are adjusted to reflect experience and to reflect actual amounts as rebates, refunds, discounts and returns are processed. The provision represents estimates of the related obligations, requiring the use of judgment when estimating the effect of these deductions from revenue.

Restructuring provisions movements

The following table shows the movement of the restructuring provisions:

(USD millions)	2023	2022
At January 1	**51**	**71**
Additions	43	40
Cash payments	(36)	(46)
Releases	(7)	(9)
Transfers	1	–
Currency translation effects	3	(5)
At December 31	**55**	**51**

In 2023 and 2022, additions to provisions were mainly related to initiatives to realign the Group's organizational structures to improve competitiveness. These initiatives included restructuring of its international and global service functions and in-country commercial organizations.

27. Details to the consolidated statements of cash flows

27.1) Non-cash items and other adjustments

The following table shows the reversal of non-cash items and other adjustments in the consolidated statements of cash flows:

(USD millions)	2023	2022
Depreciation, amortization and impairments on:		
Property, plant and equipment	193	198
Right-of-use assets	58	37
Intangible assets	274	257
Change in provisions and other non-current liabilities	639	99
Gains on disposal and other adjustments on property, plant and equipment; intangible assets; financial assets; and other non-current assets, net	(10)	(24)
Equity-settled compensation expense	25	–
Income taxes	50	252
Net financial expense	245	137
Other	–	2
Total	**1,474**	**958**

In 2023, there were USD 4 million (2022: nil) additions to intangible assets with deferred payments. In 2023, there were USD 215 million (2022: USD 32 million) additions to right-of-use assets recognized.

27.2) Cash flows from changes in working capital and other operating items included in the net cash flows from operating activities

(USD millions)	2023	2022
Increase in inventories	(578)	(272)
Increase in trade receivables	(393)	(184)
Increase in trade payables	508	131
Decrease in receivables from former parent	91	6
(Decrease)/increase in payables from former parent	(257)	98
Change in other current and non-current assets	(375)	(103)
Change in other current liabilities	373	288
Other adjustments, net	(32)	–
Total	**(663)**	**(36)**

27.3) Cash flows arising from acquisitions and divestments of businesses, net

The following table is a summary of the cash flow impact of acquisitions and divestments of businesses:

(USD millions)	2023	2022
Contingent consideration payables, net	(16)	(19)
Deferred consideration and other adjustments, net	–	(13)
Cash flows used for acquisitions of businesses	**(16)**	**(32)**
Cash flows used for divestments of businesses, net[1]	**(2)**	**(7)**
Cash flows used for acquisitions and divestments of businesses, net	**(18)**	**(39)**

[1] In 2023, USD 2 million represented the net cash outflows for divestments in previous years.

In 2022, USD 7 millions represented the net cash outflows for divestments in previous years, and a business divestment in 2022.

In 2022, the net identifiable assets of the divested business amounted to USD 34 million, comprising non-current assets of USD 5 million, current assets of USD 43 million, including USD 9 million cash and cash equivalents and USD 14 million current liabilities. Deferred sales price receivables and other adjustments amounted to USD 22 million.

27.4) Net cash flows used in financing activities with former parent included in net cash flows used in financing activities

(USD millions)	Note	2023	2022
Change in other financial receivables from/(to) former parent	27.5	1,057	(135)
Change in other financial liabilities to former parent	27.5	(4,057)	(524)
Movements of financing provided by/(to) former parent[1]		330	(132)
Cash flows used in financing activities with former parent, net		**(2,670)**	**(791)**

[1] Movements represents cash flow relevant adjustments to invested capital of former parent and net effects of foreign currency translations on financial receivables and liaibilities with former parent.

27.5) Reconciliation of liabilities arising from financing activities

(USD millions)	Financial assets	Financial liabilities				
	Other financial receivables from former parent	Non-current financial debts	Current financial debts and derivative financial instruments	Other financial liabilities to former parent	Non-current lease liabilities	Current lease liabilities
At January 1, 2023	**1,012**	**30**	**185**	**3,851**	**88**	**31**
Proceeds from issuance of non-current financial debts, net of transaction cost	–	6,449	–	–	–	–
Repayments of non-current financial debts	–	(2,627)	–	–	–	–
Change in current financial debts	–	–	121	–	–	–
Change in other financial receivables from former parent	(1,057)	–	–	–	–	–
Change in other financial liabilities to former parent	–	–	–	(4,057)	–	–
Payments of lease liabilities	–	–	–	–	–	(42)
Interest payments for amounts included in lease liabilities classified as cash flows from operating activities	–	–	–	–	–	(8)
New, modified and terminated leases, net	–	–	–	–	201	27
Changes in fair values, lease interest and other changes, net	–	5	13	–	(5)	8
Currency translation effects	45	118	(35)	206	7	2
Reclassification from non-current to current, net	–	–	–	–	(36)	36
At December 31, 2023	**–**	**3,975**	**284**	**–**	**255**	**54**

(USD millions)	Financial assets	Financial liabilities				
	Other financial receivables from former parent	Non-current financial debts	Current financial debts and derivative financial instruments	Other financial liabilities to former parent	Non-current lease liabilities	Current lease liabilities
At January 1, 2022	**885**	**17**	**158**	**4,629**	**103**	**34**
Increase in non-current financial debts	–	16	–	–	–	–
Change in current financial debts	–	–	43	–	–	–
Change in other financial receivables from former parent	135	–	–	–	–	–
Change in other financial liabilities to former parent	–	–	–	(524)	–	–
Payments of lease liabilities	–	–	–	–	–	(37)
Interest payments for amounts included in lease liabilities classified as cash flows from operating activities	–	–	–	–	–	(3)
New, modified and terminated leases, net	–	–	–	–	19	7
Changes in lease interest and other changes, net	–	–	–	–	–	3
Currency translation effects	(8)	(3)	(16)	(254)	(6)	(1)
Reclassification from non-current to current, net	–	–	–	–	(28)	28
At December 31, 2022	**1,012**	**30**	**185**	**3,851**	**88**	**31**

28. Post-employment benefits for employees

Defined benefit plans

In addition to the legally required social security schemes, the Group has independent pension and other post-employment benefit plans. Some of the plans have, as of December 31, 2023, not yet been fully separated from the former parent, mainly in the United States and Switzerland. The separation is ongoing. In certain countries, employees are covered under other post-employment benefit plans and post-retirement medical plans. In most cases, these plans are externally funded in entities that are legally separate from Sandoz. For certain Group subsidiaries, however, no independent plan assets exist for the pension and other post-employment benefit obligations of employees. In these cases, the related unfunded liability is included in the balance sheet. The defined benefit obligations ("DBOs") of all major pension and other post-employment benefit plans are reappraised annually by independent actuaries. Plan assets are recognized at fair value. Unfunded plans represent a balance sheet risk which is driven by changes in discount rate and inflation (indexation). The pension plan is also subject to risks associated with longevity since it provides lifelong monthly pension payments. The major plans are based in Switzerland, the United States, Germany and Austria, which represent 86% of the Group's total DBO for pension plans.

Switzerland

All benefits granted under Swiss-based pension plans are vested, and Swiss legislation (Swiss Federal Occupational Old Age, Survivors and Disability Pension Act ("BVG")) prescribes that the employer has to contribute a fixed percentage of an employee's pay to an external pension fund. Additional employer contributions may be required whenever the plan's statutory funding ratio falls below a certain level. The employee also contributes to the plan. The pension plans are run by separate legal entities, each governed by a board of trustees that – for the principal plans – consists of representatives nominated by the employer and the active insured employees. The boards of trustees are responsible for the plan design and asset investment strategy.

United States

The principal plan (Qualified Plan) is funded, whereas plans providing additional benefits for executives (Restoration Plans) are unfunded. Employer contributions are required for Qualified Plans whenever the statutory funding ratio falls below a certain level. The plans are closed to new members and frozen (allowing no future accruals).

Other post-retirement benefits in the United States consist primarily of post-employment healthcare benefits, which have been closed to new members since 2015. Part of the costs of these plans is reimbursable under the Medicare Prescription Drug, Improvement, and Modernization Act of 2003. There is no statutory funding requirement for these plans.

Germany

The major pension arrangements in Germany are governed by the Occupational Pensions Act ("BetrAVG") and represent the third largest component of Sandoz total pension DBO and total plan assets. The plans are partly funded by a Contractual Trust arrangement or direct insurances. The employer is responsible for contributing the premiums to the insurances and paying certain benefits when they fall due. A portion of the plans include a guaranteed pension increase which is not insured; these benefits are accounted for as a defined benefit liability. For some participants the benefits are based on final salary and length of employment, and for others the benefit is earned each year based on the current salary in the year of service.

Austria

For Austria, Sandoz provides an occupational pension plan (Pensionsregelung der BIOCHEMIE Gesellschaft m.b.H.), which is of the defined benefit nature. The plan is a final salary plan where the benefit is dependent on service time and final salary. There is also a termination indemnity plan of defined benefit nature. This plan is based on statutory requirements in Austria (Angestelltengesetz). The termination indemnity means that the plan pays out lump sums at termination, the size of which are dependent on service time and salary. There are no funding requirements associated with the plans.

The following table is a summary of the funded and unfunded defined benefit obligation for pension and other post-employment benefit plans of employees at December 31, 2023 and 2022:

	Pension plans		Other post-employment benefit plans	
(USD millions)	**2023**	**2022**	**2023**	**2022**
Benefit obligation at January 1	**530**	**671**	**25**	**31**
Current service cost	20	22	–	1
Interest cost	23	11	1	1
Past service costs and settlements	(3)	–	(9)	–
Administrative expenses	1	1	–	–
Remeasurement losses/(gains) arising from changes in financial assumptions[1]	24	(140)	1	(6)
Remeasurement (gains) arising from changes in demographic assumptions	(2)	(1)	–	–
Experience-related remeasurement losses/(gains)	15	(1)	1	–
Currency translation effects	20	(20)	(1)	–
Benefit payments	(11)	(20)	(1)	(2)
Contributions of employees	9	7	–	–
Effect of acquisitions, divestments or transfers[2]	22	–	–	–
Benefit obligation at December 31	**648**	**530**	**17**	**25**
Fair value of plan assets at January 1	**386**	**429**	**–**	
Interest income	16	7	–	–
Return on plan assets excluding interest income	(2)	(50)	–	–
Currency translation effects	18	(8)	–	–
Sandoz contributions	30	21	1	2
Contributions of employees	9	7	–	–
Settlements	(4)	–	–	–
Benefit payments	(11)	(20)	(1)	(2)
Effect of acquisitions, divestments or transfers[2]	20	–	–	–
Fair value of plan assets at December 31	**462**	**386**	**–**	**–**
Funded status	**(186)**	**(144)**	**(17)**	**(25)**
Limitation on recognition of fund surplus at January 1	**(6)**	**(1)**	**–**	**–**
Change in limitation on recognition of fund surplus (incl. exchange rate differences)	5	(5)	–	–
Interest income on limitation of fund surplus	–	–	–	–
Limitation on recognition of fund surplus at December 31	**(1)**	**(6)**	**–**	**–**
Net liability in the balance sheet at December 31	**(187)**	**(150)**	**(17)**	**(25)**

[1] The remeasurement gains and losses arising from changes in financial assumptions is driven mainly by changes in the actuarial discount rates used to determine the benefit obligation.

[2] Effect on benefit obligation/plan assets based on constructive obligations resulting from the spin-off transaction.

The reconciliation of the net liability from January 1 to December 31 is as follows:

	Pension plans		Other post-employment benefit plans	
(USD millions)	2023	2022	2023	2022
Net liability at January 1	**(150)**	**(243)**	**(25)**	**(31)**
Current service cost	(20)	(22)	–	(1)
Net interest expense	(7)	(4)	(1)	(1)
Administrative expenses	(1)	(1)	–	–
Past service costs and settlements	(1)	–	9	–
Remeasurements	(39)	92	(2)	6
Currency translation effects	(2)	12	1	–
Sandoz contributions	30	21	1	2
Effect of acquisitions, divestments or transfers	(2)	–	–	–
Change in limitation on recognition of fund surplus	5	(5)	–	–
Net liability at December 31	**(187)**	**(150)**	**(17)**	**(25)**
Amounts recognized in the consolidated balance sheet				
Prepaid benefit cost	2	1	–	–
Accrued benefit liability	(189)	(151)	(17)	(25)

The following tables show a breakdown of the DBO for major pension plans by geography and type of member, and the breakdown of plan assets into the geographical locations in which they are held:

	2023					
(USD millions)	Switzerland	United States	Germany	Austria	Rest of the world	Total
Benefit obligation at December 31	**174**	**185**	**104**	**92**	**93**	**648**
Thereof unfunded	–	13	4	92	36	145
By type of member						
Active	174	18	55	36	83	366
Deferred pensioners	–	57	44	–	6	107
Pensioners	–	110	5	56	4	175
Fair value of plan assets at December 31	**168**	**148**	**95**	–	**51**	**462**
Funded status	**(6)**	**(37)**	**(9)**	**(92)**	**(42)**	**(186)**

	2022[1]					
(USD millions)	Switzerland	United States	Germany	Austria	Rest of the world	Total
Benefit obligation at December 31	**115**	**177**	**90**	**83**	**65**	**530**
Thereof unfunded	–	13	1	83	29	126
By type of member						
Active	115	20	43	31	53	262
Deferred pensioners	–	57	42	–	5	104
Pensioners	–	100	5	52	7	164
Fair value of plan assets at December 31	**121**	**151**	**82**	**–**	**32**	**386**
Funded status	**6**	**(26)**	**(8)**	**(83)**	**(33)**	**(144)**

[1] The 2022 balances have been disaggregated for presentation and comparability purposes.

The following table shows a breakdown of the DBO for other post-employment benefit plans by geography and type of member, and the breakdown of plan assets into the geographical locations in which they are held:

	2023			2022		
(USD millions)	United States	Rest of the world	Total	United States	Rest of the world	Total
Benefit obligation at December 31	**15**	**2**	**17**	**22**	**3**	**25**
Thereof unfunded	15	2	17	22	3	25
By type of member						
Active	2	1	3	1	1	2
Deferred pensioners	–	–	–	7	–	7
Pensioners	13	1	14	14	2	16
Fair value of plan assets at December 31	**–**	**–**	**–**	**–**	**–**	**–**
Funded status	**(15)**	**(2)**	**(17)**	**(22)**	**(3)**	**(25)**

The following table shows the principal weighted average actuarial assumptions for the major plans in Switzerland, the United States, Germany and Austria used for calculating defined benefit plans and other post-employment benefits of employees:

	Pension plans		Other post-employment benefit plans	
	2023	2022	2023	2022
Weighted average assumptions used to determine benefit obligations at December 31[1]				
Discount rate	3.2%	4.0%	5.1%	5.7%
Expected rate of pension increase	0.8%	0.5%		
Expected rate of salary increase	2.7%	3.1%		
Interest on savings account	1.3%	2.2%		
Current average life expectancy for a 65-year-old male in years	22	22	21	21
Current average life expectancy for a 65-year-old female in years	24	24	23	23

[1] Assumptions are weighted based on ending benefit obligation of the period, assumptions are only considered where applicable.

Changes in the aforementioned actuarial assumptions can result in significant volatility in the accounting for the Group's pension plans in the consolidated financial statements. This can result in substantial changes in the Group's other comprehensive income, long-term liabilities and prepaid pension assets.

The DBO is significantly impacted by the discount rate applied to calculate the present value of the post-employment liability. This rate is based on yields of high-quality corporate bonds denominated in the same currency as the liability. For plans in countries with no deep market for corporate bonds, government bonds can be used instead. With decreasing corporate bond yields will increase the DBO and reduce funded status.

The impact of decreasing interest rates on a plan's assets is more difficult to predict. A significant part of the plan assets is invested in bonds. Bond values usually tend to rise when interest rates decrease and may therefore partially compensate for the decrease in the funded status. Furthermore, pension assets also include significant holdings of equity instruments.

The expected rate for pension increases affects the DBO of most plans in Switzerland and Germany. Such pension increases also decrease the funded status, although there is no strong correlation between the value of the plan assets and pension/inflation increases.

Assumptions regarding life expectancy significantly impact the DBO. An increase in longevity increases the DBO. There is no offsetting impact from the plan assets, as no longevity bonds or swaps are held by the pension funds. Generational mortality tables with improvements are used where this data is available.

The following table shows the sensitivity of the defined benefit pension obligation to the principal actuarial assumptions for the major plans in Switzerland, the United States, Germany and Austria on an aggregated basis:

(USD millions)	Change in 2023 year-end defined benefit pension obligation	Change in 2022 year-end defined benefit pension obligation
25 basis point increase in discount rate	(14)	(11)
25 basis point decrease in discount rate	15	12
One-year increase in life expectancy	6	9
25 basis point increase in rate of pension increase	4	3
25 basis point decrease in rate of pension increase	(1)	–
25 basis point increase of interest on savings account	2	1
25 basis point decrease of interest on savings account	(2)	(1)
25 basis point increase in rate of salary increase	2	1
25 basis point decrease in rate of salary increase	(1)	(1)

The healthcare cost trend rate assumptions used for the other post-employment benefits of the United States are as follows:

	2023	2022
Healthcare cost trend rate assumed for next year	6.5%	6.5%
Rate to which the cost trend rate is assumed to decline	4.5%	4.5%
Year that the rate reaches the ultimate trend rate	2031	2031

The following table shows the weighted average plan asset allocation of funded defined benefit pension plans at December 31, 2023 and 2022:

	Pension plans			
	Long-term target minimum	Long-term target maximum	2023	2022
Equity securities	10%	30%	21%	23%
Debt securities	20%	55%	27%	25%
Real estate	5%	10%	8%	8%
Alternative investments	–	15%	14%	16%
Cash and other investments[1]	20%	30%	30%	28%
Total			**100%**	**100%**

[1] Including insurance contracts for Germany, Netherlands and Belgium.

Cash and most of the equity and debt securities have a quoted market price in an active market. Real estate and alternative investments, which include hedge fund, private equity, infrastructure and commodity investments, usually have a quoted market price or a regularly updated net asset value.

The strategic allocation of assets of the different pension plans is determined with the objective of achieving an investment return that, together with the contributions paid by the Group and its employees, is sufficient to maintain reasonable control over the various funding risks of the plans. Based upon the market and economic environments, actual asset allocations may temporarily be permitted to deviate from policy targets.

The asset allocation currently does not include investments in shares of Sandoz Group AG.

The weighted average duration of the defined benefit obligation is 13.9 years (2022: 10.4 years).

The Group's ordinary contribution to the various pension plans is based on the rules of each plan. Additional contributions are made whenever this is required by statute or law (i.e., usually when statutory funding levels fall below predetermined thresholds).

The expected future cash flows in respect of pension and other post-employment benefit plans within 10 years at December 31, 2023, are as follows:

(USD millions)	Pension plans	Other post-employment benefit plans
Sandoz contributions		
2024 (estimated)	24	0
Expected future benefit payments		
2024	32	1
2025	33	1
2026	34	1
2027	35	1
2028	37	1
2029–2033	218	6

Defined contribution plans

In many subsidiaries, employees are covered by defined contribution plans. Contributions charged to the consolidated income statement for the defined contribution plans were:

(USD millions)	2023	2022
Contributions for defined contribution plans	40	37

The Group's total personnel costs amounted to USD 2.2 billion in 2023 (USD 1.8 billion in 2022).

