

Novartis Healthcare A/ S

Edvard Thomsens Vej 14, 3., 2300 København S

CVR no. 20 57 57 86

Annual report 2022

Approved at the Company's annual general meeting on 9 May 2023

Chairman of the meeting:

.....
Carsten Gleerup

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Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Novartis Healthcare A/S for the financial year 1 January - 31 December 2022.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2022 and of the results of the Company's operations for the financial year 1 January - 31 December 2022.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Copenhagen, 9 May 2023
Executive Board:

.....
Peter Drøidal

Board of Directors:

.....
Carsten Gleerup
Chair

.....
Peter Drøidal

.....
Johan Mikael Olof
Kahlström

Independent auditor's report

To the shareholder of Novartis Healthcare A/S

Opinion

We have audited the financial statements of Novartis Healthcare A/S for the financial year 1 January – 31 December 2022 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2022 and of the results of the Company's operations for the financial year 1 January – 31 December 2022 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements 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 International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control, that Management 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, Management 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 in preparing the financial statements unless Management 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 as to 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 ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may 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 financial statement users made on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the company 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.

Independent auditor's report

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements 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.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance 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.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, 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 Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 9 May 2023

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Henrik Barner Christiansen
State Authorised Public Accountant
mne10778

Management's review

Company details

Name	Novartis Healthcare A/S
Address, Postal code, City	Edvard Thomsens Vej 14, 3., 2300 København S
CVR no.	20 57 57 86
Established	17 December 1997
Registered office	København
Financial year	1 January - 31 December
Telephone	+45 39 16 84 00
Board of Directors	Carsten Gleerup, Chair Peter Drøidal Johan Mikael Olof Kahlström
Executive Board	Peter Drøidal
Auditors	KPMG Statsautoriseret Revisionspartnerselskab Dampfærgevej 28, 2100 København Ø
Lawyer	Plesner, Advokatpartnerselskab Amerika Plads 37, DK-2100 København Ø

Management's review

Financial highlights

DKK'000	2022	2021	2020	2019	2018
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Key figures

Revenue	592,697	701,904	1,002,388	966,611	867,835
Profit before interest and tax (EBIT)	20,154	36,719	51,367	31,684	31,327
Operating profit/loss	-75,657	-48,616	-20,840	-68,692	-54,744
Net financials	-3,499	-2,201	-2,534	-1,698	-1,443
Profit for the year	56,162	84,886	127,707	-98,558	83,223

Total assets	942,616	906,815	820,851	748,523	808,814
Investments in property, plant and equipment	1,093	686	0	513	54
Equity	289,921	233,759	148,874	21,167	119,724

Financial ratios

Operating margin	3.4%	5.2%	5.1%	3.3 %	3.6 %
Return on assets	-8.2%	-5.6%	-2.7%	-8.8%	-6.4%
Equity ratio	30.8%	25.8%	18.1%	2.8%	14.8%

Average number of full-time employees	128	121	126	125	131
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The financial ratios stated under "Financial highlights" have been calculated as follows:

Ordinary operating profit/loss	Profit/loss before financial items adjusted for other operating income and other operating expenses
Operating margin	$\frac{\text{Operating profit/loss (EBIT)} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit/loss from operating activities} \times 100}{\text{Average assets}}$
Equity ratio	$\frac{\text{Equity, year-end} \times 100}{\text{Total equity and liabilities, year-end}}$

Management's review

Business review

The main activity of the Company has consisted of sale of medical products, which have all been purchased from group companies.

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

Financial review

The income statement for 2022 shows a profit of DKK 56,162 thousand against a profit of DKK 84,886 last year, and the balance sheet at 31 December 2022 shows equity of DKK 289,921 thousand.

Actuals for the year 2022 didn't reach the target set by the management. Sales being lower than target were partly driven by higher than anticipated LOE erosion (generic impact) as well as assumptions on winning certain tenders not materializing. There was also some impact from forward-buying in December 2021 which was not de-risked in the target.

In April 2022 Novartis globally announced a new organizational structure to accelerate growth and strengthen pipeline and increase productivity. This new simplified structure and operational set-up supports Novartis strategy as a focused medicines company and is designed to power next phase of innovation, growth and productivity Integrating Pharmaceuticals and Oncology business units into an Innovative Medicines business with separate US and International commercial organizations will increase focus, strengthen competitiveness and drive synergies. This restructuring initiative has reduced the number of employees in Novartis Healthcare A/S. In terms of headcounts in payroll as of Dec 2022, there was no/low impact of TfG. Headcount has been reduced in 2023 and is reduced already at the time of issuing this annual report.

