

Ethics, Risk and Compliance

Anti-Bribery Report

2nd edition

January 2024

Letter from Klaus Moosmayer

Chief Ethics, Risk & Compliance Officer,
and member of the Executive Committee of Novartis.

At Novartis, we firmly believe that true and sustainable success can only be achieved with integrity. Our dedication to performing with integrity goes beyond mere words; it is ingrained in the very fabric of our company.

We understand that any form of bribery or corruption erodes trust, hinders sustainable economic development, and further exacerbates inequality and poverty especially when dealing with human lives. We will never be perfect, but we are determined to strive for a high standard by adhering to ethical business practices and corporate social responsibility and we take this task extremely seriously.

To achieve this, we are fostering an environment across every level of the organization that empowers the inherent desire of our people to 'do what's right' - for patients, society, Novartis, and themselves.

With our [Code of Ethics](#), we set the foundation to act with high ethical standards wherever we operate and be accountable for the way our business impacts people and the environment. We also strive to provide a safe place for our employees to speak up and act when they feel something is not right.

“We continue our efforts to reinforce integrity across our organization and foster a business culture in which ethics and compliance take center stage.”

*Jörg Reinhardt, Chair of the Board of Directors,
Novartis in Society Integrated report 2023.*

The year 2023 was of special relevance for our anti-bribery efforts. Let's highlight two important milestones:

1. In 2023, we combined our Professional Practices and Anti-Bribery policies into the [Doing Business Ethically Policy framework](#). This new policy is essential for achieving our mission as a fully focused medicines company and reinforces the message that we do not tolerate any form of bribery. The combined policy is supported by our new BeSure Platform which enables its digital implementation across the company.
2. On December 21st, 2023, the court granted the US Department of Justice's (DOJ) motion to dismiss the charges that were filed in connection with the June 2020 deferred prosecution agreement (DPA) entered into by Novartis Hellas. The DOJ determined that Novartis Hellas and Novartis AG had “fully met their disclosure obligations under the DPA, including full cooperation with the United States, implementation of an enhanced compliance program and procedures, and satisfaction of the terms of the provisions regarding self-reporting.”

For us, the closure of the Deferred Prosecution Agreement is an important reminder of our unwavering commitment to ethical conduct.

No one can win the fight against corruption alone. It needs a joint effort from all parts of society. I therefore strongly believe in the power of collective action to drive trust between society,

the public and the private sector, generating positive change.

That's why we, with other pharmaceutical companies, joined an initiative by Norges Bank Investment Management to jointly develop guidance on how to transparently report on anti-corruption efforts. This initiative was advised by the Basel Institute on Governance and resulted in a guidance note containing 17 indicators.

This is our second report that discloses how we address the indicators for anti-bribery compliance within our operations. In addition, we have extended the reporting scope to include topics we deem relevant within this context.

Through this report, we aim to not only share our strategies, successes, and challenges, but also to start a dialogue with other organizations to prioritize ethical business practices and to join us in our commitment to performing with integrity.

Yours sincerely,

Klaus Moosmayer

January 2024

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Theme 1: Culture

“I never want Novartis to achieve our financial performance or objectives because we compromised on our ethical standards or our values. We must always choose our values.”

- Vas Narasimhan,
Chief Executive Officer

Indicator 1.1

A baseline has been established to identify perceptions of the ethical culture/culture of integrity in the company. There is a methodology to measure/gauge changes to the culture over time.

We use two surveys to do this:

Global Ethics Survey

This annual survey is now in its third year. It is designed by a team of behavioral scientists and focuses on organizational and psychological roots of ethical behavior, grounded in cutting-edge academic research. In 2023, we received nearly 27,000 responses and have seen an increase in completion by 50% compared to the prior year.

Tailored insights and specific calls-for-action arising from the survey are disseminated to local Ethics, Risk and Compliance (ERC) professionals through a digital platform, called the ERC Control Room (local view) and ERC Control Tower (global oversight). We develop bespoke training materials that address key issues identified by the survey to help managers and associates drive ethical behavior in their teams. We use randomized controlled trials to extract further insights into the most effective practices for shaping ethical behavior. The insights from the global Ethics Survey also provide important input to our policies (like the Non-Retaliation or the Doing Business Ethically policy).