29. Equity-based participation plans for employees

For the year ended December 31, 2023, the expense related to all equity-based participation plans and the liabilities arising from equity-based payment transactions were as follows:

(USD millions)	2023	2022
Expense related to equity-based participation plans	83	66
Liabilities from cash-settled equity-based compensation plans	1	17

As of December 31, 2023, the Group had USD 78 million of total unrecognized compensation expense that will be recognized over the weighted average period of 2 years.

Sandoz replacement awards and Sandoz equity-based incentive plans

Concurrent with the spin-off, certain outstanding Novartis awards granted to Sandoz employees under Novartis' equity-based incentive plans vested in Novartis equity on a pro rata basis, in proportion to the amount of the vesting period completed. The remaining unvested Novartis awards were replaced and restored with Sandoz awards as governed by the Sandoz equity restoration principle with terms and vesting schedules substantially similar to the replaced Novartis awards.

The pro rata vesting of Novartis awards and replacement of forfeited unvested Novartis awards with Sandoz awards represents a modification under IFRS 2, Share-based Payment. Sandoz measured the fair value of the awards immediately prior to and subsequent to the modification and concluded that no significant incremental fair value was provided to employees. Accordingly, Sandoz continues to recognize as an expense the amount of unrecognized compensation cost of the original awards over the remaining vesting periods. Sandoz issued 3.5 million of unvested units in connection with the modification at the time of the spin-off which were restored under the Long-Term Incentive Plan ("LTIP") or Deferred Share Bonus Plan ("DSBP") plan rules.

The replacement awards consist primarily of RSUs, PSUs and RSAs, and vest over a period consistent with the original vesting schedule of the awards which they replaced.

In addition to the replacement awards, Sandoz may grant additional equity-based awards under the newly established Sandoz incentive plans in the form of RSUs, PSUs and RSAs that will settle in Sandoz shares upon vesting. As of December 31, 2023 Sandoz had the following share-based compensation arrangements:

Long-Term Incentive Plan – Select – Restricted Share Units and Restricted Share Awards

The equity plan "Select" is a global equity incentive plan under which, certain eligible executives and management personnel may be awarded grants in the form of RSUs and RSAs.

The awards generally vest on the third anniversary of the award and are generally forfeited if the employment relationship with Sandoz terminates prior to vesting. Recipients of RSUs awards do not have any shareholder rights, such as voting or dividend rights, until the shares are delivered. Sandoz employees receiving grants of RSAs are entitled to non-forfeitable dividend rights that may be declared and paid over the vesting period. For the periods prior to the spin-off, Sandoz employees participated in the former parent's "Select" plan. The Group's LTIP plan is substantially similar to and replaced the former parent plan.

Long-Term Incentive Plan – Long-Term Performance Plan – Performance Share Units

The Sandoz CEO and Executives participate in Sandoz long-term performance program. Participants are granted PSUs where each convert to one unrestricted Sandoz share at vesting, subject to the achievement of performance measures.

PSUs awarded to plan participants are granted at target incentive ranges from 35% to 250% of base compensation and vest over a three-year period. The payout between 0% and 200% of target is dependent upon performance metrics, which are determined at the onset of the performance period by the Board of Directors. The metrics for the restoration awards vesting in 2024 include net sales, core operating income, core margin and free cash flow. The Sandoz Board of Directors and the Human Capital and ESG Committee assess the performance against the defined measures and approve the final payout. PSUs granted under the performance plan do not carry voting rights but do carry dividend equivalents that are paid in Sandoz shares at vesting. For the periods prior to the spin-off, Sandoz employees participated in the former parent's Long-Term Performance Plan ("LTPP"), which was substantially similar to Sandoz LTIP performance program.

Deferred Share Bonus Plan

The Deferred Share Bonus Plan "DSBP" covers Senior Management members of the former parent company that transferred to Sandoz. Under the former parent's plan, a portion of the Annual Incentive of Senior Management members was deferred as equity in Novartis restricted shares or restricted share units. Participants were able to opt to invest up to the maximum cash portion of their Annual Incentive to receive further RSAs or RSUs. Sandoz has set up this plan to rule the keep-whole units for Novartis awards in form of RSUs. Upon vesting of the restored awards the plan will be discontinued. Going forward, the Annual Incentive will be paid fully in cash in the month of March in the year following the performance period.

Summary of Sandoz unvested equity-based incentive plans

As of December 31, 2023, there were 3.5 million unvested equity-based Sandoz awards outstanding.

The below table summarizes unvested share movements for all Sandoz equity-based incentive plans from the spin-off through December 31, 2023:

	2023					
	LTIP – Select		LTIP – LTPP		DSBP	
	Number of shares (in thousands)	Weighted average fair value at grant date in USD	Number of shares (in thousands)	Weighted average fair value at grant date in USD	Number of shares (in thousands)	Weighted average fair value at grant date in USD
Replacement awards issued at spin-off[1]	**2,840**	**22.1**	**643**	**22.9**	**13**	–
Granted	**60**	**26.5**	–	–	–	–
- Restricted share awards	59	26.6	–	–	–	–
- Restricted share units	1	23.1	–	–	–	–
Vested	**(1)**	**11.5**	–	–	–	–
- Restricted share awards	0	26.9	–	–	–	–
- Restricted share units	(1)	10.9	–	–	–	–
Forfeited	**(38)**	**22.3**	–	–	–	–
- Restricted share awards	(1)	26.8	–	–	–	–
- Restricted share units	(37)	22.1	–	–	–	–
Unvested shares at December 31	**2,861**	**22.3**	**643**	**22.9**	**13**	**–**

[1] Based on estimated fair value per share at the time of spin-off.

Equity-based incentive plans under former parent

The table below provides a summary of share grants for all plans under the former parent for the year ended December 31, 2022 (Novartis AG RSAs, RSUs, and PSUs):

	2022	
date in USD	Number of shares (in thousands)	Weighted average fair value at grant
Annual Incentive		
– RSU	23.0	74.8
– Restricted shares	3.4	85.0
– Shares	2.4	85.0
Share savings plans		
– RSU	7.8	75.0
– Shares	22.5	85.0
Novartis Employee Share Purchase Plan	35.8	83.2
Select North America (RSU)	198.2	75.1
Select outside North America		
– RSU	258.7	75.0
– Restricted shares	57.9	85.0
Long-Term Performance Plan (PSU)	155.1	81.9
Other share awards		
– RSU	36.8	74.4
– Restricted shares	14.4	88.6

Annual incentive

The Annual Incentive for the Novartis AG Sandoz business CEO is paid 50% in cash and 50% in Novartis AG restricted shares (RSs) or restricted share units (RSUs). For the Group's employees who were Novartis Top Leaders (NTLs), the Annual Incentive is paid 70% in cash and 30% in RSs or RSUs. Both the Novartis AG Sandoz business CEO and NTLs can opt to invest up to the maximum cash portion of their Annual Incentive to receive further RSs or RSUs. Any cash is paid out during March in the year following the end of the performance period, and the shares are granted during January in the year following the end of the performance period.

Employee share savings plans

Novartis operates employee share savings and purchase in certain countries. The most significant is described below: In Switzerland, Employee Share Ownership Plan (ESOP) participants may choose to receive their Annual Incentive (i) 100% in shares, (ii) 50% in shares and 50% in cash, or (iii) 100% in cash. After expiration of a three-year holding period for Novartis shares invested under the ESOP, participants will receive one matching share for every two invested shares. Employees eligible for the equity plan "Select" are not eligible to receive ESOP matching shares. The Sandoz CEO, who was an Executive Committee member of Novartis Group, and Company employees who were NTLs of the Novartis Group are not eligible to participate in the plan.

Novartis Employee share purchase plan

In 2022 Novartis started to grant shares under the Employee Share Purchase Plan. The plan enables employees to voluntarily purchase Novartis AG shares at a discounted price. While the plan is global in scope, the first phase covers: North America (the US, Puerto Rico and Canada). The shares are not subject to a vesting period.

Novartis equity plan "Select"

The equity plan "Select" is a global equity incentive plan under which eligible employees may annually be awarded a grant subject to a three-year, and for selected units a four-year, staggered vesting period. No awards are granted for performance ratings below a certain threshold. The Sandoz CEO, who was an Executive Committee member of Novartis Group, and Company employees who were NTLs of the Novartis Group are not eligible for participation in the equity plan "Select". The equity plan "Select" currently allows participants in Switzerland to choose the form of their equity compensation in RSs or RSUs. In all other jurisdictions, RSs or RSUs are granted unilaterally. Until 2013, participants could also choose to receive part or the entire grant in the form of tradable share options. Tradable share options expire on their 10th anniversary from the grant date. Each tradable share option entitles the holder to purchase after vesting (and before the 10th anniversary from the grant date) one Novartis share at a stated exercise price that equals the closing market price of the underlying share at the grant date.

As the exercise price does not reflect the decrease in the Novartis AG share due to the Novartis Group's 2019 spin-off of its Alcon business, one-fifth of an Alcon Inc. share was awarded to the option holder upon exercise.

Options under former parent equity plan "Select" outside North America

The following table shows the activity associated with the Novartis AG share options during the year ended December 31, 2022. The weighted average prices in the table below are translated from Swiss francs into USD at historical rates.

	2022	
	Options (thousand)	Weighted average exercise price (USD)
Options outstanding at January 1	**52.2**	**64.1**
Sold or expired	(41.8)	63.6
Outstanding at December 31	**10.4**	**66.0**
Exercisable at December 31	**10.4**	**66.0**

All share options were granted at an exercise price that was equal to the closing market price of the Novartis AG shares at the grant date. The weighted average share price at the dates of sale or exercise was USD 81.9.

Options under former parent equity plan "Select" for North America

The following table shows the activity associated with the Novartis AG ADR options during the period:

	2022	
	ADR options (thousands)	Weighted average exercise price (USD)
Options outstanding at January 1	**73.0**	**64.0**
Sold or exercised	(54.5)	63.3
Outstanding at December 31	**18.5**	**66.1**
Exercisable at December 31	**18.5**	**66.1**

All Novartis AG ADR options were granted at an exercise price that was equal to the closing market price of the Novartis AG ADRs at the grant date. The weighted average Novartis AG ADR price at the dates of sale or exercise was USD 88.6.

Long-Term Performance Plan

The Long-Term Performance Plan (LTPP) is an equity plan for the Sandoz CEO, who was a member of the Executive Committee of Novartis, and Company employees that were NTLs of the Novartis Group and employees of Sandoz and Novartis Group legal entities with specific targets. Participants are granted a target number of performance share units (PSUs) at the beginning of every performance period, which are converted into unrestricted Novartis AG shares after the performance period. The actual payout depends on the achievement of the performance measures and ranges between 0% and 200% of the granted amount. PSUs granted under the LTPP do not carry voting rights but do carry dividend equivalents that are paid in unrestricted Novartis shares at the end of the performance period. The LTPP awards are subject to a three-year performance and vesting period. Until 2018, the performance criteria were based on Novartis internal performance metrics. Starting in 2019, following the combination of the two LTPP and LTRPP, for new grants the performance criteria are based on both Novartis internal performance metrics and variables that can be observed in the market, which is the ranking of the Novartis total shareholder return (TSR) relative to a global healthcare peer group of 14 other companies, over rolling three-year performance periods. TSR for Novartis and the peer companies is calculated as the change in the Group's share price, which is translated to USD at the relevant exchange rate, including the reinvestment return of dividends, over the three-year performance period. The calculation is based on Bloomberg standard published TSR data, which is publicly available. The position of Novartis in the peer group determines the payout range based on a payout matrix.

Other share awards

Selected employees may exceptionally receive Special Share Awards of RSs or RSUs. These Special Share Awards provide an opportunity to reward outstanding achievements or exceptional performance and aim to retain key contributors. They are based on a formal internal selection process, through which the individual performance of each candidate is thoroughly assessed at several management levels. Special Share Awards

have a minimum three-year vesting period. In exceptional circumstances, Special Share Awards may be awarded to attract special expertise and new talents to the organization. The Sandoz CEO is generally not eligible for special awards. Only if a CEO was externally recruited, he or she would be eligible for special awards that are "buyouts" in the case that it is to replace equity forfeited with their former employer. The equity is provided on a like-for-like basis as the forfeited equity, at the same value with the same vesting period, and with or without a performance condition.

30. Transactions with related parties

Prior to the spin-off, the Sandoz business was a segment of Novartis such that transactions with Novartis were considered related party transactions. In connection with the spin-off, Sandoz entered into a separation and distribution agreement as well as various other agreements governing relationships with Novartis going forward, including manufacturing and supply, transitional services, tax matters, employee matters, patent and know-how license and brand license agreements. Information included in this note with respect to Novartis is strictly limited to related party transactions with Novartis prior to the spin-off on October 4, 2023. Upon spin-off, Novartis ceased to be a related party of the Group.

Transactions with Novartis

Transactions from trading activities, i.e., from activities related to product sales invoiced and services invoiced between other Novartis Group subsidiaries and the Sandoz business, have not been eliminated in the consolidated financial statements.

Trade and other receivables from Novartis Group and trade and other payables to Novartis Group are at standard commercial trading terms and conditions.

Other financial receivables from Novartis Group have been classified as current assets and the weighted average interest rate was 2.5% in 2023 (0.5% in 2022).

Other financial liabilities to Novartis Group have been classified as current liabilities and the weighted average interest rate was 2.2% in 2023 (1.0% in 2022).

The following table shows the amounts and balances for the years 2023 and 2022:

(USD millions)	2023 [1]	2022
Sales from the Group to former parent	302	207
Purchases of the Group from former parent	753	743
Interest expense of the Group to former parent	102	51
Interest income of the Group from former parent	23	6
Trade and other receivables from former parent	96	91
Trade and other payables to former parent	214	257
Other financial receivables from former parent	–	1,012
Other financial liabilities to former parent	–	3,851

[1] As of October 4, 2023.

Service charges, corporate overhead and other allocations from Novartis

Prior to the spin-off, Novartis Group provided Sandoz certain services from the Novartis Operations unit, the shared service organization of Novartis Group, across the following service domains: human resources operations, real estate and facility services, including site security and executive protection, procurement, information technology, commercial and medical support services and financial reporting and accounting operations. The financial statements include the appropriate costs related to the services rendered, which were allocated to the Sandoz business at the costs of the services rendered in accordance with the Novartis Group historical practices.

Certain general and administrative costs of Novartis Group were not charged or allocated to the Sandoz business in the past. For the financial statements prepared on a combined basis prior to the spin-off, such costs have been allocated based on reasonable assumptions and estimates, based on the direct and indirect costs incurred to provide the respective service. When specific identification was not practicable, a proportional cost method was used, primarily based on sales, or headcount.

These Novartis Operations unit charges, corporate overhead and other allocations amounted to USD 242 million in 2023 (up to the spin-off) and USD 359 million in 2022.

Management believes that the net charges and methods used for allocations to Sandoz have been performed on a reasonable basis and reflect the services received by Sandoz and the cost incurred on behalf of Sandoz. Although the combined financial statements reflect management's best estimate of all historical costs related to Sandoz, this may, however, not necessarily reflect what the results of operations, financial position, or cash flows would have been had Sandoz been a separate entity, nor

the future results of Sandoz as it will exist upon completion of the planned spin-off (see Notes 1 and 2).

During 2023, Sandoz formed its own business and corporate support functions, including its own service organization. Sandoz entered, to an extent, into transitional service agreements with the former parent to receive services and support on an interim transitional basis until Sandoz has developed the capacity to provide the relevant services.

Compensation of members of the Executive Committee and non-executive Directors

As of December 31, 2023, there were ten active Executive Committee members (previously known as "Executive Officers"). The total compensation of the ten members of the Executive Committee is shown in the following table. As of December 31, 2022, there were thirteen Executive Officers. At that time, these officers were not yet formally designated members of the then future Executive Committee of the Group. No expense for non-executive Directors was applicable in 2022. The expenses were determined by using the Group's accounting policies for equity-based compensation and retirement and insurance pension benefits.

In 2023, the total compensation expense for members of the Executive Committee increased in comparison to 2022. The overall increase is primarily due to the retention awards paid or promised in cash in 2023 and the increases of base salaries and Annual Incentives effective from spin-off, when Sandoz became an independent company. The Annual Incentive awards 2023 are included in the category Cash and other compensation. The awards were earned in 2023 but will be paid in cash in March 2024. In 2022, the Annual Incentive was included in the category Equity-based compensation, as a part of the awards were deferred in shares. The result is the increase of the category Cash and other compensation and the lower expense of the category Equity-based compensation in 2023.

The disclosures of compensation paid or promised to the members of the Board of Directors and the Executive Committee, as required by the Swiss Code of Obligations, ar shown in the Compensation Report.

	Members of the Executive Committee [1]		Non-executive Directors [2]	Total	
(USD millions)	**2023**	**2022**	**2023**	**2023**	**2022**
Cash and other compensation	29	17	1	30	17
Post-employment benefits	1	1		1	1
Equity-based compensation	8	11		8	11
Total	**38**	**29**	**1**	**39**	**29**

[1] In 2022, and up to the spin-off, Members of the Executive Committee were known as Executive Officers.

[2] Effective from October 4, 2023

31. Commitments and contingent liabilities

Development commitments

The Group has entered into long-term development agreements with various institutions related to intangible assets and other commitments. These arrangements provide for potential milestone payments by the Group, which are dependent on successful clinical development, or meeting specified sales targets, or other conditions which are specified in the agreements.

As of December 31, 2023, the amount and estimated timing of the Group's commitments to make payments under agreements related to intangible assets, which are shown without risk adjustment and on an undiscounted basis, were as follows:

(USD millions)	**2023**
2024	215
2025	52
2026	23
2027	38
2028	19
Thereafter	204
Total	**551**

In January 2023, Sandoz entered into an asset purchase agreement to acquire the worldwide product rights for Mycamine® (micafungin sodium) from Astellas. The transaction closed on August 28, 2023. Under the terms of the agreement Sandoz made an upfront payment of USD 64 million on closing. On December 31, 2023, the remaining potential sales-based milestone payments total USD 23 million and are paid as they become due.

In May 2023, Sandoz entered into a long-term collaboration agreement with Just Evotec Biologics, Inc. for the development and manufacturing of biosimilar products, with total payments amounting up to USD 800 million depending on the range of development services performed. As of December 31, 2023, based on their estimated timing, commitments to make payments for development services under this agreement are expected to amount to USD 95 million in 2024, USD 80 million in 2025, USD 90 million in 2026, USD 80 million in 2027, USD 60 million in 2028 and USD 5 million later than 2028, for a total of USD 410 million.

In September 2023, Sandoz entered into a development and commercialization agreement with Samsung Bioepis for the development and worldwide commercialization of ustekinumab biosimilar products. Total consideration payable by Sandoz amounts to USD 125 million which includes USD 45 million of upfront payment that was paid in 2023 and capitalized as intangible asset. Further potential regulatory and commercialization milestones payments amount up to USD 80 million which will be capitalized as cost of the intangible asset as these become due.

Other commitments

The Group has entered into various purchase commitments for services and materials as well as for equipment in the ordinary course of business. These commitments are generally entered into at current market prices and reflect normal business operations.

