



To: ASN Bank
Att.: Piet Sprengers
Head Sustainability Division

Dear Mr. Sprengers,

Thank you for your letter and enquiry dated 22nd January 2016.

Corporate responsibility (CR) is an important element of Novartis's strategy and plays a key role in our effort to discover new ways of extending and improving people's lives. In 2015, Novartis continued to reinforce its culture of integrity, even as we felt the ongoing effects of pockets of bad behavior from the past. Novartis CEO Joseph Jimenez in the 2015 Annual Report emphasized that Novartis is committed to working with integrity and to upholding high ethical standards. To help us improve, we launched a new initiative to strengthen our approach to culture, compliance, reporting and commercial relationships.

Please find below our responses on the questions raised in the letter.

Question 1:

In our research we found that Novartis has third party external insurance in place to assist in oversight of business conduct, but it does not provide further details, such as the composition of this third party, its name and whether it concerns a legal requirement. Furthermore, Novartis stipulates some requirements for its third parties in its code of conduct, regarding e.g. ethical business practices, labor and health and safety, but does not provide further details on these requirements. Also, it does not mention whether third parties are expected to abide by all the requirements stipulated in its code of conduct.

Could you give us more information on what the name and composition of the third party is and would you also explain whether and how third parties must comply with your code of conduct and which rules they have to follow?

Novartis response:

Concerning your question on the third party external insurance in place to assist in oversight of business conduct, we would appreciate your further clarification.

Novartis has insurance or self-insurance programs standard in the pharmaceutical industry.

Novartis is a member of the Pharmaceutical Supply Chain Initiative (PSCI) and supports its Principles for Responsible Supply Chain Management for ethics, labor, health and safety, environment, and related management systems. These principles are incorporated into the Novartis Supplier Code. The policy and standards governing how we buy goods and services apply to all our potential and existing suppliers, and are set out in two complementary documents – the Novartis Global Procurement Policy and the Novartis Supplier Code. Both documents reflect the values of the UN Global Compact and the PSCI Principles for Responsible Supply Chain Management.



The Novartis Global Policy on the Procurement of Goods and Services from Third Party Suppliers ("Global Procurement Policy") sets out our public corporate responsibility commitments as they relate to our suppliers.

The [Novartis Supplier Code](#) sets out the minimum set of ethical standards we expect all suppliers to uphold (pdf version attached).

The ultimate aim for Novartis is for suppliers to meet the expectations set out in our Supplier Code, which is based on international standards, or accepted good practice where no such standards exist. The Code details our expectations in the areas of Labor Rights, Health, Safety and Environment (HSE), Animal Welfare, Anti-Bribery and Fair Competition and Data Privacy.

Responsible Procurement Program

RP focuses on four key principles:

- Risk-based: Using risk assessments that take country and sector into account, we identify suppliers that pose elevated risks and target our efforts to where they are most needed: on high-risk suppliers
- Modular: Covers labor rights, HSE, animal welfare, anti-bribery and fair competition
- Integrated: Fully integrated into our sourcing process as part of our day-to-day procurement operations and draws on our global network of subject-matter experts in labor, HSE, animal welfare and anti-bribery
- Collaborative: Engages and supports suppliers to improve their social responsibility and ethical business practices

Active monitoring of risk and responsibility

We focus our attention on risk and responsibility in the supply chain. Expectations are addressed in the early stages of the supplier selection process. Our Responsible Procurement practice is designed to provide a clear view of where potential issues may exist or standards may be compromised, with speed and accuracy. It is intended to quickly filter out the approximate 95% of suppliers that present little or no ethical risk, enabling us to concentrate our efforts on the small number of suppliers where a significant risk may exist or where we can influence change. Most importantly, it gives us this insight before we buy – we call it “buying with our eyes open.”

In 2015, 475 suppliers were identified as posing a potential risk, including environmental, labor and human rights.

- 167 suppliers were identified as posing an elevated HSE risk. Active follow-up actions, including desktop review and/or audits, were taken with 69 suppliers. In 27 cases, HSE audits were conducted.
- 214 suppliers were identified as posing an elevated human rights or labor rights risk. Actions including desktop reviews and 12 labor rights audits were taken with 43 suppliers.
- Regarding screening for impacts on society, we include anti-bribery criteria.

Question 2:

We understand from our research that Novartis is in the process of developing risk assessments and establishing its own compliance monitoring through regular internal and external audits beyond what is legally required. Could you inform us when we can expect the implementation of these measures?

Novartis response:**Enforcing integrity standards**

Novartis performs annual global and local risk assessments in the area of sales & marketing and anti-bribery to drive compliance with the Novartis Code of Conduct and applicable policies. The risk assessment and mitigation process was rolled-out globally in 2015. We have designed an integrated control framework, continuous monitoring and regular reporting to ensure our standards of ethical business conduct are put into practice effectively.

Monitoring compliance

Our Group and divisional Integrity and Compliance (I&C) functions are charged together with business leaders to monitor compliance with the Novartis Code of Conduct, Anti-Bribery Policy and Professional Practices Policies by conducting risk assessments, as well as control self-assessment and testing. They also report Key Performance Indicators (KPIs) to the management team.