Culture Survey

Novartis also conducts a quarterly global engagement survey ('OurVoice' for internal associates, 'YourVoice' for external associates) that includes a section on our progress towards developing an inclusive and ethical culture. A tailored toolkit is available to leaders to address priority areas for their teams.

The results of both surveys drive conversations about our culture at global and local level so that corrective action can be taken where needed.

Indicator 1.2

The frequency (could be a percentage or absolute number) of references to ethics and compliance communicated internally and/or externally by the defined C-level persons.

Our senior leaders all place a strong emphasis on “doing what’s right” and living a “culture of ethics and integrity”. While we do not track specific citations nor the exact frequency of references to ethics and compliance, we absolutely recognize the importance of all senior leaders sending a strong and consistent message about ethical behavior in their communications.

For this report, we focus on the CEO and CERCO roles, who as members of the Executive Committee Novartis (ECN), regularly engage in dialogue with Novartis leaders, associates, and external parties on the topics of ethics and compliance.

Our CEO, Vas Narasimhan, regularly speaks to associates about the importance of ethical standards and values over financial performance. In 2023, he shared a video message on the importance of integrity being embedded in everything we do – this was part of his regular reminders on prioritizing ethical standards and values over financial performance.

In 2023, we combined our Professional Practices and Anti-Bribery policies into one policy framework called Doing Business Ethically. This along with the introduction of our new internal BeSure platform has provided an opportunity to communicate regularly with associates about the importance of ethical business practice and anti-bribery. This message has been reinforced in videos from our CEO and some of our top leaders on Doing Business Ethically.

All senior leaders participate regularly in ‘town hall’ meetings for Novartis associates at global, divisional, functional, and local level, and use these opportunities to reinforce the importance of ‘doing what’s right’. At Novartis, there is a very strong “tone from the top”.

Specific internal activities in 2023 include:

- Our CEO Vas Narasimhan shared a video message on the importance of integrity being embedded in everything we do – this was part of his regular reminders on prioritizing ethical standards and values over financial performance.
- Our CERCO addressed key ethics and compliance topics at several leadership team meetings.
- Our CERCO hosted a dedicated workshop on Doing Business Ethically to all Novartis country presidents in May 2023.
- Several news stories about ethics and compliance issues were published on the Global intranet including Fostering Ethical Conduct Through Psychological Safety, Ethical Decision Making in Times of Crisis, Information Security and Responsible Use of AI.
- Our annual ERC calendar includes training focused on Data Privacy and Information Security, Procurement, Insider Trading, Antitrust, SpeakUp, Adverse Events, Cybersecurity and Doing Business Ethically with focus on high-risk Anti-Bribery areas.
- In September 2023, our CEO reinforced our commitment to Doing Business Ethically during an annual meeting of Novartis' 100 top leaders.
- Multiple members of the Executive Committee Novartis (ECN), including the CEO, shared video statements on the importance of Doing Business Ethically to support the launch of the new policy framework.
- Our CERCO hosted an ERC Week for Operations, one of our organizational units.
- In October 2023, our CEO reinforced our commitment to Doing Business Ethically during a global town hall meeting, heralding a new era for Novartis.
- In November 2023, our CEO addressed our responsibility to Build Trust with Society during an Environmental, Social and Governance (ESG) Investor Day.
- Also in November 2023, our CERCO launched the company's third annual Global Ethics Survey, with the support of country presidents.
- Our CERCO attended and spoke at several regional locations about Doing Business Ethically in the Czech Republic, Japan, India, Mexico, Colombia, Brazil, and China
- Our CERCO reiterated Doing Business Ethically and other ERC topics at 3 global townhalls.

