

FINANCIAL ACCOUNTING AND FINANCIAL STATEMENT ANALYSIS

ANNEX: FINANCIAL STATEMENTS OF NOVARTIS

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1. Annex: financial statements of Novartis

NOVARTIS – Consolidated financial statements as of 31 December 2013

Income statement	Consolidated income statements			
	Full year (audited)			
	FY 2013 USD m	Restated ¹ FY 2012 USD m	Change USD m	
Net sales	57 920	56 673	1 247	
Other revenues	911	888	23	
Cost of goods sold	-19 608	-18 756	-852	
Gross profit	39 223	38 805	418	
Marketing & Sales	-14 549	-14 353	-196	
Research & Development	-9 852	-9 332	-520	
General & Administration	-3 060	-2 937	-123	
Other income	1 367	1 049	318	
Other expense	-2 219	-2 039	-180	
Operating income	10 910	11 193	-283	
Income from associated companies	600	552	48	
Interest expense	-683	-724	41	
Other financial income and expense	-92	-96	4	
Income before taxes	10 735	10 925	-190	
Taxes	-1 443	-1 542	99	
Net income	9 292	9 383	-91	
<i>Attributable to:</i>				
Shareholders of Novartis AG	9 175	9 270	-95	
Non-controlling interests	117	113	4	
Average number of shares outstanding – Basic (million)	2 441	2 418	23	
Basic earnings per share (USD)²	3.76	3.83	-0.07	
Average number of shares outstanding – Diluted (million)	2 479	2 445	34	
Diluted earnings per share (USD)²	3.70	3.79	-0.09	

¹ FY 2012 Other income and Other expense have been restated by an additional USD 318 million expense (USD 235 million after taxes) to reflect the adoption of revised IAS 19 on *Employee Benefits* (see detailed explanation on pages 36 and 72).

² Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Novartis AG.

Balance sheet	Condensed consolidated balance sheets (audited)			
	Dec 31, 2013 USD m	Restated ¹ Dec 31, 2012 USD m	Change USD m	
	Assets			
	Non-current assets			
	Property, plant & equipment	18 197	16 939	1 258
	Goodwill	31 026	31 090	-64
	Intangible assets other than goodwill	27 841	30 331	-2 490
	Financial and other non-current assets	18 648	17 827	821
	Total non-current assets	95 712	96 187	-475
	Current assets			
	Inventories	7 267	6 744	523
	Trade receivables	9 902	10 051	-149
	Other current assets	3 392	3 090	302
	Cash and cash equivalents, marketable securities, commodities and derivatives	9 222	8 119	1 103
	Assets of disposal group held for sale	759		759
	Total current assets	30 542	28 004	2 538
	Total assets	126 254	124 191	2 063
	Equity and liabilities			
	Equity attributable to Novartis AG shareholders	74 343	69 137	5 206
	Non-controlling interests	129	126	3
	Total equity	74 472	69 263	5 209
	Non-current liabilities			
	Financial debts	11 242	13 781	-2 539
	Other non-current liabilities	14 172	17 096	-2 924
	Total non-current liabilities	25 414	30 877	-5 463
	Current liabilities			
	Trade payables	6 148	5 593	555
	Financial debts and derivatives	6 776	5 945	831
	Other current liabilities	13 394	12 513	881
	Liabilities of disposal group held for sale	50		50
	Total current liabilities	26 368	24 051	2 317
	Total liabilities	51 782	54 928	-3 146
	Total equity and liabilities	126 254	124 191	2 063
	¹ The December 31, 2012 balance sheet totals have been restated by a net USD 25 million reduction to reflect the adoption of revised IAS 19 on <i>Employee Benefits</i> (see detailed explanation on pages 36 and 72).			
Cash flow statement				
		Note	2013 USD millions	Restated 2012 ¹ USD millions
	Net income		9 292	9 383
	Reversal of non-cash items	23.1	7 750	8 073
	Dividends received from associated companies and others		446	426
	Interest received		40	49
	Interest paid		- 609	- 594
	Other financial receipts		55	214
	Other financial payments		- 22	- 22
	Taxes paid		- 2 024	- 2 022
	Cash flows before working capital and provision changes		14 928	15 507
	Restructuring payments and other cash payments from provisions		- 1 015	- 1 173
	Change in net current assets and other operating cash flow items	23.2	- 739	- 140
	Cash flows from operating activities		13 174	14 194
	Purchase of property, plant & equipment		- 3 064	- 2 698
	Proceeds from sales of property, plant & equipment		60	92
	Purchase of intangible assets		- 507	- 370
	Proceeds from sales of intangible assets		154	163
	Purchase of financial assets		- 165	- 180
	Proceeds from sales of financial assets		315	221
	Purchase of other non-current assets		- 39	- 57
	Proceeds from sales of other non-current assets		17	18
	Acquisitions of interests in associated companies		- 52	
	Acquisitions of businesses	23.3	- 42	- 1 741
	Purchase of marketable securities and commodities		- 278	- 1 639
	Proceeds from sales of marketable securities and commodities		249	516
	Cash flows used in investing activities		- 3 352	- 5 675
	Dividends paid to shareholders of Novartis AG		- 6 100	- 6 030
	Acquisition of treasury shares		- 2 930	- 505
	Proceeds from exercise options and other treasury share transactions		1 693	414
	Increase in non-current financial debts		93	1 979
	Repayment of non-current financial debts		- 2 022	- 704
	Change in current financial debts		596	- 1 737
	Impact of change in ownership of consolidated entities		4	- 6
	Dividends paid to non-controlling interests and other financing cash flows		- 103	- 86
	Cash flows used in financing activities		- 8 769	- 6 675
	Net effect of currency translation on cash and cash equivalents		82	- 1
	Net change in cash and cash equivalents		1 135	1 843
	Cash and cash equivalents at January 1		5 552	3 709
	Cash and cash equivalents at December 31		6 687	5 552