In August 2022 Novartis announced the intention to separate Sandoz business to create a standalone company by way of a 100% spin-off. For both the Innovative Medicines and Sandoz businesses, the spin-off would enable enhanced focus and the ability to pursue independent growth strategies. Sandoz is expected to deliver its next wave of growth based on the existing biosimilars pipeline of 15+ molecules, a strong and experienced management team and organization. Novartis aims to become a focused innovative medicines company with a stronger financial profile, and improved return on capital.

Impact on the external environment

Efforts are made on a current basis to reduce the environmental impact from the operations, and the Parent Company has developed an environmental policy calling for environmental responsibility and current environmental improvements.

Research and development activities

There are no local research & development activities in the Company. All development activities are carried out by other entities within the Novartis Group.

Intellectual capital resources

It is of significant importance that the employees have extensive insight into the handling of products and chemical processes as well as the effects of the Group's medical products in connection with both distribution and marketing. This requires an overall high level of competence, which is ensured through current development of the individual employee.

Statutory CSR report

The policies of the Novartis Group on social responsibility apply to the Company and are developed in accordance with section 99a of the Danish Financial Statement Act. We refer to the Group's website <https://www.novartis.com/esg/index>.

Management's review

Account of the gender composition of Management

In accordance with section 99b of the Danish financial statements Act Novartis Healthcare A/S must account for the share of the underrepresented gender in the board of directors and general management.

Target for the board of directors

In accordance with Section 99b of the Danish Financial Statement Act Novartis Healthcare A/S discloses that we strive towards an equal gender distribution in the board of directors and at the end of 2022 the board is constituted of 4 men including the supplant, thus the target was not met. The board of directors has an ambition to have 33% of the board being women within the next 4 years which has not been achieved in 2022.

Policy for increase of the underrepresented gender in general management

Novartis Healthcare A/S believes in diversity among employees, including equal distribution of gender will contribute to a positive work environment and enhances the Company's development and competitiveness. Novartis Healthcare A/S therefore has a policy to strive for gender equality in general management.

When relevant and to the extent possible suited candidates of the underrepresented gender will be proposed to management roles to achieve the target. As part of the Novartis Group, Novartis Healthcare A/S continuously develop talents across gender. It is expected to have an improved equal gender distribution in management over time.

By the end of 2022 the distribution was 4 men and 4 women in the country management team.

More information on how we work with diversity and inclusion can be found on the Groups website: <https://www.novartis.com/about/diversity-equity-inclusion>

Data ethics

Novartis Healthcare A/S adhere to internal rules and principles for use of data described in corporate guidelines of the Novartis Group.

At Novartis, and as reflected in the Code of Ethics, we are committed to the responsible use of Personal Information in our business processes and the setting of the appropriate standards to achieve this purpose.

In relation to the use of Artificial intelligence (AI) which are an increasing factor to drive automation which can help to improve the speed and accuracy of diagnosis, drug development etc. and can help to improve patients' lives and optimize the healthcare ecosystem. Novartis will ensure that the use of AI systems has a clear purpose and are used in a transparent and responsible way.

By adhering to the principles and using data ethically Novartis Healthcare A/S maintain trust with stakeholders including associates, patients, health care professionals and society and this ensures continued access to data needed for innovation and operation.

Decisions regarding the use of data are taken by Novartis Group and all employees are mandatory trained in Code of Ethics where Data ethical principles are introduced, and this ensures that all employees are aware of the ethical dilemmas in regard to the use of IT.

More information can be found on Novartis global websites for Code of Ethics https://www.novartis.com/sites/novartis_com/files/code-of-ethics-english.pdf and Data Privacy Policy https://www.novartis.com/sites/novartis_com/files/novartis-data-privacyprinciples.pdf.

Events after the balance sheet date

In March 2023 the company has closed an agreement with Sandoz AG regarding the sale of shares in Sandoz A/S.

Outlook

The expectation for 2023 is higher than for 2022. Sales for 2023 are expected to increase. A positive profit before tax in the same range as for 2022 is expected.

Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2022	2021
4	Revenue	592,697	701,904
	Cost of sales	-368,847	-520,991
5	Other operating income	95,813	85,335
6	Other external expenses	-126,264	-95,715
	Gross profit	193,399	170,533
7	Staff costs	-172,457	-133,226
	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-786	-588
	Other operating expenses	-3	0
	Profit before net financials	20,153	36,719
	Income from investments in group enterprises	42,920	58,023
8	Financial income	448	23
9	Financial expenses	-3,947	-2,224
	Profit before tax	59,574	92,541
10	Tax for the year	-3,412	-7,655
	Profit for the year	56,162	84,886

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2022	2021
	ASSETS		
	Fixed assets		
11	Property, plant and equipment		
	Fixtures and fittings, other plant and equipment	1,471	1,301
	Leasehold improvements	4	8
	Property, plant and equipment under construction	139	0
		<u>1,614</u>	<u>1,309</u>
12	Investments		
	Investments in group enterprises	461,056	418,136
	Other receivables	18,620	37,050
		<u>479,676</u>	<u>455,186</u>
	Total fixed assets	<u>481,290</u>	<u>456,495</u>
	Non-fixed assets		
	Inventories		
	Finished goods and goods for resale	168,127	103,653
		<u>168,127</u>	<u>103,653</u>
	Receivables		
	Trade receivables	88,604	119,248
13	Receivables from group enterprises	174,876	204,064
14	Deferred tax assets	5,709	376
	Corporation tax receivable	13,532	18,679
	Other receivables	8,922	1,761
15	Prepayments	1,556	2,539
		<u>293,199</u>	<u>346,667</u>
	Total non-fixed assets	<u>461,326</u>	<u>450,320</u>
	TOTAL ASSETS	<u>942,616</u>	<u>906,815</u>

Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2022	2021
	EQUITY AND LIABILITIES		
	Equity		
16	Share capital	14,001	14,001
	Retained earnings	275,920	219,758
	Total equity	289,921	233,759
	Provisions		
17	Other provisions	3,345	4,150
	Total provisions	3,345	4,150
	Liabilities other than provisions		
18	Non-current liabilities other than provisions		
	Payables to group entities	500,000	500,000
	Other payables	976	14,078
		500,976	514,078
	Current liabilities other than provisions		
18	Short-term part of long-term liabilities other than provisions	1,337	0
	Trade payables	33,595	42,592
19	Payables to group enterprises	34,567	41,122
	Other payables	78,875	71,114
		148,374	154,828
	Total liabilities other than provisions	649,350	668,906
	TOTAL EQUITY AND LIABILITIES	942,616	906,815

- 1 Accounting policies
- 2 Events after the balance sheet date
- 3 Special items
- 20 Contractual obligations and contingencies, etc.
- 21 Related parties
- 22 Appropriation of profit

Financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Retained earnings	Total
	Equity at 1 January 2021	14,001	134,872	148,873
22	Transfer, see "Appropriation of profit"	0	84,886	84,886
	Equity at 1 January 2022	14,001	219,758	233,759
22	Transfer, see "Appropriation of profit"	0	56,162	56,162
	Equity at 31 December 2022	14,001	275,920	289,921

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Novartis Healthcare A/S for 2022 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

In accordance with section 112(2) of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

In the comparative figures, the company has chosen to reclassify:

- DKK'000 2,539 from other receivables to prepayments under assets,
- DKK'000 500,000 from short-term to long-term liabilities group enterprises,
- DKK'000 37,050 from Trade payables to Trade receivables, and
- DKK'000 8,551 from other payables to trade payables.

Omission of a cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act, no cash flow statement has been prepared. The Company's cash flows are reflected in the consolidated cash flow statement for the higher-ranking parent company Novartis AG (https://www.novartis.com/sites/novartis_com/files/novartis-annual-report-2022.pdf).

Basis of recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income statement

Revenue

The Company has chosen IFRS 15 as interpretation for revenue recognition.

Revenue from the sale of goods for resale and finished goods is recognised in the income statement when the sale is considered effected based on the following criteria:

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

In the Pharma sector, purchases and resales are effected at the same prices, while commission is received to cover expenses and result in a profit from resales.

Consumer Health resells purchased goods at a profit.

Other operating income

Other operating income comprise items of a secondary nature relative to the Company's core activities, including gains on the sale of fixed assets.

