NOVARTIS

NOVARTIS INDIA LIMITED
ANNUAL REPORT 2015-16

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BOARD OF DIRECTORS

Christopher Snook	Chairman
Ranjit Shahani	Vice Chairman & Managing Director
Dinesh Charak	Whole Time Director (upto May 26, 2016)
Jai Hiremath	Director
Sandra Martyres	Director
Rajendra Nath Mehrotra	Director
Monaz Noble	Whole Time Director (from June 13, 2016)

Monaz Noble	Chief Financial Officer
Girish Tekchandani	Company Secretary and Compliance Officer

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Website	www.novartis.in
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Annual General Meeting

11.30 am, Friday, July 29, 2016
Hall of Culture
Nehru Centre
Dr Annie Besant Road
Worli, Mumbai 400 018

Members are requested to bring their copy of the Annual Report to the meeting. Members are also requested to direct all correspondence relating to shares to the Company's Registrar and Transfer Agents, Link Intime India Private Limited, at the address above.

The Novartis India Limited Board

As on May 26, 2016

From left: Dinesh Charak, Whole Time Director; Rajendra Nath Mehrotra, Director; Sandra Martyres, Director; Christopher Snook, Chairman; Ranjit Shahani, Vice Chairman & Managing Director; Jai Hiremath, Director

Dear Shareholder

At Novartis we are committed to patients, healthcare partners and society at large, to improve access to healthcare and essential medicines as we aspire in our mission to discover new ways to improve and extend people's lives, and be a trusted leader in changing the practice of medicine.

To support the pursuit of our strategy, we foster a corporate culture of high ethical standards and promote innovation, quality, collaboration, performance, courage and integrity as our core values.

In 2015 Novartis completed a portfolio transformation to focus on three leading divisions covering innovative Pharmaceuticals, Generics, Eyecare and to leverage on our new services organisation – Novartis Business Services. These steps position us well to navigate the challenging healthcare environment.

As a healthcare leader, we also have a responsibility to help improve access to medicines and healthcare for patients who have no access to such facilities. In India our Arogya Parivar project now covers 11 States across an area that is home to 70 million people, expanding their access to affordable products, improved health infrastructure and community education.

Besides delivering needed medicines at affordable prices, Arogya Parivar also aims to support healthcare systems and help manage the rising cost of care and its economic consequences.

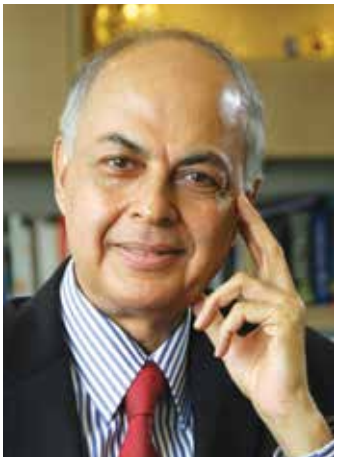
Strong demographics and economic trends continue to transform our societies and shape the future of healthcare. These trends are opening opportunities for Novartis while at the same time raising a few challenges. I would like to refer to just two of these. One such impediment is the manner in which price control has been exercised by the authorities, particularly the unpredictable and recurrent price fixation under the Drug Price Control Order (DPCO). This has clearly impacted the profitability of your Company. The second is the announcement of the National Intellectual Property Rights (IPR) Policy. While the Policy has many positive features, it has not addressed issues relevant to the research-based pharmaceutical companies.

Finally I would like to talk about the share buyback approved by your Board in May 2016. During FY 2015-2016 the Company received INR 1964 million from divestment of its OTC and Animal Health businesses. Following this the Company decided to distribute the proceeds received via a share buy-back through the "Tender Offer" route in accordance with the Companies Act, the Management Rules and the Securities and Exchange Board of India (Buy-back of Securities) Regulations, 1998, subject to the approval of the shareholders of the Company by way of a special resolution. I believe that the share buyback is in the best interests of both shareholders and the Company as a whole.

I thank you for the confidence you have reposed in your Company and look forward to your support as always.