External communication

Senior leaders regularly engage with global, national, and local media, and participate in panel discussions and events. In 2023, our CEO and our CERCO participated in the *Meet Novartis Management* event where *Building Trust with Society* was a key topic. As members of the ECN ESG Committee, they oversee and endorse various communications on ethics and compliance related topics.

Our commitment to Integrity is highlighted in Novartis' external reports, including the Novartis Annual Report.

Our CERCO actively drives external communication via platforms such as the World Economic Forum (WEF), Business@OECD, the APEC Business Ethics Forum, the G20/B20 process and the Pharmaceutical Supply Chain Initiative.

He regularly shares insights and updates on our Ethics, Risk and Compliance program via LinkedIn, including several interviews with external publications that are shared widely.



Indicator 1.3

Does your performance management framework incorporate how ethics and integrity objectives are achieved (Y/N)?

The performance of all Novartis associates, including our CEO and other ECN members, is assessed via a performance management framework that uses both quantitative and qualitative criteria. The qualitative part, which includes our Values & Behaviors (Inspired, Curious, Unbossed, and Integrity), is a key component of the process. Our Values & Behaviors underpin our culture and describe the way we show up and interact with each other.

Compensation for our CEO is determined using a balanced scorecard which includes strong ESG targets, including ethical standards.

In 2023, we took the decision that for field force associates, the amount of incentive compensation tied to sales performance would increase from 80% to 100%, provided it aligns with our commitment to the Novartis [Code of Ethics](#), and our Values and Behaviors. Although we changed the sales performance to 100%, our field force associates are requested to continue to uphold high standards of integrity, remain accountable for compliance, and live up to our Values & Behaviors every day.

As a result of this change, failure to meet our Values & Behaviors, Novartis Policies, and the Code of Ethics can impact up to 100% of incentive payout, as well as awards, merit increases and other opportunities depending on the severity of the breach.

Our Performance Management framework: Evolve

Evolve is our performance management framework and emphasizes teamwork and feedback as a vehicle for growth and overall impact on the business. It includes our four Values & Behaviors: **Inspired, Curious, Unbossed, and Integrity**. Evolve no longer includes an individual performance rating.

Every associate is encouraged to achieve exceptional impact which is assessed via:

- 1. Performance beyond objectives (what)**

- 2. Contribution to the team/network performance (for whom)**

- 3. Role-modelling of Novartis Values & Behaviors (how)**

The annual impact meeting and regular feedback sessions held throughout the year now focus **equally** on the above factors. This means that achieving business objectives and aligning with company values receive equal weighting in compensation reviews.

Hiring for integrity

Ethics and Integrity also plays a significant role in rewards and compensation, talent acquisition, succession planning, employee engagement, and role of the manager. From a selection standpoint, our interview guides and assigned competency areas include questions to test whether the candidate fits with our Values & Behaviors as well as ethical judgement (“hiring for integrity”).

Leadership development and psychological safety

The manager has a critical role to play in setting expectations, role modelling and encouraging ethics and integrity. Our Team Boosters provide a forum for fostering psychological safety, principles-based decision-making, and integrity by sharing culture insights and behavior change ideas, helping all associates to become more Inspired, Curious and Unbossed.

Rewards

Reward considers the “how” as well as the “what” of an associate’s contribution and impact. Our SPARK recognition program allows every associate to reward others and reinforce behavior aligned to our Values & Behaviors by sending an electronic Appreciation Card or awarding virtual points that can be used for purchases as monetary equivalents. SPARK is used widely across Novartis.

Indicator 1.4

Ethics and Integrity are integral components in leadership decisions.



Ethics and Integrity play a key role in leadership decisions and are embedded at individual level across the organization. They are integral to our selection process, and we have developed and implemented several programs and tools to support leaders dealing with ethical dilemmas.

At Leadership level, these include:

Executive On-boarding Program

This ensures all newly appointed executives are trained by local Ethics, Risk and Compliance (ERC) professionals so they understand the company's expectations regarding ethical business practices and leadership. This reinforces the importance of ethics and compliance and emphasizes the significance of leaders' role modelling our organizational values. In 2023, a total of 107 appointed executives completed the training.