As of December 31, 2023, the Group has USD 197 million of commitments related to the purchase of property, plant and equipment. The most significant commitments are related to investments in the Sandoz antibiotics network in Kundl, Austria and Palafolls, Spain, and the building of a new biosimilar production plant in Lendava, Slovenia.

Guarantees issued

The Group has issued guarantees to third parties in the ordinary course of business, mostly for tax, customs or other governmental agencies.

Contingent liabilities

The Sandoz companies have to observe the laws, government orders and regulations of the country in which they operate.

A number of Sandoz companies are, and will likely continue to be, subject to various legal proceedings and investigations that arise from time to time, including proceedings regarding product liability; sales and marketing practices; commercial disputes; employment and wrongful discharge; and antitrust, securities, health and safety, environmental, tax, international trade, privacy and intellectual property matters. As a result, the Group may become subject to substantial liabilities that may not be covered by insurance and that could affect our business, financial position and reputation. While the Group does not believe that any of these legal proceedings will have a material adverse effect on its financial position, litigation is inherently unpredictable and large judgments sometimes occur. As a consequence, the Group may in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its results of operations or cash flow.

Governments and regulatory authorities around the world have been stepping up their compliance and law enforcement activities in recent years in key areas, including marketing practices, pricing, corruption, trade restrictions, embargo legislation, insider trading, anti-trust, cyber security and data privacy. Further, when one government or regulatory authority undertakes an investigation, it is not uncommon for other governments or regulators to undertake investigations regarding the same or similar matters. Responding to such investigations is costly and requires an increasing amount of management's time and attention. In addition, such investigations may affect our reputation, create a risk of potential exclusion from government reimbursement programs in the United States and other countries, and lead to (or arise from) litigation. These factors have contributed to decisions by the Group and other companies in the healthcare industry, when deemed in their interest, to enter into settlement agreements with governmental authorities around the world prior to any formal decision by the authorities or a court. These government settlements have involved and may in the future involve large cash payments, sometimes in the hundreds of millions of dollars or more, including the potential repayment of amounts allegedly obtained improperly and other penalties, including treble damages. In addition, settlements of antitrust cases often require companies to enter into corporate integrity agreements, which are intended to regulate company behavior for a period of years. Our affiliate Sandoz Inc. is party to such an agreement, which will expire in 2026. Also, matters underlying governmental investigations and settlements may be the subject of separate private litigation.

While provisions have been made for probable losses, which management deems to be reasonable or appropriate, there are uncertainties connected with these estimates.

Note 24 contains additional information on these matters.

A number of companies are involved in legal proceedings concerning intellectual property rights. The inherent unpredictability of such proceedings means that there can be no assurances as to their ultimate outcome. A negative result in any such proceeding could potentially adversely affect the ability of certain Sandoz companies to sell their products or require the payment of substantial damages or royalties.

In the opinion of management, however, the outcome of these actions will not materially affect the Group's financial position but could be material to the results of operations or cash flow in a given period.

The Group's potential environmental remediation liability is assessed based on a risk assessment and investigation of the various sites identified by the Group as at risk for environmental remediation exposure. The Group's future remediation expenses are affected by a number of uncertainties. These uncertainties include, but are not limited to, the method and extent of remediation, the percentage of material attributable to the Group at the remediation sites relative to that attributable to other parties, and the financial capabilities of the other potentially responsible parties.

Note 24 contains additional information on environmental liabilities.

32. Financial instruments – additional disclosures

The following tables show the carrying values of financial instruments by measurement category as of December 31, 2023 and 2022. The carrying values are equal to, or a reasonable approximation of, the fair values.

		2023			
(USD millions)	Note	Financial instruments at amortized costs	Financial instruments at fair value through other comprehensive income	Financial instruments at fair value through the consolidated income statement	Other financial liabilities at amortized cost
Cash and cash equivalents	20	1,109	–	–	–
Derivative financial instruments	20	–	–	35	–
Trade receivables	18	2,615	–	–	–
Income tax receivable[1]		281	–	–	–
Other receivables and current assets		401	–	–	–
Long-term financial investments – debt securities	16	–	21	–	–
Long-term loans, advances, security deposits and other long-term receivables	16	20	–	–	–
Total financial assets		**4,426**	**21**	**35**	**–**
Bank and other short-term financial debts	25	269	–	–	–
Notes	23	3,090	–	–	–
Long-term liabilities to banks and other financial institutions	23	885	–	–	–
Trade payables		1,593	–	–	–
Contingent consideration liabilities	24/26	–	–	93	–
Derivative financial instruments	25	–	–	15	–
Lease liabilities	13	–	–	–	309
Provisions and other current liabilities		31	–	–	–
Total financial liabilities		**5,868**	**–**	**108**	**309**

[1] Income tax receivable represents the recoverable amounts related to the indemnification as per Tax Matter Agreements with Novartis. See Note 19.

(USD millions)	Note	2022 Financial instruments at amortized costs	Financial instruments at fair value through other comprehensive income	Financial instruments at fair value through the consolidated income statement	Other financial liabilities at amortized cost
Cash and cash equivalents	20	74	–	–	–
Trade receivables	18	2,207	–	–	–
Receivables from former parent	30	91	–	–	–
Other financial receivables from former parent	30	1,012	–	–	–
Other receivables and current assets	21	148	–	–	–
Long-term financial investments – debt securities	16	–	15	–	–
Long-term loans, advances, security deposits and other long-term receivables	16	18	–	–	–
Total financial assets		**3,550**	**15**	**–**	**–**
Bank and other short-term financial debts	25	184	–	–	–
Long-term liabilities to banks and other financial institutions	23	30	–	–	–
Other financial liabilities to former parent	30	3,851	–	–	–
Trade payables		1,100	–	–	–
Payables to former parent	30	257	–	–	–
Contingent consideration liabilities	24/26	–	–	101	–
Derivative financial instruments	25	–	–	1	–
Lease liabilities	13	–	–	–	119
Total financial liabilities		**5,422**	**–**	**102**	**119**

Derivative financial instruments

The following tables show the contract or underlying principal amounts and fair values of derivative financial instruments analyzed by type of contract at December 31, 2023 and 2022. Contract or underlying principal amounts indicate the gross volume of business outstanding at the consolidated balance sheet date and do not represent amounts at risk. The fair values are determined by reference to market prices or standard pricing models that use observable market inputs at December 31, 2023 and 2022.

	Contract or underlying principal amount		Positive fair values		Negative fair values	
(USD millions)	2023	2022	2023	2022	2023	2022
Forward foreign exchange rate contracts	2,359	78	35	–	(15)	(1)
Total derivative financial instruments	**2,359**	**78**	**35**	**–**	**(15)**	**(1)**

The following tables show a breakdown by currency of the contract or underlying principal amount of derivative financial instruments at December 31, 2023 and 2022:

	2023			
(USD millions)	EUR	USD	Other	Total
Forward foreign exchange rate contracts	773	1,466	120	2,359
Total derivative financial instruments	**773**	**1,466**	**120**	**2,359**

	2022			
(USD millions)	EUR	USD	Other	Total
Forward foreign exchange rate contracts	–	–	78	78
Total derivative financial instruments	**–**	**–**	**78**	**78**

Fair value by hierarchy

As required by IFRS Accounting Standards, financial assets and liabilities recorded at fair value in the consolidated financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. There are three hierarchical levels, based on increasing subjectivity associated with the inputs to derive fair valuation for these assets and liabilities, which are as follows:

The assets carried at Level 1 fair value are debt securities listed in active markets. The liabilities included in the Level 2 fair value hierarchy are foreign exchange derivatives. Foreign exchange derivatives are valued using corroborated market data. Level 3 inputs are unobservable for the asset or liability. Contingent consideration carried at fair value is included in this category.

	2023			
(USD millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Long-term financial investments – debt securities	21	–	–	21
Derivative financial instruments	–	35	–	35
Total financial assets at fair value	**21**	**35**	**–**	**56**
Financial liabilities				
Contingent consideration liabilities	–	–	(93)	(93)
Derivative financial instruments	–	(15)	–	(15)
Total financial liabilities at fair value	**–**	**(15)**	**(93)**	**(108)**

	2022			
(USD millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets				
Long-term financial investments – debt securities	15	–	–	15
Total financial assets at fair value	**15**	**–**	**–**	**15**
Financial liabilities				
Contingent consideration liabilities	–	–	(101)	(101)
Derivative financial instruments	–	(1)	–	(1)
Total financial liabilities at fair value	**–**	**(1)**	**(101)**	**(102)**

The change in carrying values associated with the Level 3 contingent consideration liabilities during the year ended December 31, 2023 and 2022 are set forth below:

(USD millions)	**2023**	**2022**
At January 1	**(101)**	**(115)**
Fair value gains and other adjustments recognized in the consolidated income statement	8	1
Fair value losses and other adjustments recognized in the consolidated income statement	(8)	(8)
Cash payments	16	19
Currency translation effects	(8)	2
At December 31	**(93)**	**(101)**
Total of fair value gains and losses recognized in the consolidated income statement for liabilities held at December 31	–	(7)

During 2023, there were no transfer of levels relating to debt securities (2022: USD nil).

Realized gains and losses associated with Level 3 long-term financial investments measured at fair value through the consolidated income statement are recorded in the consolidated income statement under Other income or Other expense, respectively.

To determine the fair value of a contingent consideration, various unobservable inputs are used. A change in these inputs might result in a significantly higher or lower fair

value measurement. The inputs used are, among others, the probability of success, sales forecast and assumptions regarding the discount rate, timing and different scenarios of triggering events. The inputs are interrelated. The significance and usage of these inputs to each contingent consideration may vary due to differences in the timing and triggering events for payments or in the nature of the asset related to the contingent consideration.

If the most significant parameters for the Level 3 input were to change by 10% positively or negatively, or where the probability of success (POS) is the most significant input parameter, 10% were added or deducted from the applied probability of success, for contingent consideration liabilities, this would change the amounts recorded in the 2023 consolidated income statement by USD 9 million (2022: USD 13 million).

Nature and extent of risks arising from financial instruments

Market risk

The Group is exposed to market risk, primarily related to foreign currency exchange and interest rates. Sandoz actively monitors and seeks to reduce, where it deems it appropriate to do so, fluctuations in these exposures. It is the Group's policy and practice to enter into a variety of derivative financial instruments to manage the volatility of these exposures. It does not enter into any financial transactions containing a risk that cannot be quantified at the time the transaction is concluded. In addition, it does not sell short assets it does not have, or does not know it will have, in the future. The Group only sells existing assets or enters into transactions and future transactions (in the case of anticipatory hedges) that it confidently expects it will have in the future, based on past experience.

Foreign currency exchange rate risk

The Group uses the US dollar as its reporting currency. As a result, the Group is exposed to foreign currency exchange movements, primarily in European, Canadian, emerging market currencies, as well as in the Swiss franc. Fluctuations in the exchange rates between the US dollar and other currencies can have a significant effect on both the Group's results of operations, including reported sales and earnings, as well as on the reported value of our assets, liabilities, and cash flows. This, in turn, may significantly affect the comparability of period-to-period results of operations. Sandoz manages its global currency exposure by engaging in hedging transactions where deemed appropriate. Sandoz may enter into various contracts that reflect the changes in the value of foreign currency exchange rates to preserve the value of assets, commitments, and anticipated transactions. Sandoz uses forward contracts (and swaps) and may enter into foreign currency option contracts to hedge.

Subsidiaries whose functional currencies have experienced a cumulative inflation rate of more than 100% over the past three years apply the principles of IAS 29 "Financial Reporting in Hyperinflationary Economies." The hyperinflationary economies in which the Group operates are Argentina and Turkey. Argentina was hyperinflationary for all periods presented and Turkey became hyperinflationary effective May 1, 2022, requiring retroactive implementation of hyperinflation accounting as of January 1, 2022. The impacts of applying IAS 29 were not significant in all years presented.

Interest rate risk

The Group's exposure to cash flow interest rate risks arises mainly from financial debts at floating rates which may cause variations in financial expenses. The Group is also exposed to the movement of interest rates and credit markets for its future refinancing, which may result in a lower or higher cost of financing.

Sandoz addresses the exposure through the management of the fixed/floating ratio of financial debts. To manage this mix, the Group may enter into interest rate swap agreements, in which it exchanges periodic payments based on notional amounts and agreed-upon fixed and floating interest rate.

Credit risk

Credit risks arise from the possibility that customers may not be able to settle their obligations as agreed. To manage this risk, the Group periodically assesses country and customer credit risk, assigns individual credit limits and takes actions to mitigate credit risk where appropriate.

The provisions for expected credit losses for customers are based on a forward-looking expected credit loss, which includes possible default events on the trade receivables over the entire holding period of the trade receivables.

In measuring the expected credit losses, trade receivables are grouped based on shared credit risk characteristics (such as private versus public receivables) and days past due. In determining the expected credit loss rates, the Group considers current and forward-looking macroeconomic factors that may affect the ability of the customers to settle the receivables and historical loss rates for each category of customers.

Counterparty risk

Counterparty risk encompasses issuer risk on marketable securities and money market instruments, credit risk on cash, time deposits and derivatives and settlement risk for different instruments. Counterparty credit risk and settlement risk are reduced by a policy of entering into transactions with counterparties that feature a strong credit rating. Exposure to these risks is closely monitored and kept within predetermined parameters.

The Group's cash and cash equivalents are held with major regulated financial institutions. The Group does not expect any losses from non-performance by these counterparties and does not have any significant grouping of exposures to financial sector or country risk.

Liquidity risk

Liquidity risk is defined as the risk of the Group's inability to settle or meet its obligations. Group Treasury is responsible for

liquidity, funding, and settlement management. In addition, liquidity and funding risks, and related processes and policies, are overseen by management.

The Group manages its liquidity risk on a consolidated basis according to business needs, tax, capital, or regulatory considerations, if applicable, through numerous sources of financing in order to maintain flexibility.

Certain countries have legal or economic restrictions on the ability of subsidiaries to transfer funds to the Group in the form of cash dividends, loans, or advances, but these restrictions do not have an impact on the ability of the Group to meet its cash obligations. Management monitors the Group's net debt or liquidity position through rolling forecasts on the basis of expected cash flows.

The following tables set forth how management monitors net debt or liquidity based on details of the remaining contractual maturies of selected financial assets and liabilities as at December 31, 2023 and 2022:

	2023					
(USD millions)	Due within one month	Due within three month	Due later than three months but less than one year	Due later than one year but less than five years	Due after five years	Total
Current Liabilities						
Financial debts	87	11	171	–	–	269
Financial debts-undiscounted	*87*	*11*	*171*	–	–	*269*
Derivative financial instruments	11	3	1	–	–	15
Total current financial debts	**98**	**14**	**172**	**–**	**–**	**284**
Non-current liabilities						
Financial debts	–	–	–	2,129	1,846	3,975
Financial debts-undiscounted	–	–	–	*2,138*	*1,854*	*3,992*
Total non-current financial debts	**–**	**–**	**–**	**2,129**	**1,846**	**3,975**
Current assets						
Derivative financial instruments	(33)	(2)	–	–	–	(35)
Cash and cash equivalents	(1,109)	–	–	–	–	(1,109)
Total current financial assets	**(1,142)**	**(2)**	**–**	**–**	**–**	**(1,144)**
Net debt	**(1,044)**	**12**	**172**	**2,129**	**1,846**	**3,115**

(USD millions)	2022 Due within one month	Due within three month	Due later than three months but less than one year	Due later than one year but less than five years	Due after five years	Total
Current liabilities						
Financial debts	65	65	54	–	–	184
Financial debts-undiscounted	*65*	*65*	*54*	–	–	*184*
Other net financial liabilities/receivables to/from former parent	–	–	2,839	–	–	2,839
Derivative financial instruments	1	–	–	–	–	1
Total current financial debts	**66**	**65**	**2,893**	**–**	**–**	**3,024**
Non-current liabilities						
Financial debts	–	–	–	30	–	30
Financial debts-undiscounted	–	–	–	*30*	–	*30*
Total non-current financial debts	**–**	**–**	**–**	**30**	**–**	**30**
Current assets						
Cash and cash equivalents	(74)	–	–	–	–	(74)
Total current financial assets	**(74)**	**–**	**–**	**–**	**–**	**(74)**
Net debt	**(8)**	**65**	**2,893**	**30**	**–**	**2,980**

The carrying amounts of financial liabilities included in the above analysis are not materially different to the contractual amounts due on maturity. The positive and negative fair values on derivative financial instruments represent the net contractual amounts to be exchanged at maturity.

The Group's contractual undiscounted potential cash flows from derivative financial instruments to be settled on a gross basis are as follows:

(USD millions)	2023 Due within one month	Due later than one month but less than three months	Due later than three months but less than one year	Total
Derivative financial instruments and accrued interest on derivative financial instruments				
Potential outflows in various currencies – from financial derivative liabilities	(1,857)	(348)	(60)	(2,265)
Potential inflows in various currencies – from financial derivative assets	1,877	347	59	2,283

(USD millions)	2022 Due within one month	Due later than one month but less than three months	Due later than three months but less than one year	Total
Derivative financial instruments and accrued interest on derivative financial instruments				
Potential outflows in various currencies – from financial derivative liabilities	(22)	(12)	–	(34)
Potential inflows in various currencies – from financial derivative assets	22	12	–	34

Other contractual liabilities that are not part of management's monitoring of the net debt or liquidity consist of the following items:

	2023				
(USD millions)	Due within three months	Due later than three months but less than one year	Due later than one year but less than five years	Due after five years	Total
Contractual interest on non-current financial debts	24	103	556	277	960
Lease liabilities[1]	18	36	132	123	309
Trade payables	1,583	10	–	–	1,593
Contingent consideration liabilities[2]	–	–	79	14	93

[1] Note 13 provides additional disclosures related to lease liabilities.

[2] Note 24 provides additional disclosures related to contingent consideration liabilities.

	2022				
(USD millions)	Due within three months	Due later than three months but less than one year	Due later than one year but less than five years	Due after five years	Total
Lease liabilities[1]	8	23	71	17	119
Trade payables	1,076	24	–	–	1,100
Contingent consideration liabilities[2]	16	–	71	14	101

[1] Note 13 provides additional disclosures related to lease liabilities.

[2] Note 24 and 26 provide additional disclosures related to contingent consideration liabilities.

Capital risk management

Sandoz strives to retain a solid investment grade credit profile and aims to balance interest and refinancing risks, demonstrated by a strong balance sheet and well-diversified funding mix. As of December 31, 2023, the long-term credit rating for the Group is Baa2 (stable outlook) with Moody's Investors Service and BBB (stable outlook) with S&P Global Ratings, placing the Group in a strong position.

Sensitivity analysis

The Group uses sensitivity analysis disclosures to provide quantitative information about market risks to which it is exposed. The sensitivity analysis disclosures are in line with the Group's financial risk management policy and are based on a one-parameter risk model that considers a one-factor linear relationship between risk factors and exposures. They consider aggregated risk exposures arising from the most significant risk factors such as currency and interest rate risk.

The disclosures below illustrate the potential impact on the Group's consolidated financial statements as a result of hypothetical market movements in foreign currency exchange and interest rates. The range of variables chosen reflects management's view of changes that are reasonably possible over a one-year period.

