Novartis AG

# Novartis Modern Slavery Statement

*Published: January 2019*

## Introduction

Novartis is a global healthcare company based in Switzerland that provides solutions to address the evolving needs of patients worldwide. Our purpose is to reimagine medicine to improve and extend people's lives. Our vision is to be a trusted leader in changing the practice of medicine. Our strategy is to create transformative treatments in areas of great medical need and find new ways to deliver them to people worldwide. We aspire to create a culture where our people are inspired, curious and unbossed, and which is defined by strong values which help us execute the Novartis strategy in line with our purpose and vision.

Building trust with our stakeholders is critical to our ability to deliver on our purpose, as well as our long-term financial performance. And we have set a clear strategic path that we believe will further accelerate our journey in this respect. Our Corporate Responsibility (CR) strategy is endorsed and ingrained at the highest level in our company. It is central to how we want to run our business. We focus our CR work in four key areas: holding ourselves to the highest ethical standards; being part of the solution on pricing and access to medicines; helping tackle global health challenges; and being a responsible citizen.

We also recognize that achieving our business goals requires that we operate with integrity, transparency and environmental sustainability. As a company that strives to be a responsible citizen, we are committed to conducting our business in a manner that respects the rights and dignity of all people that may be affected by our business activities. This means that the duty to "do no harm" to human rights is at the foundation of our purpose. We must avoid causing, contributing to or being directly linked to human rights violations, and promptly address any adverse human rights impacts we do identify in our own operations or in our supply chain.

We also strive to support the protection of internationally proclaimed human rights. For example, Novartis supports the living wage principle in the United Nation's Universal Declaration on Human Rights: "*Everyone who works has the right to just and favorable remuneration ensuring…an existence worthy of human dignity*." In 2000, Novartis was one of the first international companies to implement a commitment to pay a living wage to all of its employees. "Living Wage" is a Novartis initiative and commitment to associates, which often is above legal minimum wage requirements. Living wages are updated annually for Novartis by the non-governmental organization Business for Social Responsibility (BSR), adjusting for changes in inflation, food prices, and other market conditions.

NOVARTIS

## Our organization structure, business and value chains

In 2018, we announced our intention to build a leading, focused medicines company powered by advanced therapy platforms and data science. We also announced five strategic priorities: unleashing the power of our people, delivering transformative innovation, embracing operational excellence, going big on data and digital, and building trust with society.

Research and development is at the core of our company, with 23 000 scientists, physicians and business professionals worldwide focused on finding innovative treatments and bringing them to patients.

### Novartis Institutes for BioMedical Research

The Novartis Institutes for BioMedical Research (NIBR) is the innovation engine of Novartis. NIBR focuses on discovering new drugs that can change the practice of medicine.

### Global Drug Development

The Global Drug Development (GDD) organization oversees the development of new medicines discovered by our researchers and partners. GDD regularly evaluates the potential new products in our pipeline in order to allocate resources to the most promising development projects. It also drives the adoption of common standards and procedures, best practices and new technologies, with the aim of greater efficiency and effectiveness.

### Our divisions

**Innovative Medicines**

The Innovative Medicines Division has two business units. Novartis Pharmaceuticals focuses on patented treatments in the areas of ophthalmology; immunology, hepatology and dermatology; neuroscience; respiratory; and cardio-metabolic.
Novartis Oncology focuses on patented treatments for a variety of cancers and rare diseases.

**Sandoz**

Sandoz offers patients and healthcare professionals high-quality, affordable generics and biosimilars.

**Alcon**

With its Surgical and Vision Care businesses, Alcon offers one of the world's widest selections of eye care devices – from sophisticated equipment for delicate eye surgery to a wide portfolio of advanced contact lenses. In June, 2018, Novartis announced its intention to spin off Alcon into a separately-traded standalone company. The planned spin-off would enable Novartis and Alcon to focus fully on their respective growth strategies. Completion of the transaction is subject to general market conditions, tax rulings and opinions, final Board of Directors endorsement and shareholder approval at the 2019 Annual General Meeting in line with Swiss corporate law.

### Novartis Operations

Our global service and manufacturing organizations help us benefit from our global scale and support our efforts to improve efficiency.