Ethics Conversations Toolkit

The Ethics Conversation Toolkit is a simple, virtual journey of self-discovery with three sections: Psychological safety, Ethics and me, and Ethics and my team. Each section contains a series of exercises, learnings and activities designed to help leaders create a culture of integrity, well-being, and satisfaction in their respective teams, and a psychologically safe environment to work in. In the course of 2023, we have seen 1,265 unique downloads of the Ethics Conversations Toolkit.

Psychological Safety Guidance

Collaborating across key functions, we have undertaken a project to identify new ways we can increase psychological safety between employees and their managers. Initial findings suggest that we can increase team level psychological safety and the perceived quality of the leadership in teams through adopting certain practices. These practical learnings are now being scaled up and embedded strategically across Novartis with a culture of speaking up and reporting potential misconduct being particularly emphasized.

Relevant ethics and compliance content is integrated in our global leadership training programs for middle managers and leaders to ensure both understand their role in fostering a culture of ethics and compliance at Novartis.

At all levels, these include:

Integrity as part of our Values & Behaviors

All Novartis associates are subject to a performance management process based on quantitative and qualitative criteria. For more detailed information please refer to Indicator 1.3.

Embedding our Code of Ethics

Novartis is committed to doing what is right. In September 2020, we launched our new [Code of Ethics](#) globally with input from more than 3,000 Novartis associates. The Code is anchored around core ethical commitments relating to anti-corruption, conflicts of interest, professional practices, and External Partner Risk Management, amongst others. It also includes four principles to help guide associates in ethical decision-making, i.e., Inspired, Curious, Unbossed and Integrity. We conduct an annual mandatory Code of Ethics e-Training and, in 2023, over 97% of associates completed the training.

Doing Business Ethically policy

In 2023, we combined our Professional Practices and Anti-Bribery policies into a single policy framework called Doing Business Ethically (DBE). The new policy reinforces our commitment to maintaining high standards of ethical business conduct and to not tolerating any form of bribery or corruption. The policy and its supporting handbooks comprise a new risk framework covering four requirements for managing any activity:

1. Defining clear objectives for the activity.

2. Identifying and assessing the risk associated with the activity.

3. Acting appropriately when conducting the activity.

4. Monitoring, reconciling, and learning once the activity is complete.

To support implementation, the process requirements outlined in the supporting activity handbooks are embedded within our BeSure platform, launched in November 2023 alongside the policy to ensure that policy, processes, and systems are fully integrated.

Global Compliance trainings

We regularly update our mandatory compliance training program which helps associates perform with integrity and make the right choices in the course of their work. Mandatory global compliance e-learning are rolled out to employees, including the members of the Executive Committee of Novartis and to the Board of Directors. External contractors, who are hired through a temporary staff agency and supervised day-to-day by a Novartis employee, are also required to complete the training.

“Why good people do bad things” program¹

An awareness program supporting our journey towards a value-based culture and aimed to help us foster a culture where mistakes are acknowledged, discussed, and learned from, and where there is a clear sense of “walking the talk” from the top. It is a half-day program based on real-life examples, allows for deep discussions in breakout sessions and helps to explore the difference between decisions based on legal reasoning and those based on values or ethics.

¹ Please also refer to [“Shaping the values for a sustainable future - Education for the fight against corruption, Business at OECD, 2023, p. 20f.](#)

Indicator 1.5

The company actively engages in Anti-Corruption Collective Action.

For this report, we focus on global initiatives only.

UN Global Compact (UNGC)

As a founding signatory of the UNGC, Novartis is committed to sharing its progress in implementing the 10 UNGC principles, including principle 10: *Businesses should work against corruption in all its forms, including extortion and bribery.*

UN Convention against Corruption

Novartis is a signatory to the CEO letter on the UN Convention against Corruption.

