

Novartis GRI Report 2005

What is a GRI-Report?

The [Global Reporting Initiative \(GRI\)](http://www.globalreporting.org) <<http://www.globalreporting.org>> is a long-term, multi-stakeholder, international process whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines ("Guidelines"). These Guidelines are for voluntary use for reporting on the sustainability dimension of the activities, products and services of an organisation.

Why a Novartis GRI-Report?

At Novartis, corporate citizenship - or corporate responsibility - is a top priority. As a corporation, Novartis wants to act the same way as responsible and conscientious individuals would act in their community. We do everything we can to operate in a manner that is sustainable - economically, socially, and environmentally - in the best interest of long-term success for our enterprise.

As part of this responsibility, we decided in 2004 to complement our communication and reports on corporate citizenship with a report that follows the GRI Sustainability Reporting Guidelines as close as possible. The aim of such a standardized report is to allow stakeholder to better understand and assess our contribution to sustainable development. A standardized format facilitates to benchmark and compare our efforts towards sustainable development..

What do we report?

The GRI-Report is based on the [2002 GRI Guidelines](http://www.globalreporting.org/guidelines) <<http://www.globalreporting.org/guidelines>>. The report follows the structure outlined in section C of the guidelines. It includes a GRI content index. We report on all numbered elements in section 1 to 3 of Part C. We respond to each core indicator in Section 5 of Part C by either reporting on the indicator or explaining the reason for the omission of the indicator.

What's next?

This is the second GRI-based report for Novartis. We are aware that this GRI report has limitations, e.g. regarding completeness, relevance or clarity. We will continue to update and add to the information contained herein on an ongoing basis. Feedback is welcome, including suggestions for additional topics. Information contained in this report is based on 2005 data.

Here you will find a PDF of the Novartis 2005 Annual Report.

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Novartis Sustainability Reporting

The reporting structure and methodology is based on the 2002 GRI Guidelines. The report is organized into different sections (level 1), categories (level 2) and aspects (level 3 and up). All sections, categories and aspects are numbered according to the 2002 GRI Guideline.

Please consult section 2 "Profile" to learn more about the context of this report (organisational profile, report scope and report profile).

Please use the tree to the left to navigate.

Additional documents: This report is based on GRI 2002

1 Vision and Strategy

This GRI section encompasses a statement of our sustainability vision and strategy, as well as a statement from our CEO.

The section is organized into different categories according to GRI methodology.

Additional documents: Policy on Corporate Citizenship

1.1 Vision and Strategy Statement

This GRI category states our vision and strategy regarding our contribution to sustainable development.

The category is organized into different aspects according to GRI methodology.

1.1.1 What is the overall vision of the reporting organisation for its future, particularly with regard to managing the challenges associated with economic, environmental and social performance?**1****Purpose:**

Novartis is a world leader in the research, development, manufacturing and marketing of products to protect and improve health and well-being. We want to discover, develop and successfully market innovative products to cure diseases, to ease suffering and to enhance quality of life.

We also want to provide a shareholder return that reflects outstanding performance and to adequately reward those who invest ideas and work in our company.

2**Aspirations:**

At Novartis, corporate citizenship is a top priority. We aspire to responsible and conscientious global citizenship based on trust, transparency and accountability. The cornerstones of our commitment are active engagement in society in areas where we are competent, helping where most needed while also establishing and implementing transparent, ethical corporate standards and policies.

We believe sustainability begins with the success of our core business. Acting with good intention to improve and protect our society and environment is the key to earning the trust and respect of our stakeholders.

We are determined to run our business not only according to all regulatory and legal requirements, but also in an ethical way. We strive to insure that all of our associates not only adhere to policies, codes and guidelines -- but also embrace them as their own values.

The pharmaceutical industry has an absolutely crucial mission within society – saving lives and improving the quality of life. If “sustainable development” means meeting the needs of the present without compromising the ability of future generations to meet their own needs, pharmaceutical innovation in the coming century must address emerging diseases and other unmet medical need to deliver further improvements in life expectancy comparable to those achieved in the 20th Century. Yet a flow of new medicines can't be taken for granted.

Novartis Chairman and Chief Executive Officer Daniel Vasella emphasizes the dominant role played by pharmaceutical companies in conducting and funding research and development. "Often the public forgets or ignores the immense progress achieved by medical practice thanks to modern pharmacotherapy," Dr. Vasella says. "Remember that overall, the pharmaceutical industry invests nearly USD 50 billion a year in research and development, the single most important source of investment in health research."

In 2005, Novartis increased R&D investments to USD 4.8 billion, one of the highest figures in the global pharmaceutical industry relative to Pharmaceuticals Division sales (19.5%).

In the pharmaceutical business, the research and development process can take up to 12 years, or even longer, from discovery to commercial product launch. This process is conducted in various stages and during each stage there is a substantial risk that we will encounter serious obstacles or will not achieve our goals and may abandon a product in which we have invested substantial amounts of time and money.

While we focus our strategy first and foremost on innovation, when innovative drugs have lost their patents, patients should have access to less expensive, high-quality generics, as well as self-medication products. Novartis is the only major pharmaceutical company with a global leadership position in both patented and generic pharmaceuticals. In light of the aging populations of many major countries, and the associated rise in health care expenditures, we believe generics will continue to play an increasingly important role as a cost-effective therapeutic option.

Indeed, generics in some ways can even help to drive innovation. Increased use of cost-effective generics frees up funds that payors can reallocate to innovative medicines. At the same time, pharmaceutical companies are forced to innovate because they know that life cycles of even successful medicines ultimately will come to an end with the loss of patent protection.

Additional documents: [Commitment to Corporate Governance](#)

1.1.2 What are the main issues for the organisation related to the major themes of sustainable development?**1**

There is considerable public sentiment against the pharmaceuticals industry, and the industry is under the close scrutiny of the public, the media and other stakeholders. Rising expectations are especially noteworthy in the areas of improving access to our products for the underprivileged both in our established markets and in less developed nations; business conduct in our supply chain; fair marketing practices; bio-ethical challenges; working conditions and human rights. While we seek to manage these risks through various pro-active measures, there can be no assurance that in the future such risks will not cause our business, financial condition or results of operations to be materially affected.

Challenges faced by our Pharmaceuticals Division range from industry-specific issues such as government regulation, price controls and changes in the regulatory environment, to the possibility that ongoing research and development efforts may not succeed and, more recently, growing public pressure on the pharmaceuticals industry.

Paradoxically, public concern over pricing and access issues is inflamed by the very commercial success required both to fuel the search for new cures and deliver value to shareholders for their investment. Pressures on the pharmaceutical industry are set to intensify with the US and Europe facing the increasing medical needs of ageing populations; aspiring economies like China and India seeking to address massive public health challenges; and the developing world battling infectious and tropical diseases of epidemic proportions.

Novartis is addressing the critical issue of access to health care through partnerships with international institutions, governments, academia and NGOs to provide malaria, leprosy, chronic myeloid leukemia and tuberculosis treatments to millions of people in the least developed countries. At the same time, the company is creating patient assistance and drug discount card programs to address the needs of patients in the US and other developed countries.

We pursue our longstanding commitment to issues of sustainability through the Novartis Foundation for Sustainable Development which has been a leading voice on developmental issues for more than 25 years.

We manage health, safety and environmental issues proactively, applying sound science and technology and fostering cooperation and deployment of uniform corporate standards at sites around the world. We communicate our objectives to external stakeholders and report on performance each year in our annual report.

(A summary of risk factors faced by Novartis and by our industry is provided in Form 20-F filed with the United States Securities and Exchange Commission for the year ended December 31, 2005. See Part I, section 3.D "Risk Factors")

1.1.3 How are stakeholders included in identifying the main issues related to the major themes of sustainable development?**1**

Novartis has a longstanding tradition of community involvement, reflected in our Corporate Citizenship policy where we pledge to recognize the interests of employees and shareholders, customers, neighbors, authorities and the public at large in our societal behavior, and the health, safety and environmental impacts of our business.

We seek to maintain an active dialogue with those diverse stakeholder groups through community panels, focus groups and organized collaborations with patient advocacy groups, healthcare professionals and international agencies such as the World Health Organization. Reporting on Corporate Citizenship activities involves regular employee surveys and communication with suppliers. We have frequent contacts with our shareholders and other investors.

This public dialogue is exemplified by an annual international symposium organized by the Novartis Foundation for Sustainable Development (NFSD) that brings together representatives from business, government, academia and civil society to explore a topical issue in development policy.

The words of the American civil rights activist Jesse Jackson, "Tears will get you sympathy; sweat will get you change" were the theme for the 2005 symposium. Volunteer work is just as important a backbone of society as gainful employment. Numerous people work for a more humane world, on every continent, in all kinds of areas, day after day. The 2005 symposium offered the possibility of getting to know people whose vision and initiatives represent social movements in the North and the South.

At the 2004 symposium, devoted to the Right to Health, Novartis Chairman and Chief Executive Officer Daniel Vasella endorsed the right to health as an aspiration -- but emphasized that each sphere of society has a role to play. Novartis makes its most important contribution to the right to health through the core mission of discovering and developing innovative drugs, complemented by less expensive, high-quality generic medicines.

A year earlier, at the 2003 NFSD symposium where the theme was "Human Rights and Business" Dr. Vasella presented the set of guidelines on human rights applied throughout the Novartis Group. The company affirms that it will do everything in its power within its sphere of influence to respect political and civil human rights. "Under no circumstances does our company accept practices in which profit is knowingly gained from the human rights abuses of others," Dr. Vasella said.

In many cases, Novartis applies global standards even in countries where local laws would permit a less demanding procedure. Still, applying a common global standard in more than 100 countries isn't always easy.

Take the commitment to pay a "living wage" which was made in 2005 -- fair wages that meet or exceed the amount needed to cover basic living needs -- to all people working at Novartis worldwide. A Corporate Citizenship Guideline adopted in 2004 had already stipulated that in each local market, full-time wages must cover the market price of a basket of goods and services representing the subsistence level for an average worker in the region in question.

1.1.4 For each sustainability issue: Which stakeholders are most affected by the organisation?

1

Issue	Access to medicine
Stakeholder	Patients and their families; governments and other health-care providers; health-care professionals; international organizations; NGOs

2

Issue	Conditions for innovation
Stakeholder	Patients; medical community; research community; governments and other health-care providers; regulatory agencies; academia; shareholders and investors

3

Issue	Business ethics (Code of Conduct, Global Compact, Marketing Codes); Corporate Citizenship guidelines including human rights, bribery and anti-corruption)
Stakeholder	Patients, customers, health-care professionals, governments and other providers, society at large, shareholders and investors, competitors

4

Issue	Corporate Governance
Stakeholder	Employees; shareholders and investors; governments and regulatory authorities; customers, creditors and suppliers; society at large

5

Issue	Fair Working Conditions
Stakeholder	Employees; governments; trade unions or employee associations; suppliers,

6

Issue	Human Rights
Stakeholder	Employees; governments; society at large; suppliers, contractors and business partners; patients; medical community and research community

1.1.5 How are sustainability issues reflected in the organisation's values and integrated into its business strategies?

1

Integrated into

Integrated into strategy Our commitment to sustainability is expressed most clearly in the preamble to the Novartis Policy on Corporate Citizenship which states: "We do everything we can to operate in a manner that is sustainable: economically, socially and environmentally -- in the best interest of long-term success for our enterprise."

The Policy on Corporate Citizenship embeds sustainability within the Novartis core values, "based on the fundamental rights of every individual, such as the protection of privacy, freedom of opinion and expression, freedom of association, nondiscrimination and the right to be heard." The Policy also declares our ambition to be a leader in Health, Safety and Environmental Protection (HSE), endorses the precautionary principle "in innovation and development of new products and technologies" and pledges to integrate the principles of Corporate Citizenship into our business strategies.

Our Business Sectors establish proper structures and allocate sufficient resources to live up to this Corporate Citizenship policy. We measure progress and verify compliance with the Policy, related guidelines and regulatory requirements through internal and external audits and management reviews. We give priority to business partners, suppliers and contractors who share our societal and environmental values.

Integrated into board responsibility At the board level, the Audit and Compliance Committee oversees implementation of Corporate Citizenship and compliance with the Novartis Code of Conduct, and principles of the United Nations Global Compact.

The management process established by the Executive Committee of Novartis (ECN) for Corporate Citizenship is led by the Corporate Citizenship Steering Committee, comprising representatives of the divisions and key corporate functions. Designated Corporate Citizenship executives serve as primary points of contact between divisions and the steering committee while heads of country organizations are responsible for implementation of Corporate Citizenship in their countries.

1.1.6 What are the organisation's objectives and actions on these sustainability issues?

1

Results 2005 and Objectives 2006 of Corporate Citizenship-related Projects

Results and Objectives

http://www.novartis.com/downloads/2006_01_results_targets.pdf

2

Access to Medicines projects

http://www.novartis.com/corporate_citizenship/en/access_to_medicines_programs.shtml

3

HSE Performance 2005

http://www.novartis.com/corporate_citizenship/en/hse/performance/index.shtml

Additional documents: Corporate Citizenship Targets and Results

1.2 CEO Statement

This GRI category states the key elements of the report from our CEO's perspective.

The category is organized into different aspects according to GRI methodology.

1.2.1 Statement of the CEO

1

Excerpt from "Letter from Daniel Vasella" in Novartis Annual Report 2005:

Access to medicine and drugs for needy patients, particularly in developing countries, remains an important concern. There is little public awareness of the fact that, since the UN Millennium Development Goals were proclaimed in 2000, multinational pharmaceutical companies have entered into more than 126 partnerships for the benefit of patients in developing nations.

As a result of these initiatives, over 540 million treatments, worth in excess of USD 4.4 billion, have been provided to needy patients. These figures relate only to long-term programs and do not include assistance to patients in industrialized nations or disaster relief.

Last year, taking all pro bono contributions into account, a total aid provided for patients in need by Novartis alone amounted to USD 696 million, with 6.5 million patients being treated. The main element of this commitment was the donation of medicines for the treatment of leprosy, malaria, tuberculosis and chronic myeloid leukemia. On top of humanitarian considerations, this aid produces substantial economic benefits, as it may enable patients to start work again and support themselves and their families.

The pharmaceutical industry's commitment to patients in developing countries exceeds that of any other industry sector world-wide. But it cannot succeed single-handedly. There is a fundamental need for effective action by governments that are primarily concerned with the welfare of their citizens, as well as for partnerships with international organizations and civil society.

"This report has been prepared in accordance with the 2002 GRI Guidelines. It represents a balanced and reasonable presentation of our organization's economic, environmental, and social performance."

Daniel Vasella, MD
Chairman and CEO

Additional documents: Complete Letter from Daniel Vasella

1.2.2 Highlights of report content and commitment to targets

1

[CC Results 2005 and Targets 2006](#)

http://www.novartis.com/downloads/2006_01_results_targets.pdf

2

[HSE Performance 2005](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/index.shtml

3

[HSE Targets 2006 - 2008](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/targets/index.shtml

Additional documents: Corporate Citizenship at Novartis

1.2.3 Commitments**1****Commitment to economic goals by the organization's leadership**

We want to discover, develop and successfully market innovative products to cure diseases, to ease suffering, and to enhance the quality of life. We also want to provide a shareholder return that reflects outstanding performance and to adequately reward those who invest ideas and work in our company.

We want to be recognized for having a positive impact on people's lives with our products, meeting needs and even surpassing external expectations. We strive to create sustainable earnings growth, ranking in the top quartile of the industry and securing long-term business success.

We want to build a reputation as an exciting place to work where people can realize their professional ambitions. We strive for a motivating environment where creativity and effectiveness are encouraged and where cutting-edge technologies are applied.

In addition, we want to contribute to society through our economic success, through the positive environmental and social impact of our products, and through open dialogue with our stakeholders.

2**Commitment to environmental goals by the organization's leadership**

Protection of the environment has a high priority in all our activities. We strive to make efficient use of natural resources and minimize the environmental impact of our activities and products.

We want to be a leader in Health, Safety and Environmental protection. The health and safety of our employees, neighbors, customers and all others affected by our business activities, as well as protection of the environment, have priority in all our activities.