**Novartis Technical Operations**

Novartis Technical Operations (NTO) handles manufacturing of innovative medicines and Sandoz products. NTO helps us optimize resource allocation and capacity planning across our production sites.

**Novartis Business Services**
Novartis Business Services (NBS) consolidates support services across our organization, helping drive efficiency, simplification, standardization and quality. NBS includes six service domains: financial reporting and accounting operations, human resources services, information technology, procurement, product lifecycle services, and real estate and facility management. It helps generate productivity gains.

## Policies in relation to slavery and human trafficking

### External References

We respect and support the protection of human rights, as enshrined in the UN's Universal Declaration of Human Rights (UDHR), proclaimed by the General Assembly of the United Nations on December 10, 1948. We are committed to upholding the core labor standards set out by the International Labor Organization (ILO).

Since 2001, Novartis has been a member of the UN Global Compact, endorsing the 10 universal principles covering human rights, labor, the environment and corruption. This led to our first Human Rights Guideline, which was put in force in 2003 and updated in 2017. In the spirit and in continuity of our early Human Rights commitments, we also commit to abide by the UN Guiding Principles on Business and Human Rights and ensure appropriate implementation within Novartis operations and supply chains.

Novartis acknowledges its obligation to comply with the UK Modern Slavery Act 2015, established for the purposes of eliminating modern forms of slavery, including human trafficking and forced labor. We acknowledge the importance of companies working together to tackle such issues in our society and around the world, and we are actively monitoring similar legislation and requirements in other countries, including Australia, France and Switzerland.

### Internal References

Respect for, and support for the protection of, human rights is relevant to all aspects of our business, from research and development and clinical trials to the way we commercialize our medicines. The general obligation of each and every Novartis employee to respect human rights is defined in the Novartis Code of Conduct. Our CR Guideline provides overall guidance on governance, roles and responsibilities, and management of corporate responsibility across Novartis. Specific Human Rights topics are governed and managed by issue- and function-specific standards at Novartis, including the Novartis Supplier Code, guidelines on fair working conditions, human rights, professional practices and on third-party management.

We follow an integrated approach to managing human rights and environmental protection and have a number of processes in place that aim to avoid human rights-related violations, such as:

**Responsible Procurement**
The revised Novartis Supplier Code defines the principles and standards that Novartis requires compliance with by its suppliers in the areas of labor rights, health and safety, environmental protection, animal welfare, anti-bribery, data privacy and conflict minerals. The Code is based on the UN Global Compact and other international standards or accepted good practices.

Novartis is also a member of the Pharmaceutical Supply Chain Initiative (PSCI) and supports its principles for Responsible Supply Chain Management, including for ethical business practices and labor rights and working conditions. These principles are incorporated into the Novartis Supplier Code.

**Human Resources**
Novartis policies regarding labor rights and working conditions, including those related to recruitment, hiring, discharge, promotion and training, prohibit discrimination on universally-accepted grounds. Novartis is committed to treat all associates with fairness and respect. Any form of discrimination or harassment based on personal characteristics such as nationality, gender, age, ethnicity, religion, sexual orientation, disability, membership of an association or any other subject protected by law, will not be tolerated. Our policies require that corrective action be taken where prohibited practices are identified.

The Human Resource (HR) Principles Guideline outlines how the Novartis HR function supports the company's strategic goals, including a commitment to fair and respectful treatment of associates, and their development through HR processes, services and tools.

**Corporate Responsibility**
In September 2018, a new human rights management position was created and staffed. The new manager is currently in the process of developing a comprehensive human rights strategy and due diligence program, to identify, assess and address human rights risks and impacts, including modern slavery, among other salient human rights issues. A cross-functional Human Rights Working Group was inaugurated in December 2018 to support this work. We expect development of the strategy and due diligence program to be completed and implementation to begin in 2019.

## Due diligence processes and grievance mechanism in relation to slavery and human trafficking

Novartis Group companies employ more than 125 000 associates around the world. Novartis requires associates to report actual or suspected violations of our Code of Conduct. But fear of retaliation can make it hard for people to do this, so we enforce clear policies to protect them from any potential retaliation that might result from doing the right thing.