UN Global Compact's Call-to-Action

Novartis has joined the UN Global Compact's Call-to-Action from Business to Governments on the 20th Anniversary of the United Nations Convention against Corruption (UNCAC). The Call-to-Action is an appeal by companies to governments to intensify efforts to tackle corruption affecting business communities around the world together. It urges governments to emphasize anti-corruption and good governance as the fundamental pillars of a sustainable and inclusive global economy and embrace them as important principles of the 2030 Agenda for Sustainable Development.

United Nations Office on Drugs and Crime (UNODC)

In 2023, Novartis supported the UNODC Global Resource for Anti-Corruption Education and Youth Empowerment (GRACE) initiative to advance anti-corruption, ethics, and integrity education at the university level.

WEF Partnering Against Corruption Initiative

In October 2020, Novartis became a signatory to the WEF *Partnering Against Corruption* Initiative (PACI), the primary CEO-led anti-corruption platform, built on the pillars of public-private cooperation, responsible leadership, and technological advances. Our CERCO is a member of the WEF Global Future Council.

As a member of the PACI Steering Committee (steerco), our CERCO is directly involved in the governance of PACI's strategic direction and ongoing activities. The steerco comprises up to ten members who can actively engage in workstreams, act as ambassadors, and connect PACI's efforts with broader initiatives. The group plays a crucial role in identifying topics that the community can and should lead. Decisions on developing workstreams and topics to prioritize require a simple majority of those present at the meeting.

B20 Integrity & Compliance Task Forces

Since 2019, Novartis has actively supported the B20 Integrity & Compliance Task Forces under the Presidencies of Saudi Arabia, Italy, and Indonesia where our CERCO was a Co-Chair. Novartis also

participated in the B20 2023 cycle in India as part of the Business Action Council on ESG.

Organization for Economic Co-operation and Development (OECD)

Novartis participates in the OECD Compliance without Borders program (CwB), a peer learning initiative to deliver practical improvements to integrity in State-Owned Enterprises (SOEs). Its purpose is to use co-operation to reduce the risk of corruption, build high-quality compliance systems and improve integrity standards in the management and operation of SOEs.

CwB draws on the OECD Recommendation on Guidelines on Anti-Corruption and Integrity in State-Owned Enterprises and is implemented through a cooperation between the OECD's Trust in Business initiative and the Basel Institute on Governance. The program is also a flagship activity of the Global Initiative to Galvanize the Private Sector as Partners to Combat Corruption (GPS), developed in partnership with the US Department of State.

Anti-Corruption Leaders Hub

Our CERCO is a member of the Anti-Corruption Leaders Hub, a group of senior executives from global enterprises established by the OECD and the US State Department. The Hub promotes anti-corruption efforts through the exchange of strategic insights and the implementation of multistakeholder actions. Novartis has committed to championing the Global Initiative to Galvanize the Private Sector as partners to combat corruption (GPS), in partnership with the US State Department.

Business at OECD (BIAC)

Novartis is a member of the Business at OECD (BIAC) where our CERCO serves as an executive board member. In addition, Novartis is co-chairing its Anti-Corruption Committee. As part of this role, we have contributed to BIAC's publication "[Shaping the values for a sustainable future - Education for the fight against corruption](#)". This was also shared with the OECD Secretariat and the delegates of the OECD Working Group on Bribery (WGB).

Transparency International UK

In 2023, alongside other contributors, we have supported a Transparency International UK thought leadership research project which aims to:

- Help companies embed anti-bribery and corruption (ABC) within their ESG strategy.
- Leverage their Anti-Bribery Program and expertise to implement a coordinated ESG risk management system which demonstrates a commitment to integrity.

International Federation of Pharmaceutical Manufacturers and Associations (IFPMA)

Novartis is a member of various industry associations such as the IFPMA which promotes policies that foster innovation, resilient regulatory systems, and high standards of quality. These help to uphold ethical practices and advocate sustainable health policies to meet patient and health system needs.

European Chief Compliance and Business Integrity Officer Forum (ECCIOF)

Our CERCO co-founded and chaired a not-for-profit association of compliance heads from major

European companies.