Sincerely

Christopher Snook
Chairman



Dear Shareholder

Novartis has a long-term commitment to ensure access to medicines. In an interconnected and shrinking world that has seen unprecedented levels of disruption in most industries, the pharmaceutical industry particularly lives in extraordinarily volatile times.

Four forces are transforming the world in fundamental ways; these include an ageing population; industrialisation and urbanisation in emerging economies; greater global interactions and cutting-edge convergence of technologies. In this new digital era, where patients are active participants in their own wellness, healthcare providers have had to rise to the challenge with new approaches and mindsets, using tools and techniques that were unheard of barely a few decades ago.

The world's rapidly growing and ageing population is driving changes in healthcare, presenting both new opportunities and new challenges for Novartis. The global population will increase by more than one billion people by 2030, projects the United Nations, with most of that growth occurring in developing countries. People over age 60 are the fastest growing population segment, expected to add 500 million people and reach 1.4 billion by 2030.

These factors are behind increasing demand for healthcare worldwide. If current growth rates continue, healthcare spending will likely more than double by 2025, exceeding USD 15 trillion. Governments and health insurers are increasingly searching for ways to keep spending in check. They are focusing on the value they receive, based on tangible benefits for patients and healthcare systems.

We have entered an important period in the history of our Company following the portfolio divestment of the OTC and Animal Health businesses and are now focused on Pharmaceuticals, Generics and Eyecare. This has improved our competitive position. In addition Novartis Business Services (NBS), our new cross-divisional services organisation, will play a critical role in identifying additional synergies across businesses.

As we focus on improving health outcomes for patients by leveraging medical science, we are also advancing the creative use of new digital technology and data analysis to help healthcare systems deliver real-world outcomes with our therapies. This enables us to improve value and reduce waste in the system. In this time of increased scrutiny on drug prices, we understand that patients and healthcare systems need to get good value for what they spend on treatments.

India's enormous population is one of the biggest challenges we face in providing access to quality healthcare for all our citizens. Access to healthcare extends beyond the cost of medicine, to the proximity, quality and functionality of healthcare infrastructure. A 2015 study by IMS Health on 'Assessing the Impact of Price Control Measures on Access to Medicines in India' concluded that price controls do not improve access to medicines.

While the DPCO is an attempt to regulate the industry, it should be noted that Indian drug prices are lower than in other developing economies including countries such as Pakistan and Bangladesh and even the price increases have always been below or at par with inflation. While the order leads to a marginal price benefit

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for patients, the desired outcome would be a significant upsurge in volumes and deeper penetration into rural markets of the country. However, the analysis of both 2013 and 1995 price controls by IMS reveals that this desired objective has certainly not been achieved. Finally the unpredictability of price controls is making the strategic planning of business very difficult and also unremunerative to the extent that key products will disappear from the market.

In a country like ours, price control can play an important role in ensuring equitable access and distribution of essential public goods. However, this cannot be the sole policy instrument that is used to address the healthcare challenges of our citizens.

We hope as India aspires to provide quality healthcare for all, our Government does consider healthcare access in a holistic manner and ensures improvement on all parameters. The focus must shift from controlling prices to collaboratively advancing a common agenda.

India's National IPR Policy aims "to promote a holistic and conducive ecosystem to catalyse the full potential of intellectual property for India's economic growth and socio-cultural development, while protecting public interest." The Policy put forward seven objectives that outline steps to be undertaken to advance these objectives. Regrettably none of the innovative pharmaceutical industry's long-standing suggestions have been included. While we are generally supportive of the new IPR policy key gaps still remain particularly with respect to data protection, section 3(d) and low triggers for compulsory license.

The Company's Revenue from Operations for FY 2015-16 is lower by 7.4 per cent compared to the previous year mainly due to divestment of the OTC business wef September 30, 2015, and Animal Health business wef December 31, 2015. The Extraordinary Income (net of tax effect) from these divestments is INR 1319 million. The Board has recommended a share buy-back from all shareholders of the Company on a proportionate basis through the "Tender Offer" route to distribute the proceeds received from the divestment of the OTC and Animal Health businesses.