Cost of sales

Cost of sales includes the cost of goods used in generating the year's revenue.

Other external expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

The value of share-based payment, including share option and warrant plans that do not involve an out-flow of cash and cash equivalents, offered to the Executive Board and a number of senior employees is not recognised in the income statement. The most significant conditions of the share option plans are disclosed in the notes.

Depreciation

The item comprises depreciation of property, plant and equipment.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Fixtures and fittings, other plant and equipment	3-10 years
Leasehold improvements	10 years

Depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the acquisition date and are reassessed annually. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In the case of changes in the depreciation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Other operating expenses

Other operating expenses comprise items of a secondary nature relative to the Company's core activities, including losses on the sale of fixed assets.

Profit/loss from investments in subsidiaries

The income statement includes the proportional share of the underlying companies' profit or loss after elimination of internal profit/loss and after tax. In subsidiaries, the full elimination of internal profit and loss is carried out without regard to ownership shares.

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

The parent company is covered by the Danish rules on mandatory joint taxation of the Group's Danish subsidiaries. Subsidiaries are included in the joint taxation arrangement from the date at which they are included in the consolidated financial statements and up to the date when they are no longer consolidated.

The parent company acts as management company for the joint taxation arrangement and consequently settles all corporate income tax payments with the tax authorities.

On payment of joint taxation contributions, the Danish corporate income tax charge is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use the tax losses to reduce their own taxable income.

Tax for the year, which comprises the current income tax charge, joint taxation contributions and deferred tax adjustments, including adjustments arising from changes in tax rates, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Gains or losses are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses.

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operating leases. Payments relating to operating leases and any other rent agreements are recognised in the income statement over the term of the lease. The Company's aggregate liabilities relating to operating leases and other rent agreements are disclosed under "Contingent liabilities".

Investments in subsidiaries

Equity investments in subsidiaries are measured according to the equity method.

On initial recognition, equity investments in subsidiaries are measured at cost, i.e. plus transaction costs. The cost is allocated in accordance with the acquisition method; see the accounting policies regarding business combinations.

The cost is adjusted by shares of profit/loss after tax calculated in accordance with the Group's accounting policies less or plus unrealised intra-group gains/losses.

Identified increases in value and goodwill, if any, compared to the underlying entity's net asset value are amortised in accordance with the accounting policies for the assets and liabilities to which they can be attributed. Negative goodwill is recognised in the income statement.

Dividend received is deducted from the carrying amount.

Equity investments in subsidiaries measured at net asset value are subject to impairment test requirements if there is any indication of impairment.

The group goodwill stated is amortised over 20 years.

Gains and losses on disposal of subsidiaries and associates are made up as the difference between the sales price and the carrying amount of net assets at the date of disposal including non-amortised goodwill and anticipated costs of disposal. Gains or losses are recognised in the income statement as financial income or financial expenses.

Other securities and investments

Other fixed asset investments consist of receivables that are due after 1 year.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value. The net realisable value of inventories is calculated as the sales amount less costs of completion and expenses required to effect the sale and is determined taking into account marketability, obsolescence and development in the expected selling price.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment of financial receivables.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Cash

Given the nature of the Group's cash pool arrangement, cash pool balances are not considered cash, but are recognised under "Receivables from group entities".

Provisions

Provisions comprise anticipated expenses relating to warranty commitments, onerous contracts, restructurings, etc. Provisions are recognised when the Company has a legal or constructive obligation at the balance sheet date as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Provisions are measured at net realisable value or at fair value if the obligation is expected to be settled far into the future.

Income taxes and deferred taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual lease liability in respect of finance leases.

Other liabilities are measured at net realisable value.

Segment information

The allocation of revenue to activities and geographical markets is disclosed where these activities and markets differ significantly in the organisation of sales of goods and services.

2 Events after the balance sheet date

In March 2023 the company has closed an agreement with Sandoz AG regarding the sale of shares in Sandoz A/S.

3 Special items

Special items for the year, regarding the restructuring as also described in the management's review, are specified below just as are the items under which they are recognised in the income statement.