We strive to make efficient use of natural resources and minimize the environmental impacts of our activities and our products over their life cycle. We take a precautionary approach in the innovation and development of new products and technologies.

A strong commitment to Health, Safety and Environment Protection (HSE) is an integral dimension of our Corporate Citizenship Policy.

HSE at Novartis includes biosafety; occupational safety and health; building and plant safety; process safety; product stewardship; environmental protection and conservation of natural resources and energy. Another important focus is business continuity – insuring the uninterrupted availability of key business processes and activities.

Divisions and business units are responsible for all managerial and operational aspects of HSE and Business Continuity. HSE functions at the Corporate, Divisional, Business Unit and Country levels have an advisory role; more than 400 HSE officers at Novartis sites around the world support site and line managers – ensuring both business continuity, and that products and operations are safe and compatible with the environment.

3**Commitment to social goals by the organization's leadership**

Novartis aspires to responsible global citizenship based on our people and our corporate values -- the foundation for both our commercial success and our high standards of business conduct. We operate within both the spirit and the letter of the law and we refuse to tolerate illegal or unethical dealings in our daily activities anywhere in the world.

We foster teamwork and trust, promoting interaction across functions and regions. We establish ambitious targets and recognize and reward high performance.

1.2.4 Success and Failures**1****Statement of 2005 successes**

Our medicines reached more than 100 million patients worldwide during 2005, including innovative prescription medicines that sometimes are breakthroughs with the power to change the way medicine is practiced. One recent example is Gleevec/Glivec, for the treatment of chronic myeloid leukemia; another is Neoral, which revolutionized the field of organ transplantation. Our medicine-based business portfolio includes not only innovative, patent-protected medicines but also high-quality, cost-effective generics and self-medication products.

Reflecting the Group's strong business performance, 2005 ended with yet another record result and market share gains. Thanks to our good results, our Corporate Citizenship program reached more than 6.5 million patients in need worldwide. The Novartis Institute for Tropical Diseases (NITD), based in Singapore and operated on a not-for-profit basis, is bringing the revolution in biomedical research to bear on diseases of the developing world. We also provide medicines at cost – or sometimes free – to patients who otherwise would not have access to treatment. In 2005, Novartis was able to contribute products and services worth USD 696 million to patients in need through access-to-medicine programs.

Shared values and a common mission and strategy unite our 90,942 associates, and our 200 operational companies and business operations in more than 140 countries.

2**Statement of 2005 failures**

The Independent Assurance Report on Group Corporate Citizenship Reporting during 2005 included agreed recommendations from external auditors that Novartis should:

- Consider clarifying, simplifying and streamlining the Corporate Citizenship organization: reassess the value and purpose of having numerous Corporate Citizenship related roles and evaluate the need for more focused Corporate Citizenship leadership at key levels within the organization.
- Clearly define the definitions of the questions and terms used in the Corporate Citizenship reporting and realize a focused communication to the reporting units to ensure a clear and consistent understanding.
- Strengthen the HSE reporting control environment at site level through the application of existing tools that facilitate trend analyses and ensure that site level HSE reporting procedures and controls are adequately documented.

1.2.5 Performance against benchmarks**1****Economic Performance against previous years' performance**

see [Novartis Annual Report 2005 p. 133](#)

http://www.novartis.com/downloads_new/investors/AR05_E.pdf

2**Performance against previous years' Corporate Citizenship targets: see 1.2.2**

see [Novartis Annual Report 2005](#)

http://www.novartis.com/downloads_new/investors/AR05_E.pdf

3**Corporate Citizenship Benchmarks****Access-to-medicines programs**

We try to help where there is immediate need – with products, funds and other supportive measures, on a case-by-case basis. In 2005, Novartis was able to contribute USD 696 million and reach almost 6.5 million patients in need through access-to-medicine programs.

Recognition

In 2005, in an acknowledgement of the pioneering role of Novartis in the evolution of the Global Compact, UN Secretary-General Kofi Annan named Professor Klaus Leisinger, President and CEO of the Novartis Foundation for Sustainable Development, as a Special Advisor to the Global Compact. Professor Leisinger will act as a global ambassador for the Global Compact and advance issues critical to the initiative.

Another important acknowledgement of our commitment to the Global Compact came from DNWE, the German Business Ethics Network which awarded Novartis its Preis für Unternehmensethik, the Business Ethics Award, for 2006.

Living wage

During 2005, Novartis moved to global implementation of a "Living Wage". The principle of paying fair wages that meet or exceed the amount needed to cover basic living needs was outlined in our Corporate Citizenship Guideline on Fair Working Conditions adopted by the ECN in 2002.

Novartis is one of the first major international industrial companies to implement such a commitment.

New framework for ethics compliance

The Compliance Steering Committee established a new framework for the company's Ethics Compliance program in 2005, meeting requirements of the US Sentencing guidelines (2004). This new framework is being implemented by local Novartis entities worldwide and will be used to set Ethics Compliance objectives for 2006.

Business Practices Office

A new Business Practices Office (BPO) was established during 2005 to facilitate reporting by employees of actual or suspected cases of internal misconduct. All employees are requested to report suspected misconduct to the BPO, which in turn ensures that all complaints are properly investigated, enabling management to take appropriate actions.

The identities of Novartis employees are fully protected both when they make a report and during any subsequent investigation. Novartis has a strict policy guaranteeing non-retaliation against associates who make reports under the "whistleblower" policy – and violations of this right are not tolerated.

Ethics compliance training

Further progress was achieved during 2005 on training programs for associates. Compliance e-learning at Novartis is available in 14 languages – setting a high standard among global companies. In 2005, Novartis associates worldwide completed more than 197 000 e-learning courses – investing more than 148 000 hours in Ethics Compliance e-training. In parallel, several thousand associates without access to e-mail completed other forms of Ethics Compliance training.

Clinical trial registry

During 2005, Novartis and other pharmaceutical companies unveiled major initiatives to improve disclosure of results of clinical trials. The move came amid legal challenges in the US – and calls from editors of 11 major medical journals for creation of a public registry for clinical studies involving human patients.

1.2.5 Performance against benchmarks

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That registry became reality last year under the leadership of Dr. Vasella in his capacity as President of the International Federation of Pharmaceutical Manufacturers Associations (IFPMA). Fulfilling a pledge to provide an industry blueprint to improve clinical trial transparency, IFPMA launched a clinical trials portal offering access to online information concerning more than 250 000 clinical trials worldwide.

HSE

During 2005 Novartis reviewed health, safety and environmental activities – and labor practices – of more than 30 000 Third-Party Suppliers with annual sales to Novartis exceeding USD 10 000.

As a result of the initial review, pilot on-site audits were conducted with 55 Third-Party Suppliers last year. Similar on-site audits are planned for more than 400 other suppliers by 2010 to track compliance with Group guidelines on Third-Party Management.

SRI

Novartis is recognized as a leader by the rapidly expanding Socially Responsible Investment (SRI) community. In 2005, Novartis was again selected as a component of the Dow Jones Sustainability Indeces (DJSI), which track the performance of companies in terms of corporate sustainability.

Additional documents: 2005 Financial Highlights

1.2.6 The organisation's approach to stakeholder engagement

1

Novartis has committed to an increasing number of societal initiatives, including the Business Charter for Sustainable Development of the International Chamber of Commerce and the World Business Council for Sustainable Development.

In 2000, Novartis was among the first companies to sign the Global Compact, an initiative sponsored by United Nations Secretary-General Kofi Annan, which specifies nine principles regarding human rights, labor and the environment. The Global Compact asks companies to embrace, support and enact a set of core values in the areas of human rights, labor standards, the environment and anti-corruption. Through these commitments, Novartis accepts a broader role in society and in many cases goes beyond legal duties.

In 2001, Novartis issued its Policy on Corporate Citizenship which subsequently has been amplified by guidelines. The same year, the Novartis board established three new board committees -- comprised exclusively of external directors -- to increase transparency in line with converging international standards for corporate governance.

In 2004, Novartis successfully completed its assessment of internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act and obtained on this assessment a report from its independent auditors. No material weakness was revealed by this extensive review of the company's internal control over financial reporting.

In 2005, in an acknowledgement of the pioneering role of Novartis in the evolution of the Global Compact, UN-Secretary General Kofi Annan named Professor Klaus Leisinger, President of the Novartis Foundation for Sustainable Development, as a Special Advisor to the Global Compact. Professor Leisinger will act as a global ambassador for the Global Compact and advance issues critical to the initiative.

1.2.7 Major challenges for the organisation and its business sector in integrating responsibilities

2 Profile

This section provides an overview of the organization and describes the scope of the report. The section also includes organizational contact information.

The section is organized into different categories according to GRI methodology.

Organisational Profile

This GRI category provides information on our operations, products, and services.

The category is organized into different aspects according to GRI methodology.

2.1 Name of reporting organisation

1

Name Novartis AG – the worldwide Novartis Group, headquartered in Basel, Switzerland.

2.2 Major products, including brands if appropriate

Nr.	Group	Product	▲
1	Pharmaceuticals	Diovan/Co-Diovan	
2		Gleevec/Glivec	
3		Zometa	
4		Lamisil (group)	
5		Lotrel	
6		Neoral/Sandimmun	
7		Sandostatin (including LAR)	
8		Lescol	
9		Voltaren (group)	
10		Trileptal	
11	Sandoz	The Sandoz Division develops, manufactures and markets a wide range of low-price, high-quality generic medicines in categories such as antibiotics, cardiovascular disease and disorders of the central nervous system	
21	Consumer Health		
31	OTC (Over the counter)	Strategic self-medication brands for cough/colds, pain, smoking cessation, athlete's foot and laxatives	
32	Animal health	Companion animals	
33	Medical Nutrition	Adult nutrition, disease-specific nutrition platforms including oncology and diabetes	
34	Gerber	Infant & Baby	
35	CIBA Vision	Contact lenses	

Additional documents: Top Twenty Pharma Products 2005

2.3 Operational structure of the organisation

1

Novartis AG, a holding company organized under Swiss law, owns directly or indirectly all companies worldwide belonging to the Novartis Group.

The Novartis Board of Directors is comprised of 12 members. Four committees assist the board in carrying out its duties: the Chairman's Committee, Compensation Committee, Audit and Compliance Committee and Corporate Governance and Nomination Committee.

Oversight of the Novartis business operations is the duty of the Executive Committee of Novartis (ECN) and the various division or business unit heads and other managers.

The Novartis group is divided operationally into three divisions: Pharmaceuticals, the Sandoz generics division and Consumer Health. A fourth division - Vaccines & Diagnostics - was created in April 2006 following the acquisition of the remaining stake in Chiron Corporation.

The business operations of the business units are conducted through local Novartis Group companies. The most important Novartis subsidiaries and associated companies are listed under Note 33 to the Group's consolidated financial statements in the 2005 Novartis Annual Report.

www.novartis.com/about_novartis

http://www.novartis.com/about_novartis/en/structure.shtml

Additional documents: Principal Subsidiaries and Associated Companies

2.4 Subunits

This GRI aspect provides information on our major divisions, operating companies, subsidiaries, and joint ventures.

2.4.1 Description of major divisions

1

Pharmaceuticals

The Pharmaceuticals Division researches, develops, manufactures, distributes, and sells branded pharmaceuticals in the following therapeutic areas: cardiovascular and metabolism, oncology and hematology, neuroscience, respiratory and dermatology, arthritis, bone therapy, gastrointestinal and urinary tract diseases, infectious diseases, transplantation and immunology, and ophthalmics.

It also includes the Novartis Institutes for BioMedical Research (NIBR), which was established in 2003 with the aim of redefining drug discovery in a new era marked by the completion of the human genome sequence. NIBR is headquartered in Cambridge, Massachusetts, and has subsidiaries worldwide.

2

Sandoz

The Sandoz division, which ranks as the second-largest generics company in the world following the acquisitions of Hexal AG and Eon Labs, Inc. in 2005, is organized as a Retail Generics business that also operates an Anti-Infectives business. Sandoz manufactures, distributes and sells generic pharmaceutical products and substances worldwide.

3

Consumer Health

The Consumer Health Division has five business units (OTC, Animal Health, Medical Nutrition, Gerber and CIBA Vision) which coordinate the worldwide research, development, manufacturing and marketing of their respective products.

The OTC Business Unit activities are concentrated on over-the-counter self medications. The activities of the Animal Health Business Unit are concentrated on veterinary products for farm and companion animals. The activities of the Medical Nutrition Business Unit are concentrated on health and medical nutrition products. The activities of the Gerber Business Unit are concentrated on foods and other products and services designed to serve the particular needs of infants and babies. The activities of the CIBA Vision Business Unit are concentrated on contact lenses, lens care products, and ophthalmic surgical products.

4

Vaccines & Diagnostics (created in April 2006)

A fourth Division — Vaccines & Diagnostics — was created in April 2006 following the acquisition of the remaining stake in Chiron Corporation. This division encompasses activities in human vaccines, which are marketed under the name Novartis Vaccines, and molecular diagnostics, which are marketed under the name Chiron.

2.4.2 Description of major operating companies

1

Each of the major global divisions has operating companies in different countries. See list of Novartis group subsidiaries at 2.4.3.

2.4.3 Description of major subsidiaries

Nr.



1 For a list of our principal subsidiaries including their size and activities, see note 33 to the Novartis Group consolidated financial statements in the 2005 Novartis Annual Report (p. 184).

Additional documents: Principle Group Subsidiaries, Associated Companies

2.4.4 Description of major joint ventures

Nr.

1

see pages 85-86 and Note 10 at pages 152-153

Additional documents: Associated Companies

2.5 Countries in which the organisation's operations are located

Nr.	
1	Argentina
2	Australia
3	Austria
4	Bangladesh
5	Belgium
6	Bermuda
7	Brazil
8	Canada
9	Chile
10	China, People's Republic of
11	Colombia
12	Croatia
13	Czech Republic
14	Denmark
15	Ecuador
16	Egypt
17	Finland
18	France
19	Germany
20	Gibraltar
21	Great Britain
22	Greece
23	Hungary
24	India
25	Indonesia
26	Ireland
27	Italy
28	Japan
29	Liechtenstein
30	Luxembourg
31	Malaysia
32	Mexico
33	Netherlands

2.5 Countries in which the organisation's operations are located **pl.****Nr.** **▲**

34	Netherlands Antilles
35	New Zealand
36	Norway
37	Pakistan
38	Panama
39	Philippines
40	Poland
41	Portugal
42	Puerto Rico
43	Romania
44	Russian Federation
45	Singapore
46	Slovenia
47	South Africa
48	South Korea
49	Spain
50	Sweden
51	Switzerland
52	Taiwan
53	Thailand
54	Turkey
55	United States
56	Venezuela

In addition, the Group is represented by subsidiaries, associated companies or joint ventures in the following countries: Algeria, Cayman Islands, Costa Rica, Dominican Republic, Guatemala, the former Yugoslav Republic of Macedonia, Morocco, Peru and Uruguay.
see Novartis 20-F document, p F-90

Additional documents: Principal Group Subsidiaries, Associated Companies

2.6 Nature of ownership; legal form**1**

Novartis AG, a holding company organized under Swiss law, owns directly or indirectly all companies worldwide belonging to the Novartis Group.

The largest registered shareholders of Novartis AG are the Novartis Foundation for Employee Participation, registered in Basel, Switzerland (holding 2.9% of the share capital) and Emasan AG, registered in Basel, Switzerland (holding 3.2%).

In addition:

- Nortrust Nominees, London, holds 2.5% and JPMorgan Chase Bank, New York, holds 8.3% of the registered shares as nominee.
- JPMorgan Chase Bank, the depository of the shares represented by American Depositary Shares may be registered with up to 11% of the share capital.

No other shareholder is registered as owner of more than 2% of the issued share capital and there are no cross-holdings equal to or higher than this amount.

There are two Novartis affiliated companies whose shares are traded on public stock exchanges. These are:

- Novartis owns directly and indirectly 56.1% of Idenix Pharmaceuticals, Inc. (a US company). The shares of Idenix Pharmaceuticals are listed for trading on the NASDAQ (Valor No. 1630029, ISIN US45166R2040, symbol: IDIX);
- Novartis India Limited; 49% of the shares of Novartis India Limited are registered for trading at the Bombay Stock Exchange (ISIN INE234A01025, symbol:HCBA).