The SpeakUp Office, an independent team that reports to the newly created Novartis Business Assurance and Advice function, offers employees and external stakeholders (including our suppliers' employees) a channel through which to speak up and report misconduct. Complaints can be made by email, in person, telephone and web-based options. The web-based and telephone channels enable anonymity and are operated via a third-party vendor. The SpeakUp Office is responsible for ensuring investigations into all complaints and escalating any substantiated cases of misconduct to management for appropriate action. Each year, we report in our Novartis in Society report the number of total reported cases, the number that are substantiated, and the number of dismissals and resignations related to misconduct, which are also categorized by type of violation (see p15 of the Novartis in Society 2018 report). The SpeakUp Office also provides a reporting point that can be used to capture any acts of slavery and human trafficking abuses, which are experienced or communicated involving our suppliers. These reports would be investigated and acted on as required. The process has been in place since 2005 and is available in 115 countries and in 41 languages.

We continue to work with all suppliers to raise awareness of legislation related to modern slavery and emphasize our company's commitment to strive to prevent modern slavery from our operations and supply chain. During this process the supplier is asked to complete a questionnaire, which enables us to review and map risk in our supply chain throughout the world.

## Risk areas for slavery and human trafficking

In order to strengthen our efforts to help ensure respect for human rights in line with the UN Guiding Principles on Business and Human Rights, since 2016, Novartis has been working with an external expert organization to develop a long-term human rights strategy.

We conducted a corporate-level Human Rights Impact Assessment (HRIA) in order to identify and prioritize key human rights risks (including modern slavery) and identify opportunities for improvement. While we have not identified any actual modern slavery incidents, based on our assessment, our supply chain, as well as research and development activities, continue to be our most likely risk areas for slavery and human trafficking.

Based on the results of the corporate HRIA, a market-level HRIA questionnaire was developed to support Novartis markets in identifying and assessing human rights risks and impacts at a local level, including modern slavery. In 2017, we piloted our first local assessment in Egypt in partnership with our Health, Safety & Environment team, and we conducted further pilots during 2018 in Turkey, China and Malaysia. Overall, these four pilots demonstrated that Novartis has good policies and processes to manage salient human rights issues. We also identified common risk areas that require follow up action in 2019:

- Stakeholder engagement: have more regular and broader consultation with external stakeholders at the local level (from patient groups, local communities and health authorities to supply chain partners);
- Grievance mechanisms: establish formal grievance mechanisms and processes for communities living close to our manufacturing operations; and
- Third-party labor rights: address risks associated with our outsourced workforce, identified in some of the markets we piloted.

Corrective action plans have been developed or are in the process of being developed with the four markets.

### Novartis supply chain and procurement

To maintain a responsible supply chain, we focus our attention on risk and responsibility. Expectations are addressed in the early stages of the supplier selection process. The Responsible Procurement (RP) organization seeks to ensure that the Novartis commitment to corporate responsibility is reflected in how we select and work with our suppliers. We engage with an extensive network of suppliers worldwide and their contributions are crucial to our success.

Our responsibility goes beyond monitoring suppliers' ability to comply with standards, to promoting real changes that benefit workers and the environment in the countries we source from. Whenever a supplier is identified with a potential labor rights risk (e.g. potential infringement of the right to freedom of association and collective bargaining, or forced or compulsory labor), the topic is discussed with the supplier. If an issue surfaces, we address it by engaging with the supplier and developing an improvement plan together. Our process to identify and monitor suppliers considered to have significant risk for incidents of child labor or young workers exposed to hazardous work is also embedded in our RP program.

Our RP program is designed to provide a clear view of where potential issues exist or standards may be compromised, with speed and accuracy. It quickly filters out more

than 90% of suppliers that present little or no ethical risk, enabling us to concentrate our efforts on the small number of suppliers where a significant risk exists or where we can influence change. For instance, supplier surveys can help detect modern slavery risks through specific questions, e.g. questions related to overtime or grievance mechanisms. Most importantly, it is designed to give us this insight before we buy – we call it "buying with our eyes open." Ongoing monitoring of these standards is also managed through the RP practice. Our RP findings are disclosed on p42 of the Novartis in Society 2018 report.

