

# Corporate Citizenship Guideline # 1

## Management of Corporate Citizenship

1. Purpose of this guideline This guideline was put in force by the Executive Committee of Novartis on July 3, 2002. It establishes the management process for the implementation of the Corporate Citizenship Initiative (CC Initiative).

The CC Initiative incorporates the principles of the Corporate Citizenship Policy (CC Policy), the Novartis Code of Conduct, and the commitments made by Novartis under the United Nations Global Compact. Its purpose is to translate these principles into business practice.

Novartis will begin to implement these guidelines immediately, but there will be a substantial transition period until the implementation process is fully completed.

A number of related initiatives were launched prior to the CC Initiative. The areas of focus were HSE, Insider Trading and compliance with the Code of Conduct in general. These initiatives will continue.

2. Scope and validity This guideline and all other CC guidelines apply to all employees of companies in the Novartis Group. Business organizations in the countries (formerly called country sector organizations; herein abbreviated as CSOs) and country organizations, where applicable, are responsible for adoption of this guideline in their countries, either as is or by issuing an equivalent guideline of their own.

Joint ventures, in which Novartis bears operational responsibility or has a majority share, shall either adopt this guideline as is or institute rules that aim for an equivalent standard to the extent legally possible.

### Responsibilities

3. CC Steering Committee The Corporate Citizenship Steering Committee (CC Steering Com) consists of representatives of the divisions and key corporate functions. It issues CC guidelines, coordinates CC-related management and reporting activities at the group level and intervenes if business practices deviate from the principles of CC.

4. Division management Management of business divisions is responsible for setting up proper management structures for the implementation of the CC Initiative. The divisions shall appoint Division and/or Business Unit CC Executives to serve as primary point of contact for the CC Steering Com and other corporate functions in all operational matters related to CC.

5. CSO heads and country heads The CSO heads shall ensure that the CC principles are implemented in their countries. They should coordinate these activities with other divisions and business units through the respective country head. In addition, the country heads are responsible for representing Novartis vis-à-vis government authorities, the media and the public at large.

6. Other The Group's Compliance Officer shall appoint, in cooperation with division management, compliance officers in each division and/or business unit and country. Corporate Affairs shall direct the implementation of the CC Initiative on behalf of the CC Steering Com.

### Principles & Standards

7. Active management Corporate citizenship shall be managed actively at all levels in accordance with the

following standards:

- ◆ *Assignment of responsibilities:* CC-related responsibilities should be formally included in annual objectives and goals, where relevant. Executives with CC-related responsibilities need to be given sufficient resources and appropriate management structures.
- ◆ *Principles & standards:* For each area of CC, a set of standards should provide clear guidance on the implementation of the relevant principles. The standards need to be transparent and simple, while leaving local managers (CSO heads) with sufficient flexibility in the implementation process for local business conditions. The standards should be defined in such a manner that performance against such standards can be measured.
- ◆ *Management processes:* Key tasks include the education of employees, measurement and reporting, and swift resolution of priority conflicts.
- ◆ *Reporting criteria & measurements:* Progress on CC must be assessed each year, and compliance with the applicable standards should be measured wherever feasible. A summary of the assessment shall be reported in the Annual Report to Shareholders.

8. Conflicts of interest Adherence to CC principles may, on occasion, have a negative impact on short-term operating performance in the form of foregone business opportunities, reduced revenues, or increased operating costs. Each division shall establish an internal process for handling such priority conflicts between CC principles and operating performance. If no solution can be found, the Chairman of the CC Steering Com may be asked to arbitrate. He may, at his discretion, present the issue to the ECN for review and guidance.

9. Safe complaint procedure If employees are concerned that a principle of corporate citizenship is being violated, they must point this out to their superiors. If they have good reason to assume that their superiors won't respond, they must inform the relevant compliance officer.

Employees who point out deficiencies shall not suffer from retaliation for doing so. Compliance officers shall do everything feasible to protect the identity of such employees. However, such protection against retaliation shall not imply immunity from legal or disciplinary consequences of acts or omissions that the complaining employee may have otherwise committed.

This principle shall be communicated to all Group company employees in all relevant languages, along with instructions on how the relevant compliance officer may be contacted.

10. Applicability to third parties The actions of contractors, suppliers and service providers of Novartis are not controlled by Novartis or its subsidiaries. Employees of such third parties are not considered Novartis employees, even in cases where they perform work that is primarily to the benefit of Novartis.