Idenix Pharmaceuticals, Inc. and Novartis India Limited are directly or indirectly majority owned by Novartis AG.

Additionally, Novartis holds significant investments in two large publicly listed companies:

- Novartis directly or indirectly holds 33.3% of the bearer shares of Roche Holding AG, registered in Basel, Switzerland, and listed on the SWX Swiss Exchange (bearer shares: Valor No. 1203211, ISIN CH0012032113, symbol RO; nonvoting equity securities: Valor No. 1203204, ISIN CH0012032048, symbol: ROG; further securities of Roche Holding AG are ADSs for nonvoting equity securities which are traded on the over-the-counter market in the US, symbol: RHHBY). The market value of the Novartis interest in Roche Holding AG on Dec. 31, 2005 was USD 8.9 billion; and
- As of Dec. 31, 2005, Novartis holds directly and indirectly 44.1% of the shares of Chiron Corporation, with its registered head office in Emeryville, California, and listed on the NASDAQ (Valor No. 918297, ISIN US1700401094, symbol: CHIR). The market value of the Novartis interest in Chiron Corporation on Dec. 31, 2005 was USD 3.8 billion. On October 30, 2005, Novartis entered into a definitive merger agreement with Chiron Corporation to acquire all of the remaining publicly held shares of Chiron it did not own. In April 2006, Novartis acquired the remaining stake in Chiron Corporation. Following this, a fourth Division was created at Novartis — Vaccines & Diagnostics. This division encompasses activities in human vaccines, which are marketed under the name Novartis Vaccines, and molecular diagnostics, which are marketed under the name Chiron.

2.7 Nature of markets served

1

Pharmaceuticals and Generics

Novartis is a world leader in both patent-protected and generic pharmaceuticals as well as consumer health products. Like our competitors, we are subject to strict government controls on the development, manufacture, marketing, labeling, distribution and pricing of our products. We must obtain and maintain regulatory approval for our pharmaceutical and many of our other products from regulatory agencies in order to sell our products in a particular jurisdiction.

In addition to normal price competition in the marketplace, the prices of our Pharmaceuticals Division's products are restricted by price controls and other pricing pressures imposed by governments and health-care providers in most countries. We expect that pressures on pricing will continue and may increase.

Price controls operate differently in different countries. In the US, ongoing political debates over prescription drug pricing and Medicare reform legislation could increase pricing pressures. There is continuing political pressure to amend recent Medicare reform legislation to enable the US government to use its enormous purchasing power to demand discounts from pharmaceutical companies. It is not yet possible to predict with certainty the extent to which this recently enacted legislation will affect our operations.

In Europe, many governments are introducing health-care reforms in a further attempt to curb escalating health-care costs. In Japan the government generally introduces price-cut rounds every other year, during which the government mandates price reductions for specific products.

Price controls in one country can also have an impact in other countries as a result of cross-border sales. In the EU, products which we have sold to customers in countries with stringent price controls can legally be re-sold to customers in other countries at a lower price than the price at which the product is otherwise available in the importing country.

In generics, the continuous introduction of new products is critical to our business. Selling prices of generic drugs typically decline, sometimes dramatically, as additional companies receive approval for a given product and competition for that product intensifies. Our ability to sustain our sales and profitability on any product over time is dependent on both the number of new competitors for the product, and the timing of their approvals.

Competition continues to intensify in the market for generic products as the pharmaceutical industry adjusts to increased pressures to contain health-care costs. Brand name pharmaceutical companies have taken aggressive steps to counter the growth of the generics industry and continually seek new ways to delay generic introduction and to decrease the impact of generic competition.

2

Consumer Health

In the dynamic world of consumer healthcare, aging populations are increasingly affluent as well as increasingly knowledgeable about their health and the benefits of self-medication. The success of each Consumer Health business unit depends upon its ability to anticipate and meet the needs of consumers -- as well as health professionals worldwide.

To deliver accelerated sales growth, and to achieve leadership positions in the fields in which we compete, the Novartis Consumer Health Division seeks to give voice to the consumer and to determine the consumer's needs and desires.

2.8 Scale of the reporting organisation

This GRI category lists the key figures describing the scale of our operations. The data refers to the year 2005.

The category is organized into different aspects according to GRI methodology.

2.8.1 Scale of the reporting organization: Key figures

Nr.	Key figures	Amount	Unit	▲
1	Number of employees	90924		
2	Quantity / volume of products produced		million USD	na
3	Net sales	32212	million USD	
4	Total capitalisation	57732	million USD	
5	Capitalisation: Debt	8454	million USD	
6	Capitalisation: Equity	33164	million USD	
7	Value added	15700	million USD	
8	Goods and services purchased	15700	million USD	
9	Total assets	57732	million USD	

The data refer to the year 2005.

We use the following definitions:

Capitalization = debt + equity

Debt = financial debt (non-current liabilities) + financial debt and derivative financial instruments (current liabilities)

Additional documents: Novartis Economic Performance 2005

2.8.2 Scale of the reporting organisation: Breakdown of sales/revenues by countries that make up 5 percent or more of total revenues

Nr.	Region / Country	Revenue	Currency	▲
1	United States	12587	million USD	
2	Japan	2591	million USD	
3	Germany	2470	million USD	
4	France	1856	million USD	
5	Great Britain	924	million USD	
6	Switzerland	366	million USD	
7	Austria	275	million USD	
8	Slovenia	100	million USD	
9	Singapore	26	million USD	
10	Others	11017	million USD	
16				
17				
18				

2.8.3 Scale of the reporting organisation: Breakdown of costs by country/region**2.8.4 Scale of the reporting organisation: Breakdown of employees by country/regions**

Nr.	Country	Employees
1	Europe	43559
3	Africa/Asia/Australia	15190
6	United States	22391
7	Canada and Latin America	9784

2.8.5 Scale of the reporting organisation: Breakdown of major products and/or identified services

Nr.	Service	Product	Sales	Currency
1	Pharmaceuticals	Diovan/Co-Diovan	3676	million USD
2		Gleevec/Glivec	2170	million USD
3		Zometa	1224	million USD
4		Lamisil (group)	1133	million USD
5		Lotrel	1075	million USD
6		Neoral/Sandimmun	953	million USD
7		Sandostatin (group)	896	million USD
8		Lescol	767	million USD
9		Voltaren (group)	689	million USD
10		Trileptal	615	million USD
11	Sandoz		4694	million USD
12	Consumer Health		7256	million USD
13				
14				
15				
16				

2.9 List of stakeholders, the nature of interest and their relation to the organisation

1

Authorities, shareholders, financial markets, patient groups, NGOs, academia, think tanks, Public-Private Partnerships, associates, customers, suppliers, healthcare professionals

Report Scope

This GRI category describes the context for understanding and evaluating information on the rest of the report.

The category is organized into different aspects according to GRI methodology.

2.10 Contact person(s) for the report, including e-mail and web addresses

1

Name Christine Elleboode-Zwaans
 Function Corporate Citizenship Initiatives, Novartis International
 E-Mail christine.elleboode-zwaans@novartis.com
 Web Address www.novartis.com

[direct email](#)

<mailto:christine.elleboode-zwaans@novartis.com>

[Novartis Internet Site](#)

<http://www.novartis.com>

2.11 Reporting period for information provided

1

Reporting Financial Reporting
 Period 2005, calendar year
 Comment Certain information/data reported in the Corporate Citizenship chapters of the Annual Report or in the GRI framework are internally collected through the financial reporting process (e.g. number of associates, personnel cost and fluctuations).

2

Reporting HSE Reporting
 Period 2005, calendar year
 Comment The HSE performance management system and data collection process are key elements of Corporate Citizenship Management at Novartis. In gathering this data, we take into account impacts originating from our own operations (Scope 1) – as well as major material flows across boundaries and CO2 emissions from purchased energy (Scope 2).

For more detailed information, please see:

[HSE Reporting Process](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/index.shtml

3

Reporting Corporate Citizenship Reporting
 Period 2005, status end of September or covering 10.04-9.05
 Comment In 2005, the internal Corporate Citizenship reporting process was further decentralized and reporting now lies with the functions (Finance, HSE, Human Resources, Supplier management, Compliance and Access-to-medicine programs). This is meant to streamline the reporting process and increase the quality and reliability of the information.

2.12 Date of most recent previous report**1**

Reporting Finance Reporting
 Period 2004
 Document Annual Report 2004

2

Reporting HSE Reporting
 Period 2004
 Document Annual Report 2004

3

Reporting Corporate Citizenship Reporting
 Period 2004, status end of September or covering 10.03-9.04
 Document Annual Report 2004

2.13 Boundaries of report (countries / regions, products / services, divisions / facilities / joint ventures / subsidiaries) and any specific limitations on the scope**1**

Reporting Finance Reporting
 Period 2005
 Comment 1. ACCOUNTING POLICIES
 The Novartis Group (Group or Novartis) consolidated financial statements comply with the International Financial Reporting Standards (IFRS) and interpretations formulated by the International Accounting Standards Board (IASB) and with International Accounting Standards (IAS) and interpretations formulated by its predecessor organization the International Accounting Standards Committee (IASC), as well as with the following significant accounting policies. They are prepared in accordance with the historical cost convention except for items which are required to be accounted for at fair value.

[see Annual Report 2005, p140](#)

http://www.novartis.com/downloads_new/investors/AR05_E.pdf

2

Reporting HSE Reporting
 Period 2005
 Comment HSE performance data for 2005 was collected from 179 sites around the world, owned and managed by Novartis. That coverage includes all sites with relevant HSE impacts, including all production, formulation, research and development sites, as well as major headquarter offices. The number of locations reporting increased last year. The 24 locations reporting for the first time were from Hexal/Eon Labs plus five locations from the Novartis Consumer Health Division.

3

Reporting Corporate Citizenship Reporting
 Period 2005, status end of September or covering 10.04-9.05
 Comment Corporate Citizenship data/information are reported with the same boundaries as Financial Reporting (no data are reported for associated companies, with ownership below 50%).

Additional documents: Novartis Accounting Policies

2.14 Changes in size, structure, ownership, or products / services**1**

Reporting Finance Reporting
 Period 2005
 Comment Acquisitions 2005

Sandoz

On February 21, Novartis announced the signing of definitive agreements to acquire 100% of Hexal AG and a 67.7% stake (65.4% fully diluted) in Eon Labs, Inc. (NASDAQ: ELAB) for a total of EUR 5.65 billion in cash. Both companies are significant manufacturers and distributors of generic pharmaceutical products. The acquisitions substantially increase the Sandoz Division's market presence in a number of key countries and will offer potential synergies with the Division's existing business.

On June 6, Novartis completed the acquisition of Hexal AG for \$5.3 billion in cash. The 2005 results include the consolidated income statement and cash flows of Hexal AG from June 6, 2005 onwards. Provisional goodwill at December 31, 2005, amounted to \$3.6 billion.

On July 20, 2005, Novartis completed the cash tender offer for the outstanding shares of Eon Labs, Inc., not included in the February 21 transaction for \$31.00 per share. The total acquisition cost of Eon Labs amounted to \$2.6 billion. The 2005 results include the consolidated income statement and cash flows of Eon Labs from July 20, 2005 onwards. Provisional goodwill at December 31, 2005 amounted to \$1.7 billion.

Consumer Health

On July 14, 2005, the Novartis OTC Business Unit announced the acquisition, for \$660 million in cash, of a business including the rights to produce and market a portfolio of over-the-counter (OTC) brands that are principally sold in the US from the Bristol-Myers Squibb Company. The 2005 results include the consolidated income statement and cash flows for the North American portion of this acquisition from its completion date of August 31, 2005 onwards and the South American portion of this transaction from September 30, 2005 onwards. The marketing rights in Europe, the Middle East and Africa (EMEA) have been transferred on January 6, 2006 for no additional payment. Provisional goodwill at December 31, 2005 amounted to \$223 million.

In 2005, these acquisitions in total contributed \$1.5 billion in sales and resulted in a \$16 million loss recorded in Group operating income. Pro forma 2005 twelve months sales of these acquired Sandoz and Consumer Health Division businesses amounted to approximately \$2.7 billion. Due to the significant F-17 differences in accounting policies used by the Sandoz and Consumer Health Divisions acquired businesses prior to their acquisition compared to the prospectively adopted Novartis accounting policies it has been impractical to produce 2005 twelve month pro forma operating income information for these acquisitions.

Corporate

On October 31, 2005 Novartis announced that it has entered into a definitive merger agreement with Chiron Corporation to acquire all of the remaining shares of Chiron Corporation that it does not already own for \$45.00 per share. In December 2005, Novartis acquired a further approximately 2% interest for \$300 million leaving approximately 56% still to be acquired. It is anticipated that Chiron's shareholders will approve this transaction in the first half of 2006.

Divestment 2005**Consumer Health**

On November 28, 2005, Novartis announced that it had agreed to sell its Nutrition & Sant'e unit contained in the Medical Nutrition Business Unit for approximately \$260 million to ABN AMRO Capital France. Completion of this transaction, which is subject to regulatory approval, is expected in the first quarter of 2006. This unit, which is not sufficiently material to be presented as a discontinued operation, generated \$295 million of sales and \$21 million of operating income in 2005 and had net assets of \$53 million at December 31, 2005.

2

Reporting HSE Reporting
 Period 2005
 Comment HSE performance data for 2005 was collected from 179 sites around the world, owned and managed by Novartis. That coverage includes all sites with relevant HSE impacts, including all production, formulation, research and development sites, as well as major headquarter offices. The number of locations reporting increased last year. The 24 locations reporting for the first time were from Hexal / Eon Labs and Eon Labs plus five locations from the Novartis Consumer Health Division.

3

Reporting Corporate Citizenship Reporting

2.14 Changes in size, structure, ownership, or products / services pl.

Period	2005, status end of September or covering 10.04-9.05
Comment	There were no changes in the reporting scope. Minor internal adjustments were made to better reflect the operational responsibilities, consistent with financial and HSE reporting.

2.15 Basis for reporting on joint ventures, partially owned subsidiaries, leased facilities, outsourced operations, and other situations that can significantly affect comparability from period to period and/or between reporting organisations**1**

Reporting	Finance Reporting
Period	2005
Comment	The results of the Group's associated companies are adjusted to IFRS in cases where IFRS is not already used. Hexal AG, Eon Labs, Inc. and the acquired over-the counter activities of Bristol-Myers-Squibb Co. have been excluded from the assessment of internal control over financial reporting as of December 31, 2005 because they were acquired by the Novartis Group in business combinations during 2005.

2

Reporting	HSE Reporting
Period	2005
Comment	HSE performance data for 2005 was collected from 179 sites around the world, owned and managed by Novartis. That coverage includes all sites with relevant HSE impacts, including all production, formulation, research and development sites, as well as major headquarter offices. The number of locations reporting increased last year. The 24 locations reporting for the first time were from Hexal/Eon Labs plus five locations from the Novartis Consumer Health Division.

3

Reporting	Corporate Citizenship Reporting
Period	2005, status end of September or covering 10.04-9.05
Comment	Based on the GRI reporting framework. In 2005, the internal Corporate Citizenship reporting process was further decentralized and reporting now lies with the functions (Finance, HSE, Human Resources, Supplier management, Compliance and Access-to-medicine programs). This is meant to streamline the reporting process and increase the quality and reliability of the information.

Additional documents: Associated Companies

2.16 Nature and effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/ acquisitions, change of base years/periods, nature of business, measurement methods)

1

Reporting Finance Reporting
 Period 2005
 Comment no major restatements.
 see also 2.15.1

2

Reporting HSE Reporting
 Period 2005
 Comment The emission and resource data published in the 2004 Annual Report included estimates for the October through December period that in several areas required subsequent adjustments. Inaccuracies identified in data from previous years were also corrected. The Data Table in the 2005 Annual Report includes full year actual values for 2004.

In 2005, targets were set for occupational accidents as well as energy efficiency, demonstrating our focus on these areas.

Both targets were successfully met. Novartis improved its energy efficiency by 5%. The lost time accident rate decreased to 0.44 last year, from 0.48 in 2004.

