

SANDOZ



Pioneering access for patients

Half-Year Report 2024

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Message from the CEO



“These strategic achievements came alongside solid financial results, which is demonstrated by strong double-digit growth in biosimilars and a positive contribution by all three regions for the second quarter and half year.”

HI performance

Sandoz delivered a solid performance in the first half of 2024, with net sales of USD 5.0 billion, an increase of 7% in constant currencies compared to the prior year. This was our eleventh consecutive quarter of topline growth and we have raised our full-year sales guidance.

We are executing on our strategy, meeting key milestones in our biosimilar business and progressing on our journey as a standalone company. In recent months, we saw strong uptake of Hyrimoz[®] in the US, received approval for Pyzchiva[®] (ustekinumab) and Wyost[®]/Jubbonti[®] (denosumab) in the US and Europe and secured a settlement agreement in the US with launch dates in the first half of 2025. We also advanced our separation and transformation programs, and broke ground on our new biosimilar manufacturing facility in Slovenia.

These strategic achievements came alongside solid financial results, which is demonstrated by strong double-digit growth in biosimilars and a positive contribution by all three regions for the second quarter and half year. Our half-year 2024 core EBITDA margin was 17.5%, a strong 210 basis points improvement compared to the second half of 2023, primarily from recent biosimilars launches. We expect momentum in our business to continue in the second half of the year, with margin expansion coming from favorable product mix, leveraging expenses on growing topline and contribution from our transformation program.

Our solid performance through the first six months of the year reflects the ongoing dedication and focus of our more than 20,000 employees worldwide, powered by our common Purpose.

Looking ahead

Key developments in the second half of the year are expected to include the continued ramp-up of Hyrimoz[®] in the US, the launch of Pyzchiva[®] in Europe and the anticipated launch of Tyruko[®] in the US. We will also continue executing on separation and transformation to drive our margins.

For full-year 2024, we are increasing our net sales guidance to mid- to high-single digit growth in constant currencies versus prior year and confirming our core EBITDA margin of around 20%.

Biosimilar and generic medicines have increasing importance for the sustainability of healthcare. As a global leader in this industry, we are driving access to make a meaningful difference for patients.

Richard Saynor
Chief Executive Officer



Key H1 2024 strategic milestones

Building the foundations for continued growth

Building on 11 consecutive quarters of topline growth, we continue to develop and expand our strong pipeline of important off-patent medicines – covering the whole spectrum, from simple generics to cutting-edge biosimilars.



January 31

Tyruko® (natalizumab), first and only biosimilar for multiple sclerosis, launched in Germany

March 4

Marketed biosimilar portfolio expanded to 10 with acquisition of Cimerli®

March 21

New antibiotic finished dosage facility opens in Austria

April 22

European Commission approves biosimilar Pyzchiva® (ustekinumab)¹

April 30

All patent litigation resolved for Wyost® and Jubbonti® (denosumab), clearing the way for US launch²

May 22

European Commission approves Wyost® and Jubbonti® (denosumab)

Photo:

Mariyam Radi (left) and Otmar Hainzl (right) in our biosimilar development laboratories in Holzkirchen, Germany. In these laboratories we confirmed analytical similarity and analyzed more than 60,000 clinical patient samples to demonstrate biosimilarity of Wyost® and Jubbonti® with their respective reference medicines.

¹ Pyzchiva® received FDA approval on July 1, 2024.

² Wyost® and Jubbonti® received FDA approval on March 5, 2024. Sandoz reached agreement with Amgen resolving all patent litigation on April 30, 2024, clearing the way for launch on May 31, 2025, or earlier under certain circumstances.

Interim Financial Report

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Performance overview

Overview

Sandoz delivered solid financial results in the first half of 2024, meeting key milestones in our biosimilar business and progressing on our journey as a standalone company.

The momentum in the business continues, as demonstrated by strong double-digit growth in biosimilars and a positive contribution by all three regions. Net sales reached USD 5.0 billion, up 7% in constant currencies (cc).

Core EBITDA margin was 17.5% compared to 20.8% in the prior year, driven by lower core gross profit margin, with favorable product mix from strong double-digit biosimilars growth mainly offset by inflation on cost of goods sold from the second half of 2023 onwards.

An explanation of non-IFRS measures, as defined by Sandoz, including core EBITDA, core net income, core diluted earnings per share, free cash flow, management 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 half-year ending June 30, 2024 and 2023:

(USD millions unless indicated otherwise)	H1 2024	H1 2023	Change in USD	Change in %	Change in cc %
Net sales to third parties	5,047	4,767	280	6	7
EBITDA	576	720	(144)	(20)	(13)
Core EBITDA	885	992	(107)	(11)	(6)
<i>% of net sales to third parties</i>	17.5	20.8			
Net income	151	236	(85)	(36)	(26)
Core net income	484	591	(107)	(18)	(13)
Diluted earnings per share (USD)	0.35	0.55	(0.20)	(36)	(26)
Core diluted earnings per share (USD)	1.12	1.37	(0.25)	(18)	(13)
Free cash flow	21	(86)	107		
Management free cash flow	237	1	236		



Our financial performance

Net sales

Net sales were USD 5.0 billion, up 7% in cc, compared to prior year. Volume contributed nine percentage points of growth. This was partially offset by price erosion of two percentage points, a significant reduction compared to four percentage points in

the prior year. The growth was primarily driven by biosimilars, with strong demand for both the base business and new in-market organic and acquired products in the US.