Novartis companies that commission products or services from third parties should ensure that their business partners are familiar with Novartis' standards of conduct under the principles of CC. Preference shall be given to partners who adhere to such standards. Where feasible, the relevant contracts should include explicit reference to the principles of corporate citizenship.

As a basic rule, Novartis seeks to exercise a degree of influence on the conduct of a given third party, with respect to CC principles, that is commensurate with its share of the third party's total business volume.

11. Updates CC guidelines shall be updated from time to time as needed.

## Management Process

12. Meetings of the CC Steering Com
- The CC Steering Com shall review on a regular basis the progress being made with the implementation of the CC Initiative. The Chairman of the CC Steering Com shall inform the Executive Committee of Novartis AG as necessary.
12. Reporting by divisions
- Once a year, the division and/or business unit heads shall meet with the Chairman of the CC Steering Com for a formal CC review. The CC Executives of the divisions and/or business units shall report on their progress to the CC Steering Com on a regular basis.
13. Reporting by corporate functions
- Corporate functions shall monitor the CC-related activities of the divisions and business units that fall within their areas of functional responsibility. They shall report on their progress and findings to the CC Steering Com on a regular basis.
14. Coordination at CSO and country level
- No less than once a year, each CSO head shall convene a meeting of local executives with key CC responsibilities. The meeting shall include the relevant HSE officer, HR executive, financial executive, legal and compliance officer, marketing officer, medical director and, where applicable, government relations and communications managers.
- The meeting shall assess the progress that has been made on the CC Initiative and identify the CC challenges facing the CSO. The CSO head shall report on these findings to regional, business unit and division management and inform the respective country head. The functional executives in the CSO shall simultaneously report to their functional heads.
- In addition, each country head shall meet with the CSO representatives in the country to coordinate the CC activities of the divisions and business units and ensure that Novartis presents itself in a consistent manner vis-à-vis government authorities, other stakeholders and media. Where appropriate, the meetings of CSO and country management may be combined.
15. Internal Audit
- Internal Audit shall include the CC principles and standards in its audit standards and procedures.
16. Reporting to the Audit & Compliance Committee
- The Audit & Compliance Committee of the Board of Directors monitors the company's compliance with the CC Policy, the Novartis Code of Conduct and the commitments made in the Global Compact.
- Once a year, the Committee shall receive a Compliance Report on these matters. The report shall be signed by the Group Compliance Officer. International Coordination shall collect the information required for the Compliance Report in coordination with Corporate Affairs.
17. Auditing and independent verification
- The CC Steering Com and the responsible corporate functions shall conduct functional audits and may commission external auditors to conduct independent assessments of the divisions' and CSOs' compliance with CC principles.
18. External reporting
- The Company's Annual Report to Shareholders shall contain a section on Corporate Citizenship. Corporate Affairs shall collect from the divisions and/or business units the information needed. The essential reporting criteria are stipulated in the various CC Guidelines.
- Additional information may be provided to the public though the Internet. CC-related policies and relevant positions on key CC issues shall also be published on the Novartis website.
19. Engagement of public authorities and stakeholders
- Novartis endeavours to maintain good relationships with public authorities and stakeholder groups to ensure that its activities in the area of CC remain aligned with

the concerns of society.

Within each country, the country head, supported by the CSO heads, shall nurture Novartis' reputation as a good corporate citizen through an ongoing dialogue with interested parties. These activities shall be coordinated with Corporate Affairs when they have the potential to impact Novartis beyond the borders of the country.

Relationships with multinational NGOs shall be coordinated through the CC Steering Com.

### **Reporting Criteria & Measurements**

The divisions and/or business units are asked to report annually to the CC Steering Com on the criteria listed below. The information shall be presented in the annual CC review and in an appropriate format for year-end reporting. Additional reporting criteria may be specified in other guidelines.

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|------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 20. Annual objectives              | Specific CC-related division and/or business unit objectives that are integrated into the annual performance assessment process.                                      |
| 21. Allocation of responsibilities | Allocation of responsibilities for major CC-related tasks. The individuals shall be listed by name, down to the CSO level.                                            |
| 22. Resources                      | Resources dedicated to the CC Initiative and related tasks.                                                                                                           |
| 23. Assessment of progress         | Assessment of the division's and/or business unit's overall progress towards the implementation of the CC Initiative.                                                 |
| 24. Priority conflicts             | Identification of major conflicts between business priorities and CC principles; overview of material business decisions that were influenced by CC-related concerns. |
| 25. Training and education         | Training activities to foster an understanding of CC; number of employees who have completed such training successfully.                                              |