As we have been communicating during the quarterly results updates, the Company's profitability has been impacted substantially due to DPCO 2013 as also the additional products covered under National List of Essential Medicines (NLEM) 2015. As a result, despite many productivity measures taken by the Company during the year, the Operating Profit margin is low at 6.5 per cent for the Pharma segment. The Company however has maintained dividend at 200 per cent for FY 2015-16, subject to the approval of shareholders, as it believes in a steady dividend policy.

The Company's shared commitment to corporate responsibility rests with every Novartis associate and we can be proud of what Novartis has accomplished in enhancing access to medicines to patients who need this most.

We extend our thanks to you, our shareholders, for your loyalty and continued support.

Sincerely

Ranjit Shahani
Vice Chairman & Managing Director

Healthcare in your Hands

Deep in the remote mountainous region of Himachal Pradesh in North India, where difficult landscapes and climatic conditions have made medical access almost impossible for rural communities living in the lap of the Himalayas, a unique programme has been revolutionising healthcare. In January 2015, in a public-private partnership with a leading hospital chain, the National Health Mission, Department of Health and Family Welfare, Government of Himachal Pradesh, set up a 15-month initiative to connect isolated patients and doctors to quality multispecialty health services. By May 31, 2015, the Himachal Pradesh Tele-Health Services programme had offered 254 tele-consultations and 13 emergency consultations for patient stabilisation.

The Government of Himachal Pradesh is aggressively working on scaling-up learnings from this programme to the rest of the remote terrains covered by the State health facilities, according to *Making a Difference: Good, Replicable and Innovative Practices*, a Ministry of Health and Family Welfare Government of India publication.

Elsewhere, in the South Indian state of Andhra Pradesh, a web-based Mother and Child Tracking System (MCTS) has been replacing inefficient manual data collection to ensure timely delivery of the full spectrum of healthcare and immunisation services to pregnant women and children up to five years of age.

In Rajasthan, where complex fund flows for accredited social health activists (ASHAs) have caused delays, ASHA Soft, a software launched on December 26, 2014, has been working towards prompt and transparent online payments and improved monitoring of the activists who form part of a National Rural Health Mission programme designed to provide every village in the country with a trained female community health activist. The upgraded payment systems, complete with SMS alerts to beneficiaries, have done much to incentivise activists; the software also enables programme managers to capture the performance of ASHAs based on incentives earned for a range of activities.

THE DIGITAL EDGE

Over the last decade, the healthcare industry, both in India and elsewhere, has been seeing a complete transformation. Cutting-edge technology, a host of new challenges and evolving mindsets have brought in a range of treatment options that would have been unimaginable a few years ago. "As patients transition from passive healthcare recipients to active value-seeking consumers, it is the health sector's turn to master digital tools," says a November 2014 PwC report, *Healthcare Delivery of the Future: How digital technology can bridge time and distance between clinicians and consumers*. The report adds: "In the New Health Economy, digitally-enabled care is no longer a nice-to-have, but rather a fundamental business imperative." The report also notes that hospitals and the pharmaceutical industry are all seeing major shifts in how care is being delivered. "Digital technology bridges time, distance and the expectation gap between consumers and clinicians," it says.

Across the world, exciting new discoveries have been taking place and are increasingly in use. These technological leaps are helping to close the last-mile gap between healthcare providers and consumers; they are improving access, reducing costs and expanding possibilities. 'Smart' teddy bears have been developed to monitor children's health parameters, and digital diagnostic systems such as Neurotrack are being used to detect the first signs of Alzheimer's among those unable to visit a doctor's clinic. In Japan, 'smart' toilets have been in use for years now, recording and analysing important data like weight, Body Mass Index (BMI), blood pressure, and blood sugar levels, beaming the information to computers via WiFi; with the guidance of a trained physician, these results can help to monitor health and provide

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early detection for some medical conditions. This May, at the International Conference on Robotics and Automation in Stockholm, the Massachusetts Institute of Technology (MIT) showcased ingestible robots designed to treat internal wounds. The idea is to have the robot unfold itself, origami-style, from a capsule that the patient swallows, and then crawl across the stomach wall to remove—say—a button battery that has accidentally made its way inside. Researchers say that in the United States alone, 3,500 people swallow button batteries every year and the only solution so far has been interventions such as endoscopy. The robots, made from biocompatible materials, can also patch wounds or deliver medicine to specific locations in the body. Indian researchers are also making a mark internationally in medical breakthroughs. For instance, Dr. Mohit Shivdasani, Senior Research Fellow and Biomedical Engineer at the Bionics Institute in Melbourne, has played a major role in developing a bionic eye for vision restoration in the blind.