The following table sets forth our net sales for the half-year ending June 30, 2024 and 2023 by business:

(USD millions unless indicated otherwise)	HI 2024	HI 2023	Change in %	Change in cc %
Generics	3,704	3,718	0	1
Biosimilars	1,343	1,049	28	29
Total net sales to third parties	5,047	4,767	6	7

Net sales of generics were USD 3.7 billion, up 1% in cc versus prior year. The momentum continued in the International region, aided by demand for the antifungal agent Mycamine[®]. Europe remained stable despite strong prior year comparisons. These include the strong sales of apixaban in the first half of 2023 which was withdrawn in the Netherlands following a court decision in August 2023, and an exceptional cough and cold season last year. Launches in North America are planned in the second half of the year, with the relative phasing impacting growth in the first half.

Net sales of biosimilars were USD 1.3 billion, up 29% in cc versus prior year. The strong double-digit biosimilars growth reflects the uptake of Hyrimoz[®] (adalimumab) in the US, the acquisition of Cimerli[®] (ranibizumab), the continued strong demand for our first-ever biosimilar, Omnitrope[®] (somatropin) and the launch of Tyruko[®] (natalizumab) in Europe.

The following table sets forth our net sales for the half-year ending June 30, 2024 and 2023 by region¹:

(USD millions unless indicated otherwise)	HI 2024	HI 2023	Change in %	Change in cc %
Europe	2,634	2,547	3	3
North America	1,144	1,004	14	14
International	1,269	1,216	4	10
Total net sales to third parties	5,047	4,767	6	7

¹ Net sales to third parties by location of customer.

Net sales in Europe were USD 2.6 billion, up 3% in cc versus prior year. Strong growth in biosimilars continues, led by demand for Omnitrope[®] and the contribution from the recent launch of Tyruko[®]. This was partly offset by a stable generics business due to a strong prior year comparison. This includes the withdrawal of apixaban and an exceptional cough and cold season.

Net sales in North America were USD 1.1 billion, up 14% in cc versus prior year. Growth was driven by the ongoing uptake of Hyrimoz[®] in the US and the acquisition of Cimerli[®]. This was

partly offset by a decline in generics sales due to the timing of new launches in the US, which are planned in the second half of 2024.

Net sales in International were USD 1.3 billion, up 10% in cc versus prior year. This was primarily a result of strong volume growth across both generics and biosimilars, the acquisition of Mycamine[®] in the prior year and favorable price dynamics, partly offset by the divestment of the Chinese business in the second quarter.

Operating results

(USD millions unless indicated otherwise)	HI 2024	HI 2023	Change in %	Change in cc %
Net sales to third parties	5,047	4,767	6	7
Gross profit	2,380	2,374	0	3
Operating income	332	462	(28)	(17)
EBITDA	576	720	(20)	(13)
Core results				
Core gross profit	2,544	2,537	0	2
<i>% of net sales to third parties</i>	<i>50.4</i>	<i>53.2</i>		
Core operating income	763	870	(12)	(7)
<i>% of net sales to third parties</i>	<i>15.1</i>	<i>18.3</i>		
Core EBITDA	885	992	(11)	(6)
<i>% of net sales to third parties</i>	<i>17.5</i>	<i>20.8</i>		

Core gross profit in the first half of 2024 was USD 2.5 billion, in line with prior year. Core gross profit margin was 50.4% compared to 53.2% in the first half of 2023. The favorable product mix from strong double-digit biosimilars growth partly offset price erosion and the inflation on cost of goods sold, which impacted results as of the second half of 2023. On a sequential basis, core gross profit margin improved by 170 basis points versus the second half of 2023, driven by favorable product mix from strong double-digit biosimilars growth.

Core EBITDA in the first half of 2024 was USD 885 million versus USD 992 million in the prior year. Core EBITDA margin was 17.5% compared to 20.8% in the first half of 2023, driven

by lower core gross profit margin. On a sequential basis, core EBITDA margin improved by 210 basis points compared to the second half of 2023, driven by favorable product mix from strong double-digit biosimilars growth. For the same reason, within H1, the margin expanded quarter-over-quarter.

EBITDA in the first half of 2024 was USD 576 million versus USD 720 million in the prior year. Core adjustments for EBITDA in the first half of 2024 were USD 309 million compared to USD 272 million in the prior year, driven primarily by transformation costs of USD 140 million, separation costs of USD 118 million and rationalization of specific manufacturing sites of USD 42 million.

Non-operating results

(USD millions unless indicated otherwise)	HI 2024	HI 2023	Change in %	Change in cc %
Operating income	332	462	(28)	(17)
Net financial result	(128)	(100)	(28)	(60)
Income taxes	(53)	(126)	58	52
<i>Effective tax rate (%)</i>	<i>26</i>	<i>35</i>		
Net income	151	236	(36)	(26)
Diluted earnings per share (USD)	0.35	0.55	(36)	(26)
Core results				
Core operating income	763	870	(12)	(7)
Core net financial result	(140)	(99)	(41)	(60)
Core income taxes	(139)	(180)	23	18
<i>Core effective tax rate (%)</i>	<i>22</i>	<i>23</i>		
Core net income	484	591	(18)	(13)
Core diluted earnings per share (USD)	1.12	1.37	(18)	(13)

Core net financial result was an expense of USD 140 million, compared to an expense of USD 99 million in the prior year. The increase of USD 41 million was primarily a result of our new standalone financing structure following the spin-off from our former parent.

The core effective tax rate was 22%, broadly in line with prior year.

Core net income was USD 484 million compared to USD 591 million in the prior year, mainly driven by lower core EBITDA and higher interest expense, partly offset by lower income tax. As a result, core diluted earnings per share was USD 1.12, compared to USD 1.37 in the prior year. The weighted average number of shares diluted was 432.2 million in the first half of 2024.