Foreign currency exchange rate sensitivity

The Group uses the US dollar as its reporting currency. As a result, the Group is exposed to foreign currency exchange movements, primarily in European, Canadian, emerging market currencies, as well as in the Swiss franc.

A strengthening (weakening) of the US dollar against these currencies as of December 31, 2023 would have affected the measurement of monetary financial assets and liabilities in these foreign currencies. This analysis assumes that all other variables remain constant. A hypothetical 10% increase (decrease) in the foreign currency exchange rates against the US dollar would decrease (increase) the net currency result by approximately USD 6 million on a post hedge basis.

Interest rate sensitivity

The sensitivity analysis has been determined based on the exposure to cash flow interest rate risks mainly from non-current financial debts at a variable rate on a post hedge basis as of December 31, 2023.

As of December 31, 2023, a hypothetical 1% increase (decrease) in interest rates, with all other assumptions held constant, would result in approximately USD 12 million of higher (lower) interest expenses on a post hedge basis. The majority of our outstanding financial debts are notes with fixed interest rates and are therefore not affected by movements in interest rates.

33. Events subsequent to the December 31, 2023 consolidated balance sheet date

Agreement to acquire CIMERLI® business from Coherus

On January 22, 2024, Sandoz signed an agreement to acquire the US business related to biosimilar ranibizumab CIMERLI® from Coherus BioSciences, Inc. for an upfront cash purchase payment of USD 170 million. CIMERLI® is an FDA approved biosimilar to reference product LUCENTIS® (ranibizumab injection) that is indicated for the treatment of multiple retinal diseases. The transaction was completed on March 1, 2024 and was classified as a business combination. The Group is currently in the process of preparing the preliminary purchase price allocation and the valuation of the acquired assets and assumed liabilities has not been completed until the date when the Group's financial statements were authorized for issue.

Government generic pricing antitrust investigations, antitrust class actions

On February 29, 2024, Sandoz announced that Sandoz Inc. and its subsidiary Fougera Pharmaceuticals Inc.,both indirect subsidiaries of Sandoz Group AG, have entered into a settlement agreement with the class of direct purchaser plaintiffs in the multidistrict litigation entitled In re Generic Pharmaceuticals Pricing Antitrust Litigation in the US District Court for the Eastern District of Pennsylvania. For additional information see Note 24.

Dividend proposal for 2023 and approval of the Group's 2023 consolidated financial statements

On March 12, 2024, the Sandoz Group AG Board of Directors proposed the acceptance of the 2023 consolidated financial statements of the Sandoz Group for approval by the Annual General Meeting on April 30, 2024.

Furthermore, also on March 12, 2024, the Board proposed a dividend of CHF 0.45 per share to be approved at the Annual General Meeting on April 30, 2024.

If approved, total dividend payments would amount to approximately USD 230 million, using the CHF/USD December 31, 2023, exchange rate.

34. Principal Group subsidiaries

The following tables lists the Sandoz legal entities with total assets or net sales to third parties in excess of USD 5 million included in the consolidated financial statements at and for the year ended December 31, 2023.

The equity interest percentage shown in the table represents Sandoz share in voting rights in those entities. Unless otherwise stated, each entity has share capital consisting of equity held directly by the Group or another of its consolidated subsidiaries.

As at December 31, 2023			Share capital [1]	Equity interest
Algeria				
Société par actions SANDOZ	Algiers	DZD	650.0 m	100%
Australia				
Sandoz Pty Ltd	Macquarie Park, NSW	AUD	11.6 m	100%
Austria				
Sandoz Austria GmbH	Vienna	EUR	1.0 m	100%
Sandoz GmbH	Kundl	EUR	32.7 m	100%
Hexal Pharma GmbH	Vienna	EUR	799,401	100%
1 A Pharma GmbH	Vienna	EUR	49,781	100%
EBEWE Pharma GmbH	Unterach am Attersee	EUR	1.0 m	100%
Belgium				
Sandoz NV	Vilvoorde	EUR	19.2 m	100%
Brazil				
Sandoz do Brasil Indústria Farmacêutica Ltda.	Cambé, PR	BRL	190.0 m	100%
Canada				
Sandoz Canada Inc.	Boucherville, Quebec	CAD	779,284	100%
China				
Sandoz (China) Pharmaceutical Co., Ltd.	Zhongshan	USD	57.6 m	100%
Croatia				
Sandoz d.o.o. farmaceutska industrija	Zagreb	EUR	3.4 m	100%
Czech Republic				
Sandoz s.r.o.	Prague	CZK	44.7 m	100%
Denmark				
Sandoz A/S	Copenhagen	DKK	12.0 m	100%
Egypt				
Sandoz Egypt Pharma S.A.E.	New Cairo City	EGP	334.3 m	100%
France				
Sandoz S.A.S.	Levallois-Perret	EUR	5.4 m	100%
Germany				
Sandoz Deutschland GmbH	Nuremberg	EUR	155.5 m	100%
Sandoz International GmbH	Holzkirchen	EUR	100,000	100%
1 A Pharma GmbH	Holzkirchen	EUR	26,000	100%
HEXAL AG	Holzkirchen	EUR	93.7 m	100%
Salutas Pharma GmbH	Barleben	EUR	42.1 m	100%
Aeropharm GmbH	Rudolstadt	EUR	26,000	100%

[1] Share capital may not reflect the taxable share capital and does not include any paid-in surplus.

m = million; bn = billion

As at December 31, 2023			Share capital [1]	Equity interest
Hungary				
SANDOZ Hungária Kereskedelmi Kft.	Budapest	HUF	4.0 m	100%
India				
Sandoz Private Limited	Mumbai	INR	32.0 m	100%
Ireland				
Rowex Limited	Cork	EUR	10	50%
Italy				
Sandoz S.p.A.	Origgio	EUR	1.7 m	100%
Japan				
Sandoz K.K.	Tokyo	JPY	100.0 m	100%
Sandoz Pharma K.K.	Tokyo	JPY	100.0 m	100%
Malaysia				
Sandoz Products Malaysia SDN. BHD.	Kuala Lumpur	MYR	8.0 m	100%
Mexico				
Sandoz, S.A. de C.V.	Mexico City	MXN	468.2 m	100%
Netherlands				
Sandoz B.V.	Almere	EUR	907,560	100%
Sandoz Finance B.V.	Almere	EUR	1	100%
North Macedonia				
Lek Skopje DOOEL	Skopje	MKD	167.7 m	100%
Philippines				
Sandoz Philippines Corporation	Makati City	PHP	30.0 m	100%
Poland				
Sandoz Polska Sp. Z.o.o.	Warsaw	PLN	25.6 m	100%
Lek S.A.	Strykow	PLN	11.4 m	100%
Portugal				
Sandoz Farmacêutica, Lda.	Porto Salvo	EUR	500,000	100%
Romania				
Sandoz Pharmaceuticals S.R.L.	Bucharest	RON	86.0 m	100%
Russian Federation				
JSC Sandoz	Moscow	RUB	57.4 m	100%
Saudi Arabia				
Sandoz Ltd	Riyadh	SAR	30.0 m	100%
Singapore				
Sandoz Singapore Pte. Ltd.	Singapore	SGD	100,000	100%
Slovenia				
Sandoz Pharmaceuticals d.d.	Ljubljana	EUR	1.5 m	100%
Lek Pharmaceuticals d.d.	Ljubljana	EUR	48.4 m	100%
South Africa				
Sandoz South Africa (Pty) Ltd	Midrand	ZAR	183.0 m	100%

[1] Share capital may not reflect the taxable share capital and does not include any paid-in surplus.

m = million; bn = billion

As at December 31, 2023			Share capital [1]	Equity interest
Spain				
Sandoz Farmacéutica S.A.	Madrid	EUR	270,450	100%
Sandoz Industrial Products, S.A.	Barcelona	EUR	9.3 m	100%
Bexal Farmacéutica S.A.	Madrid	EUR	1.0 m	100%
Switzerland				
Sandoz AG	Basel	CHF	5.0 m	100%
DiaMo Narcotics GmbH	Thun	CHF	20,000	100%
Sandoz Pharmaceuticals AG	Risch	CHF	100,000	100%
Thailand				
Sandoz (Thailand) Limited	Bangkok	THB	100.0 m	100%
Turkey				
Sandoz Ilaç Sanayi ve Ticaret A.S.	Istanbul	TRY	880.0 m	99.99%
Sandoz Grup Saglik Ürünleri Ilaçlari Sanayi ve Ticaret A.S.	Gebze – Kocaeli	TRY	96.0 m	100%
Ukraine				
Sandoz Ukraine LLC	Kyiv	UAH	8.0 m	100%
United Arab Emirates				
Sanodz Middle East LLC	Dubai	AED	100,000	100%
United Kingdom				
Sandoz Limited	Frimley / Camberley	GBP	2.0 m	100%
United States of America				
Sandoz Inc.	Princeton, NJ	USD	1	100%
Fougera Pharmaceuticals Inc.	Melville, NY	USD	1	100%
Oriel Therapeutics, Inc.,	Durham, NC	USD	1	100%
Eon Labs, Inc.	Princeton, NJ	USD	1	100%

In addition, the Group is represented by subsidiaries with total assets or net sales to third parties below USD 5 million in the following countries: Bosnia and Herzegovina, Chile, Ecuador, Greece, Hong Kong, Israel, Kazakhstan, New Zealand, Panama, Taiwan and Vietnam.

[1] Share capital may not reflect the taxable share capital and does not include any paid-in surplus.

m = million; bn = billion

Audit report to the consolidated financial statements of the Group

KPMG

Statutory Auditor's Report

To the General Meeting of Sandoz Group AG, Risch

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Sandoz Group AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2023, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements (pages 129 to 195) give a true and fair view of the consolidated financial position of the Group as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards and comply with Swiss law.

Basis for Opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISA) and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with the provisions of Swiss law, together with the requirements of the Swiss audit profession, as well as those of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

REVENUE RECOGNITION – VARIABLE CONSIDERATION

BASIS OF PREPARATION – ACCOUNTING FOR THE SPIN-OFF TRANSACTION

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

REVENUE RECOGNITION – VARIABLE CONSIDERATION

Key Audit Matter

Variable consideration is common in the pharmaceutical industry for determining the transaction price because sales agreements frequently contain clauses for rebates, discounts and chargebacks.

Management is required to make estimations in respect of revenue recognition, particularly regarding the anticipated levels of rebates, discounts and chargebacks that will affect Sandoz's revenue. The underlying contractual agreements are customer specific and complex. Rebates, discounts and chargebacks are recorded by Sandoz as credit notes against trade receivables or as 'Provisions for deductions from revenue' which rolls up into the financial statement caption 'Provisions and other current liabilities'.

As a consequence of management's judgment in estimating the variable consideration and its impact on the financial statements, we identified the recognition of variable consideration as a key audit matter.

Our response

The following are the primary procedures we performed to address this key audit matter:

- We obtained an understanding of the revenue recognition process and evaluated the design and implementation of the relevant key controls relating to variable consideration;
- For a sample of rebates, discounts and chargebacks throughout the year, we evaluated the claims against the contractual terms of the arrangements;
- We verified the accuracy of credit notes and provisions by developing an independent expectation or testing management's process for the key data and assumptions of the estimate; and,
- We assessed the historical accuracy of Sandoz' estimates in previous years and the effect of any adjustments to prior year's credit notes and provisions in the current year's results.

For further information on revenue recognition refer to the following:

— Note 3 Material accounting policies section 'Trade receivables' and 'Revenue recognition' page 141

— Note 26 'Provisions and other current liabilities' page 169

KPMG

BASIS OF PREPARATION – ACCOUNTING FOR THE SPIN-OFF TRANSACTION

Key Audit Matter

On 4 October 2023, Sandoz became an independent publicly listed company through a pro-rata dividend-in-kind distribution by Novartis of Sandoz shares to the holders of Novartis shares.

In preparation for the spin-off and the listing of Sandoz on the Swiss stock exchange, Sandoz's business was carved out from Novartis in several steps over the course of 2022 and 2023 until the target legal structure was established in September 2023. In some countries the legal execution of the transfer of assets and liabilities has been delayed. The relevant activities, net assets and profits are allocated to Sandoz or Novartis respectively based on which of the two exercises control.

Evaluating Sandoz's determination of the accounting for this transaction involved several separate, but related, considerations:

- Judgment was required to determine whether assets, liabilities, income and expenses were appropriately allocated to the consolidated Sandoz Group business.
- Particularly complex judgement was required in the allocation of assets and liabilities connected to multi-divisional manufacturing sites where both Sandoz and Novartis have highly integrated operations.

As a consequence of management's judgment involved, we identified the accounting for the spin-off transaction as a key audit matter.

Our response

As part of our audit procedures, we obtained and inspected the relevant legal agreements and documents outlining the terms of the transfer. Based on these agreements and documents we assessed the consolidation starting date, the legal entity structure subject to consolidation and the key terms and conditions of the transfer of assets and liabilities.

We assessed management's accounting for the transaction in Sandoz's consolidated financial statements and the appropriateness of the conclusions made by Sandoz related to:

- the allocation of assets, liabilities, income and expenses to the entities included in consolidated financial statements, and
- the presentation of these items in the consolidated financial statements

by inspecting Sandoz's accounting position papers and evaluating whether the conclusions reached by Sandoz are in line with the relevant accounting standards.

For further information on accounting for the spin-off transaction refer to the following:

— Note 2 Basis of preparation page 135

— Note 3 Material accounting policies section Scope of consolidation page 138

Other matter

The combined financial statements of the Group for the year ended 31 December 2022 were audited by another auditor who expressed an unmodified opinion on those financial statements on 17 August 2023.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the standalone financial statements of the company, the compensation report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Board of Directors' Responsibilities for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISA and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISA and SA-CH, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with Art. 728a para. 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists, which has been designed for the preparation of the consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

Marc Ziegler
Licensed Audit Expert
Auditor in Charge

Stéphane Nusbaumer
Licensed Audit Expert

Basel, 12 March 2024

KPMG AG, Grosspeteranlage 5, CH-4002 Basel

Supplementary financial information

Non-IFRS measures as defined by Sandoz

Sandoz uses certain non-IFRS metrics when measuring performance, especially when measuring current period results against prior periods, including core results, constant currencies and free cash flow. Despite the use of these measures by management in setting goals and measuring Sandoz performance, these are non-IFRS measures that have no standardized meaning prescribed by IFRS Accounting Standards. As a result, such measures have limits in their usefulness to investors. Because of their non-standardized definitions, the non-IFRS measures (unlike IFRS measures) may not be comparable to the calculation of similar measures of other companies. These non-IFRS measures are presented solely to permit investors to more fully understand how Sandoz management assesses underlying performance. These non-IFRS measures are not, and should not be viewed as, a substitute for IFRS measures, and should be viewed in conjunction with IFRS financials. As an internal measure of Group performance, these non-IFRS measures have limitations, and Sandoz performance management process is not solely restricted to these metrics.

The definitions of the non-IFRS financial metrics as used by Sandoz in this Integrated Annual Report are as follows:

Core results

Sandoz core results – including core EBITDA, core operating income, core net income and core earnings per share – exclude fully:

- The amortization and impairment charges of intangible assets other than software;
- Net gains and losses on fund investments and equity securities valued at fair value through profit and loss;
- Certain acquisition and divestment- related items;
- Tax liabilities for uncertain tax positions.

The following items that exceed a threshold of USD 25 million are also excluded:

- Integration- and divestment- related income and expenses;
- Divestment gains and losses;
- Restructuring charges/releases and related items;
- Legal related items;
- Impairments of property, plant and equipment, software and financial assets;
- And income and expense items that management deems exceptional and that are or are expected to accumulate within the year to be over a USD 25 million threshold. Income tax impacts of such items are also excluded from core measures.

Sandoz believes that investor understanding of its performance is enhanced by disclosing core measures of performance because, since core measures exclude items that can vary significantly from year to year, they enable a better comparison of business performance across years. For this same reason, Sandoz uses these core measures in addition to IFRS and other measures as important factors in assessing its performance.

The following are examples of how these core measures are utilized:

- In addition to monthly reports containing financial information prepared under IFRS, senior management receives a monthly analysis incorporating these core measures;
- Annual budgets are prepared for both IFRS and core measures.

As an internal measure of Sandoz performance, the core results measures have limitations, and the Sandoz performance management process is not solely restricted to these metrics.

A limitation of the core results measures is that they provide a view of the Sandoz operations without including all events during a period, such as the effects of an acquisition, divestment, or amortization/impairments of purchased intangible assets, impairments to property, plant and equipment and restructurings and related items.

Constant currencies

Changes in the relative values of non-US currencies to the US dollar can affect Sandoz financial results and financial position. To provide additional information that may be useful to investors, including changes in sales volume, Sandoz presents information about its net sales and various values relating to operating and net income that are adjusted for such foreign currency effects. Constant currency calculations have the goal of eliminating two exchange rate effects so that an estimate can be made of underlying changes in the consolidated income statement excluding the impact of fluctuations in exchanges rates:

- The impact of translating the income statements of consolidated entities from their non-USD functional currencies to USD;
- The impact of exchange rate movements on the major transactions of consolidated entities performed in currencies other than their functional currency.

Sandoz calculates constant currency measures by translating the current year's foreign currency values for sales and other income statement items into USD (excluding the IAS 29 "Financial Reporting in Hyperinflationary Economies" adjustments to the local currency income statements of subsidiaries operating in hyperinflationary economies), using the average exchange rates from the prior year and comparing them to the prior year values in USD. Sandoz uses these constant currency measures in evaluating its performance, since they may assist the Group in evaluating its ongoing performance from year to year. However, in performing its evaluation, Sandoz also considers equivalent measures of performance that are not affected by changes in the relative value of currencies.

Growth rate calculation

For ease of understanding, Sandoz uses a sign convention for its growth rates such that a reduction in operating expenses or losses compared to the prior year is considered favorable and hence shown as a positive change (growth).

Net financial result
Sandoz defines net financial result as interest expense and other financial income and expense.

EBITDA
Sandoz defines earnings before interest, tax, depreciation, and amortization (EBITDA) as operating income, excluding depreciation of property, plant and equipment and right-of-use assets, amortization of intangible assets, impairments of property, plant and equipment, right-of-use assets, and intangible assets.

Core EBITDA margin
Sandoz defines core EBITDA margin as the percentage of core EBITDA over net sales to third parties. It is an indicator to measure the profitability of the Group.

Free cash flow
Sandoz defines free cash flow as net cash flows from operating activities and cash flows from investing activities associated with the purchase or sale of property, plant and equipment, of intangible assets, of financial assets and of other non-current assets. Excluded from free cash flow are cash flows from investing activities associated with acquisitions and divestments of businesses and of interests in associated companies, purchases and sales of marketable securities, commodities, time deposits and net cash flows from financing activities. Free cash flow is a non-IFRS measure and is not intended to be a substitute measure for net cash flows from operating activities as determined under IFRS. Free cash flow is presented as additional information because management believes it is a useful supplemental indicator of the Sandoz ability to operate without reliance on additional borrowing or use of existing cash. Free cash flow is a measure of the net cash generated that is available for investment in strategic opportunities, returning to shareholders and for debt repayment. Free cash flow is a non-IFRS measure, which means it should not be interpreted as a measure determined under IFRS.

Net working capital
Sandoz defines net working capital as inventory and trade receivables, net of trade payables.

