

# Corporate Citizenship Guideline # 5

## Third Party Management

### Purpose and References

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| 1. Purpose of this guideline      | This Guideline was issued by the Novartis Group Executive Committee (ECN) on August 21, 2003. In line with the CC Policy and Guideline #1, para. 10, it sets forth the Corporate Citizenship criteria which Novartis takes into account in selecting its suppliers and service providers (Third Parties).   |
| 2. Reference to Guidance Note 5.1 | 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. |

### Responsibilities

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| 3. Divisions, Business Units                      | The Division Heads and the Head of NIBR are responsible for proper implementation of this Guideline within their Division and BU's. They shall nominate a Third Party Officer (3PO) within their Division (Pharma), in each of their BU's (Consumer Health), and in NIBR. By preference, the 3PO shall be the head of a purchasing department or the head of a supply chain function. |
| 4. 3 <sup>rd</sup> Party Officer's Responsibility | The 3PO shall ensure that for all purchasing operations within his/her Division or BU, a responsible "Third Party Management System" (3PM) is in place which covers purchasing operations in all affiliates and sites. The 3PO shall ensure that this Guideline is consistently applied within his/her Division or BU.  |
| 5. 3 <sup>rd</sup> Party Management               | The 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.   |
| 6. Coordination                                   | The Head of Group Purchasing shall, together with the Divisional/BU 3POs, ensure consistent application of this Guideline within Novartis.  |

### Principles & Standards

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| 7. 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 human rights, fair working conditions and health, safety and environmental protection (<i>"Third Party CC Principles"</i>) as set forth in paragraphs 8-15 of this Guideline.</p> <p>Compliance with the Third Party CC Principles 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.</p> <p>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.</p> |
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| 8. Fair wages  | Third Parties shall pay their employees a decent living wage. A “living wage” should be set in accordance with local standards of living to cover the costs of reasonable housing, health care, clothing, nutrition and education for a nucleus family (worker and dependent children). In no case should it be less than the legal minimum wage in the country of employment.  |
| 9. Fair working hours                                | Third Parties shall comply with local laws and regulations on working hours. Working hours should in any case not be excessive by local standards and should allow for adequate time for rest and leisure.  |
| 10. Forced, compulsory and bonded labor              | Third Parties shall exclude the use of forced, compulsory or bonded labor.  |
| 11. Child labor                                      | Third Parties shall exclude exploitative child labor. They should strive to improve the situation within their sphere of influence by awareness building, training and regular performance assessments. Programs to abolish child labor in a manner consistent with the basic interests of the child should be supported.   |
| 12. Freedom of association                           | Third Parties shall respect the right of each employee to join a trade union or an employee association. They shall give trade unions a fair chance to compete for the unionization of employees and shall be comfortable with collective bargaining agreements, individual arrangements or a mixture of both.  |
| 13. No discrimination                                | Third Parties shall avoid discrimination based on personal characteristics such as race, color, sex, religion, political opinion, national extraction or social origin or any other characteristic protected under local law. They shall protect all employees against harassment in the work place, including sexual harassment.   |
| 14. Security   | Third Parties shall establish procedures applicable to corporate security personnel, if any, to protect employees and associated persons from excessive use of force and inappropriate invasions of their privacy. Local custom and government practice shall not justify deviations from universally accepted standards of human rights.   |
| 15. Health, Safety and Protection of the Environment | Third Parties shall provide a safe work place for their employees to prevent accidents and injury to health. At a minimum, Third Parties shall comply with all applicable local health, safety and environmental protection laws and regulations.   |
| 16. Compliance                                       | The responsibility of any Third Party to comply with applicable regulations, standards, and laws remains with the Third Party. Novartis shall collect and evaluate relevant information from Third Parties with a view to assessing their commitment to and compliance with the Third Party CC Principles. If, for acceptable reasons, compliance cannot yet be achieved, Novartis will support their efforts to move towards compliance. In case of evident and persistent non-compliance with the Third Party CC Principles, the relationship with the Third Party in question shall be terminated. |

**Management Process**

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| 17. Information                     | All Third Parties shall be made aware of the Third Party CC Principles and the compliance requirements to qualify for a business relationship with Novartis.  |
| 18. Clause in contract              | Relevant contracts shall include explicit reference to the Third Party CC Principles and the compliance requirement to qualify for a business relationship with Novartis.                                   |
| 19. Classification of third parties | All Third Parties will be classified in one of four categories according to their turnover with Novartis, the anticipated duration of the contract and the level of risks associated with their operations. |

20. Category 1 Third Parties classified as non-critical (Category 1), shall be made aware of the Third Party CC Principles and the fact that Novartis gives preference to Third Parties that comply with these Principles. Third Parties that prove to be in compliance with the Third Party CC Principles, or substantially similar standards, fulfill an important qualification requirement for being rated as preferred Third Party.
21. Category 2 Third Parties classified as critical (Category 2) shall be asked explicitly for information about their level of compliance with the Third Party CC Principles and to provide basic corporate citizenship related information about their business. To this end the group provides a form to be used as is or to be completed with questions of specific interest to the Divisions and BU's. The data supplied to Novartis for this evaluation will be updated for all further compliance evaluations.
22. Category 3 or 4 For Third Parties classified as very critical (Category 3 or 4), Novartis shall seek additional assurance of their commitment to and implementation of the Third Party CC Principles. 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 CC Principles and Standards. 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 form to be used as is or to be completed with questions of specific interest to the Divisions and BU's. Follow-up visits should be conducted on a regular basis. Novartis shall maintain the data received during this process for ongoing compliance evaluations.
23. Improvement programs and special support 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 CC Principles. If concerns persist regarding the commitment or capability of the Third Party to improve of its own accord, a decision must be made at Divisional or BU level as to whether special support should be provided 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.
24. 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 CC Principles. Such deviations from the standard assessment process must be justified and documented.
- Reporting Criteria & Measurements**
25. General The Division / BU's of Consumer Health Division shall report once a year to the Group Compliance Officer on the status of compliance with the principles laid down in this guideline.
26. Status of compliance A quantitative assessment of the status of compliance within the Division / Business unit of Consumer Health Division shall be established using appropriate indicators and parameters.