Cash flow, free cash flow, management free cash flow and net working capital

(USD millions)	H1 2024	H1 2023	Change in USD
Net cash flows from operating activities	229	85	144
Cash flows used in net CAPEX	(205)	(169)	(36)
Other investing cash flows	(3)	(2)	(1)
Free cash flow	21	(86)	107
Management free cash flow	237	1	236

The Group generated net cash flows from operating activities of USD 229 million, an improvement compared to USD 85 million in the prior year.

Capital expenditures (CAPEX) were USD 205 million, compared to USD 169 million in the prior year. This includes investments in our new biosimilars facility in Slovenia and our antibiotics facility in Austria, as well as separation-related investments in facilities and technology.

Free cash flow was USD 21 million, an improvement compared to negative USD 86 million in the prior year. Lower operating income was offset by a lower rate of increase of inventory following the spin-off from our former parent, and other working capital and operating items remaining stable despite strong topline growth.

Management free cash flow, defined as free cash flow adjusted for one-off items, was USD 237 million, an improvement compared to USD 1 million in the prior year.

(USD millions)	June 30, 2024	December 31, 2023	Change in USD
Net working capital	3,895	3,722	173

Net working capital of USD 3.9 billion increased by USD 173 million compared to December 31, 2023, primarily due to an increase in inventory driven by the build-up for product launches, and higher sales.

Liquidity, financial debt, and net debt

(USD millions)	June 30, 2024	December 31, 2023
Non-current financial debts	3,851	3,975
Current financial debts and derivative financial instruments	295	284
Total financial debts	4,146	4,259
Cash and cash equivalents	(701)	(1,109)
Derivative financial instruments	(9)	(35)
Less total liquidity	(710)	(1,144)
Net debt	3,436	3,115

Total non-current financial debts decreased to USD 3.9 billion from USD 4.0 billion on December 31, 2023, driven by currency revaluation impacts primarily from a strengthening

of the USD against the CHF and EUR. Current financial debt and derivative financial instruments remained broadly in line with December 31, 2023.

Total cash and cash equivalents decreased to USD 0.7 billion on June 30, 2024, compared to USD 1.1 billion on December 31, 2023. Net cash flows from operating activities were more than offset by our first dividend payment of USD 215 million and the Cimerli[®] acquisition of USD 188 million.

As a result of the above, net debt increased to USD 3.4 billion on June 30, 2024, compared to USD 3.1 billion on December 31, 2023.

Maturity profile

As of June 30, 2024, Sandoz maturity profile remained largely unchanged compared to December 31, 2023 and continues

to be 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 71% and 29%, respectively.

Credit profile

Sandoz aims to retain a solid investment grade credit profile and to balance interest and refinancing risks, demonstrated by a strong balance sheet and well-diversified funding mix. As of June 30, 2024, 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.

Condensed consolidated interim financial statements June 30, 2024

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Consolidated income statement

First half (unaudited)

(USD millions unless indicated otherwise)	Note	H1 2024	H1 2023
Net sales to third parties	4	5,047	4,767
Sales to former parent		–	151
Net sales		5,047	4,918
Other revenues	4	15	12
Cost of goods sold		(2,682)	(2,556)
Gross profit		2,380	2,374
Selling, general and administration		(1,246)	(1,159)
Development and regulatory		(489)	(447)
Other income		81	28
Other expense	5	(394)	(334)
Operating income		332	462
Interest expense		(126)	(59)
Other financial income and expense		(2)	(41)
Income before taxes		204	362
Income taxes	6	(53)	(126)
Net income		151	236
<i>Attributable to:</i>			
<i>Shareholders of Sandoz Group AG</i>		150	235
<i>Non-controlling interests</i>		1	1
Weighted average number of shares outstanding – Basic (million)		430.2	429.9
Basic earnings per share (USD) ¹		0.35	0.55
Weighted average number of shares outstanding – Diluted (million)		432.2	429.9
Diluted earnings per share (USD) ¹		0.35	0.55

¹ Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Sandoz Group AG.

The accompanying Notes form an integral part of the condensed consolidated interim financial statements.

Consolidated statement of comprehensive income

First half (unaudited)

(USD millions)	HI 2024	HI 2023
Net income	151	236
Other comprehensive income		
Items that are or may be recycled into the consolidated income statement:		
Currency translation effects, net of taxes	(225)	273
Total of items that are or may be recycled	(225)	273
Items that will never be recycled into the consolidated income statement:		
Actuarial gains/(losses) from defined benefit plans, net of taxes	6	(4)
Total of items that will never be recycled	6	(4)
Total other comprehensive income	(219)	269
Total comprehensive income	(68)	505
Attributable to:		
Shareholders of Sandoz Group AG	(69)	504
Non-controlling interests	1	1

The accompanying Notes form an integral part of the condensed consolidated interim financial statements.

Consolidated balance sheet

(USD millions)	June 30, 2024 (unaudited)	December 31, 2023 (audited)
Assets		
Property, plant and equipment	1,646	1,585
Right-of-use assets	256	265
Goodwill	7,557	7,589
Intangible assets other than goodwill	1,541	1,562
Deferred tax assets	803	716
Financial assets	49	41
Other non-current assets	122	100
Total non-current assets	11,974	11,858
Inventories	2,883	2,700
Trade receivables	2,621	2,615
Income tax receivables	329	321
Derivative financial instruments	9	35
Cash and cash equivalents	701	1,109
Other current assets	802	736
Total current assets without assets held for sale	7,345	7,516
Assets held for sale	–	56
Total current assets	7,345	7,572
Total assets	19,319	19,430
Equity		
Share capital	24	24
Treasury shares	0	0
Reserves	8,343	8,621
Equity attributable to the shareholders of Sandoz Group AG	8,367	8,645
Non-controlling interests	1	9
Total equity	8,368	8,654
Liabilities		
Financial debts	3,851	3,975
Lease liabilities	244	255
Deferred tax liabilities	310	252
Provisions and other non-current liabilities	517	596
Total non-current liabilities	4,922	5,078
Trade payables	1,609	1,593
Financial debts and derivative financial instruments	295	284
Lease liabilities	55	54
Current income tax liabilities	548	572
Provisions and other current liabilities	3,522	3,160
Total current liabilities without liabilities held for sale	6,029	5,663
Liabilities held for sale	–	35
Total current liabilities	6,029	5,698
Total liabilities	10,951	10,776
Total equity and liabilities	19,319	19,430

The accompanying Notes form an integral part of the condensed consolidated interim financial statements.

