



Corporate Citizenship Guideline # 5

Third Party Management



Purpose and References

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| 1. Purpose of this guideline | <p>This Guideline was issued by the Novartis Group Executive Committee (ECN) on August 21, 2003. In line with the CC Policy and Guideline #1, paragraph 10, it sets forth the Corporate Citizenship criteria which Novartis takes into account in selecting its suppliers and service providers (Third Parties).</p> <p>Novartis supports the “Pharmaceutical Supply Chain initiative” (PSCI) (see also www.pharmaceuticalsupplychain.org). This guideline explains how Novartis integrates these principles in its supplier program.</p> |
| 2. Reference to Novartis Third Party Code of Conduct | <p>To communicate the expectations from the Third Parties, Novartis has established a “Third Party Code of Conduct”, which specifies these expectations and is in line with the “Pharmaceutical Industry Principles for Responsible Supply Chain Management”.</p> |
| 3. Reference to Guidance Note 5.1 | <p>This Guideline is accompanied by the Guidance Note 5.1 "Practical Implementation Recommendations for Corporate Citizenship in Third Party Relations" which provides details for: selecting evaluation criteria; creating a dialogue on Corporate Citizenship principles through the use of standard questionnaires; performing assurance visits; and providing special support in certain situations that Novartis deems warranted.</p> |

Responsibilities

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| 4. Divisions, Business Units, Novartis International | <p>The Division Heads, Heads of Consumer Health Business Units, and the Head of Corporate Services are responsible for proper implementation of this Guideline within their units. They shall nominate a Third Party Officer (3PO) within their units. By preference, the 3PO shall be the head of a purchasing department or the head of a supply chain function.</p> |
| 5. Third Party Officer's Responsibility | <p>The 3PO shall ensure that for all purchasing operations within his/her unit, a "Third Party Management Process" is in place which covers purchasing operations in all affiliates and sites. The 3PO is the driving force within the unit to implement this Guideline (= CC5), including recruitment and training of local 3PM's and ensuring high quality of data and risk assessment associated to the CC5 process.</p> |
| 6. Third Party Management | <p>In each local operational unit a responsible “Third Party Manager” (3PM) assures that responsibilities and processes are established, maintained and implemented. It should address: (1) the process by which Third Parties are identified, selected and contracted; and (2) the manner in which support by relevant functions (e.g. HR, HSE, Legal, Compliance Officers) is provided.</p> |
| 7. Ownership and Operating Responsibility | <p>This Guideline and its associated Guidance Note # 5.1 are owned and maintained by Group Purchasing.</p> <p>The Chief Procurement Officer shall, together with the 3PO's ensure consistent application within Novartis as well as periodical reviews, as required. This is achieved by regular 3PO meetings, chaired by the Chief Procurement Officer. The 3PO's also approve SOP's for consistent management of CC5.</p> <p>Proper management of CC5 is supported by a central database (GLOSUD), which is maintained by Group Purchasing, the data being entered by all Divisions, Business Units or Novartis International.</p> |

Principles & Expectations

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| 8. Our principles and expectations | <p>Novartis gives preference to Third Parties that share the societal and environmental values required by the Global Compact. As a consequence, Third Parties are expected to comply with minimum standard requirements concerning ethics, labor, health, safety and environmental protection and management systems, specified in the Novartis Third Party Code of Conduct and set forth in paragraphs 9 – 13 of this Guideline.</p> |
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Compliance with the Third Party Code of Conduct shall be assessed before contracting with any Third Party and shall constitute an element of equal importance among other evaluation criteria such as price or quality.

While we recognize that there are different legal and cultural environments in which our Business Partners operate throughout the world, it is Novartis' intention to work collaboratively with Third Parties to achieve these goals on a long term and sustainable basis.

9. Ethics

Suppliers shall conduct their business in an ethical manner and act with integrity. The ethics elements include:

1. Business Integrity and Fair Competition

All corruption, extortion and embezzlement are prohibited. Suppliers shall not pay or accept bribes or participate in other illegal inducements in business or government relationships. Suppliers shall conduct their business consistent with fair and vigorous competition and in compliance with all applicable anti-trust laws. Suppliers shall employ fair business practices including accurate and truthful advertising.

2. Identification of Concerns

All workers should be encouraged to report concerns or illegal activities in the workplace without threat of reprisal, intimidation or harassment. Suppliers shall investigate and take corrective action if needed.