As a brand leader and trend-setter in the pharmaceutical space, Novartis has recognised the potential of new technologies and the need for reinvention; the Company has played a trend-setting role through various technology partnerships to explore new opportunities for the future. For instance, in a joint initiative with Qualcomm Ventures, it has formed a USD 100m digital health investment company to back 'beyond-the-pill' technologies,

Pic courtesy: Bionic Vision Australia

THE HEALTHCARE REVOLUTION

Futuristic techniques such as 3-D bioprinting of body parts are revolutionising healthcare. Among the many technological marvels of the modern age is the ingestible robot, designed to remove foreign objects such as button batteries that may have been accidentally swallowed.

products or services. The partnership combines Qualcomm's background in wireless technology and digital health investment with Novartis' burgeoning efforts to tap into new technologies. In January 2016, Novartis announced a digital innovation in a collaborative venture with Qualcomm—the Breezhaler (TM) inhaler device to treat Chronic Obstructive Pulmonary Disease (COPD). The device will enable near real time data to be sent to the patients' smartphone and a Novartis COPD mobile application.

In 2013, Novartis' mHealth Challenge, a 48-hour development marathon in Silicon Valley, sought a novel way to use mobile technology to help caregivers navigate the daily challenges of looking after a loved one with heart failure.

In a collaboration with personalised analytics firm TicTrac, Novartis also launched a new 'quantified self' platform to help multiple sclerosis (MS) patients more easily record, track and analyse their personal data. In addition, the company has ramped up social media efforts, including making creative use of Pinterest and its *Discovery Unbound* magazine on Flipboard.

In 2014, Novartis' eye care division Alcon entered into an agreement with a division of Google Inc. to in-license its "smart lens" technology for all ocular medical uses. The agreement with Google[x], a team within Google devoted to finding new solutions to big global problems, provided Alcon with the opportunity to develop and commercialise Google's "smart lens" technology with the potential to transform eye care and further enhance Alcon's pipeline and global leadership in contact lenses and intraocular lenses. The agreement between Google and Alcon represented an important step for Novartis, across all of its divisions, to leverage technology to manage human diseases and conditions.

This transition to technology partnerships was the next logical step for a company that has always believed in a pioneering approach, straddling a complete range of healthcare options. After all, Novartis was the first global pharmaceutical company to have an OTC Research & Development Centre in India, and the first to tackle access barriers to healthcare through its Arogya Parivar initiative, exploring new ways to reach out to remote rural areas.

COMPLEX CHALLENGES

In the complex world of healthcare, especially in India, there are many challenges that require sustained and focused attention. Globally, the ~USD 8 trillion industry has a large number of stakeholders and is hugely dependent on data and information. Efficient management of data, reduced levels of wastage in the value chain and a greater need to engage with growing levels of patient/consumer involvement are vital. Major forces are changing the world in unprecedented ways, underlining a need for a dramatic change in both approaches to healthcare and in mindsets. Industrialisation and urbanisation in emerging economies, disruptive technologies, an ageing world and enhanced global interactions have suddenly made the world a very different place.

A Shortage of Manpower: In India, the problems are magnified by the immense shortage of manpower. There is only one doctor per 1,700 citizens in India, significantly less than the minimum ratio of 1:1,000 that the World Health Organization stipulates. Union Health Ministry figures claim that there are about six to six-and-a-half lakh doctors available currently in the country and India would need about four lakh more by 2020. Increased use of technology would go a long way towards combating this shortage, and stretch the use of existing resources. Professor Vivekananda Jha, Executive Director of George Institute of Public Health, India, and Robyn Norton, Principal Director, Professor of Global