For more detailed information, please see:
[HSE Reporting Process](http://www.novartis.com/corporate_citizenship/en/hse/performance/index.shtml)
http://www.novartis.com/corporate_citizenship/en/hse/performance/index.shtml

3

Reporting Corporate Citizenship Reporting
 Period 2005, status end of September or covering 10.04-9.05
 Comment There is still room for further improvement in the quality of the data (e.g. definitions not fully standardized, possible local misinterpretations not identified). We estimate that the data is at least 90% accurate (which is sufficient for our internal management assessments, but do not reach the accuracy of HSE or Financial reporting).

No major errors were detected in the 2004 internal data reporting.

Profile of the report

This GRI category includes decisions regarding the reporting framework, definitions, policies, significant changes and means to obtain additional information.

The category is organized into different aspects according to GRI methodology.

2.17 Decisions not to apply GRI principles or protocols in the preparation of the report

1

We report according to GRI guidelines on the Internet.

Our printed Annual Report follows a free format we consider optimal for our shareholders; it refers to the GRI report on the Internet for those who prefer the GRI format.

2.18 Criteria and definitions used in accounting for economic, environmental, and social costs and benefits

1

see
www.globalreporting.org
<http://www.globalreporting.org/about/brief.asp>

2.19 Significant changes from previous years in the measurement methods applied to key economic, environmental, and social information

1

Reporting	HSE Reporting
Period	2005
Comment	As of 2005, Novartis reports its Greenhouse Gas (GHG) emissions in accordance with the WRI/WBCSD Greenhouse Gas Protocol. The reporting structure includes Scope 1 CO2 emissions from stationary combustion installations and from production processes, Scope 1 CO2 emissions from company-owned / leased vehicles, Scope 2 CO2 emissions from purchased energy sources and additional required indicators. Due to construction work currently being undertaken at several Novartis sites, the generation of debris from construction and demolition activities are now reported separately from operational waste.

2.20 Policies and internal practices to enhance and provide assurance about the accuracy, completeness, and reliability that can be placed on the sustainability report

1

Internal Auditing

Internal audits are performed on HSE performance -- as well as on implementation processes for the Code of Conduct and Corporate Citizenship Policy and related Guidelines.

We also audit compliance with our promotional practices policies in all sales and marketing audits.

2.21 Policy and current practice with regard to providing independent assurance for the full report

1

PriceWaterhouseCoopers AG provides an independent assurance report on Group Corporate Citizenship Reporting and internal reporting processes, data and key figures for Corporate Citizenship and HSE.

Additional documents: Independent Assurance Report on CC Reporting

2.22 How to obtain additional information and reports about economic, environmental, and social aspects of the organisation's activities, including facility-specific information (if available)

1

Local site reports are published for the following major Novartis production sites: Basel, Switzerland; Grimsby, UK; Kundl, Austria.

3 Governance Structure and Management Systems

This GRI section provides an overview of the governance structure, overarching policies, and management systems in place to implement our vision for sustainable development and to manage our performance.

The section is organized into different categories according to GRI methodology.

Structure and Governance

This GRI category describes our governance structure.

The category is organized into different aspects according to GRI methodology.

3.1 Governance structure

This GRI aspect provides information on our governance structure, including major committees.

3.1.1 Governance structure of the organisation

1

Novartis is committed to high standards of corporate governance.

The following standards apply to us:

- The Directive on Information Relating to Corporate Governance issued by the SWX Swiss Exchange, which entered into force on July 1, 2002;
- The Swiss Code of Best Practices for Corporate Governance;
- The securities laws of the United States of America as the same apply to foreign issuers of securities listed on major US stock exchanges: and
- The Rules of the New York Stock Exchange (NYSE).

We fully comply with each of these standards except that, as permitted under US law and the rules of the NYSE, Novartis continues to apply Swiss (home country) practices in the following areas:

- Swiss law requires that the external auditors of Novartis be appointed by the shareholders at the General Assembly and not by the Audit and Compliance Committee, as required in the US; and
- Equity compensation plans are not approved at the General Assembly but are promulgated by the compensation committee, or the management committee of the local Novartis Group company.

All such plans are established within the policies and programs approved by the Compensation Committee of the Board of Directors of Novartis AG.

In accordance with Swiss law, Board Committees do not report to the shareholders directly (we issue no proxy statement reports) but submit all their reports to the Board of Directors.

We have incorporated the above standards – and the principles of corporate governance under the Swiss Code of Obligations – into our Articles of Incorporation, the Regulations of the Board and the Charters of the Board Committees. The Board's Corporate Governance Committee reviews these standards and principles regularly in the light of prevailing best practices and forwards suggestions for improvement to the full Board for approval.

The Board holds the ultimate decision-making authority of Novartis AG for all matters except those reserved by law to the shareholders.

The primary functions of the Board are:

- Provide the strategic direction of Novartis;
- Determine the organizational structure and the manner of governance of the company;
- Supervise overall business operations;
- Approve major acquisitions or divestments;
- Structure the accounting system, setting financial targets and financial planning;
- Appoint and dismiss members of the Executive Committee of Novartis (ECN) and other key executives;
- Promulgate fundamental corporate policies -- in particular on financial matters, corporate governance and corporate citizenship, personnel or environmental matters -- and oversee compliance therewith;
- Prepare the matters to be presented at the General Meeting, including the Novartis AG financial statements and the Group's consolidated financial statements.

The agenda for Board meetings is set by the Chairman. Any Board Member may request that an item be included on the agenda. Board Members are provided, in advance of Board meetings, with adequate materials to prepare for the items on the agenda. Decisions are taken by the Board as a whole, with the support of its four Committees described below (Chairman's Committee, Compensation Committee, Audit and Compliance Committee and Corporate Governance Committee).

The Board has not concluded any contracts with third parties for the management of the Company but has delegated to the Executive Committee the coordination of day-to-day business operations of Group companies. The Executive Committee is headed by the Chief Executive Officer. The internal organizational structure and the definition of the areas of responsibility of the Board and the Executive Committee are set forth in the Board Regulations.

The Board recognizes the importance of being fully informed on material matters involving the Group and ensures that it has sufficient information to make appropriate decisions through several means:

- Members of management attend Board meetings, by invitation, to report on areas of the business within their responsibility;
- Board Committees, in particular the Audit and Compliance Committee, regularly meet with management and outside consultants, including the Group's external auditors, to review the business, better understand all laws and policies impacting the Group and support the management in meeting the requirements and expectations of stakeholders;
- Informal teleconferences between Directors and the Chairman and CEO, or the Lead Director, as well as regular distribution of important information to the Directors.

3.1.1 Governance structure of the organisation

pl.

Once yearly, the Board reviews the performance of the Chairman and CEO and approves his business objectives for the following year. The Board of Directors also performs a self-evaluation once a year.

(Copies of the aforementioned regulations and references to further information relating to Corporate Governance can be ordered in print from Novartis AG, attn. Corporate Secretary, Bruno Heynen, CH-4056 Basel, Switzerland.

Further information on Corporate Governance can be found in the 2005 Novartis Annual Report or by visiting:

<http://www.novartis.com/investors/en/governance.>)

[Link to: Governance Structure](#)

http://www.novartis.com/about_novartis/en/leadership_governance.shtml

3.1.2 Major committees

1

Committee	The Chairman's Committee
Scope of responsibility	The Chairman's Committee consists of the Chairman and Chief Executive Officer, the two Vice Chairmen, one of whom is the Lead Director, and such other members as are elected by the Board from time to time. In 2005, the Committee met eleven times.

The Chairman's Committee reviews selected matters falling within the authority of the Board before the latter takes decisions on such matters and, in urgent cases, can take preliminary and necessary actions on behalf of the Board. The Chairman's Committee also interfaces with the Executive Committee, specifically deciding on financial investments and other matters delegated to the Committee by the Board of Directors.

2

Committee	The Compensation Committee
Scope of responsibility	The Compensation Committee is composed of three independent Directors. In 2005, it convened three times. The Compensation Committee reviews the compensation policies and programs of the Group, including share option programs and other incentive-based compensation before the full Board makes final decisions. It is responsible for reviewing and approving the compensation paid to members of the Executive Committee and other selected key executives, and for reviewing the performance of the Chairman and Chief Executive Officer. The Compensation Committee seeks outside expert advice from time to time to support its decisions and recommendations.

3

Committee	The Audit and Compliance Committee
Scope of responsibility	The Audit and Compliance Committee is composed of four members and met nine times during 2005. The Board has determined that all the members of the Committee are independent as defined by the rules of the New York Stock Exchange, as well as by the independence criteria of Novartis (see appendix to the Regulations of the Board and Committee Charters), and that its chair, Prof. Helmut Sihler, J.D., Ph.D. is adequately qualified in financial management matters. The Audit and Compliance Committee has determined that Prof. Ulrich Lehner, Ph.D., and Hans-Joerg Rudloff possess the required accounting and financial management expertise required under the rules of the NYSE. Therefore the Board of Directors has appointed them as the Audit and Compliance Committee's Financial Experts. The Board has also reassured itself that other members of the Committee have sufficient experience and ability in finance and matters of compliance to enable them to adequately discharge their responsibilities.

The Committee's main duties are:

- Evaluate and select the external auditors to be nominated for election at the Annual General Meeting;
- Review the terms of engagement of the external auditors and the scope of the external audit;
- Discuss with the external auditors the results of their audits;
- Review the scope of internal auditing and the adequacy of the organizational structure and qualifications of the internal auditing staff;
- Review with external auditors, internal auditors and the financial and accounting management of Novartis whether the accounting policies and financial controls are appropriate, adequate and effective;
- Meet with management and the external auditors to review the financial statements and Annual Report;
- Review internal control processes and procedures, including those for the management of business risk;
- Review all relationships between Group companies and external auditors;
- Review the processes and procedures for ensuring compliance with laws and internal regulations (such as the Novartis Code of Conduct);
- Oversee the commitments of Novartis as a subscriber to the United Nations Global Compact initiative.

4

Committee	The Corporate Governance and Nomination Committee
Scope of responsibility	The Corporate Governance Committee is composed of four independent Directors and met three times in 2005. The Corporate Governance Committee develops corporate-governance principles and recommends these to the Board for approval. Its duties include the regular review of the Articles of Incorporation with a view to reinforcing shareholder rights, and of the composition and size of the Board and its committees. The Corporate Governance and Nomination Committee conducts an annual evaluation of the Board as a whole and gives guidance to the Directors on how to avoid potential conflicts of interest.

The Corporate Governance and Nomination Committee also proposes to the Board of Directors individuals who are qualified to become (or be re-elected) Board members.

[Board Regulations and Board Committee Charters](http://www.novartis.com/investors/en/governance.shtml)

<http://www.novartis.com/investors/en/governance.shtml>

3.2 Percentage of the board of directors that are independent, non-executive directors

1

The Board of Directors has promulgated independence criteria for its members. These criteria are appended to the Regulations of the Board and can be found on the Internet at: http://www.novartis.com/investors/en/corporate_governance.

Pursuant to these criteria, the Board has determined that all of its members, save for Dr. Vasella and Mr. Jetzer, are independent and have no material dealings with Novartis AG or other companies of the Novartis Group outside their role as a Director.

Dr. Vasella is the only Executive Director. Mr. Jetzer was a member of the Executive Committee until 1999 and continues to support the Government Relations activities of the Group under a consultancy agreement. With effect from March 1, 2006 Professor Datar will be considered an independent director given the expiration or the three-year look-back period on compensation other than Board fees paid by an issuer to its directors, as per the NYSE rules.

In 2002, Novartis made a gift to Harvard Business School of USD 5 million. This amount established and endowed a professorship in the name of Novartis at Harvard Business School. The Board of Directors concluded that this endowment, which under the rules of the New York Stock Exchange must be reported, does not have any influence on the independence of either Professor Datar or Mr. William W. George who became a member of the faculty of Harvard Business School in 2004.

Prof. Zinkernagel has been delegated to the Scientific Advisory Board of the Novartis Institute for Tropical Diseases (NITD). He is also a delegate to the Board of Directors of the Genomics Institute of the Novartis Research Foundation (GNF).

Novartis on a regular basis and in the ordinary course conducts business with Barclays Capital, of which Hans-Joerg Rudloff is presently Chairman of the Executive Committee. The Board of Directors concluded that pursuant to its independence criteria this does not have any influence on the independence of Hans-Joerg Rudloff.

No Director is a member of a board of directors of a listed company with which any Novartis Group company conducts a material amount of business.

Additional documents: Independence Criteria for the Board

3.3 Process for determining the expertise board members need to guide the strategic direction of the organisation, including issues related to environmental and social risks and opportunities

1

The Audit and Compliance Committee has determined that Prof. Ulrich Lehner, Ph.D., and Hans-Joerg Rudloff possess the required accounting and financial management expertise required under the rules of the NYSE. Therefore the Board of Directors has appointed them as the Audit and Compliance Committee's Financial Experts.

Other members of the Committee also have sufficient experience and ability in finance and matters of compliance to enable them to adequately discharge their responsibilities.

3.4 Board-level processes for overseeing the organisation's identification and management of economic, environmental and social risks and opportunities

1

The Novartis Board of Directors holds the ultimate decision-making authority for Novartis AG in all matters except those reserved by law (SCO, Art. 698) to the shareholders. The agenda for Board meetings is set by the Chairman. Any Board Member may request a Board meeting or that an item be included in the agenda. Decisions are taken by the Board as a whole, with the support of its four Committees described below (Chairman's Committee, Compensation Committee, Audit and Compliance Committee and Corporate Governance Committee).

The primary functions of the Board are:

- Provide the strategic direction of Novartis
- Determination of the organizational structure and the manner of governance of the company;
- Overall supervision of business operations;
- Approval of major acquisitions or divestments;
- Structuring the accounting system, setting financial targets and financial planning;
- Appointing and dismissing members of the Executive Committee and other key executives;
- Promulgation of fundamental corporate policies, in particular on financial matters, corporate governance and citizenship, personnel or environmental matters; and overseeing compliance therewith;
- Preparation of the matters to be presented at the General Meeting, including the Novartis AG financial statements and the Group's consolidated financial statements.

3.5 Linkage between executive compensation and achievement of financial and non-financial goals

1

Compensation programs at Novartis are designed to attract, retain and motivate the high caliber executives, managers and associates who are critical to the success of the corporation. Globalization of labor markets for executives and specialists has led to a rapid convergence between US and European principles of compensation, and a stronger focus on long-term, equity-based programs.

Overall, the intention of the programs is to provide compensation opportunities that:

- Are comparable to those provided by a selected group of industry-specific competitors;
- Support a performance oriented culture that allows high performers to achieve superior rewards; and
- Align executives, management and associates to create sustainable shareholder value.

Total individual compensation at target performance level is aimed at the median of comparable companies of our industries. Annual cash and equity incentive awards are based on both overall Group or affiliate company performance, and individual performance. Long-term incentive awards include share options and other forms of equity participation.

Executive compensation programs strongly encourage significant levels of share ownership and put a high portion of total compensation at risk, subject to individual and company performance and the appreciation of Novartis shareholder value. In addition, to further strengthen the Company's ownership philosophy, the Board of Directors established in 2003 share ownership guidelines under which the Executives are required to own a multiple of their base salary in Novartis shares.

3.6 Responsibility for Policies

This GRI aspect provides information on our organisational structure and key individuals responsible for oversight, implementation, and audit of economic, environmental, social, and related policies.

3.6.1 Organisational structure for oversight, implementation and audit of economic, environmental, social, and related policies

1

At Novartis, Corporate Citizenship is firmly anchored at the Board level. The Audit and Compliance Committee is responsible for auditing of policies. The CEO, the division heads and the head of legal and general affairs are responsible for implementation.

The Audit and Compliance Committee has overall responsibility for establishing internal policies, including the Code of Conduct and Corporate Citizenship Policy. The Executive Committee of Novartis (ECN) is responsible for the implementation and has established the Corporate Citizenship Steering Committee to lead the process.

The Corporate Citizenship Steering Committee is chaired by a member of the Executive Committee Novartis (Urs Baerlocher, J.D., Head of Legal and General Affairs), while members are the heads of key corporate functions (Human Resources, Public Affairs, Communication, HSE) and each business is represented by one management-team member.