Segment report

Consolidated income statements – Segmentation – Full year

	Pharmaceuticals		Alcon		Sandoz		Vaccines and Diagnostics		Consumer Health		Corporate (incl. eliminations)		Total Group	
	FY 2013 USD m	FY 2012 USD m	FY 2013 USD m	FY 2012 USD m	FY 2013 USD m	FY 2012 USD m	FY 2013 USD m	FY 2012 USD m	FY 2013 USD m	FY 2012 USD m	FY 2013 USD m	FY 2012 USD m	FY 2013 USD m	FY 2012 USD m
Net sales to third parties	32 214	32 153	10 496	10 225	9 159	8 702	1 987	1 858	4 064	3 735			57 920	56 673
Sales to other segments	202	277	50	56	294	279	61	44	11	18	-618	-674		
Net sales of segments	32 416	32 430	10 546	10 281	9 453	8 981	2 048	1 902	4 075	3 753	-618	-674	57 920	56 673
Other revenues	497	471	27	53	18	12	333	331	36	26		-5	911	888
Cost of goods sold	-6 655	-6 578	-4 900	-4 618	-5 476	-5 126	-1 578	-1 478	-1 751	-1 729	752	773	-19 608	-18 756
Gross profit	26 258	26 323	5 673	5 716	3 995	3 867	803	755	2 360	2 050	134	94	39 223	38 805
Marketing & Sales	-8 514	-8 568	-2 452	-2 462	-1 672	-1 561	-334	-324	-1 577	-1 442	4	4	-14 549	-14 353
Research & Development	-7 242	-6 918	-1 042	-975	-787	-695	-476	-453	-305	-291			-9 852	-9 332
General & Administration	-1 051	-1 061	-589	-510	-374	-350	-140	-136	-316	-271	-590	-609	-3 060	-2 937
Other income	699	577	79	49	106	74	70	23	79	75	334	251	1 367	1 049
Other expense	-774	-755	-437	-353	-240	-244	-88	-115	-63	-73	-617	-499	-2 219	-2 039
Operating income	9 376	9 598	1 232	1 465	1 028	1 091	-165	-250	178	48	-739	-759	10 910	11 193
as % of net sales	29.1%	29.9%	11.7%	14.3%	11.2%	12.5%	-8.3%	-13.5%	4.4%	1.3%			18.8%	19.8%
Income from associated companies		-2		16	2	5	1	3			597	530	600	552
Interest expense													-683	-724
Other financial income and expense													-92	-96
Income before taxes													10 735	10 925
Taxes													-1 443	-1 542
Net income													9 292	9 383