DKK'000	2022	2021
Expenses		
Staff costs	-24,138	0
	-24,138	0
Special items are recognised in the below items of the financial statements		
Staff costs	-24,138	0
Net profit/ loss on special items	-24,138	0

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2022	2021
4 Segment information		
Breakdown of revenue by business segment:		
Pharma	422,462	412,079
Oncology	170,235	289,825
	<u>592,697</u>	<u>701,904</u>
Breakdown of revenue by geographical segment:		
Revenue, Denmark	538,487	640,243
Revenue, exports	54,210	61,661
	<u>592,697</u>	<u>701,904</u>
5 Other operating income		
Services rendered to group companies	95,813	85,335
	<u>95,813</u>	<u>85,335</u>
6 Fee to the auditors appointed in general meeting		
Audit fees are not disclosed with reference to section 96(3) of the Danish Financial Statements Act. The fee is specified in the consolidated financial statements of the Group.		
7 Staff costs and incentive programmes		
Wages/salaries	160,260	121,862
Pensions	10,863	9,983
Other social security costs	1,334	1,381
	<u>172,457</u>	<u>133,226</u>
Average number of full-time employees	<u>128</u>	<u>121</u>

Incentive programmes

A number of the Company's employees participate in a share based incentive program of the ultimate parent company. The employees are granted a number of performance share units (PSUs) every year, based on their annual base salary and target incentive. PSUs have a vesting period of three years. The total estimated value of granted PSUs granted to all employees in the year amounts to DKK'000 2,313 (2021: DKK'000 2,731). The payout range of granted PSUs are dependent on the Group's results in terms of financial targets, innovation and total shareholders' return, compared to the Global healthcare peer group.

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2022	2021		
8 Financial income				
Income from other investments, securities and receivables that are non-current assets	238	0		
Other financial income	210	23		
	<u>448</u>	<u>23</u>		
9 Financial expenses				
Interest paid to group enterprises	1,288	1,353		
Exchange losses	0	161		
Other financial expenses	2,659	710		
	<u>3,947</u>	<u>2,224</u>		
10 Tax for the year				
Estimated tax charge for the year	8,740	7,614		
Deferred tax adjustments in the year	-5,334	322		
Tax adjustments, prior years	6	-281		
	<u>3,412</u>	<u>7,655</u>		
11 Property, plant and equipment				
	Fixtures and fittings, other plant and equipment	Leasehold improvements	Property, plant and equipment under construction	Total
DKK'000				
Cost at 1 January 2022	5,521	2,127	0	7,648
Additions	954	0	139	1,093
Disposals	-158	0	0	-158
Cost at 31 December 2022	<u>6,317</u>	<u>2,127</u>	<u>139</u>	<u>8,583</u>
Impairment losses and depreciation at 1 January 2022	4,220	2,119	0	6,339
Depreciation	782	4	0	786
Reversal of accumulated depreciation and impairment of assets disposed	-156	0	0	-156
Impairment losses and depreciation at 31 December 2022	<u>4,846</u>	<u>2,123</u>	<u>0</u>	<u>6,969</u>
Carrying amount at 31 December 2022	<u>1,471</u>	<u>4</u>	<u>139</u>	<u>1,614</u>
Depreciated over	3-10 years	10 years		

Financial statements 1 January - 31 December

Notes to the financial statements

12 Investments

DKK'000	Investments in group enterprises	Other receivables	Total
Cost at 1 January 2022	1,405,551	37,050	1,442,601
Disposals	0	-18,430	-18,430
Cost at 31 December 2022	1,405,551	18,620	1,424,171
Value adjustments at 1 January 2022	-987,415	0	-987,415
Profit/loss for the year	42,920	0	42,920
Value adjustments at 31 December 2022	-944,495	0	-944,495
Carrying amount at 31 December 2022	461,056	18,620	479,676

Investments in subsidiaries are specified as follows:

Name	Domicile	Interest	Equity DKK'000	Profit/ loss DKK'000
Sandoz A/S	Copenhagen	100.00%	461,056	42,920

13 Receivables from group enterprises

The Novartis group has entered into an agreement on a cash-pool arrangement with the group's bank, where Novartis Investments S.a.r.l is the account holder and Novartis Healthcare A/S is the sub-account holder together with the group's other affiliated companies. The terms and conditions of the cash-pool scheme give the bank the right to be able to settle withdrawals and deposits against each other, whereby it is only the net balance of the total cash-pool accounts that constitutes the Novartis group's balance with the bank.