Net CAPEX
Sandoz defines net CAPEX as cash outflows from purchases of property, plant and equipment and intangible assets, net of proceeds from sale of property, plant and equipment and intangible assets. Sandoz presents net CAPEX as a positive number.

Net debt
Sandoz defines net debt as non-current financial debt plus current financial debts and derivative financial instruments, net of cash and cash equivalents and marketable securities, commodities, time deposits and derivative financial instruments. Net debt is presented as additional information because it sets forth how management monitors net debt or liquidity and management believes it is a useful supplemental indicator of the Sandoz ability to pay dividends, to meet financial commitments, and to invest in new strategic opportunities, including strengthening its balance sheet. For the table that shows Sandoz net debt, see Note 32. Financial instruments – additional disclosures.

Currencies
In this Integrated Annual Report, references to "CHF" or "Swiss francs" are to the lawful currency of Switzerland, references to "EUR" or "euro" are to the single currency of the participating member states of the European Union participating in the third stage of the economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended or supplemented from time to time, references to "USD" or "U.S. dollars" are to the lawful currency of the United States of America, and reference to "JPY" or "yen" are to the lawful currency of Japan.

Rounding
Certain figures contained in the Integrated Annual Report, including financial information presented in millions or thousands, certain operating data and percentages describing financial information or market shares, have been subject to rounding. Accordingly, in certain instances, the amounts shown as totals in tables or elsewhere may not conform exactly to the arithmetic total of the figures that precede them. In addition, certain percentages in this Integrated Annual Report reflect calculations based upon the underlying information prior to rounding and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

Financial year
Our financial year ends on December 31 of each calendar year. In this Integrated Annual Report, all references to "2023" are to the 12-month period ended December 31, 2023 and all references to "2022" are to the 12-month period ended December 31, 2022, unless the context otherwise requires.

Reconciliation of core results

Reconciliation from IFRS results to core results

(USD millions unless indicated otherwise)	2023 IFRS results	Amortization of intangible assets [1]	Impairments [2]	Other items [3]	2023 Core results
Gross profit	**4,564**	**222**	**34**	**93**	**4,913**
Operating income [4]	**375**	**222**	**43**	**848**	**1,488**
Income before taxes	**130**	**222**	**43**	**842**	**1,237**
Income taxes [5]	(50)				(284)
Net income	**80**				**953**
Basic earnings per share (USD)	0.18				2.21
Diluted earnings per share (USD)	0.18				2.20
The following are adjustments to arrive at core gross profit					
Cost of goods sold	(5,415)	222	34	93	(5,066)
The following are adjustments to arrive at core operating income					
Selling, general and administration	(2,389)	–	–	29	(2,360)
Development and regulatory	(926)	–	10	1	(915)
Other income	94	–	(1)	(9)	84
Other expense	(968)	–	–	734	(234)
The following are adjustments to arrive at core income before taxes					
Other financial income and expense	(43)	–	–	(6)	(49)

[1] Amortization of intangible assets: cost of goods sold includes the amortization of acquired rights to currently marketed products and other production-related intangible assets.

[2] Impairments: cost of goods sold and development and regulatory include impairment charges related to intangible assets; other income includes a reversal of impairment charges related to property, plant and equipment.

[3] Other items: cost of goods sold, selling, general and administration, other income and other expense include separation costs related to the spin-off, the Group-wide rationalization of manufacturing sites and other net restructuring charges and related items; other expense also includes legal-related items; cost of goods sold, selling, general and administration and development and regulatory include adjustments to provisions and related items; other financial income and expense includes the monetary loss on the restatement of non-monetary items for subsidiaries in hyperinflationary economies.

[4] For further breakdown of core adjustments by category, refer to table Reconciliation from IFRS operating income to core net income.

[5] Taxes on the adjustments between IFRS and core results take into account, for each individual item included in the adjustment, the tax rate that will finally be applicable to the item based on the jurisdiction where the adjustment will finally have a tax impact. Generally, this results in amortization and impairment of intangible assets and acquisition-related restructuring and integration items having a full tax impact. There is usually a tax impact on other items, although this is not always the case for items arising from legal settlements in certain jurisdictions. Due to these factors and the differing applicable tax rates in the various jurisdictions, the tax on the total adjustments of USD 1.1 billion to arrive at the core results before tax amounts to USD 234 million. The average tax rate on the adjustments was 21%.

(USD millions unless indicated otherwise)	2022 IFRS results	Amortization of intangible assets [1]	Impairments [2]	Other items [3]	2022 Core results
Gross profit	**4,378**	**221**	**35**	**92**	**4,726**
Operating income [4]	**1,239**	**221**	**33**	**212**	**1,705**
Income before taxes	**1,102**	**221**	**33**	**234**	**1,590**
Income taxes [5]	(252)				(370)
Net income	**850**				**1,220**
Basic earnings per share (USD)	1.97				2.83
Diluted earnings per share (USD)	1.97				2.83
The following are adjustments to arrive at core gross profit					
Cost of goods sold	(4,928)	221	35	92	(4,580)
The following are adjustments to arrive at core operating income					
Selling, general and administration	(2,127)	–	–	10	(2,117)
Development and regulatory	(833)	–	1	1	(831)
Other income	111	–	(2)	(15)	94
Other expense	(290)	–	(1)	124	(167)
The following are adjustments to arrive at core income before taxes					
Other financial income and expense	(48)	–	–	22	(26)

[1] Amortization of intangible assets: cost of goods sold includes the amortization of acquired rights to currently marketed products and other production-related intangible assets.

[2] Impairments: cost of goods sold and development and regulatory include impairment charges related to intangible assets; other income and other expense include reversals of impairment charges and impairment charges related to property, plant and equipment.

[3] Other items: cost of goods sold, selling, general and administration, development and regulatory, other income and other expense include separation costs related to the spin-off, the Group-wide rationalization of manufacturing sites and other net restructuring charges and related items; other expense also includes legal-related items; cost of goods sold and selling, general and administration include adjustments to provisions and related items; other financial income and expense includes the monetary loss on the restatement of non-monetary items for subsidiaries in hyperinflationary economies.

[4] For further breakdown of core adjustments by category, refer to table Reconciliation from IFRS operating income to core net income.

[5] Taxes on the adjustments between IFRS and core results take into account, for each individual item included in the adjustment, the tax rate that will finally be applicable to the item based on the jurisdiction where the adjustment will finally have a tax impact. Generally, this results in amortization and impairment of intangible assets and acquisition-related restructuring and integration items having a full tax impact. There is usually a tax impact on other items, although this is not always the case for items arising from legal settlements in certain jurisdictions. Due to these factors and the differing applicable tax rates in the various jurisdictions, the tax on the total adjustments of USD 488 million to arrive at the core results before tax amounts to USD 118 million. The average tax rate on the adjustments was 24%

Reconciliation from IFRS operating income to core net income

(USD millions unless indicated otherwise)	2023	2022
IFRS operating income	**375**	**1,239**
Amortization of intangible assets	**222**	**221**
Impairments		
Intangible assets	44	35
Property, plant and equipment related to the Group-wide rationalization of manufacturing sites	(1)	(2)
Total impairment charges	**43**	**33**
Other items		
Restructuring and related items		
- Income	(8)	(14)
- Expense	132	154
Legal-related items		
- Expense	576	56
Separation costs	155	16
Additional income	(7)	–
Total other items	**848**	**212**
Total adjustments	**1,113**	**466**
Core operating income	**1,488**	**1,705**
% of net sales to third parties	*15.4*	*18.8*
Net financial result	(245)	(137)
Core adjustments to net financial result	(6)	22
Income taxes, adjusted for above items (core income taxes)	(284)	(370)
Core net income	**953**	**1,220**

Reconciliation from operating income to EBITDA to core EBITDA

(USD millions)	2023 IFRS results	Amortization of intangible assets	Impairments	Other items	2023 Core results
Operating income	**375**	**222**	**43**	**848**	**1,488**
Depreciation of property, plant and equipment	189	–	–	(19)	170
Depreciation of the right-of-use assets	49	–	–	–	49
Amortization of intangible assets	230	(208)	–	–	22
Intangible assets directly expensed	14	(14)	–	–	–
Impairments of property, plant and equipment, right-of-use assets and intangible assets	57	–	(43)	–	14
EBITDA	**914**	–	–	**829**	**1,743**

(USD millions)	2022 IFRS results	Amortization of intangible assets	Impairments	Other items	2022 Core results
Operating income	**1,239**	**221**	**33**	**212**	**1,705**
Depreciation of property, plant and equipment	199	–	–	(22)	177
Depreciation of the right-of-use-assets	37	–	–	–	37
Amortization of intangible assets	222	(211)	–	–	11
Intangible assets directly expensed	10	(10)	–	–	–
Impairments of property, plant and equipment, and intangible assets[1]	34	–	(33)	–	1
EBITDA	**1,741**	–	–	**190**	**1,931**

[1] There were no impairments of right-of-use assets in 2022.

Reconciliation of free cash flow

(USD millions)	2023	2022
Operating income	**375**	**1,239**
Adjustments for non-cash items		
Depreciation, amortization and impairments	525	492
Change in provisions and other non-current liabilities	639	99
Other	15	(22)
Operating income adjusted for non-cash items	**1,554**	**1,808**
Interest and other financial receipts	43	8
Interest and other financial payments	(204)	(119)
Income taxes paid	(245)	(273)
Payments out of provisions and other net cash movements in non-current liabilities	(123)	(165)
Change in inventory and trade receivables less trade payables	(463)	(325)
Change in other net current assets and other operating cash flow items	(200)	289
Net cash flows from operating activities	**362**	**1,223**
Purchases of property, plant and equipment	(364)	(278)
Proceeds from sale of property, plant and equipment	34	9
Purchases of intangible assets	(261)	(149)
Proceeds from sale of intangible assets	5	32
Purchases of financial assets	(5)	(6)
Proceeds from sale of financial assets	2	1
Purchases of other non-current assets	(7)	–
Free cash flow	**(234)**	**832**

Reconciliation of net working capital

(USD millions)	2023	2022
Inventories	**2,700**	**2,124**
Trade receivables	2,615	2,207
Receivables from former parent	–	91
Total trade receivables	**2,615**	**2,298**
Trade payables	(1,593)	(1,100)
Payables to former parent	–	(257)
Less total trade payables	**(1,593)**	**(1,357)**
Net working capital	**3,722**	**3,065**

Reconciliation of net CAPEX

(USD millions)	2023	2022
Purchases of property, plant and equipment	364	278
Purchases of intangible assets	261	149
Total purchases of property, plant and equipment and intangible assets	**625**	**427**
Proceeds from sale of property, plant and equipment	(34)	(9)
Proceeds from sale of intangible assets	(5)	(32)
Less total proceeds from sale of property, plant and equipment and intangible assets	**(39)**	**(41)**
Net CAPEX	**586**	**386**

Effects of currency fluctuations

We transact our business in many currencies other than the U.S. dollar, our presentation currency.

The following table provides an overview of net sales and operating expenses for our operations based on IFRS values for 2023 and 2022 for currencies most important to Sandoz:

	2023		2022	
Currency	Net sales to third parties %	Operating expenses [1] %	Net sales to third parties %	Operating expenses [1] %
US dollar (USD)	20	24	22	24
Euro (EUR)	38	44	37	41
Swiss franc (CHF)	3	11	3	13
Canadian dollar (CAD)	6	3	5	3
British pound (GBP)	4	1	4	2
Other currencies	29	17	29	17

[1] Operating expenses include cost of goods sold; selling, general and administration; development and regulatory; other income and other expense.

Financial statements of Sandoz Group AG

Income statements

(For years ended December 31, 2023 and 2022)

(CHF thousands)	Note	2023	From January 20 to December 31, 2022
Income from investments in Group subsidiaries		250,000	–
License income		4,588	–
Other income		5,475	–
Total income		**260,063**	–
General and administration		(2,559)	(23)
Depreciation of intangible assets	3.1	(214)	–
Total expense		**(2,773)**	**(23)**
Operating income		**257,290**	**(23)**
Financial income	3.2	11,159	–
Financial expense	3.2	(10,973)	–
Income before taxes		**257,476**	**(23)**
Direct taxes		(1,419)	–
Net income		**256,057**	**(23)**

Balance sheets

(At December 31, 2023 and 2022)

(CHF thousands)	Note	December 31, 2023	December 31, 2022
ASSETS			
Current assets			
Cash and cash equivalents		110	100
Interest-bearing current assets			
Group subsidiaries	3.4	13,365	–
Other current receivables			
Group subsidiaries		259,305	–
Third parties		6	–
Accrued income		8,590	–
Total current assets		**281,376**	**100**
Non-current assets			
Interest-bearing non-current assets			
Group subsidiaries	3.4	750,000	–
Investments			
Group subsidiaries	3.3	2,759,750	–
Intangible assets	3.1	3,193	–
Total non-current assets		**3,512,943**	**–**
Total assets		**3,794,319**	**100**
EQUITY AND LIABILITIES			
Current liabilities			
Other current liabilities			
Group subsidiaries		1,415	–
Accrued expenses		5,560	23
Total current liabilities		**6,975**	**23**
Non-current liabilities			
Interest-bearing non-current liabilities			
Notes	3.5	750,000	–
Total non-current liabilities		**750,000**	**–**
Equity			
Share capital	3.6	21,550	100
Legal reserves			
Other capital reserves	3.8	2,759,750	–
Legal reserve for treasury shares held by subsidiaries	3.8	4,979	–
Total legal reserves		**2,764,729**	**–**
Retained earnings		(4,949)	–
Net income		256,057	(23)
Total unappropriated earnings		**251,108**	**(23)**
Treasury shares held by Sandoz Group AG	3.7	(43)	–
Total equity		**3,037,344**	**77**
Total liabilities and equity		**3,794,319**	**100**

Notes to the financial statements

1. Introduction

The financial statements of Sandoz Group AG (the "company"), with registered office in Risch, comply with the requirements of the Swiss Code of Obligations (SCO).

Sandoz Group AG is presenting its consolidated financial statements according to IFRS. Therefore, Sandoz Group AG has applied the exemption included in article 961d paragraph 1 SCO, and has not prepared additional disclosures, a separate cash flow statement and a management report for SCO purposes.

Sandoz Group AG does not have any employees.

2. Accounting policies

Financial income and expense

Realized exchange gains and losses as well as unrealized exchange losses arising from the conversion of the balance sheet positions in foreign currencies are recorded as financial income or financial expense. Unrealized exchange gains are provided for.

Financial income and expense also include interest income and expense, as well as other financial costs like bank fees.

Interest-bearing assets

Interest-bearing assets are valued at acquisition cost less any impairment of value.

Investments

Investments are initially recognized at cost. Investments in Sandoz subsidiaries are assessed annually and, in case of an impairment, adjusted to their recoverable amount within their category.

Intangible assets

Intangible assets are capitalized and amortized over a period of 3 to 5 years. Intangible assets are reviewed for impairment on an annual basis. If necessary, an impairment is recognized.

Notes

Notes are valued at nominal value. Any note premium is accrued over the duration of the note so that at maturity, the balance sheet amount will equal the amount that is due to be paid.

Related transaction costs are capitalized and amortized over the maturity period of the corresponding note.

Accrued expenses

Accrued expenses are related to received goods and services not invoiced yet.

3. Notes to the financial statements

3.1 Intangible assets

(CHF thousands)	2023	2022
Product rights	3,407	–
Gross value	**3,407**	**–**
Accumulated amortization		
January 1	**–**	**–**
Amortization	(214)	–
December 31	**(214)**	**–**
Net book value	**3,193**	**–**

3.2 Financial income and expense

	2023		From January 20 to December 31, 2022	
(CHF thousands)	Income	Expense	Income	Expense
Interest	2,781	(2,111)	–	–
Foreign exchange	8,376	(8,676)	–	–
Others	2	(186)	–	–
Total financial income and expense	**11,159**	**(10,973)**	**–**	**–**

3.3 Investments

The principal direct and indirect subsidiaries and other holdings of Sandoz Group AG are shown in Note 34 to the consolidated financial statements.

3.4 Interest-bearing current and non-current assets and liabilities

Interest-bearing current assets and liabilities with Group subsidiaries contain intragroup arrangements under which the company grants or receives credits that are available on demand.

Interest-bearing non-current assets with Group subsidiaries include financing arrangements and loans to direct or indirect subsidiaries of Sandoz Group AG.

3.5 Notes

Notes

Coupon	Currency	Nominal amount	Issuance year	Maturity year	Issuer	Issue price	2023 CHF thousands	2022 CHF thousands
2.125%	CHF	400,000	2023	2026	Sandoz Group AG	100.014%	400,000	–
2.600%	CHF	350,000	2023	2031	Sandoz Group AG	100.125%	350,000	–
Total							**750,000**	**–**

Comparison of balance sheet and fair value

(CHF thousands)	2023 Balance sheet	2023 Fair value	2022 Balance sheet	2022 Fair value
Notes	750,000	779,475	–	–
Total	**750,000**	**779,475**	**–**	**–**

3.6 Share capital

	2023		2022	
January 1	Number of shares	Share capital CHF thousands	Number of shares	Share capital CHF thousands
Incorporation	2,000,000	100	2,000,000	100
Capital increase	429,000,000	21,450	–	–
December 31	**431,000,000**	**21,550**	**2,000,000**	**100**

The share capital of Sandoz Group AG consists of registered shares with a nominal value of CHF 0.05 each. No capital band and conditional capital exists.

Sandoz Group AG with an initial share capital of CHF 100,000 was incorporated on January 20, 2022. On September 8, 2023, share capital was increased by 429,000,000 shares up to CHF 21,550,000.

3.7 Treasury shares

	2023		2022	
Treasury shares held by subsidiaries	Number of shares	Legal reserve for treasury shares held by subsidiaries CHF thousands	Number of shares	Legal reserve for treasury shares held by subsidiaries CHF thousands
January 1	–	–	–	–
Number of shares purchased	213,167	5,012	–	–
Number of shares transferred to employees	(1,399)	(33)	–	–
December 31	**211,768**	**4,979**	**–**	**–**

Treasury shares held by Sandoz Group AG	2023 Number of shares	2023 Treasury shares held by Sandoz Group AG CHF thousands	2022 Number of shares	2022 Treasury shares held by Sandoz Group AG CHF thousands
January 1	–	–	–	–
Number of shares received as contribution in kind	1,072,153	54	–	–
Number of shares sold	(213,167)	(11)	–	–
December 31	**858,986**	**43**	**–**	**–**

Total treasury shares	2023 Number of shares	2023 Total treasury shares CHF thousands	2022 Number of shares	2022 Total treasury shares CHF thousands
January 1	–	–	–	–
Total number of shares	1,070,754	5,022	–	–
December 31	**1,070,754**	**5,022**	**–**	**–**

Sandoz Group AG has met the legal requirements for legal reserves under articles 659 and subsequent and 663b.10 SCO for the treasury shares.

As part of the spin-off, Sandoz Group AG received from former parent 1,072,153 Sandoz shares of total CHF 53,608. Thereof 213,167 shares were sold during the fourth quarter of the year, at fair value, to affiliates for a total amount of CHF 5,012,306.

3.8 Other capital reserves

(CHF thousands)	2023	2022
January 1	**–**	**–**
Contributions in kind	2,759,750	–
December 31	**2,759,750**	**–**

In 2023, Sandoz Group AG got several investments as contributions in kind from former parent, recorded against other capital reserves.