¹ FY 2012 Other income and Other expense have been restated by an additional USD 318 million expense (USD 235 million after taxes) to reflect the adoption of revised IAS 19 on Employee Benefits (see detailed explanation on pages 36 and 72).

Key figures

GROUP AND DIVISIONAL OPERATING PERFORMANCE

Key figures	Q4 2013		Q4 2012 ¹		% change		FY 2013		FY 2012 ¹		% change	
	USD m	USD m	USD m	USD m	USD	cc ²	USD m	USD m	USD	cc ²	USD	cc ²
Net sales	15 078	14 828			2	4	57 920	56 673	2	4		
Divisional operating income	2 551	2 560	0	10			11 649	11 952	-3	4		
Corporate income & expense, net	-178	-159	-12	-9			-739	-759	3	4		
Group operating income	2 373	2 401	-1	10			10 910	11 193	-3	5		
As % of net sales	15.7	16.2					18.8	19.8				
Income from associated companies	154	167	-8	-8			600	552	9	9		
Interest expense	-163	-199	18	19			-683	-724	6	6		
Other financial income and expense	-42	-19	nm	nm			-92	-96	4	30		
Taxes	-264	-328	20	9			-1 443	-1 542	6	-1		
Net income	2 058	2 022	2	13			9 292	9 383	-1	7		
EPS (USD)	0.83	0.82	1	13			3.76	3.83	-2	6		
Free cash flow²	3 319	3 513	-6				9 945	11 383	-13			
Core²												
Operating income	3 395	3 594	-6	2			14 485	14 842	-2	3		
As % of net sales	22.5	24.2					25.0	26.2				
Net income	2 955	3 042	-3	4			12 533	12 576	0	5		
EPS (USD)	1.20	1.24	-3	4			5.09	5.15	-1	4		

Key figures by segment

CORE RESULTS – Reconciliation from IFRS results to core results – Group – Full year

	Pharmaceuticals		Alcon		Sandoz		Vaccines and Diagnostics		Consumer Health		Corporate		Total	
	FY 2013 USD m	FY 2012 USD m	FY 2013 USD m	FY 2012 USD m	FY 2013 USD m	FY 2012 USD m	FY 2013 USD m	FY 2012 USD m	FY 2013 USD m	FY 2012 USD m	FY 2013 USD m	FY 2012 USD m	FY 2013 USD m	FY 2012 USD m
Operating income	9 376	9 598	1 232	1 465	1 028	1 091	-165	-250	178	48	-739	-759	10 910	11 193
Amortization of intangible assets	278	322	1 989	1 915	409	364	222	215	53	57	4	3	2 955	2 876
Impairments														
Intangible assets	29	211	57	17	20	43		5	8	7			114	283
Property, plant & equipment related to the Group-wide rationalization of manufacturing sites	1									33			34	
Other property, plant & equipment	28	25	4		-3	3	1	6	-1	3	17	2	46	39
Financial assets	16	2					7	1			42	31	65	34
Total impairment charges	74	238	61	17	17	46	8	12	40	10	59	33	259	356
Acquisition-related items														
- Expense			330	264		62		3			1	1	331	330
Total acquisition-related items, net			330	264		62		3			1	1	331	330
Other exceptional items														
Exceptional divestment gains	-313	-93										-51	-313	-144
Restructuring items														
- Income	-40	-70		-1		-10							-40	-89
- Expense	122	240	77	24	2	4		1	25	3			226	272
Legal-related items						85				25			118	44
- Expense	33	19				-4							-205	-252
Additional exceptional income	-70	-137	-56			-59		-56			-75		244	256
Additional exceptional expense	63	96	61	14	4	5			2	24	114	117	256	256
Total other exceptional items	-205	55	82	37	87	-60		-55	27	44	39	66	30	87
Total adjustments	147	615	2 462	2 233	513	412	230	175	120	111	103	103	3 575	3 649
Core operating income	9 523	10 213	3 694	3 698	1 541	1 503	65	-75	298	159	-636	-656	14 485	14 842
as % of net sales	29.6%	31.8%	35.2%	36.2%	16.8%	17.3%	3.3%	-4.0%	7.3%	4.3%			25.0%	26.2%
Income from associated companies			-2	16	2	5	1	3			597	530	600	552
Core adjustments to income from associated companies, net of tax				-16							277	219	277	203
Interest expense													-683	-724
Other financial income and expense ¹													-48	-96
Taxes (adjusted for above items)													-2 098	-2 201
Core net income													12 533	12 576
Core net income attributable to shareholders													12 416	12 463
Core EPS (USD)													5.09	5.15