Consolidated statement of changes in equity

First half (unaudited)

(USD millions)	Note	Share capital	Treasury shares	Reserves		Equity attributable to Sandoz Group AG shareholders	Non-controlling interests	Total equity
				Retained earnings	Value adjustments			
Total equity at January 1, 2024		24	0	8,058	563	8,645	9	8,654
Net income		–	–	150	–	150	1	151
Other comprehensive income		–	–	–	(219)	(219)	–	(219)
Total comprehensive income		–	–	150	(219)	(69)	1	(68)
Dividends	7	–	–	(212)	–	(212)	–	(212)
Purchases of treasury shares		–	0	(12)	–	(12)	–	(12)
Taxes on treasury share transactions		–	–	(3)	–	(3)	–	(3)
Equity-based compensation		–	0	38	–	38	–	38
Impact of change in ownership of consolidated entities		–	–	(21)	–	(21)	(9)	(30)
Hyperinflation accounting impacts		–	–	1	–	1	–	1
Total of other equity movements		–	0	(209)	–	(209)	(9)	(218)
Total equity at June 30, 2024		24	0	7,999	344	8,367	1	8,368

(USD millions)	Note	Share capital	Treasury shares	Retained earnings	Value adjustments	Invested capital attributable to former parent	Non-controlling interests	Total invested capital
Net income		–	–	235	–	235	1	236
Other comprehensive income		–	–	–	269	269	–	269
Total comprehensive income		–	–	235	269	504	1	505
Movements of financing provided by former parent		–	–	(421)	–	(421)	–	(421)
Hyperinflation accounting impacts		–	–	24	–	24	–	24
Other transactions with former parent		–	–	(403)	–	(403)	–	(403)
Total of other invested capital movements		–	–	(800)	–	(800)	–	(800)
Total invested capital at June 30, 2023		–	–	8,355	97	8,452	13	8,465

The accompanying Notes form an integral part of the condensed consolidated interim financial statements.

Consolidated statement of cash flows

First half (unaudited)

(USD millions)	Note	H1 2024	H1 2023
Net income		151	236
<i>Adjustments to reconcile net income to net cash flows from operating activities</i>			
Reversal of non-cash items and other adjustments	8.1	565	687
Interest received		18	4
Interest paid		(100)	(58)
Other financial payments		(33)	(27)
Income taxes paid		(126)	(109)
Net cash flows from operating activities before net working capital and provision changes		475	733
Payments out of provisions and other net cash movements in non-current liabilities		(67)	(84)
Cash flows from changes in net working capital and other operating items	8.2	(179)	(564)
Net cash flows from operating activities		229	85
Purchases of property, plant and equipment		(165)	(155)
Proceeds from sale of property, plant and equipment		–	17
Purchases of intangible assets		(46)	(34)
Proceeds from sale of intangible assets		6	3
Purchases of financial assets		(3)	(3)
Proceeds from sale of financial assets		–	1
Acquisitions and divestments of businesses, net	8.3	(186)	(16)
Net cash flows used in investing activities		(394)	(187)
Cash flows from financing activities with former parent, net		–	156
Dividends paid to shareholders of Sandoz Group AG		(215)	–
Purchases of treasury shares		(12)	–
Proceeds from issuance of non-current financial debts		22	6
Change in current financial debts		39	20
Payments of lease liabilities		(31)	(20)
Impact of change in ownership of consolidated entities		(30)	–
Other financing cash flows, net		(1)	–
Net cash flows (used in)/from financing activities		(228)	162
Net change in cash and cash equivalents before effect of foreign currency translation		(393)	60
Effect of foreign currency translation		(15)	(7)
Net change in cash and cash equivalents		(408)	53
Cash and cash equivalents at January 1		1,109	74
Cash and cash equivalents at June 30		701	127

The accompanying Notes form an integral part of the condensed consolidated interim financial statements.

Principal currency translation rates

(USD per unit)	Average rates			Period-end rates		
	HI 2024	HI 2023	Change in %	June 30, 2024	December 31, 2023	Change in %
Euro (EUR)	1.081	1.081	0	1.070	1.107	(3)
Canadian dollar (CAD)	0.736	0.742	(1)	0.729	0.755	(3)
Swiss franc (CHF)	1.125	1.097	3	1.112	1.189	(6)
Polish zloty (PLN)	0.250	0.234	7	0.248	0.255	(3)
British pound (GBP)	1.265	1.233	3	1.264	1.275	(1)

Notes to the condensed consolidated interim financial statements (unaudited)

1. Basis of preparation

These condensed consolidated interim financial statements for the six-month period ended June 30, 2024, have been prepared in accordance with IAS 34 Interim Financial Reporting and should be read in conjunction with the Group's last annual Consolidated financial statements as at and for the year ended December 31, 2023, as presented in the 2023 Integrated Annual Report published on March 13, 2024.

2. Accounting policies

The Group's material accounting policies are set out in Note 3 Material accounting policies of the Consolidated financial statements in the 2023 Integrated Annual Report and conform with IFRS Accounting Standards as issued by the International Accounting Standards Board.