While Novartis views its Ethics, Risk & Compliance (ERC) framework as the main guidance in decision-making and acting with integrity, it also views ERC as a key enabler to lower barriers to healthcare delivery. As part of our Global Health and Sustainability (GH&S) program, our ERC function plays an important role in shaping the external environment in Sub-Saharan Africa (SSA) to remove corruption as a barrier to equitable access to medicine and improving population health.

Below are several initiatives driven by ERC in SSA:

- Driving Africa Strategy workstream as part of the IFPMA Multi-Lateral Organizations working group to help shape the external environment in Africa.
- Providing mentors to the IFPMA Ethics and Business Integrity Committee (eBIC) Africa Mentor Network that aims to build capacity for Africa industrial associations' ethics committees and related activities in the region.
- Working with the Alliance for Integrity in promoting transparency and integrity through events with the participation of public officials from the Economic Community of West African States (ECOWAS).
- Providing resources to local industrial associations in Kenya, Senegal, and South Africa.
- Playing an instrumental role in the sign-off of the first ethical consensus framework in Kenya and one year later in Cote d'Ivoire.

Theme 2:

Risk management

“As a global company, our resilience in challenging times is directly related to our ability to detect risks early and to mitigate and monitor them.

Taking a balanced risk mindset, where the emphasis is on smart risk taking, enables Novartis, or any large organization for that matter, to respond to threats and crises with a united approach, ensuring business continuity.”

- Klaus Moosmayer

Chief Ethics, Risk and Compliance Officer

Indicator 2.1

The company has an anti-corruption compliance risk program which it uses to give regular updates to senior leaders and board members on how risks are being managed.



Novartis has a robust end-to-end Compliance Risk Assessment and Management program (RAM). RAM covers local business units in all geographies and includes first and second line risk management functions. It is designed to assess, mitigate and monitor compliance risks covered by relevant compliance policies, guidelines, or standards, and to monitor and report on the execution of activities and controls.

As stipulated in the Novartis Regulations of the Board of Directors, the Board Committees, and the Executive Committee of Novartis AG, the Audit and Compliance Committee (ACC) reviews the processes and procedures used by management to execute an effective compliance program at least annually.

In the RAM process, the business units' management is responsible for performing an annual Compliance Risk Assessment to identify and assess the primary compliance risks based on the business strategy and objectives. The annual process starts on February 1 and ends the following year on January 31.

Annual testing is performed for all relevant activities to identify potential deficiencies. Testing criteria follows the requirements set by global policies, guidelines, and local standard operating procedures.

Local teams throughout the organization are responsible for the development of a mitigation plan to minimize the likelihood and/or impact of compliance risks occurring.

These risks are continuously monitored at the company level throughout the year. The Compliance Risk Management Board with divisional and global risk assurance functions representation oversees all important developments in this area.

Compliance controls are annually evaluated. In addition, business leaders and function representatives (including Ethics & Compliance function) come together once a year for the Novartis Annual Risk Workshop to discuss and consolidate the Company's prioritized risk portfolio as part of the Enterprise Risk Management (ERM) process which is also under the responsibility of the Ethics, Risk and Compliance function. The ERM team assists the discussion and drives the challenge and consolidation of:

1. Novartis business risk portfolios.
2. Second and third lines of defense inputs.
3. External insights, leading to the definition of the Novartis top risks in the 'Novartis Risk Compass'.

In the Novartis Risk Compass, risks are categorized as Strategic, Operational, Emerging, or as Awareness Topics. "Awareness Topics" are longer term trending topics that have the potential to become new risks. "Regulatory, Ethics and Compliance" is one of our Operational Risks.

The Novartis Risk Compass enables senior management and the Novartis Board of Directors to focus discussions on key risks, allowing them to align the company strategy more closely with our risk exposure, and [ways of working](#).

At Novartis, our continued success depends on our ability to manage risks. Our Board has ultimate oversight, and its Risk Committee oversees the risk management system and processes. It regularly reviews the most significant risks and how these risks are managed. For more detail on our ERM process, please refer to our [Annual report and our Novartis in Society Integrated Report](#).