[Novartis Management Team](#)

http://www.novartis.com/about_novartis/en/structure.shtml

2

The Corporate Citizenship Steering Committee is chaired by a member of the Executive Committee Novartis (Urs Baerlocher, J.D., Head of Legal and General Affairs), while members are the heads of key corporate functions (Human Resources, Public Affairs, Communication, HSE) and each business is represented by one management-team member.

3

Annual review meetings are held in November with each business to review the progress in Corporate Citizenship, Code of Conduct and HSE aspects of the business. Gaps and issues are assessed and targets and actions for the following year are set.

The review meetings are led by the head of the business and the chair of the Corporate Citizenship Steering Committee.

4

Novartis is determined to apply high ethical standards of business conduct, while remaining competitive in the marketplace. A comprehensive set of policies and guidelines has been incorporated as an integral part of Group management procedures, and is supported by global training and compliance programs. Our Corporate Citizenship Policy, Code of Conduct and commitment to the 10 principles of the United Nations Global Compact must be lived day-to-day by all associates.

3.6.2 Key individuals responsible for oversight, implementation and audit of economic, environmental, social and related policies

Nr.	Name	Policy	Responsible for
1	Prof. Helmut Sihler		Chair
2	Dr. h.c. Birgit Breuel		Oversight
3	Prof. Srikant Datar		Oversight
4	Hans-Jörg Rudloff		Oversight
5	Prof. Ulrich Lehner		Oversight
6	Daniel Vasella		Implementation
7	Thomas Ebeling		Implementation
8	Paul Choffat		Implementation
9	Urs Baerlocher		Implementation
10	Andreas Rummelt		Implementation

[Novartis Management Team](#)

http://www.novartis.com/about_novartis/en/structure.shtml

3.7 Statements and principles

This GRI aspect provides mission and values statements, internally developed codes of conduct or principles, and policies relevant to economic, environmental, and social performance and the status of implementation.

3.7.1 Mission and values statements relevant to economic, environmental, social performance

1

Purpose

We want to discover, develop and successfully market innovative products to cure diseases, to ease suffering, and to enhance the quality of life. We also want to provide a shareholder return that reflects outstanding performance and to adequately reward those who invest ideas and work in our company.

Aspirations

We want to be recognized for having a positive impact on people's lives with our products, meeting needs and even surpassing external expectations. We strive to create sustainable earnings growth, ranking in the top quartile of the industry and securing long-term business success. We want to build a reputation for an exciting place to work where people can realize their professional ambitions. We strive for a motivating environment where creativity and performance are encouraged and where cutting-edge technologies are applied. In addition, we want to contribute to society through our economic success, through the positive environmental and social benefits of our products, and through open dialogue with our stakeholders.

[see Novartis internet](#)

http://www.novartis.com/about_novartis/en/our_mission.shtml

[Corporate Citizenship](#)

http://www.novartis.com/corporate_citizenship/en/index.shtml

3.7.2 Internally developed codes of conduct or principles relevant to economic, environmental, social performance**1**

Novartis Code of Conduct

Novartis adopted its first global Code of Conduct in 1999. An amendment was later added, reflecting the Group's commitment to the United Nations Global Compact, and in 2001 a revised version of the Code of Conduct was distributed to all employees worldwide.

Compliance with the Code of Conduct is included in the terms of employment of all Novartis employees and is closely monitored. A worldwide network of Compliance Officers advises on compliance problems, deals with complaints, and handles any issues that arise locally. Annual reports from Compliance Officers are consolidated by the Group Compliance Officer into a yearly Compliance Report submitted to the Audit and Compliance Committee of the Board.

[Novartis Code of Conduct](http://www.novartis.com/corporate_citizenship/en/02_2003_code_of_conduct.shtml)

http://www.novartis.com/corporate_citizenship/en/02_2003_code_of_conduct.shtml

2

From April to December 2005, Novartis received report of 442 alleged violations of our internal rules, such as the Code of Conduct and Marketing Codes. Of these cases, 228 have been investigated and closed, resulting in 142 cases being fully or partly substantiated. Employment contracts of 78 associates were discounted and other relevant sanctions were taken against 64 employees.

Novartis intends to continue to publish annual data on misconduct and sanctions in the future.

The most recent data confirm our intention to further strengthen our training initiatives in key areas, especially compliance with our marketing codes. The data on sanctions show that we take compliance seriously.

A new Business Practices Office (BPO) was established during 2005 to facilitate reporting by employees of actual or suspected cases of internal misconduct. All employees are requested to report suspected misconduct to the BPO, which in turn ensures that all complaints are properly investigated, enabling management to take appropriate actions.

The Business Practices Officer reports monthly to senior management on allegations of misconduct received, sanctions applied and lessons learned. All cases of financial fraud, however, are reported to a committee led by the Chairman and Chief Executive Officer on a monthly basis.

The identities of Novartis employees are fully protected both when they make a report and during any subsequent investigation. Novartis has a strict policy guaranteeing non-retaliation against associates who makes reports under the "whistleblower" policy - and violations of this right are not tolerated.

During 2006, a global network of telephone help lines will be rolled out to allow all associates to report incidents of misconduct locally, in their native language, on a confidential basis.

3.7.3 Policies relevant to economic, environmental, social performance

1

Policy

Novartis Policy on Corporate Citizenship

Status of Implementation

Globally implemented

Covered Regions

Global

Covered Departments / Units

all

[Novartis Policy on Corporate Citizenship](#)

http://www.novartis.com/corporate_citizenship/en/02_2003_policy_on_corporate_citizenship.shtml

2

Policy

Corporate Citizenship Guidelines

Status of Implementation

Globally implemented

Covered Regions

Global

Covered Departments / Units

all

[Novartis Corporate Citizenship Guidelines](#)

http://www.novartis.com/corporate_citizenship/en/guidelines.shtml

3

Policy

Novartis Corporate Citizenship Guidelines

Status of Implementation

• Guideline 1: Management of Corporate Citizenship

This guideline defines responsibilities, management process and mechanisms for conflict resolution and complaints ("whistle-blowing"). It is very important that discrepancies between financial performance objectives and Corporate Citizenship goals are openly discussed. It is also essential that employees are able to raise issues with senior management without fear of reprisal.

• Guideline 2: Fair Working Conditions

This guideline focuses on the well-being of our employees. It explains our policies on paying a living wage, maintaining reasonable working hours, avoiding forced and child labor, prohibiting discrimination and respecting our employees' freedom of association.

• Guideline 3: Bribery, Gifts and Entertainment

This guideline deals with business ethics. Specifically, it defines a minimum standard of fair marketing practices that we enforce in markets around the world. Marketing practices vary from country to country. In the US the pharmaceutical industry has formulated a strict code of behavior, whereas in other countries the rules of fair marketing are less precisely defined. This guideline prohibits bribery and excessive marketing expenses and to facilitate enforcement also stipulates that no "informal" payments can take place. The guideline also mandates that gifts and entertainment for physicians should not be lavish and should primarily have an educational content, or a strong focus on patients.

• Guideline 4: Human Rights

This guideline addresses the difficulties of dealing with governments and officials who may be violating human rights in some countries. This guideline makes it our policy to provide support for, and to protect, internationally accepted human rights. The guideline also instructs our local managers to take an active interest in the affairs of the country and to maintain a good dialogue with the relevant stakeholders.

• Guideline 5: Third-party management

This guideline extends the societal and environmental values adopted by Novartis under its commitment to the Global Compact. The guideline states that commitments to Corporate Citizenship of existing and prospective third-party suppliers and contractors must be assessed and constitutes an important factor -- along with price and quality -- in the choice of a supplier.

Covered Regions

Global

3.7.3 Policies relevant to economic, environmental, social performance**pl.****Covered Departments / Units**

All

4

Policy**Pharma Promotional Practices Policy**

The primary objective of the Novartis Pharma Promotional Practices Policy (NP4) is to strive for a consistently high standard in marketing, sales and communication throughout the Novartis Group, thereby securing both the image and credibility of Novartis in worldwide health care and the optimal use of its products and services. This will ensure that Novartis Country Pharma Organisations (CPOs) communicate accurate information about Novartis products in an ethical and balanced manner to health-care professionals worldwide and to the general public. The policy and guidelines delineated in NP4 reflect the position of Novartis Pharma AG and its CPOs on all aspects of promotion connected to the marketing of Novartis pharmaceutical products.

NP4 is based on:

- the IFPMA Code of Pharmaceutical Marketing Practices (1994 Edition)
- the EFPIA European Code of Practice for the Promotion of Medicines (2004 Edition)
- the PhRMA Code on Interaction with Healthcare Professionals (July 2002 Edition)

Novartis Pharma will adhere to the principles of these codes and guidelines, as well as to national and international regulations. NP4 is intended to supplement all national and international legislation and industry codes.

Status of Implementation

In 2003, our Pharmaceuticals Division implemented its own marketing code to ensure consistently high ethical standards in promotional practices throughout the world. The code supplements national and international legislation, as well as industry codes. Its ten main principles, which are also being applied in the Consumer Health Division and Sandoz Generics, have been complemented by business-specific provisions in all of its business units in 2005.

In order to secure adherence to this code, marketing, sales and management personnel are being trained in workshops with the help of presentations and case studies. Review committees are in place in a country organization to ensure promotional activities are in line with NP4. Regular self-assessments are carried out. In 2005, various on-site internal audits were conducted in different countries. Violations of the code in 2005 resulted in the dismissal of several associates. Further training and on-site audits are scheduled.

Covered Regions

global

Covered Departments / Units

all businesses; the other divisions have their own policies, adapted for their business from the Pharma policy

3.8 Mechanisms for shareholders to provide recommendations or direction to the board of directors

1

Shareholders' Rights

Each registered share entitles the holder to one vote at the General Meeting. There are no preferential voting shares. Shareholders also have the right to receive dividends, appoint a proxy, convene a General Meeting, place items on the agenda of an Annual General Meeting and hold such other rights as defined in the Swiss Code of Obligations (SCO). One or more shareholders whose combined shareholdings represent an aggregate nominal value of at least CHF 1 000 000 may demand that an item be included in the agenda of an Annual General Meeting. Such a demand must be made in writing at the latest 45 days before the meeting and shall specify the items and the proposal of such a shareholder.

Legitimization as Shareholder

Persons enrolled in the Novartis share register may exercise the membership rights of registered shares. Registration requires a declaration that the shareholder has acquired the shares in his own name and for his own account.

According to the Articles of Incorporation, no shareholder shall be registered to vote more than 2% of the issued share capital unless the Board has upon request granted an exemption. So far, such a request has never been denied. The Board may register nominees with the right to vote up to 0.5% of the issued share capital, and in excess of that limit if such nominees disclose particulars of the beneficial owners of these shares. Groupings formed to circumvent this limitation are treated as one single person or nominee. The statutory voting restrictions can be cancelled with a two-thirds majority of the shares represented at the General Meeting.

Resolutions and Elections at General Meetings

Shareholders registered at least 20 days prior to the General Meeting may vote their shares at the meeting. Resolutions of the shareholders at General Meetings are approved with a simple majority of the shares represented at the meeting, except in the following matters which by law (SCO, Art. 704) and our Articles of Incorporation require the approval of two-thirds of all represented shares:

- Alteration of the purpose of Novartis AG
- Creation of shares with increased voting powers
- Implementation or removal of restrictions regarding the transferability of shares
- Authorized or conditional increase of the share capital
- Increase of the share capital from equity or a contribution in kind, for the purpose of an acquisition of property and the grant of special rights
- Restriction or suspension of rights of option to subscribe
- Change in location of the registered office of Novartis AG
- Dissolution of Novartis AG without liquidation

The Company has not adopted any decisions that differ from the rules applicable to it under the Swiss Stock Exchange Act (no opting-up or opting-out).

Stakeholder Engagement

This GRI category describes our approach to stakeholder engagements and the results gained.

The category is organized into different aspects according to GRI methodology.

3.9 Basis for identification and selection of major stakeholders**1**

We care about the expectations and concerns of our stakeholders. We recognize the interest of our shareholders, employees, customers, neighbors, the authorities, and the public at large in our societal behavior -- and the health, safety and environmental impacts of our business.

Novartis has identified the following key stakeholders: employees; patients; health-care professionals; governments and other health-care providers; regulatory authorities; international agencies and organizations; shareholders and other investors; business partners, customers, creditors and suppliers; media; academia; NGOs and society at large. Some stakeholder groups are managed more systematically than others, given their direct and identifiable influence on the business. We seek a dialogue with all stakeholders.

3.10 Approaches to stakeholder consultation reported in terms of frequency of consultations by type and by stakeholder group**1**

Authorities, shareholders, financial markets, patient groups, NGOs, academia, think tanks, Public-Private Partnerships, associates, customers, suppliers, healthcare professionals.

We seek to maintain an active dialogue with these stakeholder groups through community panels, focus groups and collaborations with patient advocacy organizations.

3.11 Key issues and concerns raised by stakeholders and Indicators specifically developed as a result of stakeholder consultations**1**

Access to medicine, conditions for innovation, business ethics including marketing practices, Corporate Governance, fair working conditions, human rights, 3rd party performance, product safety, clinical trials

3.12 Use of information resulting from stakeholder engagements**1**

Consultation and cooperation with patient advocacy groups resulted in the creation of patient assistance programs that provide Gleevec/Glivec free of charge to more than 15,000 people who otherwise would not have had access to the drug to treat their life-threatening disease.

We also offer discounts and support programs to patients without medical insurance or other financial resources in industrialized countries.

2

In line with our commitment to the UN's Global Compact, Novartis has issued a global Corporate Citizenship Policy with related guidelines. In addition, a set of principles governing promotional practices has been established to ensure consistently high standards in marketing, sales and communication throughout the Novartis Group.

3

Our commitment to patients in need, particularly poor patients in the developing world, has led to novel partnerships with the World Health Organization -- and close cooperation with stakeholders such as the Roll Back Malaria Partnership and the Global Fund to Fight AIDS, Tuberculosis and Malaria. Through these partnerships, we provide medicines at cost, or sometimes free, for public sector treatment of patients afflicted by leprosy, malaria and tuberculosis.

Creation of the Novartis Institute for Tropical Diseases (NITD) -- with the support of Singapore's Economic Development Board (EDB) -- is bringing the revolution in biomedical science and technology to bear on diseases of the developing world. Initial targets for the NITD are drug-resistant TB and dengue fever. Medicines discovered at NITD will be made available on a nonprofit basis to patients in those countries where the drugs are most needed.

Overarching Policies and Management Systems

This GRI category describes our overarching policies and management systems.

The category is organized into different aspects according to GRI methodology.

3.13 Explanation of whether and how the precautionary approach or principle is addressed by the organisation**1**

As described in our Corporate Citizenship Policy, we take a precautionary approach in the discovery and development of new products and technologies. To this end we follow a step-by-step approach, engaging in scientific peer review and considering benefits and risks of innovation in a scientific and transparent manner.

Link:

[Policy on Corporate Citizenship](#)

4 Policy on Corporate Citizenship.pdf

2

As a global leader in health care, Novartis recognizes the importance of the Precautionary Principle. The company applies the precautionary approach wherever a significant threshold of plausibility for a potential risk is reached, and when science does not give a clear-cut answer about a potential risk. When an activity or a product, poses a threat of serious or irreversible damage to the environment, precautionary measures are considered even if cause-effect relationships are not yet fully established scientifically.

At the same time, however, the precautionary approach needs to remain science-based in order to ensure continued innovation. Novartis intends to participate actively in discussions under auspices of the European Union, World Trade Organization, United Nations and other international organizations that aim to develop a consensus on the application of the precautionary approach.

[Novartis Precautionary Principle](#)

<http://www.globalreportingtools.com/Novartis/Docs/Precautionary%20principle%20Novartis%20position%2002.pdf>

3

Research and Development is heavily regulated by authorities globally and provides an excellent example of a stepwise approach to assess benefits and risks.

Additionally, Novartis has established its own controls, such as the Ethics Committee.

[Novartis Ethics Committee](#)

http://www.novartis.com/about_novartis/en/ethics_committee.shtml

3.14 Charters**1**

Novartis endorses the UN Global Compact and the IFPMA Marketing Practices Code. The Group's internal HSE management conforms with ISO 14001 and certain operations are certified according to ISO standards.