The preparation of the financial statements requires management to make certain estimates and assumptions, either at the balance sheet date or during the period, which affect the reported amounts of revenues, expenses, assets, liabilities and contingent amounts.

Estimates are based on historical experience and other assumptions that are considered reasonable under the given circumstances and are regularly monitored. Actual outcomes and results could differ from those estimates and assumptions. Revisions to estimates are recognized in the period in which the estimate is revised.

3. Significant transactions

The Group applied the acquisition method of accounting for businesses acquired and did not elect to apply the optional concentration test to account for acquired business as an asset separately acquired.

Significant transactions in 2024

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 surgical anesthesia portfolio for hospital administration in Europe and a cash component. As consideration for the transaction 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 receives a consideration of up to USD 60 million, with USD 10 million contingent on the sales performance of the anesthetic products. The transaction closed on April 30, 2024, and was classified as a business divestment. Sandoz realized a pre-tax gain on divestment of USD 30 million recorded in Other income. Upon closing, all cash components were paid, with the contingent payments potentially due in the future.

They do not include all the information required for a complete set of financial statements prepared in accordance with IFRS Accounting Standards. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

The Group's activities are not subject to significant seasonal fluctuations.

Impact of new IFRS Accounting Standards, amendments and interpretations in 2024

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures

The Group has evaluated its existing structured payable arrangements 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 had no material impact on the Group's condensed consolidated interim financial statements.

IFRS Accounting Standards, amendments or interpretations not yet effective are under assessment.

Aspen's surgical anesthesia portfolio was transferred to Sandoz and the beneficial ownership of the China legal entity transferred to Aspen with the legal title retained by Sandoz for a transitional period. The China legal entity is excluded from the Group's consolidation scope based on the respective IFRS 10 criteria and considered as an unconsolidated structured entity as defined by IFRS 12.

Acquisition of the Cimerli® business

On January 22, 2024, Sandoz entered into an agreement to acquire the US business related to biosimilar ranibizumab Cimerli® from Coherus BioSciences, Inc. Cimerli® is an FDA approved biosimilar to reference product LUCENTIS® (ranibizumab injection) indicated for the treatment of multiple retinal diseases. The acquisition closed on March 1, 2024, and was classified as a business combination. The purchase price consisted of an upfront cash payment of USD 170 million and a customary purchase price adjustment of USD 18 million.

The preliminary purchase price allocation resulted in net identifiable assets consisting primarily of intangible assets and inventory. The valuation of the acquired assets has not been completed yet. Results of operations since the date of acquisition were not material.

4. Revenue information

Net sales to third parties by business

(USD millions)	HI 2024	HI 2023
Generics	3,704	3,718
Biosimilars	1,343	1,049
Total net sales to third parties	5,047	4,767

Net sales to third parties by region¹

(USD millions)	HI 2024	HI 2023
Europe	2,634	2,547
North America	1,144	1,004
International	1,269	1,216
Total net sales to third parties	5,047	4,767

¹ Net sales to third parties by location of customer.

Other revenues

(USD millions)	HI 2024	HI 2023
Royalty income	9	8
Other ¹	6	4
Total other revenues	15	12

¹ Other includes revenue from activities such as manufacturing or other services rendered, to the extent such revenue is not recorded under net sales.

5. Other expense

Other expense amounted to USD 394 million in the first half of 2024 compared to USD 334 million in the prior year. Other expense includes additions to restructuring provisions, certain integration and separation costs related to the spin-off and litigation and settlement costs, additions to provisions and product liability, governmental investigations and other legal

matters. The increase versus prior year is mainly driven by higher restructuring expenses and separation costs, offset by lower expenses related to product liability, governmental investigation and other legal matters. See Note 12 for the movement schedule for restructuring provisions.

6. Income taxes

The Group's effective tax rate in the first half of 2024 was 26.0% compared to 34.8% in the prior year. The decrease from the prior year was mainly due to changes in profit mix and litigation settlements, which impacted the tax rate unfavorably in the prior year period.

The Group is within the scope of the OECD Pillar Two model rules. Pillar Two legislation was enacted in most of the jurisdictions where Sandoz operates, including Switzerland where it has been partially implemented. The Group continues

to apply the temporary mandatory exception from deferred tax accounting for the top-up tax, per International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12).

The Group is in the process of assessing its exposure to the Pillar Two legislation. The Group estimates that the impact of the application of the Pillar Two legislation will not be material to the consolidated financial income statement, balance sheet and cash flows.

7. Dividends paid

On April 30, 2024, the Annual General Meeting approved the distribution of a dividend of CHF 0.45 per share in respect of the 2023 financial year. The distribution to holders of

outstanding shares totaled USD 212 million, which was recorded against retained earnings in the six-month period ended June 30, 2024.

8. Details to the consolidated statement of cash flows

8.1) Non-cash items and other adjustments

(USD millions)	HI 2024	HI 2023
Depreciation, amortization and impairments on:		
Property, plant and equipment	84	101
Right-of-use assets	31	21
Intangible assets	125	130
Change in provisions and other non-current liabilities	142	210
Gains on disposal and other adjustments on property, plant and equipment; intangible assets; financial assets; and other non-current assets, net	(38)	(1)
Equity-settled compensation expense	42	–
Income taxes	53	126
Net financial expense	128	100
Other	(2)	–
Total	565	687