3.9 Contingent liabilities

(CHF thousands)	December 31, 2023	December 31, 2022
Guarantees in favor of subsidiaries to cover notes – total maximum amount CHF 1,861,992,000 (2022: CHF 0)	1,861,992	–
Other guarantees in favor of subsidiaries to cover credit facilities – total maximum amount CHF 1,814,804,340 (2022: CHF 0)	763,117	–
Total contingent liabilities	**2,625,109**	**–**

Sandoz Group AG is guarantor for the notes issued in euros by Sandoz Finance B.V. and credit facilities granted by banks to several subsidiaries outside Switzerland.

Sandoz Group AG is part of the Swiss Sandoz value-added tax (VAT) group and therefore jointly liable for existing and future VAT claims from the Swiss Federal Tax Administration.

3.10 Registration, voting restrictions and major shareholders

The company's articles of incorporation state that no person or entity shall be registered with the right to vote for more than 5% of the share capital, as set forth in the commercial register. In particular cases, the Board of Directors may allow exemptions from the limitation for registration in the Sandoz share register.

The major shareholders of Sandoz Group AG as of December 31, 2023 are listed in the table below, which is based on notifications on the SIX Swiss Exchange online notification platform: www.ser-ag.com/en/resources/notifications-market-participants/significant-shareholders.html.

	% holding of share capital December 31, 2023	% holding of share capital December 31, 2022
Shareholders registered for their own account		
BlackRock, Inc., New York	6.04%	–
Novartis AG, Basel	4.30%	–
Emasan AG, Basel	4.15%	–
UBS AG, Zurich	3.24%	–

3.11 Equity instrument disclosures for the Board of Directors and Executive Committee members

Share ownership requirements for Board members

Board members are expected to build and retain a significant shareholding in Sandoz shares, to align their interests with those of other shareholders. The minimum requirements are as follows:

Position	Minimum ownership guidelines	Timeframe
Board Chair	1x Board Chair fee	Within four years of joining the Board of Directors
Other Board members	1x Board membership fee	Within four years of joining the Board of Directors

Board members must retain all Sandoz shares received from the company until the minimum ownership level is met (net of the applicable taxes). Members of the Board of Directors are required to maintain their minimum ownership requirement during their full tenure, and for a year after leaving the Board of Directors.

	December 31, 2023	December 31, 2022
Gilbert Ghostine	38,500	–
Karen Huebscher	7,750	–
Shamiram Feinglass	–	–
Urs Riedener	186	–
François-Xavier Roger	–	–
Arti Shah	–	–
Yannis Skoufalos	–	–
Remco Steenbergen	–	–
Maria Varsellona	–	–

Share ownership requirements for Executive Committee members

Executive Committee members are expected to build and retain a significant shareholding in Sandoz to align their interests with those of other shareholders. The minimum requirement is as follows:

Position	Minimum ownership guidelines	Timeframe
Chief Executive Officer	3x base salary	Within 5 years of appointment
Other members of the Sandoz Executive Committee	2x base salary	Within 5 years of appointment

Unvested PSUs, which are still subject to performance conditions, do not count towards the minimum share ownership requirement. Executive Committee members must retain all Sandoz shares received from the company until the minimum ownership level is met (net of applicable taxes).

	Vested shares and ADRs	Unvested shares and other equity rights	Total as at December 31, 2023	December 31, 2022
Richard Saynor	1,316	89,707	91,023	–
Francisco Ballester	9,319	25,841	35,160	–
Colin Bond	84	27,230	27,314	–
Pierre Bourdage	–	26,195	26,195	–
Claire D'Abreu-Hayling	113	20,055	20,168	–
Glenn Gerecke	–	28,254	28,254	–
Rebecca Guntern	5,935	54,005	59,940	–
Keren Haruvi	–	36,997	36,997	–
Tripti Jha	744	47,048	47,792	–
Ingrid Sollerer	23,142	30,252	53,394	–

3.12 Subsequent events

There are no subsequent events.

Appropriation of available earnings

(CHF)	2023
Retained earnings carried forward	
Balance at the beginning of the period	(22,861)
Change in retained earnings due to treasury shares	(4,925,903)
Net income	256,056,587
Retained earnings available for distribution at the end of the year	**251,107,823**
Motion of the Board of Directors on the retained earnings available for distribution for the end of the year	
Retained earnings available for distribution at the end of the year	251,107,823
Allocation to general legal reserve from retained earnings	(4,310,000)
Distribution of dividend to shareholders[1]	(193,468,161)
Retained earnings carried forward	**53,329,662**

[1] Payment of a gross dividend (before taxes and duties) of CHF 0.45 on 429,929,246 dividend bearing shares with a nominal value of CHF 0.05. No dividend is declared on treasury shares held by Sandoz Group AG or its direct or indirect fully owned subsidiaries.

KPMG Audit Report

Statutory Auditor's Report

To the General Meeting of Sandoz Group AG, Risch

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sandoz Group AG (the Company), which comprise the balance sheet as at 31 December 2023, and the income statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 209 to 215) comply with Swiss law and the Company's articles of incorporation.

Basis for Opinion

We conducted our audit in accordance with Swiss law and Swiss Standards on Auditing (SA-CH). Our responsibilities under those provisions and standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the provisions of Swiss law, together with the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

Other matter

The financial statements for the year ended 31 December 2022 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 28 March 2023.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the standalone financial statements of the Company, the compensation report and our auditor's reports thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Board of Directors' Responsibilities for the Financial Statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the Company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and SA-CH will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and SA-CH, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

— Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In accordance with article 728a para. 1 item 3 CO and PS-CH 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Marc Ziegler
Licensed Audit Expert
Auditor in Charge

Stéphane Nusbaumer
Licensed Audit Expert

Basel, 12 March 2024

KPMG AG, Grosspeteranlage 5, CH-4002 Basel

ESG Additional Disclosures: KPIs, Standards & Assurance

ESG reporting compliance index

Swiss Civil Code of Obligation – Article 964b

We are committed to upholding the principles and requirements outlined in Article 964b of the Swiss Code of Obligations (CO). The following index outlines sections in the Integrated Annual Report related to non-financial matters and forms the focal point for the vote during the annual general meeting.

Disclosure Title	Sections	Reference
The report on non-financial matters	The Integrated Annual Report (IAR) includes the report on non-financial matters in terms of Article 964b of the Swiss Civil Code of Obligation.	
Description of the business model	Our business model	p. 34–35
Sandoz approach to non-financial matters, [1] including material ESG issues:		
Environmental concerns • **Sustainable supply chain** • **Decarbonization** • **Waste management and circularity** • **Water management** • **Biodiversity**	Climate change and the environment: Our commitment to decarbonization Responsibly managing waste & water Sustainable supply chain	p. 66–69
Employee concerns • **Diversity, inclusion, and well-being** • **Health and safety** • **ESG advocacy and engagement**	Our people: Developing our future leaders Learning and development Employee engagement Diversity, equity and inclusion Sandoz values Fair and competitive wages Human rights and labor standards Performance management Employee concerns Health, safety and environment Employee well-being	p. 62–65
Social concerns • **Access to healthcare** • **Community involvement** • **Innovation and R&D** • **Product quality and safety**	Access is our purpose: Pioneering access for patients Patients in focus Pioneering access Democratizing biologics Quality	p. 21–31 p. 45–49 p. 54–55
Combating corruption and corporate governance • **Business ethics** • **ESG governance** • **Capital allocation**	Whistleblowing, Ethics and corporate integrity Governance of ESG practices Annual Incentive ESG metrics	p. 65 p. 68 p. 68 p. 103
Respect for human rights [2]	Human rights and labor standards, Whistleblowing Sustainable supply chain, Ethics and corporate integrity	p. 64 p. 65 p. 68 p. 68
Implementation and effectiveness on measures	Governance of ESG practices and ERM Framework	p. 68, p. 88
Material risks	Our material Issues and materiality assessment Risk management and ERM framework	p. 60–61 p. 226–227 p. 88 p. 114–121
Performance indicators	ESG performance: KPIs and data	p. 228–234
Basis of preparation of the report	Basis for reporting	p. 222

[1] Our policies related to the broad spectrum of ESG can be found here: https://www.sandoz.com/policies/. For more information on our 2023 material ESG issues, see page 226. Within 2024 we will be re-assessing our material issues based on the principle of "double materiality," in alignment with the EU's Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy. The purpose of this assessment will be to complete the process of identifying and prioritizing the most significant ESG issues impacting our organization and society as a whole, to incorporate the comprehensive results into our ESG strategy and streamline our ESG policies and address the identified risks. We will also set the corresponding Key Performance Indicators (KPIs) and targets to effectively monitor and track our progress in achieving our ESG goals. The findings and outcomes of this assessment will be published in our 2024 Integrated Annual Report.

[2] Our human rights program and due diligence activities are aligned with international human rights standards, the UNGPs, the ILO Standards, the OECD Guidelines for Multinational Enterprises and the OECD Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas. To learn more please visit www.sandoz.com/impact.

Additional information on ESG Reporting Standards and non-financial KPIs.

Basis for reporting

This section provides definitions and important considerations for key environmental, social and governance (ESG) performance indicators for 2023. Our annual reporting period covers the 2023 calendar year. Further information on KPIs and reporting criteria can be found on our website: www.sandoz.com/ESG_reporting_criteria.

The ESG-related content of the Integrated Annual Report is prepared in alignment with the Integrated Reporting Framework, the Task Force on Climate-related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB) – all three now under the IFRS Foundation. We also provide data following the latest non-financial standards published by the Global Reporting Initiative (GRI), GHG protocol, and in compliance with Article 964b of the Swiss Code of Obligations, see page 221.

In addition, we take certain internal principles and guidelines into account, including the Sandoz Code of Ethics. We have established procedures for gathering, collecting, and aggregating ESG performance data.

Unless otherwise indicated, we use the same boundary as for the consolidated financial statements presented in our Integrated Annual Report for Environmental, Social and Governance indicators, and all metrics, including prior-year data, measure only the Sandoz Group AG which was spun off from the Novartis Group on October 4, 2023.

Reporting frequency

We gather ESG data internally on a monthly, quarterly, or annual basis, depending on the type of metric, and report publicly on an annual basis in our Integrated Annual Report.

Data sources and systems

Our objective is to design and implement non-financial data reporting processes, procedures, data and systems to report ESG data with the equivalent reliability, relevance and completeness as for our financial data. Our ESG data reporting processes, procedures and systems are evolving, and we continue to work to align data recording and reporting methods throughout our Operating units and Global functions. We will continue to work and invest on enhancing our ESG data processes, procedures, and systems, as well as governance over ESG data to continuously improve the quality of our data and meet the evolving regulatory requirements.

Misstatements and corrections

We aim to capture information in a consistent, complete, and accurate manner. Data that are subsequently found to be materially in error, or where conversion factors may have changed, will be clearly indicated. Materiality is assessed by metric and based on management judgment of what we believe would impact the decisions of the users of the Sandoz 2023 Integrated Annual Report. If an error or correction is deemed material, the respective data is restated in the following year's report and for purposes of baselines and trend analysis.

Verification / assurance

Independent limited assurance is provided by KPMG over data for the current reporting year 2023 on the performance indicators that appear in this document. Assurance is also provided in relation to compliance with Article 964b of the Swiss CO. The limited assurance report is issued in accordance with International Standards of Assurance Engagements (ISAE 3000 Revised) and with International Standard on Assurance Engagements 3410 Assurance Engagements on Greenhouse Gas Statements ("ISAE 3410") and published as part of the Sandoz 2023 Integrated Annual Report.

Summary of split methodology 2023

Due to Sandoz spin-off from Novartis on October 4th, 2023, the data collected from January 1st to September 30th, 2023 follows a split methodology that was created by Novartis and adopted by Sandoz. The methodology is summarized in the table below:

Area	Category	Split methodology [1]
G	Product Quality and Pharmacovigilance	Separation based on site or product transfer.
G	Third Party Risk Management	Separation based on suppliers/contracts transfer
S	Access for patients	Data was already separate between Novartis and Sandoz
E	Environment	From 2021 until Q3 2023 a percentage split has been applied for shared sites based on site and/or KPI-specific factors. Separate sites where allocated accordingly
S	People (incl. SpeakUp)	Separation for people KPIs is based on the list of Sandoz legal entities and people transfer. For SpeakUp separation is done on a case-by-case basis and percentage allocation
G	Corporate Governance (Code of Ethics)	Separation based on people transfer
G	Corporate Governance (Human and Labor Rights)	Data is split according to the entity to which the respective supplier provided goods or services. Entities and supplier contracts were transferred to Sandoz as per the legal entities transfer list

[1] For more information on the split methodology please refer to the Reporting Criteria: www.sandoz.com/ESG_reporting_criteria.

Definitions & important considerations

Access indicators

The 2023 number of patient treatments provided is calculated based on volumes sold and the following elements: defined daily dose, treatment duration and certain adjustments from medical experts. Further information on all Access KPIs (Savings delivered to healthcare systems, Social impact delivered by our key products, etc.) can be found in the Reporting Criteria: www.sandoz.com/ESG_reporting_criteria

Code of Ethics indicators

Sandoz employees trained and certified on our Code of Ethics include all active employees (excluding third-party employees and contractors) with a Sandoz e-mail address that are registered for the Code of Ethics e-learning, except for approximately 1% of employees who do not have access to laptops. They are trained with the abbreviated form of the training in hard copy.

Energy use

Energy use is considered as the consumption of power, steam, heat, and fuel (natural gas, wood, diesel, coal oil) and includes energy generated on site as well as purchased.

Environmental indicators

Environmental indicators for 2023 represent 9-month data plus an estimate for the fourth quarter. The fourth quarter estimate is based on prior-year experience. Data from 2021 until the third quarter of 2023 has been provided and separated by Novartis based on a percentage split methodology for shared sites.

Headcount & FTEs

Headcount reflects the total number of employees on Sandoz payroll systems. Full-time equivalent positions adjust headcount for employees working less than 100%.

Health and safety indicators

An Injury is an instantaneous, unexpected bodily defect partly caused by external factors (e.g., cuts and burns, slips, trips, and falls). For our purposes, the term is synonymous with 'accidents'. An Illness is an abnormal health condition or disorder, other than those caused by injuries. A Recordable Case includes any work-related injury and work-related illness (including work-related loss of consciousness) with or without lost time and work-related fatalities. Fatality represents a work-related injury or illness leading to death.

Human and labor rights

While Human and Labor Rights do not appear in the 2023 materiality matrix per se, they remain a significant topic for our company. Suppliers of products and services are subject to a risk-assessment that includes human and labor rights. The results of such assessments expire after 36 months, and then a new assessment is triggered.

People & Operations indicators

People & Operations indicators are collected on a yearly basis. The figures include 2023 end-of-year Sandoz-only data.

Product quality indicators

GxP audits include Sandoz quality audits completed during the reporting year and excludes any other type of audits such as financial or compliance audits. Regulatory authorities' indicators include all inspections performed and completed by various health authorities at facilities owned by Sandoz during the reporting year.

Scope 1 GHG emissions

Scope 1 emissions comprise direct CO_2 emissions from sources that are owned or controlled by Sandoz and are presented as the sum of emissions from vehicles and combustion & process.

Scope 2 GHG emissions

Scope 2 comprise CO_2 emissions from purchased or acquired electricity, cooling, heat, and steam and is presented as the emissions generated from energy purchased market based and location based.

Scope 3 GHG emissions

Scope 3 emissions are the result of activities from assets not owned or controlled by Sandoz, but that indirectly affect its value chain.

SpeakUp indicators

Data has been split based on a case-by-case basis/percentage allocation.

TCFD

In 2023, we conducted our first analysis based on the recommendations of the Task Force on Climate-related Disclosures. We assessed physical risks at 70 of our most critical sites. Based on these results, we quantified the potential financial impact at 28 sites based on asset value and net revenue.

Volatile organic compounds (VOCs)

Amount of volatile organic compounds used in manufacturing and research facilities in tons segregated by halogenated (containing Fluorine, Chlorine, Bromine and/or Iodine) and non-halogenated form (not containing any of the former).

Waste

Waste information is collected split into hazardous waste and non-hazardous waste – both recycled and not recycled.

Water use

Water is defined as freshwater, such as drinking water, ground water, rainwater, and natural bodies of freshwater.

Abbreviations

This report uses the following abbreviations:

CAPA – Corrective and Preventive Action

CSRD – Corporate Sustainability Reporting Standards

EML – Essential Medicines List

ESG – Environmental, Social and Governance

EU – European Union

FDA – Food and Drug Administration

FTE – Full-time Equivalent

GDP – Gross Domestic Product

GHG – Greenhouse Gas Emissions

GRI – Global Reporting Initiative

GxP – Good Practices

HSE – Health, Safety and Environment

IFRS – International Financial Reporting Standards

ILO – International Labour Organization

IPCC – International Panel on Climate Change

ISO – International organization for Standardization

KPI – Key Performance Indicator

LMIC – Low and Middle Income Countries

OECD – Organization for Economic Cooperation and Development

PEC/PNEC – Predicted Environmental Concentration / Predicted No-effect Environmental Concentration

RCP – Representative Concentration Pathways

SASB – Sustainability Accounting Standards Board

SDG – Sustainable Development Goals

SSP – Shared Socioeconomic Pathways

STEM – Science, Technology, Engineering and Math roles

TCFD – Task Force on Climate-related Financial Disclosures

UN – United Nations

UNGPs – United Nations' Guiding Principles on Business and Human Rights

VOC – Volatile Organic Compounds

WHO – World Health Organization

Materiality assessment and methodology

More information on our material ESG issues

Sandoz conducted a materiality assessment in early 2023 utilizing the GRI Universal Standards, incorporating an additional business and valuation lens. The shortlist of likely relevant ESG topics was developed using Sustainability Accounting Standards Board (SASB) materiality framework, ESG rating agency scoring criteria, other ESG reporting standards, and competitor benchmarking. The analysis was conducted through desk research and stakeholder engagement with employees, peers, investors, regulators, and patient groups.

This preliminary materiality assessment was meant to guide the initial steps of our ESG strategy as a standalone company. We are currently assessing our material issues on the principle of "double materiality" in line with the EU's Corporate Sustainability Reporting Directive (CSRD) and the EU Taxonomy. We will publish the results of that more detailed assessment in our 2024 Integrated Annual Report.

The materiality matrix is built upon a top-down perspective, using the y-axis to determine Sandoz impact on stakeholders, and the x-axis to identify the impact of issues on the business. The matrix summarized 5 environmental, 6 social and 4 governance topics. The results show that social topics are top priority for Sandoz stakeholders, with focus on access to healthcare, health and safety, and diversity and inclusion. Environmental topics hold significant importance, particularly in relation to decarbonization, water management, and the maintenance of a sustainable supply chain. Governance topics are also material, especially with regards to the governance of ESG.