Indicator 2.2

The percentage of business functions that are included in the anti-corruption risk assessment.



In 2023, all 143 units defined in RAM, which corresponds to 100% of units in scope (see Indicator 2.1) have conducted the anti-corruption risk assessment. The term “business unit” extends beyond the Novartis legal entities.

Around 22,000 samples of various activities were tested by the respective business units. All RAM results are covered in the Novartis RAM tool which provides a systematic and harmonized approach to managing compliance risks across all Novartis divisions and organizational units.

Indicator 2.3

The company has established anti-corruption compliance KPIs that are used to measure the compliance program.

Novartis has developed and implemented a methodology to measure the maturity and effectiveness of its Compliance Management System.

This Compliance Evaluation Program was established in 2020 and provides a standardized annual assessment of our compliance program, measuring progress over time. We believe it is critical to ensure the program is both well-designed and implemented across Novartis.

We have developed metrics to measure all key elements of our compliance program across these two dimensions:

Dimension	Objective
Maturity	<p>Does the Compliance Program</p> <ul style="list-style-type: none">encompass what it should across all pillars, andis supplemented and executed as designed across Novartis?
Effectiveness	<p>Is the Compliance Program</p> <ul style="list-style-type: none">driving the outcomes we want to achieve?

The annual evaluation covers the following six pillars:

1. Compliance Risk Management
2. Compliance Policy Management
3. Compliance Training and Communications
4. Misconduct Reporting and Investigations
5. Organization and Governance
6. Ethical Culture

Our methodology combines extensive input, expert judgement, and qualitative measures to provide simple insights on a comprehensible and nuanced scale. We regularly seek to measure the maturity

and effectiveness of the Compliance Management System, considering the results from the compliance controls self-assessment, and other performance indicators.

We further enhanced our approach in 2022, conducting a review of the program to evaluate our Compliance Management System, supported by an external not-for-profit organization focused on governance and anti-corruption.

Overall, our methodology is considered to be both dynamic and robust.

Theme 3:

Third parties

“Our success depends on strong, reliable, and reputable partners. They help us build trust with all our stakeholders by living up to the same standards.”

- Novartis Code of Ethics

Indicator 3.1

Percentage of Third-Party reviews conducted.

Our External Partner Risk Management Framework (EPRM)² ensures that we only engage with external partners who conduct business in a manner that is consistent with our values and standards, as defined in the [Novartis Third Party Code](#)³.

The EPRM framework promotes ethical behavior and fosters sustainability across our supply chain. We carry out regular risk assessments and audits among third parties in risk areas including health, safety and environment, labor rights, information security, and anti-bribery and corruption. Over the past four years, we have assessed 99% of our tier one suppliers in operations that play a critical role in our supply chain.

With respect to anti-bribery, all external partners that pose more than a low risk are subject to an anti-bribery risk assessment. With this approach, our goal is to better understand and mitigate potential risks with our external partners, be they intermediaries or our customers. Hence, as of April 2022, we extended the scope of our Anti-Bribery EPRM program to perform risk assessments on wholesalers and distributors in addition to vendors and suppliers to ensure a standardized and globally consistent manner of assessing our external partners.

In 2023, we have assessed 1,130 external partners as part of our Anti-Bribery External Partner Risk Management Program compared to 1,393 in 2022.

Since 2020, we have implemented a comprehensive framework and program for conducting anti-bribery audits of selected external partners. This program is managed by a dedicated external partner Anti-Bribery Audit team. The selection of external partners for audits is based on prioritization and selection criteria, including the corruption risk perceived in a particular country, outcome of the initial Anti-Bribery due diligence assessment, and the nature of the relationship with the external partners.

To conduct these audits, we engage external audit firms under the coordination and oversight of the dedicated External Partner Anti-Bribery Audit team. This team not only manages the audit process but also provides support to external partners and business owners in remediating any identified gaps.

In 2023, a total of 43 anti-bribery audits were completed compared to 32 audits in 2022. The recommendations serve as a roadmap for external partners to enhance their anti-bribery measures and ensure compliance with our ethical standards.

