

Novartis Green Expectations from Suppliers

Environmental Sustainability Office

March 2021

Contents

Introduction	3
The Novartis Environmental Sustainability Strategy	3
Climate	3
Water	3
Circular Economy	4
Expectations from our Suppliers	4
Qualification phase	5
Implementation phase	6
Support to our Suppliers	6

Introduction

At Novartis, we believe that the environment is important to the sustainability of our business. It supports our purpose to improve and extend people's lives and to give back to society. We believe our actions will create long-term value for our patients, our suppliers and ourselves.

We want to be a catalyst for positive change and a leader in environmental sustainability. This means we have to address the impact of our direct operations and our value chain. And, it also means, that our suppliers have a critical role to play.

The Novartis Environmental Sustainability Strategy

Our environmental sustainability strategy is bold and ambitious. We want to become carbon neutral, plastic neutral and water sustainable by 2030. It means that we need to partner with our suppliers who share these objectives and are willing to come on our journey.

Climate

We are committed to become carbon neutral in our scope 1 (direct) and scope 2 (indirect) emissions by 2025 and to be carbon neutral across our value chain (scope 3) by 2030. As a stepping-stone to achieve our ambition, we have an approved Science Based Target (SBT), which commits us to a 35% reduction in absolute emissions across our value chain without using carbon offsets.

To achieve these targets we have a comprehensive energy management program in place. The first priority is to reduce our demand for energy through right sizing our business and improving our energy efficiency. We will then ensure that the energy we need is supplied from renewable sources such as wind and solar. And, as a last resort, any unavoidable emissions will be offset via carbon sequestration projects such as tree planting.

Key Actions

To encourage investment in energy efficiency we have set an internal carbon price of USD 100 per ton (t) of carbon dioxide equivalents (CO₂e). This helps to ensure we invest in projects which have the lowest overall climate impact because it is more effective to build in energy efficiency from the beginning than to redesign an existing system. To increase our use of renewable energy we have decarbonized our procured electricity in the United States and Europe through the use of virtual power purchase agreements. We have also invested in four carbon offset projects. These projects are located in South America, Africa and China.

Water

We recognize that water is a valuable resource and that we depend on it in every area of our business, starting at R&D, followed by production, and also when it comes to the health of our patients. We need to use water responsibly, particularly in regions of the world where water resources are under stress. To become water sustainable - our first priority is to reduce our demand for water in our operations by 50% before 2025 from a 2016 baseline and to manage API manufacturing effluents to have no water quality impacts on the receiving aquatic environment.

By 2030, we want to become a good water steward by being water neutral and enhance water quality wherever we operate.

Key Actions

We closely monitor all water streams into and out of our sites, and identify the most efficient use (reduce, reuse, recycle) which helps ensure effective management of water resources and costs. We use water from underground or surface sources for cooling because this can save energy in areas where water is abundant. However, we take care to do this in a sustainable way and without impact to the environment. We provide environmental information about our products and processes so the water quality of manufacturing effluents can be determined. Measures have to be taken that safe discharge limits (including API) are not exceeded through the use of efficient manufacturing practices. Water is a shared resource and we collaborate with external organizations such as the UN CEO Water Mandate and the AMR Industry Alliance to overcome local water challenges.

Circular Economy

We want to support the transition to the circular economy so the materials we use are not simply used once and discarded. Our first priority is to eliminate PVC in our factories for secondary and tertiary packaging and to reduce the amount of waste we send for disposal by 50%. We have also committed to become plastic neutral by 2030, which means that the weight of plastic packaging entering the external market for disposal is approximately the same as the weight being recovered for recycling. We also want to ensure that all new products meet sustainable design principles.

Key Actions

We aim to prevent, reduce, recycle or use waste as an energy source, before selecting safe disposal as an option. Waste prevention and reduction is always preferred to treatment, incineration or disposal. This helps ensure the overall environmental impact related to waste remains minimal, while energy use from waste is maximised. To help communicate the importance of reducing plastic waste we are eliminating 17 items of single use plastic in the workplace.

Expectations from our Suppliers

All actors along a product value chain need to start pulling together so that achievements by some are not marred by others' failure to act. We hence invite all our suppliers on this journey and offer guidance all along it.