More detail on topics highlighted in the materiality matrix

Environment

- **Waste management and circularity:** We are committed to minimizing the environmental impact of production on water systems. We're also leveraging circular economy opportunities, which includes a focus on reducing the use of raw materials, developing more sustainable packaging design, and addressing the recyclability of packaging after use.
- **Sustainable supply chain:** We choose our partners based on their capabilities and competitiveness, as well as their ability to meet our high health, safety and environment (HSE) and environmental, social and governance (ESG) standards.
- **Decarbonization:** Decarbonization is an essential part of our strategy. We aim to limit our impact on the environment by reducing emissions, waste, and consumption of natural resources.
- **Water management:** Sandoz manages our water use and our wastewater treatment. We have a commitment to mitigating antimicrobial resistance (AMR), and we are dedicated to minimizing the potential discharge of active pharmaceutical ingredients (APIs) or other chemicals into water systems.
- **Biodiversity:** Preserving biodiversity ensures the availability of valuable resources, such as clean water. This enhances the fight against AMR and contributes to the long-term success of our company and our environment.

Social

- **Access to healthcare:** Access to medicines is one of the world's greatest healthcare challenges. We have well-defined access principles, covering research and development, affordability and strengthening healthcare systems.
- **Diversity, inclusion, and well-being:** At Sandoz, diversity, equity, and inclusion are at the heart of all we do. We do not tolerate discrimination, harassment, abuse of authority, retaliation, bullying or workplace incivility. We promote best practice human and labor rights practices in our operations and in our supply chain.
- **Health and Safety:** We constantly monitor for safe workplace conditions through our internal HSE management system, which covers all our sites and all the people who work in them – Sandoz employees, contractors, and third-party personnel.
- **Product quality and safety:** We are committed to ensuring that all our marketed products meet the highest standards, because patient safety is our highest priority.
- **Community involvement:** We support the patient community by partnering, amplifying their voices, and co-creating programs that address their needs. We also act as good corporate citizens in the places where we have operations.
- **Innovation and R&D:** Sandoz focuses on innovation and R&D to pioneer access to patients. We are constantly evaluating new opportunities for our portfolio, and we develop strategic partnerships to add value to our process and products.

Governance

- **ESG advocacy and engagement:** Sandoz operates with a sustainability mindset, and we know that responsible environmental practices are good for the environment and society. We engage with internal and external stakeholders to communicate what is important to us.
- **ESG governance: Sandoz** corporate governance practices enable us to innovate and manage risks as we drive toward sustainable financial performance and long-term value creation. This is also true for how ESG risks and opportunities are governed. Our process supports effective management of business practices that can impact all of our stakeholders.
- **Business ethics:** We uphold high ethical standards throughout our business, from R&D and manufacturing to supply chain management and our commercial operations.
- **Capital allocation:** We allocate resources toward achieving our ESG goals, and we are designing reward systems aligned with ESG objectives.

ESG performance: KPIs and data

Product Quality and Pharmacovigilance

Key Performance Indicators	2023	2022	2021	Sandoz Scope of Assurance 2023
GxP audits				
Total audits executed [1]	654	358	533	✓
Internal GxP audits [2]	47	28	37	
External GxP audits [3]	607	330	496	
Regulatory authorities				
Total inspections [4]	51	33	37	✓
Inspections related to clinical trial management and pharmacovigilance	6	1	0	
Inspections found to be acceptable (%)	100	100	100	✓
US FDA				
FDA inspections	2	2	3	✓
Number of FDA NAI (no action indicated) classifications	1	0	1	
Number of FDA VAI (voluntary action indicated) classifications	1	2	2	
Number of FDA OAI (official action indicated) classifications	0	0	0	
FDA Warning Letters	0	0	0	✓
Recalls				
Total recalls [5]	16	12	18	✓
Class I recalls	2	0	3	
Class II recalls	14	10	14	
FDA (US Market) recalls [6]	1	1	1	✓

[1] Audits include Sandoz and shared audits for both Sandoz and Novartis.

[2] Internal Audits for Sandoz and shared internal entities.

[3] External Audits done for shared suppliers between Sandoz and Novartis and Sandoz only suppliers.

[4] The number includes Sandoz manufacturing sites, Sandoz country organization and Sandoz clinical development.

[5] The number includes all recalls for which Sandoz is the Marketing Authorization Holder of the product.

[6] Sandoz only data for supplier risk assessment.

Third-Party Risk Management

Key Performance Indicators	2023	2022	2021	Sandoz Scope of Assurance 2023
Third Party Risk Management				
Suppliers risk-assessed by Third-Party Risk Management (TPRM)				
Number of suppliers risk-assessed by TPRM [7]	2,568	2,458	2,672	✓
Suppliers assessed by risk area				
Anti-bribery	697	515	764	
Animal welfare	13	5	3	
Health, safety and environment	114	34	55	
Information security and data privacy	877	1,527	1,293	
Labor rights	1358	1105	1388	
TPRM (Actions taken)				
Suppliers audited	34	35	35	✓
Suppliers with remediation action agreed	89	93	221	✓
Supplier engagements stopped due to risk assessment outcomes	3	1	2	✓

[7] One supplier can trigger more than one assessment depending on the risk areas involved.

Access for Patients

Key Performance Indicators	2023	2022	2021	Sandoz Scope of Assurance 2023
Access for Patients				
Number of patient treatments provided (millions) [8]	831			✓
Unique patients reached (millions) [9]	741			✓
Number of patient treatments provided in LMIC (millions) [10]	38			
Savings delivered to US and EU healthcare systems (million USD) [11]	18,104			✓
Social impact delivered globally by Sandoz key products (million USD) [12]	396,266			✓
Countries where Sandoz biosimilars are currently available	98			
Biosimilars available for patients in the market	8			
Biosimilars in the pipeline	25			
Antibiotics molecules in our portfolio	58			
Number of Health Care Practitioners (HCPs) reached with stewardship initiatives for antibiotics (1000 HCPs)	>50			
WHO EML Sandoz addressable portfolio (%) [13]	53			✓
WHO EML Sandoz total coverage portfolio (%) [14]	42			✓

[8] The patient number is calculated based on Sandoz treatments delivered (volumes sold) and the following elements: defined daily dose (taken from WHO), treatment duration based Sandoz medical experts' guidance.

[9] Unique number of patients reached in the last 12 months receiving a Sandoz treatment. Form more information please refer to the reporting criteria: www.sandoz.com/ESG_reporting_criteria.

[10] LMIC Countries are those included in the OECD list.

[11] Different methodologies apply for the US and EU calculations, please refer to the reporting criteria: www.sandoz.com/ESG_reporting_criteria.

[12] Please refer to the reporting criteria: www.sandoz.com/ESG_reporting_criteria.

[13] Please refer to the reporting criteria: www.sandoz.com/ESG_reporting_criteria.

[14] Please refer to the reporting criteria: www.sandoz.com/ESG_reporting_criteria.

Environment

Key Performance Indicators	2023	2022	2021	Sandoz Scope of Assurance 2023
Energy use[15]				
Energy use – on site and purchased (million GJ)	2.79	2.73	2.82	✓
Energy generated on-site from renewable energy sources (million GJ)	0.01	0.01	0.01	
Energy intensity (Production, GJ/t)	92.03			
Energy intensity (Employees, GJ/FTE)	123.27			
Energy intensity (Floor Area, GJ/100m^2)	100.56			
Greenhouse gas (GHG) emissions (1 000 tCO_2e)				
Total Scope 1 emissions	82.85	79.94	75.62	✓
Combustion and process	56.52	57.33	59.05	
Vehicles	26.33	22.61	16.57	
Total Scope 2 emissions from purchased energy (market based)[16]	143.83			✓
Total Scope 2 emissions from purchased energy (location based)[17]	129.26	151.48	158.43	✓
Total Scope 1 and Scope 2 GHG Emissions	226.68	140.56	197.4	
Total Scope 3 emissions[18]	2,051.66			✓
Purchased goods and services	1,480.00			
Capital goods	44.73			
Fuel and energy-related activities	64.56			
Upstream transportation and distribution	181.94			
Waste generated in operations	20.82			
Business travel	15.73			
Use of sold products	243.87			
Total Scope 1, Scope 2 and Scope 3 emissions	2,278.34			✓
GHG emissions intensity				
Scope 1 and Scope 2 (tCO_2e / million USD sales)	23.43			
Scope 1 and Scope 2 (tCO_2e / FTE)	10.02			
VOCs (metric tons)				
Non-halogenated volatile organic compounds	186.81	166.06	160.02	✓
Water (million m^3)				
Total water withdrawal[19]	15,36	14.86	14.04	✓
Surface water	0.17	0.16	0.14	
Groundwater	13.93	13.46	12.77	
Third-party water	1.26	1.24	1.13	
Total water discharged[20]	15.32	14.67	13.92	✓
Discharged directly to surface water (for cooling)	12.96	12.46	11.75	
Water consumption[21]	2.36	2.21	2.18	✓

[15] From January 2021 to September 2023 a split percentage has been applied to obtain Sandoz contribution from the entire Novartis Group figures per reporting unit.
Other than where indicated, environmental data for the current year are based on actuals for January-September and estimates for October-December (to be updated with actuals in 2024). Any significant deviations are restated the following year. Previous years' data reflect only actuals.

[16] Sandoz has not included Renewable Energy Certificates or offsets in the calculation of Scope 2 market based emissions for 2023.
Data for 2022 and 2021 are also not reported, for more information please refer to: www.sandoz.com/ESG_reporting_criteria.

[17] For 2023, location based emission factors are calculated depending on geography and data source.

[18] Scope 3 emissions are reported in accordance with the GHG Protocol, for further info please see the reporting criteria www.sandoz.com/ESG_reporting_criteria.

[19] The total water withdrawals number includes water used for cooling and returned to the environment without the need for additional treatment.

[20] Water consumption and non-contact water withdrawn from the environment for cooling and returned directly to the environment after use.

[21] Water discharged via treatment and water lost.

Key Performance Indicators	2023	2022	2021	Sandoz Scope of Assurance 2023
Water quality maturity ladder				
Sites that fulfil PEC/PNEC <1.0 for all APIs (%) [22]	71			
Waste management (1000t)				
Total waste generated	59.65	55.26	55.16	✓
Total non-hazardous waste	48.94	46.4	45.36	
Total hazardous waste	10.71	8.86	9.8	
Total waste recycled	48.3	45.56	45.68	✓
Total waste recycled (%)	81	82	83	
Non-hazardous waste recycled	43.48	41.97	41.5	
Non-hazardous waste recycled (%)	90	92	91	
Hazardous waste recycled	4.82	3.58	4.18	
Hazardous waste recycled (%)	10	8	9	
Total waste not-recycled	11.35	9,70	9.49	✓
Non-hazardous waste not-recycled	5.46	4.43	3.87	
Incineration	0.99	0.96	0.93	
Landfilling	4.33	3.39	2.82	
Other disposal options	0.14	0.08	0.11	
Hazardous waste not-recycled	5.89	5.27	5.62	
Incineration	5.25	4.15	4.82	
Landfilling	0	0	0	
Other disposal options	0.64	1.12	0.8	
Materials (tons)				
Use of raw materials and intermediates	89,282	86,595	87,522	
Materials – Production	30,315	28,974	29,208	

[22] The baseline for the calculation of the percentage is linked to manufacturing sites as one manufacturing site can have more than one reporting unit.

People

Key Performance Indicators	2023	2022	2021	Sandoz Scope of Assurance 2023
Health and safety – Reporting indicators [23]				
Lost-time injury and illness rate (per 200,000 hours worked): Sandoz employees	0.24			✓
Lost-time injury and illness rate (per 200,000 hours worked): Third-party personnel	0.56			✓
Total recordable case rate (per 200,000 hours worked): Sandoz employees [24]	0.41			✓
Total recordable case rate (per 200,000 hours worked): Third-party personnel [25]	0.56			✓
Fatalities: Sandoz employees	0.00			✓
Fatalities: Third-party personnel / contractors	0.00			✓
Headcount [26]	23,848			✓
Full-time equivalent positions [27]	22,633			✓
Turnover: voluntary / overall (%)	6.3/12.3			✓
Internal / external hires (%)	39/61			
Annual learning hours per employee [28]	39.60			✓
Representation of nationalities: overall / management	109/79			✓
Gender representation % (female/male)				
Overall headcount	53/47			✓
Hires	47/53			
Promotions	49/51			
Overall turnover	13.1/11.4			
Voluntary turnover	6.6/5.8			
Board of Directors	44/56			✓
Executive Committee of Sandoz	50/50			✓
Sandoz Top Leaders	39/61			✓
Senior management	37/63			✓
Middle management	48/52			
Overall management	46/54			✓
Entry-level positions	46/54			
Revenue-producing roles [29]	57/43			✓
STEM roles [30]	44/56			✓
Gender representation by contract type % (female / male)				
Permanent	53/47			✓
Temporary	51/49			✓
Full-time	49/51			✓
Part-time	85/15			✓

[23] These numbers refer to all Sandoz sites (both Manufacturing and Commercial Operations) for Q4 2023 only. No split methodolgy could be applied for Q1-Q3 2023 due to the nature of the indicators.

[24] Data include all work-related injuries and illnesses, whether leading to lost time or not.

[25] Data include all work-related injuries and illnesses, whether leading to lost time or not.

[26] Total number of employees in payroll systems.

[27] Full-time equivalent positions adjusts headcount for employees working less than 100%.

[28] Internal & external employees.

[29] Revenue-producing roles defined as the sum of the following Sandoz job families: BD&L and strategic planning; commercial and general; market access; marketing and sales.

[30] STEM roles defined as the sum of the following Sandoz job families: R&D; Technical Operations; Information Technology & Technology Transformation.

Key Performance Indicators	2023	2022	2021	Sandoz Scope of Assurance 2023
Gender representation by age group % (female / male)				
Employees aged < 30	55/45			✓
Employees aged 30-50	53/47			✓
Employees aged >50	50/50			✓
Number of employees by region, by gender % (female / male)				
Europe	57/43			✓
North America	51/49			✓
International	43/57			✓
Grievance indicators: SpeakUp Office – central matters [31]				
Total cases	425			
Total misconduct cases reported	90			✓
Total high-risk allegations [32]	127			✓
Allegations substantiated	99			✓
Total allegations substantiated per category SpeakUp Office – central matters				
Fraud/asset misappropriation	0			
Expense fraud	2			
Books and records, accounting irregularities	0			
Improper professional practices	2			
Bribery, kickbacks	0			
Discrimination and sexual harassment	4			
Retaliation	4			
Other employee relations issues	10			
Conflict of interest	0			
IT security breach	49			
Quality assurance / data integrity	3			
Data privacy	21			
Antitrust, fair competition	0			
Company confidential / trade secret information	0			
Other	4			
Pay equity (%) [33]				
Headcount covered by regular pay equity study	98			
Mean pay gap	3.7			
Recruitment no longer using historical salary data	59			
Employees with pay transparency to external benchmarks	24			

[31] Values from January to September 2023 are based on cases raised within Novartis system for Sandoz. A ratio has been applied to distribute cases between Sandoz and Novartis relating to shared functions in the period before the spin off of Sandoz. Values from October to December 2023 include Sandoz-only data.

[32] The number of allegations is higher than the actual number of cases as a case can have more than one allegation.

[33] All KPIs cover data from January to October 2023. They include all employees with a permanent contract excluding executive levels, inpats, expats, interns and country specific employee groups based on local requirements.

Corporate Governance

Key Performance Indicators	2023	2022	2021	Sandoz Scope of Assurance 2023
Code of Ethics				
Employees trained and certified (%) [34]	95			✓
Human and labor rights				
Non-compliance cases [35]	195			✓
CAPAs status (%) [36]	76 closed; 24 on-going			✓

[34] Active personnel only, excluding third-party employees and contractors.

[35] Vendor related human and labor rights non-compliances cases are defined as the number of Corrective and Preventive Actions (CAPAs) identified during a human and labor rights assessment.

[36] 24% CAPAs are ongoing since it takes up to 6 months to remediate a CAPA.

SASB and GRI reporting index

GRI

Our business

Disclosure number	Disclosure title	Reference
GRI	**General disclosures**	
2-1	Organizational details	p. 14–19 p. 72
2-2	Entities included in the organization's sustainability reporting	p. 222
2-3	Reporting period, frequency and contact point	p. 222
2-4	Restatements of information	p. 222–223
2-5	External assurance	p. 244–246
2-6	Activities, value chain and other business relationships	p. 34–35
2-7	Employees	p. 62–65 p. 232–233
2-8	Workers who are not employees	p. 65 p. 68 p. 232–234
2-9	Governance structure and composition	p. 71 p. 74–84
2-10	Nomination and selection of the highest governance body	p. 74–79
2-11	Chair of the highest governance body	p. 77
2-12	Role of the highest governance body in overseeing the management of impacts	p. 68 p. 71
2-13	Delegation of responsibility for managing impacts	p. 68
2-14	Role of the highest governance body in sustainability reporting	p. 68 https://prod.cms.sandoz.com/sites/spare53_sandoz_com/files/2023-10/Sandoz-Group-AG-Organizational-Regulations-BoD-0.pdf
2-15	Conflicts of interest	p. 77–79 p. 105 https://prod.cms.sandoz.com/sites/spare53_sandoz_com/files/2023-10/Sandoz-Group-AG-Organizational-Regulations-BoD-0.pdf
2-16	Communication of critical concerns	p. 65 p. 88 p. 233
2-17	Collective knowledge of the highest governance body	p. 68 p. 74 p. 77–79
2-18	Evaluation of the performance of the highest governance body	https://prod.cms.sandoz.com/sites/spare53_sandoz_com/files/2023-10/Sandoz-Group-AG-Organizational-Regulations-BoD-0.pdf
2-19	Remuneration policies	p. 93–99
2-20	Process to determine remuneration	p. 92 p. 99–109
2-22	Statement on sustainable development strategy	p. 5

Disclosure number	Disclosure title	Reference
2-23	Policy commitments	p. 64 p. 68 p. 121
2-24	Embedding policy commitments	p. 64 p. 68
2-25	Processes to remediate negative impacts	p. 64–65, p. 68
2-26	Mechanisms for seeking advice and raising concerns	p. 64–65 p. 68 p. 88 p. 233
2-27	Compliance with laws and regulations	p. 88 p. 226 p. 233–234
2-28	Membership associations	p. 13 p. 35 p. 43 p. 69
2-29	Approach to stakeholder engagement	p. 31 p. 39 p. 61 p. 90 p. 226–227
2-30	Collective bargaining agreements	p. 64 We do not report on the percentage of total employees covered by collective bargaining agreements.
GRI	**Material topics**	
3-1	Process to determine material topics	p. 226–227
3-2	List of material topics	p. 61 p. 226–227
3-3	Management of material topics	p. 226–227

Our economic performance

Disclosure number	Disclosure title	Reference
GRI	**Economic performance**	
201-1	Direct economic value generated and distributed	p. 12–219
201-2	Financial implications and other risks and opportunities due to climate change	p. 67 p. 117–120
201-3	Defined benefit plan obligations and other retirement plans	p. 173–178
201-4	Financial assistance received from government	p. 143
GRI	**Market presence**	
202-2	Proportion of senior management hired from the local community	p. 74 p. 80
GRI	**Indirect economic impacts**	
203-1	Infrastructure investments and services supported	p. 18–19 p. 54
203-2	Significant indirect economic impacts	p. 11 p. 22

Our supply chain

Disclosure number	Disclosure title	Reference
GRI	**Procurement practices**	
GRI	**Supplier environmental assessment**	
308-1	New suppliers that were screened using environmental criteria	p. 229
308-2	Negative environmental impacts in the supply chain and actions taken	p. 67–68 p. 226
GRI	**Supplier social assessment**	
414-1	New suppliers that were screened using social criteria	p. 229
414-2	Negative social impacts in the supply chain and actions taken	p. 67-68 p. 229