3. Animal Welfare

Animals shall be treated humanely with pain and stress minimized. Animal testing should be performed after consideration to replace animals, to reduce the numbers of animals used, or to refine procedures to minimize distress. Alternatives should be used wherever these are scientifically valid and acceptable to regulators.

4. Privacy

Suppliers shall safeguard and make only proper use of confidential information to ensure that company, worker, and patient privacy rights are protected.

10. Labor

Suppliers shall be committed to uphold the human rights of workers and to treat them with dignity and respect. The Labor elements include:

1. Freely Chosen Employment

Suppliers shall not use forced, bonded or indentured labor or involuntary prison labor.

2. Child Labor and Young Workers

Suppliers shall not use child labor. The employment of young workers below the age of 18 shall only occur in non hazardous work and when young workers are above a country's legal age for employment or the age established for completing compulsory education.

3. Non-Discrimination

Suppliers shall provide a workplace free of harassment and discrimination. Discrimination for reasons such as race, color, age, gender, sexual orientation, ethnicity, disability, religion, political affiliation, union membership or marital status is not condoned.

4. Fair Treatment

Suppliers shall provide a workplace free of harsh and inhumane treatment, including any sexual harassment, sexual abuse, corporal punishment, mental or physical coercion or verbal abuse of workers and no threat of any such treatment.

5. Wages, Benefits and Working Hours

Suppliers shall pay workers according to applicable wage laws, including minimum wages, overtime hours and mandated benefits.

Suppliers shall communicate with the worker the basis on which they are being compensated in a timely manner. Suppliers are also expected to communicate with the worker whether overtime is required and the wages to be paid for such overtime.

6. Freedom of Association

Open communication and direct engagement with workers to resolve workplace and compensation issues is encouraged.

Suppliers shall respect the rights of workers, as set forth in local laws, to associate freely, join or not join labor unions, seek representation and join workers' councils. Workers shall be able to communicate openly with management regarding working conditions without threat of reprisal, intimidation or harassment.

11. Health and Safety

Suppliers shall provide a safe and healthy working environment, including for any company provided living quarters. The Health and Safety elements include:

1. Worker Protection

Suppliers shall protect workers from over exposure to chemical, biological, physical hazards and physically demanding tasks in the work place and in any company provided living quarters.

2. Process Safety

Suppliers shall have programs in place to prevent or mitigate catastrophic releases of chemicals.

3. Emergency Preparedness and Response

Suppliers shall identify and assess emergency situations in the workplace and any company provided living quarters, and to minimize their impact by implementing emergency plans and response procedures.

4. Hazard Information

Safety information relating to hazardous materials - including pharmaceutical compounds and pharmaceutical intermediate materials - shall be available to educate, train, and protect workers from hazards.

12. Environment

Suppliers shall operate in an environmentally responsible and efficient manner and they shall minimize adverse impacts on the environment. Suppliers are encouraged to conserve natural resources, to avoid the use of hazardous materials where possible and to engage in activities that reuse and recycle. The environmental elements include:

1. Environmental Authorizations

Suppliers shall comply with all applicable environmental regulations. All required environmental permits, licenses, information registrations and restrictions shall be obtained and their operational and reporting requirements followed.

2. Waste and Emissions

Suppliers shall have systems in place to ensure the safe handling, movement, storage, recycling, reuse, or management of waste, air emissions and wastewater discharges. Any waste, wastewater or emissions with the potential to adversely impact human or environmental health shall be appropriately managed, controlled and treated prior to release into the environment.

3. Spills and Releases

Suppliers shall have systems in place to prevent and mitigate accidental spills and releases to the environment.

13. Management Systems

Suppliers shall use management systems to facilitate continual improvement and compliance with the expectations of these principles. The management system elements include:

1. Commitment and Accountability

Suppliers shall demonstrate commitment to the concepts described in this document by allocating appropriate resources.

2. Legal and Customer Requirements

Suppliers shall identify and comply with applicable laws, regulations, standards and relevant customer requirements.

3. Risk Management

Suppliers shall have mechanisms to determine and manage risks in all areas addressed by this document.

4. Documentation

Suppliers shall maintain documentation necessary to demonstrate conformance with these expectations and compliance with applicable regulations.

5. Training and Competency

Suppliers shall have a training program that achieves an appropriate level of knowledge, skills and abilities in management and workers to address these expectations.

6. Continual Improvement

Suppliers are expected to continually improve by setting performance objectives, executing implementation plans and taking necessary corrective actions for deficiencies identified by internal or external assessments, inspections, and management reviews.