Against this background, we launched a Third-Party Risk Management (TPRM) program in late 2016, which will replace the RP program in a phased global rollout. The program follows an in-depth review of our supplier management systems and processes, and an assessment of the most significant issues in supplier management to help us gain a holistic view of our key risks, such as labor rights and the environment. The assessment identified improvement opportunities, especially in the areas of governance, collaboration across risk areas, capabilities enhancement and action tracking. The objective of the TPRM program is to implement an integrated approach to third-party risk management through one end-to-end process, underpinned by one technology solution, delivering quality and efficiency improvements. With this new model, we expect to gain depth and breadth, and move toward a comprehensive supplier risk management framework that includes all key risk areas. We believe this state-of-the-art model will bring consistency and rigor to how we qualify and manage supplier risks, while being simpler, scalable and more transparent.

In October 2018, the TPRM program was rolled out in Mexico. We plan to continue this roll out globally in a phased regional approach and so that TPRM can be operational globally in 2019.

### Novartis clinical trial approach

At Novartis, we follow one global ethical standard for conducting clinical trials regardless of geography. All clinical trials are designed, conducted and reported in accordance with the ethical principles embodied in the Declaration of Helsinki, Good Clinical Practice guidelines and national and international regulatory requirements. We apply the same Good Clinical Practice standards for protocols, informed consent documents and ethical reviews in all countries where we conduct clinical trials. When recruiting participants, researchers strive to ensure that no discrimination arises based on economic, gender and/or ethnic factors, while respecting cultural sensitivities and the requirements of the relevant study protocol. Special care is taken when recruiting trial participants from vulnerable populations, such as children or the economically deprived. Prior to the start of a study all appropriate trial documentation must be reviewed and positively assessed by independent and appropriately constituted ethics committees and, where required, by the relevant health authorities.

Practices in the developing world are frequently scrutinized to ensure they are not used to escape regulations or ethical standards in Europe or the US. Novartis acknowledges that the situation of clinical study participants in developing nations is more complex than in the developed world. Novartis is globally committed to the highest possible standards for the protection of all study participants and to a single set of core principles that governs all studies sponsored by Novartis. See our position on responsible clinical trials.

## Training

We promote respect and support for the protection of the rights defined in the International Bill of Human Rights.

We continue to invest in trainings for our associates (including members of the Executive Committee), which reference human rights. In 2018, completion rates were high for all relevant trainings: Code of Conduct (98%), Professional Practices Policy (99%), Anti-bribery (91% after three months*).

Following the update of the Novartis Supplier Code in October 2017, all procurement-related associates were asked to complete the e-training module on awareness and explanation of changes, with 100% completion rate.

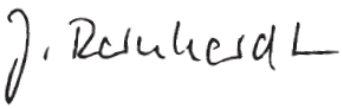
E-trainings target associates with an email address. All remaining associates are required to be trained face-to-face or through shared kiosks.

Training on the Responsible Procurement process includes risk assessment for labor rights and is conducted as part of the onboarding training for procurement associates involved with supplier qualification processes.

In addition, in the UK, Novartis rolled out Modern Slavery Awareness Training with competency-based questions across all businesses and functions. The completion rate in 2018 was 99%. This training is planned to be completed every year by all associates, and we plan to enhance the questioning in 2019 to make it function specific. The UK team also formed a partnership with Transparency in the Supply Chain (TISC), who are working with the UK government to drive awareness and compliance with the UK Modern Slavery Act 2015 (tiscreport.org), and hope to also encourage all our suppliers and industry partners to join.

## Conclusion

Slavery and human trafficking are serious crimes and a violation of the fundamental dignity of the human being. Novartis is pleased to submit this statement outlining our aspirations and objectives and the processes we have in place today that can help identify and eliminate slavery and human trafficking. We are committed to further advance our efforts in these areas in the coming years.



**Joerg Reinhardt**
**Chairman of the Board of Directors**

* In 2018, our anti-bribery training campaign was launched in October. Final measurement will be available in May 2019.