3.15 Principal memberships in industry and business associations, and/or national/international advocacy organisations

1

Pharmaceutical Industry Associations

Novartis is a member of national pharmaceutical-industry associations in countries or regions where the company has operations, notably:

- Switzerland where the national association is InterPharm
- the US where national organizations are PhRMA and GPhA
- the European Union where regional organizations are EFPIA and EuropaBio

Novartis is a member of various Sustainability Industry associations, including the World Business Council for Sustainable Development (WBCSD), Business for Social Responsibility (BSR) and GEMI.

2

IFPMA

International Federation of Pharmaceutical Manufacturers & Associations

On October 27, 2004, the International Federation of Pharmaceutical Manufacturers & Associations (IFPMA) elected Daniel Vasella as President of the trade association for a two-year term. Dr. Vasella succeeds Raymond Gilmartin, formerly Chairman, President and Chief Executive Officer at Merck and Co.

In 2005, in his capacity as President of the IFPMA, Dr Vasella spearheaded the creation of a public registry for clinical studies involving human patients. This clinical trials portal - accessible from the IFPMA website - offers information concerning more than 250 000 clinical trials worldwide.

This endeavor reflects our belief that all trial results must be published – whether they are favorable or not – as there are important public health benefits associated with making clinical trial information more widely available to healthcare practitioners and patients.

Further, in an effort to quantify the contribution made by the overall pharmaceutical industry to sustainable development, along with other pharmaceutical companies, Novartis participated in a survey spearheaded by the IFPMA. The results, unveiled in December 2005, show that, since the United Nations proclaimed their Millennium Development Goals in 2000, the industry has created 126 health partnerships that have made available medicines, vaccines, equipment, health education and manpower worth USD 4.38 billion, providing more than 540 million treatments to patients.

The IFPMA is a non-profit, non-governmental organization (NGO) representing national industry associations and companies from both developed and developing countries. Member companies of the IFPMA are research-based pharmaceutical and vaccine companies.

3.16 Policies and/or systems for managing upstream and downstream impacts

1

3rd party management: Corporate Citizenship Guideline 5

[Guideline 5 on 3rd party management](http://www.globalreportingtools.com/Novartis/Docs/CC%20GL5%203rd%20Party%20Management%20E.pdf)

<http://www.globalreportingtools.com/Novartis/Docs/CC%20GL5%203rd%20Party%20Management%20E.pdf>

[Novartis Third Party Compliance internet page](http://www.novartis.com/corporate_citizenship/en/third_party_compliance.shtml)

http://www.novartis.com/corporate_citizenship/en/third_party_compliance.shtml

3.17 Reporting organisation's approach to managing indirect economic, environmental, and social impacts resulting from its activities

1

We strive to manage the indirect economic, environmental and social impacts of our activities.

On the economic level, we are fully committed to good corporate governance and have established world-class systems to ensure best practices prevail and governance risks are avoided. We strive for transparency and ethical business conduct throughout our operations. Moreover, we seek and maintain an active dialogue with stakeholder groups through community panels, focus groups and collaborations with patient advocacy organizations.

On the environmental level, we strive to reduce negative impacts on resource use, air, water and soil. Eco-efficiency, "doing more with less" (both in terms of resource use and impact), helps us to minimize our environmental impacts. We benchmark and define the areas where we can have the biggest positive impact, and this further guides us in setting priorities. We follow systematic HSE management processes, including publishing targets.

On the social level, we have developed semi-quantitative materiality assessments in order to identify a number of key challenges and opportunities. These are integrated into global management processes with priority and targets. We publish results annually in our annual report.

[Corporate citizenship related projects and targets](http://www.novartis.com/downloads/2006_01_results_targets.pdf)

http://www.novartis.com/downloads/2006_01_results_targets.pdf

3.18 Major decisions during the reporting period regarding the location of, or changes in, operations

1

No major changes took place during 2005.

3.19 Programmes and procedures pertaining to economic, environmental, and social performance

1

see 1.1.6

3.20 Status of certification pertaining to economic, environmental, and social management systems

1

Name Assurance of Corporate Citizenship chapters of the Annual Report by PriceWaterhouseCoopers

2

Name Many Novartis sites are certified to international standards.

- The Ciba Vision business unit has one ISO 18001 certified site and one OSHA certified site, with a further application pending.
- NIBR and the Animal Health business unit have one ISO 14001 certified site each.
- The Sandoz division has one ISO 18001 certified site, ten ISO 14001 certified sites, with a further application pending, and three EMAS certified sites.
- The Pharma division has six ISO 18001 certified sites, eleven ISO 14001 certified sites and two EMAS certified sites.

5 Performance Indicators

This section lists the core performance indicators for GRI-based reports. The performance indicators are grouped under four categories covering the economic, environmental, and social dimensions of sustainability. A fourth category lists integrated performance indicators.

The section is organized into different categories according to GRI methodology.

Integrated Indicators

This GRI category lists integrated performance indicators. Integrated performance indicators combine aspects of economic, environmental and/or social performance.

5.1.1 Systemic indicators

1

In 2005, exports from Switzerland by Novartis reached CHF 19.5 billion -- almost 13% of Switzerland's total exports of goods and services that year.

Systemic indicators relate the activity of an organisation to the larger economic, environmental, and social systems of which it is a part. For example, an organisation could describe its performance relative to an overall system or a benchmark, such as a percentage of the total workplace accidents found in the sector within a given country. Similarly, an organisation could present its net job creation as a proportion of the total number of jobs created in a region.

5.1.2 Cross-cutting indicators

1

No systematic data compiled to date.

Cross-cutting indicators directly relate two or more dimensions of economic, environmental, and social performance as a ratio. Eco-efficiency measures (e.g., the amount of emissions per unit of output or per monetary unit of turnover) are the best-known examples. Cross-cutting indicators effectively demonstrate the size of the positive or negative impact for each incremental change in another value.

EC Economic Performance Indicators

This GRI category lists economic performance indicators. The economic dimension of sustainability concerns our impacts on the economic circumstances of our stakeholders and on economic systems at the local, national and global levels.

The category is organized into different aspects according to GRI methodology.

EC1 Direct Economic Impact/Customers: Net sales

Nr.	Net Sales	Currency
1	32212	million USD

EC2 Direct Economic Impact/Customers: Geographic breakdown of markets

Nr.	Country	Net Sales	Currency	Market Share	▲
1	United States	12587	million USD		
2	Japan	2591	million USD		
3	Germany	2470	million USD		
4	France	1856	million USD		
5	Great Britain	924	million USD		
6	Switzerland	366	million USD		
7	Austria	275	million USD		
8	Others	11143	million USD		

EC3 Direct Economic Impact/Suppliers: Cost of all goods, materials, and services purchased

Nr.	Cost of goods, materials, and services	Currency	▲
1	15700	million USD	

EC4 Direct Economic Impact/Suppliers: Percentage of contracts that were paid in accordance with agreed terms, excluding agreed penalty arrangements

1

No global data is available, and the detailed contracts terms are available locally.

All payments are made in full once the goods and/or services have been delivered.

We considered using the time of the payment after the due date as an indicator. An analysis indicated that about 30% were paid within 30 days. The average delay of our payments was considerably lower than the delay of payments by our customers. The conclusion was to fix the contractual payment within 60 days to our suppliers and not track this indicator globally.

EC5 Direct Economic Impacts/Employees: Total payroll and benefits broken down by region and country

Nr.	Region / Country	Payroll and benefits	Currency	▲
1	The Americas	3341	million USD	
2	Europe	3948	million USD	
3	Africa/Asia/Australia	652	million USD	

EC6 Direct Economic Impacts/Providers of capital: Distributions to providers of capital broken down by interest on debt and borrowings, and dividends on all classes of shares, with any arrears of preferred dividends to be disclosed.

Nr.	Kind	Amount	Currency	Comment	▲
1	Interest payments	294	million USD		
2	Dividends	2107	million USD		

EC7 Direct Economic Impacts/Providers of capital: Increase/decrease in retained earnings at end of period

1

Percent of Net Value Added retained in the Group in 2004: 29% (or USD 4.3 billion)
 Percent of Net Value Added retained in the Group in 2005: 26% (USD 4.1 billion)

EC8 Direct Economic Impacts/Public Sector: Total sum of taxes of all types paid broken down by country

1

Taxes paid by the Novartis Group in 2005 rose 5.5% to USD 1,124 million from USD 1,065 million in 2004.

Of total current income tax expense totaling USD 1511 million in 2005, Switzerland accounted for USD 338 million and foreign countries for USD 1173 million.

EC9 Direct Economic Impacts/Public Sector: Subsidies received broken down by country/region

1

Subsidies and tax incentives are one aspect of a complex decision-making process on investments (e.g. research, administration or production facilities); the most important elements for site selections are proximity to the market and availability of talented employees (thus the attractiveness of the location).

The result of the discussions with local authorities varies greatly from project to project. Often also authorities are reluctant to publicize the result of such negotiations.

Here are a few examples to give an overview over the arrangements and the challenges:

- At one site, the government systematically offers tax-reductions over a defined period of time after the investment (in this example the quantification of the subsidies is relatively easy).
- At another site the authorities decided to pay certain elements of the cost but decided that the details should remain confidential.
- Other examples are that certain investments for restoring historic buildings or energy savings are eligible for reductions of costs of energy or subsidies towards the investment, tax exemptions (e.g. property taxes) or credits for new jobs.

As a conclusion, Novartis did not establish a detailed internal reporting for subsidies. Novartis publishes an overall analysis of the tax rate (see Annual Report 2005, p 150):

- Effect of income taxed at reduced rates: 0.1%
- Effect of tax credits and allowances: 1.1%

EC10 Direct Economic Impacts/Public Sector: Donations to community, civil society, and other groups broke down in terms of cash and in-kind donations per type of group

Nr.	Type	Receiving Group	Donations	Currency	▲
1	Products	Patients (6.5 million)	696	million USD	

EN Environmental Performance Indicators

This GRI category lists environmental performance indicators. The environmental dimension of sustainability concerns our impacts on living and non-living natural systems, including ecosystems, land, air and water.

The category is organized into different aspects according to GRI methodology.

The total of Novartis Group includes Nutrition & Santé and corporate functions which are not separately listed.

If you compare the key data table in the Annual Report 2004 with GRI values, a deviation reflects the update of Q4 estimates by actual figures.

According to our reporting principles the process of restating Q4 estimates is defined for the period January – March 2005. Please read more: Section 2, Profile, report scope.

Material use

This GRI aspect provides information on our material use.

EN1 Total materials use other than water, by type

1

Novartis reports the amount of Total Production as a key figure and also uses it as a denominator for efficiency indicators in various business units.

Please refer to information on website

Total Production directly relates to EN1 total material use. Novartis considers this as the relevant information, as pharma production is not considered to be a material intensive operation.

Additional data on raw and packaging material is collected and included in the management review.

Please refer to the Novartis HSE Website for further details:

[Novartis HSE Website](http://www.novartis.com/corporate_citizenship/en/hse/performance/index.shtml)

http://www.novartis.com/corporate_citizenship/en/hse/performance/index.shtml

EN2 Percentage of materials used that are wastes (processed or unprocessed) from sources external to the reporting organisation

1

The use of recovered recycled solvents is an important element in chemical and pharmaceutical manufacturing. Novartis reports recycling of hazardous waste (refer to website), which primarily consists of solvents, either recovered internally or used / sold to / purchased from suppliers.

Please refer to the Novartis HSE Website for further details

[Novartis HSE Website](http://www.novartis.com/corporate_citizenship/en/hse/performance/index.shtml)

http://www.novartis.com/corporate_citizenship/en/hse/performance/index.shtml

Energy use

This GRI aspect provides information on our energy use.

EN3 Direct energy use broken down by organisational unit

1

Under Total Energy Use, Novartis monitors the consumption of all types of energy sources and fuels. Energy use is reported separately as either purchased energy or as energy that is generated on site from the combustion of fuels such as gas, oil, coal, waste and solvents. Energy generated on site that is sold to third parties is subtracted.

Separate reporting is planned for energy derived from Combined Heat and Power (CHP) facilities and renewable energy sources.

For more detailed information, please see:

[Energy & Water Use](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/energy-water-consumption/index.shtml

Please find details of results for 2005, targets for 2006 and general information on Novartis HSE reporting here:

[Energy Use](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/energy-water-consumption/energy-consumption.shtml

EN4 Indirect energy use

1

Novartis monitors the purchase and use of all types of energy sources and fuels. The use of purchased energy, including electricity, steam and hot water, is calculated from the net value of all energy acquired from external sources.

For more detailed information, please see:

[Energy & Climate](#)

http://www.novartis.com/corporate_citizenship/en/hse/key-issues/energy-climate.shtml

Please find details of results for 2005, targets for 2006 and general information on Novartis HSE reporting here:

[Energy Use](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/energy-water-consumption/energy-consumption.shtml

EN17 Initiatives to use renewable energy sources and to increase energy efficiency

1

To support the energy efficiency strategy, Novartis has approved a revised investment policy for capital investments associated with energy savings. In addition, an energy efficiency/renewable energy challenge has become a mandatory part of all major projects.

Additional projects relating to solar and wind energy are under development.

For more detailed information, please see:

[Energy & Climate](#)

http://www.novartis.com/corporate_citizenship/en/hse/key-issues/energy-climate.shtml

[Energy Excellence Awards](#)

http://www.novartis.com/corporate_citizenship/en/hse/highlights/success-stories/energy-awards.shtml

Water

This GRI aspect provides information on our water use.

EN5 Total water use by organisational unit

1

With regards to water consumption, Novartis monitors water streams into and out of its sites, as well as various types of water use. Such water balance methodology allows effective water resource and cost management, and helps achieve complete and accurate information on water use.

For more detailed information, please see:

[Energy & Water Use](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/energy-water-consumption/index.shtml

Please find details of results for 2005, targets for 2006 and general information on Novartis HSE reporting here:

[Water Use](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/energy-water-consumption/water-consumption.shtml

Biodiversity

This GRI aspect provides information on our impact on biodiversity.

EN6 Location and size of land owned, leased, or managed in biodiversity-rich habitats

1

As a result of a biodiversity survey carried out in 2004, major operations do not significantly impact on biodiversity rich habitats. However, in some countries, for e.g. in Latin America and Bangladesh, there are higher sensitive areas of biodiversity in neighboring areas. In these cases, activities to maintain biodiversity are carried out by local companies. Pharmaceutical operations are not land intensive operations. Facilities are in industrial areas, not considered rich in biodiversity. Novartis has no land in biodiversity rich habitats.

EN7 Description of the major impacts on biodiversity associated with activities and/or products and services in terrestrial, freshwater, and marine environments

1

Key Challenge: bioprospecting, benefit sharing

Novartis bioprospecting activities have negligible negative impact on biodiversity, as samples taken for lab for further analysis are limited and have little or no impact.

A key challenge is finding an agreement on benefit sharing for the local population and the country.

Novartis accepts the principle laid down in the Convention on Biodiversity (CBD) whereby countries have sovereignty over their genetic resources and can control access to them.

Novartis contributes to the implementation of the CBD, by conveying know-how to collaboration partners, passing on the latest technologies and building up capacity.

2

Own Operations

An internal biodiversity survey among major Novartis sites in 2004 found no site/business with exposure on biodiversity issues. Some Novartis sites actively support rehabilitation projects for biodiversity, such as reforestation, or garden and park projects.

Additional documents: Novartis Position on Bioprospecting

Emissions, Effluents, and Waste

This GRI aspect provides information on our emissions, effluents, waste streams.

EN8 Greenhouse gas emissions (GHG)

1

As of 2005, Novartis reports its Greenhouse Gas (GHG) emissions in accordance with the WRI/WBCSD Greenhouse Gas Protocol. The reporting structure includes Scope 1 CO₂ emissions from stationary combustion installations and from production processes, Scope 1 CO₂ emissions from company-owned / leased vehicles and Scope 2 CO₂ emissions from purchased energy sources. Emissions of other GHGs (mainly hydrofluorocarbons from refrigeration systems) were approximately 10kt and have therefore not been reported separately.

For more detailed information, please see:

[Emissions](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/emissions/index.shtml

Please find details of results for 2005, targets for 2006 and general information on Novartis HSE reporting here:

[Greenhouse Gas Emissions](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/emissions/greenhouse-gas-emissions.shtml

EN9 Use and emissions of ozone-depleting substances (ODS)

1

In accordance with the requirements of the GRI Guidelines for Sustainability Reporting, Novartis includes inventories and emissions of Ozone Depleting Substances (ODS) in its reporting.