Our governance

Disclosure number	Disclosure title	Reference
GRI	**Anti-corruption**	
205-1	Operations assessed for risks related to corruption	p. 116 p. 229 p. 233–234
205-2	Communication and training about anti-corruption policies and procedures	p. 68 p. 234
205-3	Confirmed incidents of corruption and actions taken	p. 229 p. 233
GRI	**Anti-competitive behavior**	
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	All material legal proceedings are disclosed in the Integrated Annual Report (Refer to note 24: Provisions and other non-current Liabilities), p. 164–168
GRI	**Tax**	
207-2	Tax governance, control, and risk management	p. 88 p. 114

Our environmental impact

Disclosure number	Disclosure title	Reference
GRI	**Energy**	
302-1	Energy consumption within the organization	p. 230
302-3	Energy intensity	p. 230
GRI	**Water and effluents**	
303-1	Interactions with water as a shared resource	p. 68
303-2	Management of water discharge-related impacts	p. 68
303-3	Water withdrawal	p. 230
303-4	Water discharge	p. 230
303-5	Water consumption	p. 230
GRI	**Emissions**	
305-1	Direct (Scope 1) GHG emissions	p. 230
305-2	Energy indirect (Scope 2) GHG emissions	p. 230
305-3	Other indirect (Scope 3) GHG emissions	p. 230
305-4	GHG emissions intensity	p. 230
305-5	Reduction of GHG emissions	p. 67
305-6	Emissions of ozone-depleting substances (ODS)	Not Reported
305-7	Nitrogen oxides (NO_x), sulfur oxides (SOx), and other significant air emissions	p. 230
GRI	**Waste**	
306-1	Waste generation and significant waste-related impacts	p. 68
306-2	Management of significant waste-related impacts	p. 68 p. 231
306-3	Waste generated	p. 231
306-4	Waste diverted from disposal	p. 231
306-5	Waste directed to disposal	p. 231

Responsible employer

Disclosure number	Disclosure title	Reference
GRI	**Employment**	
401-1	New employee hires and employee turnover	p. 232
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	p. 62–65
401-3	Parental leave	There is a parental leave benefit applicable to all employees globally.
GRI	**Training and education**	
404-1	Average hours of training per year per employee	p. 232
404-2	Programs for upgrading employee skills and transition assistance programs	p. 62
404-3	Percentage of employees receiving regular performance and career development reviews	p. 63–64
GRI	**Diversity and equal opportunity**	
405-1	Diversity of governance bodies and employees	p. 63 p. 74 p. 80 p. 232–233
GRI	**Non-discrimination**	
406-1	Incidents of discrimination and corrective actions taken	p. 63 p. 233

Health & Safety

Disclosure number	Disclosure title	Reference
GRI	**Occupational health and safety management system**	
403-1	Occupational health and safety management system	p. 65
403-2	Hazard identification, risk assessment, and incident investigation	p. 65 p. 228 p. 231
403-3	Occupational health services	p. 65 see HSE Policy: https://prod.cms.sandoz.com/sites/spare53_sandoz_com/files/Media%20Documents/Sandoz-HSE-Policy.pdf
403-4	Worker participation, consultation, and communication on occupational health and safety	p. 65
403-5	Worker training on occupational health and safety	p. 65
403-6	Promotion of worker health	p. 65
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	p. 65
403-8	Workers covered by an occupational health and safety management system	p. 65
403-9	Work-related injuries	p. 232
403-10	Work-related ill health	p. 232
GRI	**Customer health and safety**	
416-1	Assessment of the health and safety impacts of product and service categories	p. 54 p. 228
416-2	Incidents of non-compliance concerning the health and safety impacts of products and services	p. 228

Our social impact

Disclosure number	Disclosure title	Reference
GRI	**Freedom of association and collective bargaining**	
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	p. 121
GRI	**Child labor**	
408-1	Operations and suppliers at significant risk for incidents of child labor	p. 68 p. 121 Human Rights Commitment Statement: https://prod.cms.sandoz.com/sites/spare53_sandoz_com/files/Media%20Documents/Sandoz-Human-Rights-Commitment-Statement.pdf
GRI	**Forced and compulsory labor**	
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	P. 68 p. 121 Human Rights- Commitment Statement: https://prod.cms.sandoz.com/sites/spare53_sandoz_com/files/Media%20Documents/Sandoz-Human-Rights-Commitment-Statement.pdf
GRI	**Rights of indigenous peoples**	
411-1	Incidents of violations involving rights of indigenous peoples	p.121
GRI	**Human rights assessment**	
412-1	Operations that have been subject to human rights reviews or impact assessments	p. 229
412-2	Employee training on human rights policies or procedures	p. 234
GRI	**Local communities**	
413-1	Operations with local community engagement, impact assessments, and development programs	p. 22 p. 35
413-2	Operations with significant actual and potential negative impacts on local communities	p. 66–68 p. 230–231

Marketing and communications

Disclosure number	Disclosure title	Reference
GRI	**Marketing and labelling**	
417-1	Requirements for product and service information and labeling	p. 54–55
417-2	Incidents of non-compliance concerning product and service information and labeling	p. 228
417-3	Incidents of non-compliance concerning marketing communications	p. 233

Information security

Disclosure number	Disclosure title	Reference
GRI	**Customer privacy**	
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	p.121 p. 228–229

SASB

Healthcare sector Biotechnology and pharmaceutical industry

The Sandoz Sustainability Accounting Standards Board (SASB) Index aligns with the biotechnology and pharmaceutical industry guidelines. Data and information disclosed are sourced from the Sandoz 2023 Integrated Annual Report, our corporate website, and Sandoz public policies and positions.

Disclosure number	Disclosure title	Reference
SASB	**Safety of clinical trials participants**	
HC-BP-210a.1.	Discussion, by world region, of management process for ensuring quality and patient safety during clinical trials	p. 18 p. 54–55 Human Rights Commitment Statement (https://prod.cms.sandoz.com/sites/spare53_sandoz_com/files/Media%20Documents/Sandoz-Human-Rights-Commitment-Statement.pdf) Code of Ethics (https://prod.cms.sandoz.com/sites/spare53_sandoz_com/files/2023-09/Sandoz-Code-of-Ethics.pdf) Professional Practices Policy (https://prod.cms.sandoz.com/sites/spare53_sandoz_com/files/2023-09/Sandoz-Code-of-Ethics.pdf)
HC-BP-210a.2.	Number of FDA Sponsor Inspections related to clinical trial management and pharmacovigilance that resulted in: (1) Voluntary Action Indicated (VAI) and (2) Official Action Indicated (OAI)	p. 228
HC-BP-210a.3.	Total amount of monetary losses as a result of legal proceedings associated with clinical trials in developing countries	All material legal proceedings are disclosed in the Integrated Annual Report (Refer to note 24: Provisions and other non-current liabilities), p. 164-168
SASB	**Access to medicines**	
HC-BP-240a.1.	Description of actions and initiatives to promote access to health care products for priority diseases and in priority countries as defined by the Access to Medicine Index	p. 21–31 p. 45–47 p. 229
HC-BP-240a.2.	List of products on the WHO List of Prequalified Medicinal Products as part of its Prequalification of Medicines Programme (PQP)	Available:https://extranet.who.int/prequal/medicines/prequalified-lists
SASB	**Affordability and pricing**	
HC-BP-240b.1.	Number of settlements of Abbreviated New Drug Application (ANDA) litigation that involved payments and/or provisions to delay bringing an authorised generic product to market for a defined time period	Not Reported
HC-BP-240b.2.	Percentage change in: (1) average list price and (2) average net price across U.S. product portfolio compared to previous year	Not Reported
HC-BP-240b.3.	Percentage change in: (1) list price and (2) net price of product with largest increase compared to previous year	Not Reported
SASB	**Drug safety**	
HC-BP-250a.1.	List of products listed in the Food and Drug Administration's (FDA) MedWatch Safety Alerts for Human Medical Products database	Available: https://www.fda.gov/safety/medwatch-fda-safety-information-and-adverse-event-reporting-program
HC-BP-250a.2.	Number of fatalities associated with products as reported in the FDA Adverse Event Reporting System	Available:https://open.fda.gov/data/faers/

Disclosure number	Disclosure title	Reference
HC-BP-250a.3.	Number of recalls issued; total units recalled	p. 228
HC-BP-250a.4.	Total amount of product accepted for take-back, reuse, or disposal	Not Reported
HC-BP-250a.5.	Number of FDA enforcement actions taken in response to violations of current Good Manufacturing Practices (cGMP), by type	p. 228
SASB	**Counterfeit drugs**	
HC-BP-260a.1.	Description of methods and technologies used to maintain traceability of products throughout the supply chain and prevent counterfeiting	Not Reported
HC-BP-260a.2	Discussion of process for alerting customers and business partners of potential or known risks associated with counterfeit products	Not Reported
HC-BP-260a.3.	Number of actions that led to raids, seizure, arrests, and/or filing of criminal charges related to counterfeit products	Not Reported
SASB	**Ethical marketing**	
HC-BP-270a.1.	Total amount of monetary losses as a result of legal proceedings associated with false marketing claims	All material legal proceedings are disclosed in the Integrated Annual Report (Refer to note 24: Provisions and other non-current liabilities), p. 164–168
HC-BP-270a.2.	Description of code of ethics governing promotion of off-label use of products	p. 68 https://prod.cms.sandoz.com/sites/spare53_sandoz_com/files/2023-10/Sandoz-Professional-Practices_Policy.pdf
SASB	**Employee recruitment, development & retention**	
HC-BP-330a.1.	Discussion of talent recruitment and retention efforts for scientists and research and development personnel	p. 62–65
HC-BP-330a.2.	(1) Voluntary and (2) involuntary turnover rate for: (a) executives/senior managers, (b) mid-level managers, (c) professionals, and (d) all others	p. 232
SASB	**Supply chain management**	
HC-BP-430a.1.	Percentage of (1) entity's facilities and (2) Tier I suppliers' facilities participating in the Rx-360 International Pharmaceutical Supply Chain Consortium audit program or equivalent third-party audit programs for integrity of supply chain and ingredients	p. 229
SASB	**Business ethics**	
HC-BP-510a.1.	Total amount of monetary losses as a result of legal proceedings associated with corruption and bribery	All material legal proceedings are disclosed in the Integrated Annual Report (Refer to note 24: Provisions and other non-current liabilities), p. 164–168
HC-BP-510a.2.	Description of code of ethics governing interactions with health care professionals	p. 68 Refer to Professional Practices Policy (https://prod.cms.sandoz.com/sites/spare53_sandoz_com/files/2023-10/Sandoz-Professional-Practices_Policy.pdf)
SASB	**Activity metrics**	
HC-BP-000.A	Number of patients treated	p. 22 p. 229
HC-BP-000.B	Number of drugs (1) in portfolio and (2) in research and development (Phases 1-3)	p. 34

Assurance statement

Independent limited assurance report on selected quantitative and qualitative Sustainability Information of Sandoz Group AG

To the Board of Directors of Sandoz Group AG, Risch

We have undertaken a limited assurance engagement on Sandoz Group AG's (hereinafter "Sandoz") for the following Sustainability Information in the Sandoz Integrated Annual Report 2023 for the year ended 31 December 2023 (hereinafter "Sustainability Information"):

- The ESG Key Performance Indicators (KPIs) included in the tables starting on page 228 of the Sandoz Integrated Annual Report 2023 and marked as 'Sandoz Scope of Assurance 2023'.
- Non-financial disclosures, prepared in accordance with article 964b of the Swiss Code of Obligation, as included in the ESG Reporting compliance index table on page 221 of the Sandoz Integrated Annual Report 2023.

Our assurance engagement does not extend to information in respect of earlier periods or to any other information included in the Sandoz Integrated Annual Report 2023, or any other report or information linked to from the Sustainability Information or from the Sandoz Integrated Annual Report 2023, including any images, audio files or embedded videos.

Understanding how Sandoz Group AG has Prepared the Sustainability Information

Sandoz prepared the Sustainability Information using the following criteria (hereinafter referred to as the "Sustainability Reporting Criteria"):

- For ESG KPIs - internally developed criteria and methodology described and summarized here: www.sandoz.com/ESG_reporting_criteria;
- For the non-financial disclosures referenced in the ESG Reporting compliance index table on page 221 of the Sandoz Integrated Annual Report 2023 – article 964b of the Swiss Code of Obligation.

Consequently, the Sustainability Information needs to be read and understood together with these standards and criteria. We believe that these criteria are a suitable basis for our limited assurance engagement.

Our Limited Assurance Conclusion

Based on the procedures we have performed as described under the *'Summary of the work we performed as the basis for our assurance conclusion'* and the evidence we have obtained, nothing has come to our attention that causes us to believe that Sustainability Information is not prepared, in all material respects, in accordance with the Sustainability Reporting Criteria. We do not express an assurance conclusion on information in respect of earlier periods or to any other information included in Sandoz Integrated Annual Report 2023, or any other report, including any images, audio files or embedded videos. Our conclusion does not extend to the requirements of Swiss Code of Obligation article 964 (d-l).

Inherent Limitations in Preparing the Sustainability Information

Due to the inherent limitations of any internal control structure, it is possible that errors or irregularities may occur in disclosures of the Sustainability Information and not be detected. Our engagement is not designed to detect all internal control weaknesses in the preparation of the Sustainability Information because the engagement was not performed on a continuous basis throughout the period and the audit procedures performed were on a test basis.

Sandoz's Responsibilities

The Board of Directors of Sandoz is responsible for:

- Selecting or establishing suitable criteria for preparing the Sustainability Information, taking into account applicable law and regulations related to reporting the Sustainability Information;
- The preparation of the Sustainability Information in accordance with the Sustainability Reporting Criteria; and
- Designing, implementing and maintaining internal control over information relevant to the preparation of the Sustainability Information that is free from material misstatement, whether due to fraud or error.

Our Responsibilities

We are responsible for:

- Planning and performing the engagement to obtain limited assurance about whether the Sustainability Information is free from material misstatement, whether due to fraud or error;
- Forming an independent conclusion, based on the procedures we have performed and the evidence we have obtained; and
- Reporting our independent conclusion to the Board of Directors of Sandoz.

As we are engaged to form an independent conclusion on the Sustainability Information as prepared by the Board of Directors we are not permitted to be involved in the preparation of the Sustainability Information as doing so may compromise our independence.

Professional Standards Applied

We performed a limited assurance engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, issued by the International Auditing and Assurance Standards Board (IAASB) and in respect of greenhouse gas emissions, with the *International Standard on Assurance Engagements (ISAE 3410) Assurance Engagements on Greenhouse Gas Statements*, issued by the International Auditing and Assurance Standards Board.

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior.

Our firm applies International Standard on Quality Management 1, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our work was carried out by an independent and multidisciplinary team including assurance practitioners and sustainability experts. We remain solely responsible for our assurance conclusion.

Summary of the Work we Performed as the Basis for our Assurance Conclusion

We are required to plan and perform our work to address the areas where we have identified that a material misstatement of the Sustainability Information is likely to arise. The procedures we performed were based on our professional judgment. Carrying out our limited assurance engagement on the Sustainability Information included, among others:

- Assessment of the design and implementation of systems, processes and internal controls for determining, processing and monitoring sustainability performance data, including the consolidation of data;
- Inquiries of employees responsible for the determination and consolidation as well as the implementation of internal control procedures regarding the selected disclosures;
- Inspection of selected internal and external documents to determine whether quantitative and qualitative information is supported by sufficient evidence and presented in an accurate and balanced manner;
- Assessment of the data collection, validation and reporting processes as well as the reliability of the reported data on a test basis and through testing of selected calculations;
- Analytical assessment of the data and trends of the quantitative disclosures included in the scope of the limited assurance engagement;
- With respect to the 'Social impact delivered globally by our key products (million USD)' KPI, we reviewed the third party developed methodology, inquired the third party and management about the assumptions applied and the sources behind them and reviewed whether the calculation was performed in line with the methodology. We have not reviewed the underlying model itself nor assessed its appropriateness;
- Assessment of the methodology applied, and the impact of the Sandoz spin off from Novartis, in relation to the reported ESG KPIs;
- Checking that the Sandoz Integrated Annual Report 2023 contains the information required by article 964b(1) and (2) to understand the business performance, the business results, the state of the undertaking and the effects of its activity on environmental matters, social issues, employee-related issues, respect for human rights and combating corruption;
- Assessment of the consistency of the disclosures applicable to Sandoz with the other disclosures and key figures and of the overall presentation of the disclosures through critical reading of Sandoz Integrated Annual Report 2023.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement.

KPMG AG

Stephane Nusbaumer

Licensed audit expert

Desislava Miteva

Basel, 12 March 2024

KPMG AG, Grosspeteranlage 5, CH-4002 Basel

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Forward-looking statements

Certain statements and illustrations contained herein are forward-looking. These statements and illustration do not directly relate to a fact, but rather provide current expectations of future events based on certain assumptions. Forward-looking statements can be identified by words or phrases such as "potential," "expected," "will," "planned," "pipeline," "outlook," "may," "could," "would," "anticipate," "seek," or similar expressions. Such forward-looking statements are based on the current beliefs and expectations of management regarding future events and are subject to significant known and unknown risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those set forth in the forward-looking statements. In particular, our expectations could be affected by, among other things:

Uncertainties regarding the success of key products and commercial priorities;

Uncertainties in the research and development of new healthcare products, including clinical trial results and additional analysis of existing clinical data;

Safety, quality, data integrity or manufacturing issues;

Uncertainties in the development or adoption of potentially transformational digital technologies and business models;

- Uncertainties regarding potential significant breaches of information security or disruptions of our information technology systems;
- Uncertainties surrounding the implementation of IT projects;
- Our performance on environmental, social and governance matters;
- Our reliance on outsourcing key business functions to third parties;
- Uncertainties regarding actual or potential legal proceedings, including, among others, litigation and other legal disputes with respect to product liability litigation, litigation and investigations regarding sales and marketing practices and government investigations generally;
- Our ability to attract, integrate and retain key personnel and qualified individuals;
- Regulatory actions or delays or government regulation generally, including potential regulatory actions or delays with respect to the development of the products described in this Annual Report;
- Our ability to comply with data privacy laws and regulations, and uncertainties regarding potential significant breaches of data privacy;
- Our ability to adapt to major geopolitical and macroeconomic developments, including the effects of and efforts to mitigate pandemic diseases, and the impact of any crises and wars;
- Uncertainties involved in predicting shareholder returns;
- Uncertainties regarding the effects of recent and anticipated future changes in tax laws and their application to [Sandoz/us]; or
- Uncertainties regarding future global exchange rates.

Investors are cautioned that all forward-looking statements involve risks and uncertainty. Sandoz undertakes no obligation to publicly update or revise any forward-looking statements.

This Annual Report is not intended to be and shall not be deemed to be an invitation or inducement to invest in or otherwise deal in any Sandoz securities or in any other investment, nor to provide or constitute any advice or recommendation in connection with any investment decision, nor to constitute an offer to provide products or services in any jurisdiction in which Sandoz is not permitted to do so under any applicable law or regulation.