Novartis Management Process

14. Information

Third Parties shall be made aware of the Third Party Code of Conduct and the compliance requirements to qualify for a business relationship with Novartis.

15. Clause in contract

Relevant contracts shall include explicit reference to the Third Party Code of Conduct and the compliance requirement to qualify for a business relationship with Novartis.

16. Classification of third parties

All Third Parties will be classified in one of five categories according to the industry they are in, the country in which they operate, their annual revenues with Novartis and the judgment of the buyer/3PM regarding the level of risks associated with their operations.

17. Class 0

The following Third Parties are out of scope and classified as Class 0: Medical doctors, Key opinion leaders, government agencies and inter-company transfers.

18. Class 1

Third Parties classified as non-critical (Class 1), shall be made aware of the Third Party Code of Conduct and the fact that Novartis gives preference to Third Parties that comply with these Principles or substantially similar standards.

19. Class 2

Third Parties classified as critical (Class 2) shall be asked explicitly for information about their level of compliance with the Third Party Code of Conduct and to provide basic corporate citizenship related information about their business (“self-assessment”). To this end Novartis provides a form to be used as is, or to be completed with questions of specific interest to the Business unit.

20. Class 3 or 4

For Third Parties classified as very critical (Class 3 or 4), Novartis shall seek additional assurance of their commitment to and implementation of the Third Party Code of Conduct. This assurance may include a request by Novartis to conduct assurance visits to the Third Party site in order to learn about the level of

compliance with the Third Party Code of Conduct. For Third Parties using Novartis materials, processes, techniques, or know-how, e.g. toll or contract manufacturers, an assurance visit is mandatory for approval. As a basis for preparation and conducting the assurance visit, Novartis provides a questionnaire to be used as is, or to be completed with questions of specific interest to the unit. Follow-up visits should be conducted on a regular basis. Novartis shall maintain the data received during this process for ongoing compliance evaluations.

21. Improvement programs and special support (Class 4)

In cases where the results of the assurance visits and inquiries are unsatisfactory, Novartis may assist the Third Party in developing an improvement program designed to raise the level of compliance with the Third Party Code of Conduct. If concerns persist regarding the commitment or capability of the Third Party to improve of its own accord, a decision must be made at Corporate Steering Committee level as to whether special support should be provided (= Class 4) or the contract terminated. If an agreed improvement program is not completed within three years, or if the respective audit results are not satisfactory, then the contract shall be terminated.

22. Assessment process for known Third Parties

In cases where, in view of a previous or an ongoing business relationship, sufficient information about a specific Third Party is already available, the assessment process can be simplified and reduced to the level necessary to ascertain the Third Party's compliance with the Third Party Code of Conduct. Such deviations from the standard assessment process must be justified and documented and must be approved by the 3PO.

Reporting Criteria & Measurements

23. Reporting to Senior Management

The Chief Procurement Officer is responsible for coordination of internal reporting on CC5 implementation, including the establishment of appropriate KPI's for managing continuous improvement.

The 3PO's are responsible for reporting the KPI achievements to the Executive Committee of their unit and to the Chief Procurement Officer.

24. Status of compliance and impact

A qualitative and quantitative assessment of the status of compliance and impact within the units is part of the KPI's.

25. Reporting

The Chief Procurement Officer is responsible for establishing the format for reporting, the frequency, and the recipients of the reporting.

Escalation procedure

26. Termination of Third Party relationship

Indications for termination of a contractual relationship (see above 21) are escalated by the 3PM through the 3PO to the Division Head(s) or Head(s) of Consumer Health Business Unit(s). If the decision to terminate the relationship is not unanimous, the Chief Procurement Officer will bring the controversy to the attention of the CC Steering Committee. The Chairman of the CC Steering Committee will raise the controversy at the ECN.

27. Non compliance

Material non compliance of a business unit to the CC5 process as described in the relevant guidelines and SOP's, as well as continual failure to meet the KPI's is escalated by the Chief Procurement Officer to the CC Steering Committee. The Chairman of the CC Steering Committee will raise material non compliance at the ECN.

Version 2.2, July 4, 2007: Proposed Changes to Article 7 (Ownership and Operating Responsibility)
Proposed Changes to Articles 23-27 (Reporting; Escalation)

Circular approval by the 3PO's July 4, 2007
Final Approval with modification of Articles 26/27 by Head Corporate Services July 10, 2007