8.2) Cash flows from changes in net working capital and other operating items

(USD millions)	HI 2024	HI 2023
Cash flows from changes in net working capital:		
Increase in inventories	(273)	(447)
Increase in trade receivables	(90)	(142)
Increase in trade payables	47	114
Total cash flows from changes in net working capital	(316)	(475)
Cash flows used in/(from) other operating items:		
Decrease in receivables from former parent	–	4
Decrease in payables from former parent	–	(97)
Change in other current and non-current assets	(102)	(192)
Change in other current liabilities	273	196
Other adjustments, net	(34)	–
Total cash flows used in/(from) other operating items	137	(89)
Total	(179)	(564)

8.3) Cash flows used for acquisitions and divestments of businesses, net

(USD millions)	Note	HI 2024	HI 2023
Net assets recognized as a result of acquisitions of businesses	9	(188)	–
Contingent consideration payables, net		–	(16)
Cash flows used for acquisitions of businesses		(188)	(16)
Cash flows from divestments of businesses, net ¹		2	–
Cash flows used for acquisitions and divestments of businesses, net		(186)	(16)

¹ In the first half of 2024, the divestment of a business resulted in a net cash inflow of USD 2 million. The net assets and liabilities of the divested business amounted to USD 33 million, comprised of non-current assets of USD 34 million, current assets of USD 49 million, including USD 20 million of cash and cash equivalents, non-current liabilities of USD 2 million and current liabilities of USD 48 million.

Notes 3 and 9 provide further information regarding significant acquisitions and divestments of businesses. All acquisitions were for cash.

9. Acquisitions of businesses

Fair value of assets and liabilities arising from acquisitions of businesses:

(USD millions)	HI 2024	HI 2023
Intangible assets including goodwill	157	–
Inventories	23	–
Other current assets	9	–
Other current liabilities	(1)	–
Net assets recognized as a result of acquisitions of businesses	188	–

Note 3 details significant acquisitions of businesses, specifically the acquisition of the Cimerli® business in the first half of 2024. There were no acquisitions in the first half of 2023.

10. Property, plant and equipment, right-of-use assets and intangible assets

(USD millions)	HI 2024	HI 2023
Additions to property, plant and equipment ¹	188	170
Additions to right-of-use-assets	41	41
Additions to intangible assets including goodwill ²	318	56

¹ Additions mainly include investments in the biosimilar facility in Slovenia and the antibiotics facility in Austria.

² Additions mainly include intangible assets and goodwill related to the acquisition of the Cimerli® business, capitalization of intangible assets related to Aspen's surgical anesthesia portfolio, commercial rights for the biosimilar ustekinumab and other software intangibles.

11. Legal proceedings update

A number of Sandoz companies are, and will likely continue to be, subject to various legal proceedings, including litigations, arbitrations and governmental investigations, that arise from time to time. Legal proceedings are inherently unpredictable. As a result, the Group may become subject to substantial liabilities that may not be covered by insurance and 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. Note 24 Provisions and other non-current liabilities to the Consolidated financial statement in the 2023 Integrated Annual Report contains a summary as of the date of the report of significant legal proceedings to which Sandoz or its subsidiaries were a party. The following is a summary as of August 7, 2024, of significant developments in those proceedings, as well as any new significant proceedings commenced since the date of the 2023 Integrated Annual Report.

Investigations and related litigations

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 consolidated for pretrial purposes in the United States District Court (USDC) for the Eastern District of Pennsylvania, and the claims are being vigorously contested. The Connecticut Attorney General filed three cases on behalf of the Attorneys General for US states, the District of Columbia and Puerto Rico, seeking damages for violation of antitrust laws. The three cases were transferred from the USDC for the Eastern District of Pennsylvania to the USDC for the District of Connecticut. The cases are being vigorously contested.

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. On June 26, 2024, the court issued a preliminary approval of the settlement and payment of the settlement funds into a qualified settlement fund was deposited on July 31, 2024. The hearing for final approval of the settlement is currently scheduled for H1 2025.

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.

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. As of June 2024, the Mississippi Attorney General has agreed to voluntarily dismiss the action as to Sandoz and certain other defendants.

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. The claims are being vigorously contested and remain pending.

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.

In May 2024, the court conducted an evidentiary trial to determine the amount of damages to be recovered by Sandoz for breach of contract. The court has not stated when it will issue its 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 now expected in H2 2024.

Concluded Legal Matters

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.

By order filed April 6, 2024, the court administratively terminated the multi-plaintiff United States product liability case in New Jersey federal court concerning amiodarone. There was no finding of liability against defendants, including Sandoz, and the matter is concluded. Sandoz does not have any other pending litigation concerning amiodarone in the United States.

In addition to the matters described above, there have been other non-material developments in the other legal matters described in Note 24 to the Consolidated financial statements contained in the 2023 Integrated Annual Report.

Sandoz 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.

12. Restructuring provision movements

The following table shows the movement of the restructuring provisions:

(USD millions)	June 30, 2024	December 31, 2023
Balance at beginning of period	55	51
Additions	134	43
Cash payments	(17)	(36)
Releases	(3)	(7)
Transfers	–	1
Currency translation effects	(2)	3
Balance at closing of period	167	55

In the first half of 2024, additions to provisions of USD 134 million were mainly related to the transformation program started in 2024 to improve organizational efficiency. This multi-year program includes simplification of our organizational structure to create a fit-for-purpose business operations globally.

13. Financial instruments

Fair value by hierarchy

The following tables illustrate the three hierarchical levels for valuing financial instruments at fair value as of June 30, 2024 and December 31, 2023. For additional information on the hierarchies and other matters, refer to the Consolidated financial statements in the 2023 Integrated Annual Report.

(USD millions)	June 30, 2024			
	Level 1	Level 2	Level 3	Total
Financial assets				
Long-term financial investments – debt securities	21	–	–	21
Contingent consideration assets	–	–	9	9
Derivative financial instruments	–	9	–	9
Total financial assets at fair value	21	9	9	39
Financial liabilities				
Contingent consideration liabilities	–	–	(96)	(96)
Derivative financial instruments	–	(10)	–	(10)
Total financial liabilities at fair value	–	(10)	(96)	(106)

(USD millions)	December 31, 2023			Total
	Level 1	Level 2	Level 3	
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)

There were no transfers across levels in the first half of 2024.