For more detailed information, please see:

[Ozone Depleting Substances](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/emissions/ozone.shtml

EN10 NOx, SOx, and other significant air emissions by type

1

As a further disclosure of relevant emissions into air, Novartis reports halogenated and non-halogenated Volatile Organic Compounds (VOCs) and SO₂ / NO_x inorganic pollutants. VOCs mainly originate from the use of halogenated and non-halogenated solvents in various production processes. Inorganic pollutants arise primarily from the combustion of fuels for steam generation and heating.

For more detailed information, please see:

[Emissions](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/emissions/index.shtml

Please find details of results for 2005, targets for 2006 and general information on Novartis HSE reporting here:

[Inorganic Pollutants](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/emissions/inorganic-pollutants.shtml

EN11 Total amount of waste**1**

Novartis follows a clear waste management strategy. The aim is to prevent, reduce, recycle or use as an energy source, before a safe disposal. Waste prevention and reduction is always preferred to treatment, incineration or disposal. This ensures that the overall environmental impact related to wastes remains minimal, while energy use from waste is maximized. Opportunities for recycling and energy recovery from both hazardous and non-hazardous wastes are always considered.

For more detailed information, please see:

[Waste Management](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/waste-management/index.shtml

2

For detailed information on construction waste, please see:

[Debris](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/waste-management/debris.shtml

3

For detailed information on operational waste, please see:

[Operational Waste](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/waste-management/operational-waste.shtml

4

For detailed information on non-hazardous operational waste, please see:

[Non-Hazardous Operational Waste](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/waste-management/operational-non-hazardous-waste.shtml

5

For detailed information on hazardous operational waste, please see:

[Hazardous Operational Waste](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/waste-management/operational-hazardous-waste.shtml

EN12 Significant discharges to water by type**1**

With regard to Emissions into Water, Novartis reports total effluent load for the sum parameters COD (Chemical Oxygen Demand) and TSS (Total Suspended Solids). Amounts reported are loads that finally reach the aquatic environment. They are determined from concentrations of effluent parameters multiplied by flow volumes of wastewater discharged from Novartis facilities after treatment. In cases where discharged wastewater is treated off-site, e.g. in public wastewater treatment plants, the specific removal efficiency of such treatment is considered for the amounts reported.

Please find details of results for 2005, targets for 2006 and general information on Novartis HSE reporting here:

[Emissions into Water](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/emissions/emissions-into-water.shtml

EN13 Significant spills of chemicals, oils, and fuels in terms of total number and total volume

1

No significant spills were reported in 2005. There were four minor on-site spills with no off-site effects.

Products and services

This GRI aspect provides information on the environmental aspects of our products and services.

EN14 Significant environmental impacts of principal products and services

1

Intensive state of the art techniques are used to minimize discharges of Pharmaceuticals into the aquatic environment from our facilities.

In addition, we avoid land filling pharmaceutical products and waste in favor of incineration. We actively support academia, regulatory bodies and other stakeholders in developing efficient risk assessment practices for pharmaceuticals in the environment (PIE).

EN15 Percentage of the weight of products sold that is reclaimable at the end of the products' useful life and percentage that is actually reclaimed

1 Not applicable

For quality reasons, the reuse of expired products that were not consumed is not feasible.

Compliance

This GRI aspect provides information on our compliance.

EN16 Incidents of and fines for non-compliance with all applicable international declarations/conventions/treaties, and national, sub-national, regional, and local regulations associated with environmental issues

1

Novartis paid a total of USD 5,200 in fines for HSE violations during 2005.

Transport

This GRI aspect provides information on the environmental impacts of transport services / logistics.

EN34 Significant environmental impacts of transportation used for logistical purposes

1

The largest transportation impact identified at Novartis is the use of passenger cars for sales representatives. CO2 emissions of owned and leased vehicles are measured and reported.

For more detailed information, please see:

[Greenhouse Gas Emissions](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/emissions/greenhouse-gas-emissions.shtml

Social Performance Indicators

This GRI section lists social performance indicators. The social dimension of sustainability concerns our impacts on the social systems within which we operate. Social performance can be gauged through an analysis of our impacts on stakeholders at the local, national, and global levels. In some cases, social indicators influence our intangible assets, such as our human capital and reputation.

The section is organized into different categories according to GRI methodology.

LA Labour Practices and Decent Work

This GRI aspect provides information on our performance concerning labour practices and decent work conditions.

LA1.1 Breakdown of workforce by region / countries

Nr.	Region / Countries	Number
1	Europe	43559
2	United States	22391
3	Canada and Latin America	9784
4	Africa/Asia/Australia	15190

For a breakdown in operational units see Annual Report 2004, p67

LA1.2 Breakdown of workforce by status

1

In addition to the total number of own associates, another 16% contractors work for Novartis on Novartis sites.

LA1.3 Breakdown of workforce by employment type

1

Full time: 95%
Part time: 5%

LA1.4 Breakdown of workforce by contract

1

Indefinite or permanent: 95%
Fixed term or temporary: 5%

LA2.1 Net employment creation segmented by region and business

1

Overall, net employment increased by 12% in 2005 over 2004 (3% without acquisition changes).

LA2.2 Average turnover

1

The net increase during 2005 of 9,532 employees, or 12% of the Group's workforce, reflected 13,148 external hires (16% of total employees), offset by 6,593 resignations (-8%), 3,256 separations (-4%) and 827 retirements (-1%).

LA2.3 Average turnover

1

Data not published in 2005, also see LA2.2

LA3 Percentage of employees represented by independent trade union organisations or other bona fide employee representatives broken down geographically OR percentage of employees covered by collective bargaining agreements broken down by region/country

1

35% of Novartis associates are members of an internal personnel organization, 13% are represented by external personnel organizations (unions).

LA4 Policy and procedures involving information, consultation, and negotiation with employees over change in the reporting organisation's operations (e.g., restructuring)**1****Constructive dialogue**

Novartis believes that employer and employee need to talk regularly about ways to conduct business in the most productive manner while taking the needs of the involved parties into consideration. Each country organization shall establish a communication process that ensures a free exchange of opinion and a constructive dialogue.

Freedom of association

Novartis recognizes that each employee has the right to choose whether to join a trade union or employee association. Novartis companies shall give trade unions a fair chance to compete for unionization of employees and shall be comfortable with collective bargaining arrangements, individual arrangements, or a mixture of the two. Employees doing the same work to the same standards of flexibility and productivity shall receive comparative remuneration and employment conditions, whether employed under individual or collective agreements. Provided that local law does not stipulate different conditions, employees have the freedom to join any association given the following criteria are met: The association shall be constituted according to democratic principles; it shall have a written statute that is in full compliance with local laws; it shall have a history of respecting the applicable labor laws; it shall be free and independent; and it shall be in no way committed to violence. Each company may establish additional criteria for the recognition of negotiation partners, provided that local law permits it. In particular, such criteria may include a reasonable hurdle rate in terms of the minimal number of represented employees and a limit on the total number of recognized negotiating partners.

(From: Corporate Citizenship Guideline #2)

Employee communications

The CEO, Executive Committee, Leadership Council and other members of management are responsible for establishing and maintaining an open and honest communications climate within the Company. Their attitudes and practices set the example for the rest of the organization. Managers and supervisors are key links in the communication process.

They are expected to maintain open channels of communication with all the people who report to them, to share essential information with them in a timely manner, and to listen and act upon their concerns.

(From: Novartis Leadership Standards)

2

Formal processes are established in Switzerland: elected internal employee representatives (excl. management) and in the EU countries with a Euroforum consisting of employee representatives in the EU countries.

3

Informal internal processes of exchange of information are established throughout the company globally (e.g. townhall meetings with senior management, intranet based suggestion and questions processes, suggestion schemes, etc.).

LA5 Practices on recording and notification of occupational accidents and diseases, and how they relate to the ILO Code of Practice on Recording and Notification of Occupational Accidents and Diseases

1

One of the most important data sets in occupational safety is the Lost Time Accident Rate (LTAR) – the rate of absenteeism due to occupational accidents. Over the years, the number of occupational accidents worldwide has decreased, thanks to systematic improvements in processes and protective measures.

The Group-wide LTAR declined to 0.44 in 2005 from 0.48 in 2004. A mid-term target of 0.2 by 2010 has been established for the existing business.

As the LTAR has declined, leading to steadily lower targets, it has become necessary to identify new measures to further decrease the risk of occupational accidents. Studies have shown that the behavior of people at the workplace – and the way technical and administrative controls are applied – are as important as engineering controls.

Achieving an accident rate which is as close to zero as possible requires that associates at all times not only care for their own safety, but also for the safety of their colleagues. Safe behavior is not a one-off program but the ongoing result of a cultural change that affects every person in the company. We are committed to a behavior-based safety approach across all our sites to ensure the health and well-being of all our associates.

For more detailed information, please see:

[Occupational Illness](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/health-safety/occupational-illness.shtml

2

For more detailed information, please see:

[Occupational Injuries](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/health-safety/occupational-injuries.shtml

Please find details of results for 2005, targets for 2006 and general information on Novartis HSE reporting here:

[Lost Time Accident Rate \(LTAR\)](#)

http://www.novartis.com/corporate_citizenship/en/hse/performance/health-safety/ltar.shtml

LA6 Description of formal joint health and safety committees comprising management and worker representatives and proportion of workforce covered by any such committees

1

Novartis has established joint health and safety committees in approximately 150 sites, covering more than 80% of associates worldwide.

LA7.1 Standard injury rate (including subcontracted workers)

1

We recognize our responsibility to promote the health not only of our associates, but also that of Third Party Personnel. We therefore include them in our reporting. In 2005, the number of injuries or fatalities in this group are reported separately.

Third Party Personnel are those individuals employed by a Third Party that invoices Novartis for the hours worked. These people work regularly on Novartis premises and are managed by Novartis supervisory staff.

In 2005, Novartis employed at year-end approx. 7'700 people as Third Party Personnel. There were 42 occupational injuries among this population. Owing to the fact that we cannot precisely determine the number of hours these people worked, any calculation of the LTAR for this population would be unreliable. Nonetheless, any accident in this group is evaluated with the same rigor as for a Novartis associate.

Data does not include subcontracted workers

LA7.2 Lost day rate (including subcontracted workers)

1

For 2005, there were 11 days lost per 200'000 working hours. The slight increase compared to 2004 is due to more severe cases, as the overall LTAR has actually fallen.

Data does not include subcontracted workers

LA7.3 Absentee rates (including subcontracted workers)

1 No information available

On average, the absentee rate (due to illness -- but excluding vacations) is 5.4 days per associate per year.

LA7.4 Work-related fatalities (including subcontracted workers)

1

Novartis sincerely regrets the deaths of two associates due to work-related traffic accidents. We would like to extend our sympathy to the families and friends of the deceased.

Subcontracted workers are not included.

LA8 Description of policies or programmes (for the workplace and beyond) on HIV/AIDS

1

Since 2002, Novartis provides preventive care, diagnosis, treatment and counseling services against HIV/AIDS, tuberculosis and malaria for associates in developing countries, as well as their immediate family members (nuclear family). This program is being tailored to eventually include all associates working in countries with insufficient health insurance.

In addition, efforts are under way to increase the awareness for general health promotion in a culturally respective setting.

LA9 Average hours of training per year per employee by category of employee

1

In 2005, Novartis associates worldwide completed more than 197 000 Ethics Compliance e-learning courses – investing more than 148 000 hours in Ethics Compliance e-training. In parallel, several thousand associates without access to e-mail completed other forms of Ethics Compliance training.

Ethics Compliance e-learning at Novartis is available in 14 languages – setting a high standard among global companies.

LA16 Description of programmes to support the continued employability of employees and to manage career endings**1****Overview**

"Identifying and developing talents is one of our most important priorities. Better people produce better results. This belief and the corresponding action must be deeply embedded within Novartis," says Daniel Vasella, Chairman and CEO of Novartis.

By the end of this year, our Corporate Learning Institution will have improved the leadership skills of approximately 4000 associates worldwide. Learning is carried out individually, or in groups as a classroom experience, and is supported by e-learning for intensive preparation and follow-up.

Our executive programs are developed in close cooperation with faculty members and learning consultants who are among the world's leading business minds. Unique learning methods encourage participants to discuss their own real business issues, exchange ideas and solve problems. Custom-designed corporate programs bring together groups of executives from all over the world to build the necessary skills, informal networks, insight and teamwork essential for success.

"Leading at the Frontline" (M1), the largest Novartis leadership program, is taught in eight languages. It targets newly entering or promoted managers from all divisions and functions with leadership training that is linked to their business activities and challenges.

The "Accelerated Development Program" defines a detailed development plan to accelerate participants' ability to take on increasingly challenging roles.

The "Senior Leaders Mentoring Program" demonstrates the commitment of senior leaders to building future leadership in the company.

LA10 Description of equal opportunity policies or programmes, as well as monitoring systems to ensure compliance and results of monitoring**1**

Novartis is an equal opportunity employer, as described in the Code of Conduct and Policy on Corporate Citizenship.

Novartis will not tolerate discrimination based on personal characteristics that are not inherently relevant to job performance including race, sex, religion, political view, national, ethnic or social origin, age or any other characteristic protected under local law.

[Guideline # 2: Working Conditions](#)

<http://www.globalreportingtools.com/Novartis/Docs/CC%20GL%202%20E.pdf>

2

As a global company, Novartis reflects by definition a great diversity of cultural backgrounds. But our scope with diversity goes beyond culture, and incorporates many visible and invisible differences, including among others, leadership and thinking styles, gender, ethnicity, religion, sexual orientation, age and experience.

Our Diversity & Inclusion strategies are conscious efforts to fully derive and leverage the value available from diversity, with the performance interests of the business at heart.

If we cast the net widely and proactively across all segments of the talent market, then we will be successful in attracting our share of the best available talent. If we integrate multiple perspectives into our idea generation and decision making processes, then we heighten the probability of greater creativity and innovation in our outcomes. And if we reflect the diversified marketplace in our internal demographic, then we will be better positioned to understand our customers, to incorporate their insights into our products, and to serve them with excellence. In short we will consolidate competitive advantage.

Ensuring diversity of representations and complementarities across our internal teams and communities is the starting point. It takes inclusive leadership, in spirit and in practice, to secure the strategy's success. Only by motivating positive team dynamics and productivity, leveraging the differences, and bringing about the best possible contribution from each individual, can we deliver on the promise of diversity.

3

The Pharmaceuticals Division has launched a Diversity & Inclusion initiative that aims to recognize and promote greater diversity of talent throughout the organization. The long-term goal of the initiative is to consolidate competitive advantage in the market for talent and innovative ideas that deliver novel products. That objective will be achieved through a dual strategy of internal talent development and external hiring.

This commitment to Diversity & Inclusion is embedded in the organization through the objective-setting process for individual leaders.

LA11 Composition of senior management and corporate governance bodies (including the board of directors including female/male ratio and other indicators of diversity as culturally appropriate)**1**

The Novartis Board of Directors has one female member, Dr. h.c. Birgit Breuel, among 12 directors. There is no female member of the Executive Committee of Novartis (ECN) or any woman among the Group's 10 Business Unit heads.

The Board includes members from four different countries and the ECN three different nationalities -- while Business Unit heads represent five different countries.

2

Group managers, who comprise approximately one-fifth of Novartis associates worldwide, include 30% women and 70% men.

HR Human Rights

This GRI aspect provides information on our performance concerning human rights.

HR1 Strategy and Management: Policies, guidelines, corporate structure, and procedures to deal with all aspects of human rights relevant to operations, including monitoring mechanisms and results**1**

Novartis signed the UN Global Compact.

Human rights are covered by the Novartis Policy on Corporate Citizenship: "The Novartis core values are based on the fundamental rights of every individual, such as the protection of privacy, freedom of opinion and expression, freedom of association, nondiscrimination, and the right to be heard. We seek to promote and protect the rights defined in the Universal Declaration of Human Rights of the United Nations within our sphere of influence. We do not tolerate human rights abuses within our own business operations."