Novartis Healthcare A/S' accounts in the cash-pool scheme, which are recognized under receivables from group companies, amount to 31 December 2022 a deposit of DKK'000 163,320 (per 31 December 2021 a deposit of DKK'000 193,162).

Novartis Healthcare A/S' accounts in the cash-pool scheme, which are recognized under payables to group companies, amount to 31 December 2022 a debt of DKK'000 484 (per 31 December 2021: debt of DKK'000 16).

DKK'000	2022	2021
14 Deferred tax		
Deferred tax at 1 January	-376	-663
Amounts recognised in the income statement for the year	-5,333	322
Amounts recognised in equity for the year	0	-35
Deferred tax at 31 December	-5,709	-376

The deferred tax assets primarily consists of temporary differences between the accounting and tax values of property, plant and equipment other plant, equipment.

15 Prepayments

Prepayments include accrual of expenses relating to subsequent financial years, including rent, insurance policies etc.

Financial statements 1 January - 31 December

Notes to the financial statements

DKK'000	2022	2021
16 Share capital		
Analysis of the share capital:		
14,001 shares of DKK 1,000.00 nominal value each	14,001	14,001
	<u>14,001</u>	<u>14,001</u>

No shares are given special rights.

The Company's share capital has remained DKK 14,001 thousand over the past 5 years.

17 Other provisions

The provisions are expected to be payable in:

0-1 year	998	917
> 1 year	2,347	3,233
	<u>3,345</u>	<u>4,150</u>

Other provisions consist of deferred revenue.

18 Non-current liabilities other than provisions

DKK'000	Total debt at 31/12 2022	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Payables to group entities	500,000	0	500,000	500,000
Other payables	2,313	1,337	976	0
	<u>502,313</u>	<u>1,337</u>	<u>500,976</u>	<u>500,000</u>

19 Payables to group enterprises

The Novartis group has entered into an agreement on a cash-pool arrangement with the group's bank, where Novartis Investments S.a.r.l is the account holder and Novartis Healthcare A/S is the sub-account holder together with the group's other affiliated companies. The terms and conditions of the cash-pool scheme give the bank the right to be able to settle withdrawals and deposits against each other, whereby it is only the net balance of the total cash-pool accounts that constitutes the Novartis group's balance with the bank.

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Financial statements 1 January - 31 December

Notes to the financial statements

20 Contractual obligations and contingencies, etc.

The Company is jointly taxed with its subsidiary Sandoz A/S. The Company is unlimited, jointly and severally liable together with the other companies for Danish corporation taxes and withholding taxes on dividend, interest and royalties within the group of jointly taxed companies

Other financial obligations

Other rent liabilities:

DKK'000	2022	2021
Rent liabilities	2,164	2,129

Rent liabilities include a rent obligation with remaining contract terms of 6 months and with a yearly rent on DKK'000 4,328 (2021: 4,258).

Rent guarantee obligation per 31 December 2022 DKK'000 2,275 (2021: DKK'000 2,275).

Lease obligations

Lease obligations under operating leases. Total future lease payments:

DKK'000	2022	2021
Within 1 year	2,030	3,556
Between 1 and 5 years	910	2,149
	2,940	5,705

21 Related parties

Novartis Healthcare A/S' related parties comprise the following:

Parties exercising control

Related party	Domicile	Basis for control
Novartis AG	Lichtstrasse 35, 4056 Basel, Switzerland	Main shareholder

Information about consolidated financial statements

Parent	Domicile	Requisitioning of the parent company's consolidated financial statements
Novartis AG	Lichtstrasse 35, 4056 Basel, Switzerland	(https://www.novartis.com/sites/novartis_com/files/novartis-annual-report-2022.pdf)

Financial statements 1 January - 31 December

Notes to the financial statements

21 Related parties (continued)

Related party transactions

Novartis Healthcare A/S was engaged in the below related party transactions:

DKK'000	2022	2021
Revenue	251	3,964
Productions costs	368,365	494,326
Other operating income	95,813	85,336
Other operating expenses	32,292	30,109
Financial income	238	0
Financial expenses	1,258	1,308
Intercompany receiveables	165,746	204,064
Intercompany payables	34,567	41,123
Intercompany loan	500,000	500,000

22 Appropriation of profit

Recommended appropriation of profit

Retained earnings	56,162	84,886
	<u>56,162</u>	<u>84,886</u>

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