Business leaders across the organization have responsibility for compliance, and it is their responsibility to put in place, with the support of the I&C function, the necessary resources and control systems to ensure adherence to policies, laws and industry regulations.

Our I&C team uses monitoring tools to ensure adherence to integrity standards, including:

- I&C Company Level Controls (CLC) are part of the Novartis Financial Controls Manual (NFCM) framework. CLCs are mandatory for all Novartis units. Results are reported to the I&C function, at divisional and Group levels, which follows up on remediation activities, if necessary.
- Compliance risk assessments are conducted in all countries in order to identify and prioritize key compliance risks and monitor them. Together with the local compliance officer and relevant business functions, units identify risks and put monitoring and mitigation plans in place to address them.
- Periodic reviews and tests are conducted to help ensure we follow our Professional Practices Policies and Anti-Bribery Policy, as well as local laws and industry codes.

Managers are responsible for applying key policies and standards, including the Novartis Pharma Principles and Practices for Professionals (NP4) Policy and other guidelines” (pdf version attached).

As a global leader in healthcare, we have the responsibility to serve as a role model and do the right thing and not only what is required by law. In line with this aspiration, we took concrete steps in 2015 to increase transparency and strengthen our ethical business practices. We launched a series of comprehensive, multiyear activities that aim to sharpen our ethical culture. They include new approaches to engaging healthcare professionals, as well as a reduction in promotional practices.



Question 3:

Novartis is legally obliged to disclose payments made to healthcare professionals in the US. To further promote ethical marketing of medicine we would like to see Novartis disclose all payments made to healthcare professionals, but we did not find evidence of this in our research. Is Novartis developing procedures to increase disclosure in this way? And if not, would you be willing to do so?

Novartis response:

Novartis believes that interactions with physicians and teaching hospitals play a critical role in advancing patient care and helping ensure that medicines are being used appropriately. Novartis supports the Physician Payments Sunshine Act and other initiatives that make these types of interactions and related payments and transfers of value more transparent. It is our hope that the dialogue about relationships between healthcare companies and healthcare professionals that these initiatives engender helps people better understand the importance of these relationships to quality patient care.

Since August 1, 2013 applicable Novartis Group companies have been reporting to the Centers for Medicare & Medicaid Services (CMS) payments and transfers of value provided to US licensed physicians and teaching hospitals to meet the Sunshine reporting obligations. Below is a link to the external NPC website, detailing our position and alignment with the federal guideline. Please note that all Novartis Group companies have an aligned position.

<http://www.pharma.us.novartis.com/info/corporate-responsibility/physicians-payments.jsp>

NPC, unlike the other US divisions, has been posting this data on its website (<http://www.pharma.us.novartis.com/info/corporate-responsibility/payment-to-healthcare.jsp>) since March 2011. Please find 2014 report attached.

Please also find a link to the Sunshine frequency asked question document available on the external NPC website. This document provides additional clarity on those physicians and teaching hospitals that are considered covered recipients under the Sunshine Act. <http://www.pharma.us.novartis.com/assets/pdf/sunshine-faq.pdf>

In Europe, Novartis applies the European Federation of Pharmaceutical Industries and Associations (EFPIA) Code. This industry-wide code requires EFPIA member companies, including Novartis Pharma AG, to disclose any transfers of value to healthcare professionals and healthcare organizations, and publish them on the internet as of 2016. Novartis is currently preparing its first report under the EFPIA Code.



Question 4:

We welcome the fact that Novartis has a base level of pay for all its employees. However, salary growth depends on individual performance. As we understand that the sales staff remuneration strategy is still based on volume-based targets, we would encourage you to introduce sales targets linked to different metrics in order to promote ethical conduct by sales personnel. Are there plans to do so? And if not, would you be willing to do so?

Novartis response:

In 2015, Novartis rolled out new Values and Behaviors – which are innovation, quality, collaboration, performance, courage and integrity.

Novartis launched a series of new initiatives to strengthen our culture and revise compensation and the bonus payment process of sales associates in 2015. As part of these initiatives, we have:

- Introduced performance metrics linked to ethical conduct by sales personnel
- Implemented a revised sales force pay mix to have less emphasis on volume based incentives
- Reinforced our sanctions and remedial actions in the event that one of our employees is found to have engaged in unlawful or unethical conduct
- Invested time and resources to implement the necessary training and controls to uphold the required high ethical standards across our business
- Integrity is an integral part of Novartis daily life and V&B

As mentioned, the behavior related to the six new values is one of the elements used to assess associates' performance. The assessment is part of a rigorous management process review in which observed Values and Behaviors are evaluated based on globally-defined principles. The assessment initially takes place during a discussion between associates and line managers, followed by a calibration and validation at multiple levels of the organization to allow for a fair, consistent, objective and transparent evaluation. During the calibration sessions, line managers share the proposed ratings of their direct reports with peers to ensure all apply a common framework, and they seek input and feedback on observed behaviors.

Please do not hesitate to contact us if you have any further enquiries or would like to organize a phone call to clarify your questions.

Yours sincerely,
Novartis AG

Samir Shah
Global Head Investor Relations

Attachments:

- 1) [Novartis Supplier Code](#)
- 2) [Novartis Pharma Principles and Practices for Professionals \(NP4\) Policy](#)
- 3) [Physician and Related Entity Payment Disclosure 2014](#)