Novartis Corporate Citizenship Guideline #4: Human Rights contains specific information. Additional specifics are addressed in other guidelines, especially #2 on fair working conditions and #5 on 3rd party management

The Novartis Code of Conduct also addresses a number of Human Rights aspects

[Code of Conduct](#)

<http://www.globalreportingtools.com/Novartis/Docs/Noartis%20Code%20of%20Conduct.pdf>

2

Novartis is an active member of the Business Leader Initiative for Human Rights (BLIHR), chaired by Mary Robinson

Additional documents: Guideline # 4: Human Rights

HR2 Strategy and Management: Evidence of consideration of human rights impacts as part of investment and procurement decisions, including selection of suppliers/contractors**1**

Reflecting our goal of increasing diversity among suppliers, Novartis is committed to four basic operating principles:

- Ensuring business opportunities for minority and women-owned suppliers and other diverse businesses;
- Leveraging multiple sources of talent wherever that talent is to be found;
- Developing and extending diverse supplier relationships; and
- Communicating the value of supplier diversity, both internally and externally.

[Supplier Diversity Policy](#)

http://www.pharma.us.novartis.com/novartis/supplier/diversity_policy.jsp

Additional documents: Third-party compliance

HR3 Strategy and Management: Policies and procedures to evaluate and address human rights performance within the supply chain and contractors, including monitoring systems and results of monitoring

1

We give priority to business partners, suppliers and contractors who adhere to our Corporate Citizenship guideline for Third-parties and share our societal and environmental values. We strongly support efforts by suppliers to promote these values through their business activities.

Specifically, we expect our Third Party Suppliers to:

- Adhere to all national laws and other applicable laws and regulations governing protection of the environment, occupational health & safety, and labor and employment practices wherever they do business;
- Establish management systems (policies, plans and performance measures) that are designed to implement these requirements, and to provide for compliance assurance and continual improvement.

Looking ahead, Novartis plans to expand its living wage commitment to its on-site contractors, who correspond to 15 percent of the workforce globally.

[Novartis Third Party Code](#)

http://www.novartis.com/corporate_citizenship/en/10_2004_third_party_code.shtml

Additional documents: Guideline # 5: Third Party Management

HR4 Non-discrimination: Global policy and procedures/programmes preventing all forms of discrimination in operations, including monitoring systems and results of monitoring

1

The Novartis Code of Conduct requires that all employees receive fair, courteous and respectful treatment by their supervisors, subordinates and peers. Novartis refuses to tolerate discrimination or harassment based on race, religion, creed, national origin, gender, disability, age or any other category.

All employees shall conduct themselves in accordance with the letter and the spirit of these principles.

[Code of Conduct](#)

<http://www.globalreportingtools.com/Novartis/Docs/Noartis%20Code%20of%20Conduct.pdf>

HR5 Freedom of association and Collective Bargaining: Freedom of association policy and extent to which this policy is universally applied independent of local laws, as well as description of procedures/programmes to address this issue

1

We believe in constructive dialogue between employer and employees and support the principle of freedom of association.

Reference:

[Novartis Policy on Corporate Citizenship](#)

<http://www.globalreportingtools.com/Novartis/Docs/4%20Policy%20on%20Corporate%20Citizenship.pdf>

2

Novartis recognizes that each employee has the right to choose whether to join a trade union or employee association. Novartis companies shall give trade unions a fair chance to compete for unionization of employees and shall be comfortable with collective bargaining arrangements, individual arrangements, or a mixture of the two. Employees doing the same work to the same standards of flexibility and productivity shall receive comparative remuneration and employment conditions, whether employed under individual or collective agreements. Provided that local law does not stipulate different conditions, employees have the freedom to join any association given the following criteria are met: The association shall be constituted according to democratic principles; it shall have a written statute that is in full compliance with local laws; it shall have a history of respecting the applicable labor laws; it shall be free and independent; and it shall be in no way committed to violence. Each company may establish additional criteria for the recognition of negotiation partners, provided that local law permits it. In particular, such criteria may include a reasonable hurdle rate in terms of the minimal number of represented employees and a limit on the total number of recognized negotiating partners.

[Guideline # 2: Working Conditions](#)

<http://www.globalreportingtools.com/Novartis/Docs/CC%20GL%202%20E.pdf>

HR6 Child labour: Policy excluding child labour

1

Novartis will not use child labor. The absolute minimum age for employment is the higher of 15 years or the age at which compulsory schooling is no longer required by law. Wherever feasible, employees below 18 years should be employed as trainees or apprentices whose work is part of a regulated training scheme.

[Guideline # 2: Working Conditions](#)

<http://www.globalreportingtools.com/Novartis/Docs/CC%20GL%202%20E.pdf>

HR7 Policy to prevent forced and compulsory labour and extent to which this policy is visibly stated and applied as well as description of procedures/programmes to address this issue, including monitoring systems and results of monitoring

1

Novartis will not engage in forced, compulsory or bonded labour. Forced or compulsory labor means work or services extracted from persons under the threat of non-contractual penalty and work or services which such persons have not voluntarily offered to perform. Bonded labor means work or services extracted under economic conditions that leave employees without reasonable choice of whether they want to continue to perform the work or service.

[Guideline # 2: Working Conditions](#)

<http://www.globalreportingtools.com/Novartis/Docs/CC%20GL%202%20E.pdf>

SO Society

This GRI aspect provides information on our performance concerning impacts on the society.

SO1.1 Community: Policies to manage impacts on communities in areas affected by activities**1**

Novartis has a long-standing tradition of community involvement. We care about the communities in which we live and work -- and we volunteer to help when our communities need us. We're mindful of the impact of our business activities on society, the environment and the health and safety of our employees and customers.

The health and safety of our employees, neighbors, customers, consumers and all others affected by our business activities, as well as protection of the environment, have priority in all our activities.

[Policy on Corporate Citizenship](#)

<http://www.globalreportingtools.com/Novartis/Docs/4%20Policy%20on%20Corporate%20Citizenship.pdf>

SO1.2 Community: Procedures/programmes to address the impacts on communities in areas affected by activities, including monitoring systems and results of monitoring**1**

As a multinational enterprise and a corporate citizen, Novartis is committed to promoting research, education, and development projects all over the world. As part of this commitment, Novartis has established various initiatives and foundations in many countries, including Switzerland, France, Great Britain and the United States.

[Novartis Foundations](#)

http://www.novartis.com/about_novartis/en/foundations.shtml

2

Novartis is proud to work hand in hand with its neighboring communities by collaborating on a variety of local initiatives.

Our major community outreach program is Community Partnership Day. This annual event showcases Novartis's global commitment to volunteerism. Many employees volunteer with inner-city homebuilding projects, parkland and road clearings, food banks, and other social service agencies. Other employees participate in onsite volunteer activities, such as reading to the blind, packaging duffel bags for foster children, or preparing gift packages for homebound senior citizens. A volunteer fair is conducted in company cafeterias to allow community agencies to discuss ongoing volunteer opportunities with employees.

In 2005, almost 10,000 associates worldwide participated in the Community Partnership Day.

Other community outreach initiatives include: educational partnerships; opportunities for employees to participate in volunteer activities at local nonprofit/social services agencies; and support of surrounding government and civic agency events.

SO2 Bribery and corruption: Policy, procedures/management systems, and compliance mechanisms for organisations and employees addressing bribery and corruption**1**

Amendments of the US Sentencing Guidelines in 2004 gave added impetus to compliance programs at major international companies around the world. Although Novartis companies were already meeting most, if not all, of these requirements, Novartis leveraged the Amendments in further driving its Compliance program.

The Compliance Steering Committee established a new framework for the company's Ethics Compliance program in 2005, meeting requirements of the Sentencing guidelines. This new framework is being implemented by local Novartis entities worldwide and will be used to set Ethics Compliance objectives for 2006.

2

From the Code of Conduct, Section 6:

No employee shall make any payment, or kickback, or offer improper financial advantage to an official of a government or a government-controlled entity for the purpose of obtaining business or other services, as set out in the OECD Convention on Combating Bribery of Foreign Public Officials.

[Code of Conduct](#)

<http://www.globalreportingtools.com/Novartis/Docs/Noartis%20Code%20of%20Conduct.pdf>

3

Novartis will not engage in bribery. Bribery means to offer, promise or provide an undue benefit to a public official with the intention of obtaining or retaining an improper advantage by encouraging the official to act or refrain from acting in connection with an official duty. All activities of this nature are prohibited. Novartis will not engage in indirect bribery of public officials. The intentional use of intermediaries such as agents, advisors, consultants or other third parties for the purpose of committing acts of bribery is prohibited.

[Guideline # 3: Business Ethics](#)

<http://www.globalreportingtools.com/Novartis/Docs/CC%20GL%203%20E.pdf>

4

The primary objective of the Novartis Pharma Promotional Practices Policy and Guidelines is to strive for a consistently high standard in marketing, sales and communication throughout the Novartis Group, thereby securing both the image and credibility of Novartis in worldwide health care and the optimal use of its products and services.

The Policy and Guidelines are based on:

- the IFPMA Code of Pharmaceutical Marketing Practices (1994 Edition)
- the EFPIA European Code of Practice for the Promotion of Medicines (2004 Edition)
- the PhRMA Code on Interaction with Healthcare Professionals (July 2002 Edition)

The other Novartis divisions have adapted their practices according to their respective markets.

[Novartis Marketing Code](#)

<http://www.globalreportingtools.com/Novartis/Docs/Novartis%20marketing%20code%2004.pdf>

5

Compliance is assessed through local country review committees and a global compliance organization and finally validated through internal audits, as well as external audits of systems and processes.

6

From April to December 2005, Novartis received report of 442 alleged violations of our internal rules, such as the Code of Conduct and Marketing Codes. Of these cases, 228 have been investigated and closed, resulting in 142 cases being fully or partly substantiated. Employment contracts of 78 associates were discounted and other relevant sanctions were taken against 64 employees.

Novartis intends to continue to publish annual data on misconduct and sanctions in the future.

SO2 Bribery and corruption: Policy, procedures/management systems, and compliance mechanisms for organisations and employees addressing bribery and corruption pl.

The most recent data confirms our intention to further strengthen our training initiatives in key areas, especially compliance with our marketing codes. The data on sanctions show that we take compliance seriously.

A new Business Practices Office (BPO) was established during 2005 to facilitate reporting by employees of actual or suspected cases of internal misconduct. All employees are requested to report suspected misconduct to the BPO, which in turn ensures that all complaints are properly investigated, enabling management to take appropriate actions.

The Business Practices Officer reports monthly to senior management on allegations of misconduct received, sanctions applied and lessons learned. All cases of financial fraud, however, are reported to a committee led by the Chairman and Chief Executive Officer on a monthly basis.

The identities of Novartis employees are fully protected both when they make a report and during any subsequent investigation. Novartis has a strict policy guaranteeing non-retaliation against associates who makes reports under the "whistleblower" policy - and violations of this right are not tolerated.

During 2006, a global network of telephone help lines will be rolled out to allow all associates to report incidents of misconduct locally, in their native language, on a confidential basis.

SO3 Political contribution: Policy, procedures/management systems, and compliance mechanisms for managing political lobbying and contributions**1**

The Novartis Public Affairs department is responsible for managing political lobbying and contributions. Government relations offices are located in Switzerland, Brussels and the United States.

Below are some examples of Novartis lobbying positions.

2

Novartis on TRIPS and Health:

In general, Novartis was aligned with the industry. However, we were among the first companies to declare that we do not patent in the poorest countries and we were also among the first to advocate moving away from limitations on disease scope in favor of a limitation on countries (to those without sufficient manufacturing capacity) able to use the solution. During the final stages of the negotiations we advocated a solution focused on:

- Finality: no further amendment or negotiation on this issue
- Predictability: applying only to poor countries so as not to disrupt established commercial markets
- Transparency: controls against diversion, with technical cooperation from the US and Europe to ensure this is not burdensome.

[Novartis on TRIPS and Health](#)

<http://www.globalreportingtools.com/Novartis/Docs/Novartis%20on%20TRIPS%20and%20Health%202.04.pdf>

3

Novartis Involvement in US Political Processes:

Novartis is a proactive participant in the American political process. The framework that has been laid out by the American legal system allows for corporations, associations, and individuals to participate in the electoral process. Novartis adheres to the guidelines set forth by the United States Federal Election Commission (FEC) related to the federal campaign process. Novartis welcomes the transparency required by the FEC.

[Novartis Involvement in US Political Processes](#)

<http://www.globalreportingtools.com/Novartis/Docs/Novartis%20Involvement%20in%20US%20Political%20Process%202.04.pdf>

4

Novartis US Medicare Position

Novartis has long supported proposals to add an outpatient prescription drug benefit to Medicare and we applaud the passage of the Medicare Modernization Act in 2003.

We will work closely with Congress and the Administration to ensure that law is implemented in such a way that patients have the broadest possible access to medicines and to keep them affordable by giving beneficiaries a choice of plans in a competitive marketplace.

[Novartis US Medicare Position](#)

<http://www.globalreportingtools.com/Novartis/Docs/Novartis%20Medicare%20Position.pdf>

5

Lobbying expenditure 2005: USD 23 million, mostly through US and Swiss Pharma associations

PR Product Responsibility

This GRI aspect provides information on our social performance concerning product responsibility.

PR1 Description of policy for preserving customer health and safety during use of products and services, and extent to which this policy is visibly stated and applied, as well as description of procedures/programmes to address this issue, including monitoring**1**

As stated in the Policy on Corporate Citizenship:

The health and safety of our employees, neighbors, customers, consumers and all others affected by our business activities, as well as protection of the environment, have priority in all our activities.

We take a precautionary approach in the innovation and development of new products and technologies. To this end, we follow a step-by-step approach, we engage in scientific peer review, and we consider benefits and risks of innovation in a scientific and transparent manner.

[Policy on Corporate Citizenship](#)

<http://www.globalreportingtools.com/Novartis/Docs/4%20Policy%20on%20Corporate%20Citizenship.pdf>

2

The pharmaceutical industry is heavily regulated in order to preserve customer health and safety. Regulatory authorities also require compliance regarding product safety and environmental impact.

3

Novartis Pharmaceuticals has established a Product Stewardship Board which reports quarterly to the Pharma Executive Committee. The Board addresses safety, regulatory, reputational and legal risks. Generally, each marketed product is subject to a standard review annually for the first five years following market authorization and subsequently every five years. Inputs come from safety data, daily case reviews, literature, relevant events, new preclinical safety signals, quality-related issues, product labellings, promotional activities and other sources. Follow-up on decisions is reported quarterly.

The process aims to ensure that risks are adequately addressed in order to protect patients.

The other Divisions have established similar Product Stewardship processes.

4

Novartis Pharmaceuticals has a clinical safety and epidemiology department responsible for the worldwide collection, monitoring, evaluation and reporting of safety information, thus helping to ensure the safe use of all Novartis medications.

All adverse events in relation to any Novartis drug reported from any source (spontaneous, literature, clinical trials, etc.) are entered in the global Safety data base.

Novartis has established internal audit processes to verify compliance with internal and external requirements.

PR2 Products and Services: Policy, procedures/management systems, and compliance mechanisms related to product information and labelling**1**

Product labeling and advertising in the pharmaceutical industry is fully regulated. All information is approved by the respective health authorities and may vary from country to country.

Novartis has established internal approval and internal auditing processes to ensure compliance with these regulations globally.

PR10 Advertising: Number and types of breaches of advertising and marketing regulations

1

No global data available

PR3 Respect of Privacy: Policy, procedures/management systems, and compliance mechanisms for consumer privacy

1

Novartis has a privacy infrastructure in place to address privacy and data protection issues for all companies in the Novartis Group. The infrastructure includes a Privacy Office and a Global Privacy Officer.

We adhere to the many privacy laws and regulations around the world, which apply to all areas of our business that receive or otherwise process personal data. The particular challenges include ensuring appropriate security, keeping up with the continuous addition of new laws and requirements, and evaluating how to handle conflicts between the privacy laws and other legal requirements (such as drug safety adverse event reporting laws). We also engage in some outreach efforts with regulators and stakeholders, to assist them in understanding why we need certain types of data and how consumers benefit from our programs.

▲ Answer **na** Not applicable
 ni No information available