OUR AMBITION



CLIMATE 2025

Carbon neutral in our own operations – Scope 1 and 2

2030

Carbon neutral across Scope 1, 2 and 3



WATER 2025

Water consumption reduced by half in our operations
No water quality impacts from manufacturing effluents

2030

Water neutrality and enhanced water quality wherever we operate



WASTE 2025

Waste disposal reduced by half

2030

Plastic neutral

We expect all our suppliers to start taking preparatory steps immediately (Qualification phase) before moving to the next step, Implementation Phase, with concrete actions and continuous improvements.

Qualification phase

As part of the Qualification Phase, you are expected to:

- map out your Greenhouse Gas (GHG) emissions, water consumption and waste footprint baseline (e.g. based on the Pharmaceutical Supply Chain Initiative (PSCI) environmental survey)
- understand the water quality, including the API content of your manufacturing effluents, if applicable (e.g. based on the PSCI check list) and follow the AMR IA framework¹, if applicable
- set ambitious 2025 and 2030 targets
 - you are encouraged to align your targets with the Science based targets initiative² (SBTi) (www.sciencebasedtargets.org)
 - the 100 suppliers with the highest carbon emissions³ are expected to set targets in alignment with SBTi
 - you are also expected to meet Novartis' water quality target and the AMR IA framework expectations if they are applicable to you
- sign up for a public platform for disclosing and reporting environmental sustainability information:
 - you are expected to disclose and report either through CDP (www.cdp.net), covering the climate change and water security modules, or through EcoVadis (www.ecovadis.com) in combination with PSCI (www.pscinitiative.org)
 - the 100 suppliers with the highest carbon emissions⁴ should disclose and report through Carbon Disclosure Project (CDP) (www.cdp.net), covering the climate change and water security modules
- hold the PAS 204 certification⁵ on responsible manufacturing based on the AMR IA framework if it is applicable to you.

Timelines

All suppliers are expected to acknowledge receipt of this document, and return a signed copy within 30 days upon receiving it. The 100 suppliers with the highest carbon emissions will submit their 'Science Based Targets Call to Action Standard Commitment Letter' to SBTi within 12 months and will start disclosing and reporting through CDP within 24 months. All other suppliers will set their targets, and disclose and report in accordance with the qualification criteria above within 24 months.

Monitoring

Novartis will work with SBTi, CDP, EcoVadis and PSCI and follow the enrolment, commitments and disclosed results of our suppliers. Some information may still need to be transmitted to Novartis directly. Progress and achievements will be discussed in regular performance reviews and meetings with suppliers.

¹ https://www.amrindustryalliance.org/wp-content/uploads/2018/02/AMR_Industry_Alliance_Manufacturing_Framework.pdf

² Depending on the timing this may have impact on the first target year (it may not be 2025)

³ As estimated by WifOR in 2019 GHG report, expressed in CO₂e

⁴ As estimated by WifOR in 2019, expressed in CO₂e

⁵ To be published by the end of 2021

Benefits

Novartis is fully aware of the challenges behind setting ambitious environmental targets, ahead of the Paris agreement date of 2050. By asking you for early adoption and leadership in the environmental cause, we want to also enable you to benefit from

- increasing visibility in the market as change leaders, which will have a positive impact on their ESG scores and valuations and make them more attractive business partners to any customer wishing to embark on the same journey
- greater resource efficiency and hence savings associated with environmental sustainability actions, which will contribute to their long-term financial sustainability
- greater company resilience to future likely changes in legal, regulatory and market environments avoiding thus a need for abrupt changes in the company's operations.

Implementation phase

As part of the Implementation Phase, you are expected to:

- set up regular monitoring, tracking and progress evaluation process
- report annually on your progress via the selected public platform
- adopt a rolling action plan underpinning the achievement of your 2025 and 2030 targets
- develop a remediation plan for unmet KPIs and missed targets if any, and reach out to Novartis for help and assistance.

Support to our Suppliers

Novartis stands ready to support our suppliers, our partners along the value chain, while leveraging our own expertise. In 2021, we plan to release a dedicated Suppliers' Sustainability Playbook to provide guidance on how to efficiently manage the Qualification and Implementation phases.

Based on the stage reached in the Qualification and Implementation phases, respectively, Novartis will assign a maturity level to each supplier to facilitate an open, transparent and motivating environment for continuous improvement. The Supplier's Sustainability Playbook will offer a detailed guidance on how to become a best-in-class partner for Novartis and contribute to the Novartis environmental sustainability targets.

Novartis will also work with SBTi, CDP, EcoVadis and PSCI to facilitate the onboarding of our suppliers and their data transmission to our own systems so that extra administrative burden is minimised.

We are looking forward to seeing your success on this joint journey towards climate and environmental neutrality.