The Group's exposure to financial risks has not changed significantly during the period and there have been no major changes to the risk management department or in any risk management policies.

14. Events subsequent to the June 30, 2024 consolidated balance sheet

Government generic pricing antitrust investigations, antitrust class actions

On June 26, 2024, the US District Court for the Eastern District of Pennsylvania issued a preliminary approval of the settlement and the payment of the settlement funds into a qualified settlement fund was deposited on July 31, 2024. For further information, see Note 11.

Supplementary financial information (unaudited)

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 Half-year 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:

- Amortization and impairment charges of intangible assets other than software;
- Certain acquisition and divestment-related items; and
- 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; and
- 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 exchange 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, taxes, 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.

Management free cash flow

Sandoz defines management free cash flow as free cash flow excluding payments from legal and restructuring related items, and the impact from separation costs and related CAPEX in the period, that are also excluded from core results. Other payments impacting free cash flow that management deems exceptional may also be excluded.

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.

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.

Rounding

Certain figures contained in the Half-year 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 Half-year 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.

Reconciliation of core results

Reconciliation from IFRS results to core results

(USD millions unless indicated otherwise)	HI 2024 IFRS results	Amortization of intangible assets ¹	Impairments ²	Acquisition or divestment of businesses and related items ³	Other items ⁴	HI 2024 Core results
Net sales	5,047	–	–	–	–	5,047
Other revenues	15	–	–	–	–	15
Cost of goods sold	(2,682)	114	–	11	39	(2,518)
Gross profit	2,380	114	–	11	39	2,544
Selling, general and administration	(1,246)	–	–	–	13	(1,233)
Development and regulatory	(489)	–	1	–	1	(487)
Other income	81	–	–	(30)	(5)	46
Other expense	(394)	–	1	3	283	(107)
Operating income ⁵	332	114	2	(16)	331	763
Interest expense	(126)	–	–	–	–	(126)
Other financial income and expense	(2)	–	–	–	(12)	(14)
Income before taxes	204	114	2	(16)	319	623
Income taxes ⁶	(53)	–	–	–	–	(139)
Net income	151	–	–	–	–	484
Basic earnings per share (USD)	0.35	–	–	–	–	1.12
Diluted earnings per share (USD)	0.35	–	–	–	–	1.12

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: development and regulatory and other expense include impairment charges related to intangible assets and property, plant and equipment.

³ Acquisition or divestment of businesses and related items: cost of goods sold, other income and other expense include the gain from the China business divestment and portfolio agreement and expenses related to the acquisition of the Cimerli[®] business.

⁴ Other items: costs of goods sold and other expense include the Group-wide rationalization of manufacturing sites; costs of goods sold, selling general and administration, development and regulatory and other expense include the separation costs related to the spin-off; selling general and administration, other income and other expense include the costs related to the transformation program and other restructuring charges; other income and other expense also include legal-related items; other financial income and expense includes the monetary loss on the restatement of non-monetary items for subsidiaries in hyperinflationary economies.

⁵ For further breakdown of core adjustments by category, refer to table Reconciliation from IFRS operating income to core net income.

⁶ 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 419 million to arrive at the core results before tax amounts to USD 86 million. The average tax rate on the adjustments was 20.5%.

(USD millions unless indicated otherwise)	H1 2023 IFRS results	Amortization of intangible assets ¹	Impairments ²	Acquisition or divestment of businesses and related items	Other items ³	H1 2023 Core results
Net sales	4,918	–	–	–	–	4,918
Other revenues	12	–	–	–	–	12
Cost of goods sold	(2,556)	110	17	–	36	(2,393)
Gross profit	2,374	110	17	–	36	2,537
Selling, general and administration	(1,159)	–	–	–	16	(1,143)
Development and regulatory	(447)	–	2	–	–	(445)
Other income	28	–	(1)	–	(4)	23
Other expense	(334)	–	–	–	232	(102)
Operating income ⁴	462	110	18	–	280	870
Interest expense	(59)	–	–	–	–	(59)
Other financial income and expense	(41)	–	–	–	1	(40)
Income before taxes	362	110	18	–	281	771
Income taxes ⁵	(126)	–	–	–	–	(180)
Net income	236	–	–	–	–	591
Basic earnings per share (USD)	0.55	–	–	–	–	1.37
Diluted earnings per share (USD)	0.55	–	–	–	–	1.37

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 charges related to the Sandoz spin-off, the Group-wide rationalization of manufacturing sites and other net restructuring charges and related items; cost of goods sold and selling, general and administration also include adjustments to provisions; other expense includes legal-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 409 million to arrive at the core results before tax amounts to USD 54 million. The average tax rate on the adjustments was 13.2%.

Reconciliation from IFRS operating income to core net income

(USD millions unless indicated otherwise)	H1 2024	H1 2023
IFRS operating income	332	462
Amortization of intangible assets	114	110
Impairments		
Intangible assets	1	19
Property, plant and equipment related to the Group-wide rationalization of manufacturing sites	1	(1)
Total impairment charges	2	18
Acquisition or divestment of businesses and related items		
- Income	(30)	–
- Expense	14	–
Total acquisition or divestment of businesses and related items, net	(16)	–
Other items		
Restructuring and related items		
- Income	(2)	(4)
- Expense	190	43
Legal-related items		
- Income	(2)	–
- Expense	23	201
Separation costs ¹	118	42
Additional income	–	(2)
Additional expense	4	–
Total other items	331	280
Total adjustments	431	408
Core operating income	763	870
<i>% of net sales to third parties</i>	<i>15.1</i>	<i>18.3</i>
Net financial result	(128)	(100)
Core adjustments to net financial result	(12)	1
Income taxes, adjusted for above items (core income taxes)	(139)	(180)
Core net income	484	591

¹ Separation costs of H1 2023 were previously disclosed under Restructuring and related items – Expense, and Additional expense.