¹ 2012 Other income and Other expense have been restated by an additional USD 318 million expense (USD 235 million after taxes) to reflect the adoption of revised IAS 19 on Employee Benefits (see detailed explanation on pages 36 and 72).

² 2013 adjusted for USD 44 million devaluation loss related to Venezuela.

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Supplementary tables: Full year – Net sales of the top 20 pharmaceutical products in 2013

Brands	Business Franchise	Indication	US		Rest of world		Total		% change in constant currencies
			USD m	% change in constant currencies	USD m	% change in constant currencies	USD m	% change in USD	
<i>Gleevec/Glivec</i>	Oncology	Chronic myeloid leukemia	1 939	14	2 754	-6	4 693	0	1
<i>Diovan/Co-Diovan</i>	Primary Care	Hypertension	1 679	-20	1 845	-12	3 524	-20	-16
<i>Lucentis</i>	Ophthalmics	Age-related macular degeneration			2 383	1	2 383	-1	1
<i>Gilenya</i>	Neuroscience	Relapsing multiple sclerosis	1 023	41	911	94	1 934	62	62
<i>Sandoz</i>	Oncology	Acromegaly	710	9	879	6	1 589	5	8
<i>Exforge</i>	Primary Care	Hypertension	356	-1	1 100	16	1 456	8	12
<i>Afinitor/Votubia</i>	Oncology	Breast cancer	691	68	618	64	1 309	64	66
<i>Tasigna</i>	Oncology	Chronic myeloid leukemia	428	22	838	36	1 266	27	31
<i>Galvus</i>	Primary Care	Diabetes			1 200	40	1 200	32	40
<i>Exelon/Exelon Patch</i>	Neuroscience	Alzheimer's disease	457	7	575	-5	1 032	-2	0
<i>Exjade</i>	Oncology	Iron chelator	265	6	628	4	893	3	4
<i>Neoral/Sandimmun</i>	Integrated Hospital Care	Transplantation	56	-13	694	-3	750	-9	-4
<i>Voltaren</i> (excl. other divisions)	Established medicines	Inflammation/pain	2	100	673	-4	675	-11	-4
<i>Myfortic</i>	Integrated Hospital Care	Transplantation	270	13	367	13	637	10	13
<i>Xolair</i>	Primary Care	Asthma			613	24	613	22	24
<i>Zometa</i>	Oncology	Cancer complications	115	-80	485	-30	600	-53	-52
<i>Ritalin/Focalin</i>	Established medicines	Attention deficit/hyperactivity disorder	435	8	159	6	594	7	8
<i>Comtan/Stalevo</i>	Neuroscience	Parkinson's disease	33	-78	368	0	401	-24	-21
<i>TOBI</i>	Critical Care	Cystic fibrosis	268	28	119	12	387	22	22
<i>Femara</i>	Oncology	Breast cancer	19	-14	365	-7	384	-12	-7
Top 20 products total			8 746	2	17 574	5	26 320	1	4
Rest of portfolio			1 510	-15	4 384	3	5 894	-5	-2
Total Division sales			10 256	-1	21 958	5	32 214	0	3