Reconciliation from operating income to EBITDA to core EBITDA

(USD millions)	HI 2024 IFRS results	Amortization of intangible assets	Impairments	Acquisition or divestment of businesses and related items	Other items	HI 2024 Core results
Operating income	332	114	2	(16)	331	763
Depreciation of property, plant and equipment	83	–	–	–	(6)	77
Depreciation of the right-of-use assets	31	–	–	–	–	31
Amortization of intangible assets	124	(110)	–	–	–	14
Intangible assets directly expensed	4	(4)	–	–	–	–
Impairments of property, plant and equipment, right-of-use assets and intangible assets	2	–	(2)	–	–	–
EBITDA	576	–	–	(16)	325	885

(USD millions)	HI 2023 IFRS results	Amortization of intangible assets	Impairments	Acquisition or divestment of businesses and related items	Other items	HI 2023 Core results
Operating income	462	110	18	–	280	870
Depreciation of property, plant and equipment	100	–	–	–	(8)	92
Depreciation of the right-of-use-assets	21	–	–	–	–	21
Amortization of intangible assets	111	(103)	–	–	–	8
Intangible assets directly expensed	7	(7)	–	–	–	–
Impairments of property, plant and equipment, right-of-use assets and intangible assets	19	–	(18)	–	–	1
EBITDA	720	–	–	–	272	992

Reconciliation of free cash flow and management free cash flow

(USD millions)	HI 2024	HI 2023
Operating income	332	462
Adjustments for non-cash items		
Depreciation, amortization and impairments	240	252
Change in provisions and other non-current liabilities	142	210
Other	2	(1)
Operating income adjusted for non-cash items	716	923
Interest and other financial receipts	18	4
Interest and other financial payments	(133)	(85)
Income taxes paid	(126)	(109)
Payments out of provisions and other net cash movements in non-current liabilities	(67)	(84)
Cash flows from changes in net working capital	(316)	(475)
Cash flows from changes in other operating items	137	(89)
Net cash flows from operating activities	229	85
Cash flows used in net CAPEX	(205)	(169)
Purchases of financial assets	(3)	(3)
Proceeds from sale of financial assets	–	1
Free cash flow	21	(86)
Payments for legal settlements, fees and expenses	31	1
Payments from restructuring provisions	17	23
Separation costs	118	42
Separation-related CAPEX	50	21
Management free cash flow	237	1

Cash flows used in net CAPEX

(USD millions)	HI 2024	HI 2023
Purchases of property, plant and equipment	(165)	(155)
Purchases of intangible assets	(46)	(34)
Cash flows used in purchases of property, plant and equipment and intangible assets	(211)	(189)
Proceeds from sale of property, plant and equipment	–	17
Proceeds from sale of intangible assets	6	3
Cash flows from sale of property, plant and equipment and intangible assets	6	20
Cash flows used in net CAPEX	(205)	(169)

Reconciliation of net working capital

(USD millions)	June 30, 2024	December 31, 2023
Inventories	2,883	2,700
Trade receivables	2,621	2,615
Less trade payables	(1,609)	(1,593)
Net working capital	3,895	3,722

Effects of currency fluctuations

We transact our business in many currencies other than the US dollar, our presentation currency.

The following table provides an overview of net sales and operating expenses for our operations based on IFRS values for H1 2024 and H1 2023 for currencies most important to Sandoz:

Currency	H1 2024		H1 2023	
	Net sales to third parties %	Operating expenses ¹ %	Net sales to third parties %	Operating expenses ¹ %
US dollar (USD)	22	21	19	27
Euro (EUR)	38	51	39	42
Canadian dollar (CAD)	6	3	6	3
Swiss franc (CHF)	3	9	3	10
Polish zloty (PLN)	3	1	3	2
British pound (GBP)	3	1	4	2
Other currencies	25	14	26	14

¹ Operating expenses include cost of goods sold; selling, general and administration; development and regulatory; other income and other expense.

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Forward-looking statements

This Half-Year Report contains forward-looking statements involving certain risks and uncertainties that may cause actual results to materially differ from the statements in this Report. These forward-looking statements are based on management's current beliefs and expectations of future events, and are not guarantees or predictions of future performance or statements of fact. Many factors could cause the Group's actual results or performance to differ from those expressed in the forward-looking statements, including (but not limited to) uncertainties in: (1) pricing and competitor initiatives, (2) litigation and legal disputes or investigations, (3) loss or challenges to intellectual property, (4) government pricing pressures, (5) delays in or lack of regulatory approval, or product marketing or commercialization challenges, (6) research & development, including clinical trial results or analyses, (7) interruptions in manufacturing and production, (8) safety, quality and data integrity in manufacturing, (9) third party vendor or supply chain challenges, (10) global currency fluctuations, (11) regulatory actions or legislations, (12) loss of executives or key personnel, (13) cybersecurity incidents, (14) global geopolitical or macroeconomic conditions or uncertainties in shareholder returns, and (15) compliance with laws and regulations, including data protection, and adverse publicity.

Sandoz undertakes no obligation to publicly update or revise any forward-looking statements. This Half-Year Report is not intended to be and shall not be deemed to be an invitation or inducement to invest or deal in Sandoz securities, nor to provide any advice or recommendation 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.