² At Novartis, we have changed our terminology and refer to our third parties (such as suppliers, wholesalers, distributors) as external partners. As we broaden our due diligence activities within the value chain beyond “third parties” and other immediate contract partners, we felt it more appropriate to change the name to External Partner Risk Management.

³ Documents still referencing third parties will be updated in 2024.

Indicator 3.2

How the findings from Third Party reviews are addressed.



Our External Partner Risk Management (EPRM) framework is designed to manage interactions with external partners for the purpose of assessing, mitigating, and monitoring the ongoing risk that each external partner relationship represents, along with the different risk areas represented within said framework.

The Business Owner initiates the process, and its outcome determines whether a commitment with the external partners can be made or if additional steps (e.g., remediation or additional contract clauses) are first required.

Reassessment takes place every three years or when deemed necessary as a result of a monitoring alert that requires an updated review with the external partners. The Business Owner owns and manages the risks identified during the entire relationship lifecycle.

All external partners are required to complete an anti-bribery risk assessment (this includes new and existing external partners whose contracts are to be renewed) are subject to the following:

- A **pre-assessment** to determine the level of due diligence required. This is done based on risk-related factors such as geography and type of prospective services requested.
- **Due diligence** which includes a background check performed by a specialized external consultant and a questionnaire to be completed by the external partners.
- An **automated risk summary** which includes a risk classification (low, medium, high) for all assessed external partners based on the due diligence findings. This ensures consistency in decision making.

- An **internal review of the risks** by various stakeholders depending on the risk level assigned to the external partners. Risk mitigation measures are put in place to address any red flags identified.
- Inclusion of specific **mandatory compliance clauses** in the respective contract for all external partner engagements. Those with an assigned risk level of medium and high are required to provide confirmation that they have complied with the legal and contractual obligations in relation to anti-bribery and anti-corruption on an annual basis.
- Other **risk mitigation measures** include training to external partners if during the due diligence process it was identified that they do not have their own compliance training program (please also refer to Indicator 3.3).
- **Ongoing monitoring** throughout the contract's duration, up to a maximum of three years after which the due diligence must be renewed, with the external partner subject to an anti-bribery audit, depending on the selection criteria mentioned in Indicator 3.1.

In addition, we have established a comprehensive monitoring / audit framework, which includes compliance review and remediation and external partner anti-bribery audits conducted by internationally recognized external audit firms.

An anti-bribery audit comprises a standard scope, which assesses the compliance framework established by the external partners and additional risk areas tailored to the scope of the external partners activities on behalf of Novartis (e.g., promotional practices for external partners engaged in promotion of products). Each anti-bribery audit comprises a process walk through, document review, and sample testing. The report and expected remediation actions inform our internal risk assessments are shared with the respective external partner.

Indicator 3.3

Percentage of Third Parties that improve their anti-corruption compliance program.

We provide our external partners with the following tools to improve their anti-corruption compliance programs:

Annual Compliance Confirmation (ACC)

We request this annual attestation from the external partners to confirm their compliance with the law and to confirm the validity of the information collected as part of due diligence. The ACC helps us to track any compliance or material changes that the external partners might have undergone since its engagement with Novartis and draw necessary mitigation plans. In 2023, we have collected ACCs from 91% of in-scope external partners.

Training and Code of Conduct program

As one of our key initiatives, this program supports our external partners' anti-corruption compliance, providing external partners with a dedicated tool for training their associates and creating their own Code of Conduct. We have digitized and automated the entire process of monitoring the training program and emphasis has been given to making these processes simple and user-friendly.

Additional elements favoring ethical expectations from our external partners

Our Novartis [Third Party Code](#), covers several aspects including anti-bribery, human rights, labor rights, fair competition, and environmental sustainability and is attached to every supplier contract. In January 2023, we updated the code to further clarify our expectations on human rights due diligence, environmental compliance, and environmental sustainability.

Enhanced reporting

Identifiable synergies between the company's human rights and anti-bribery risk management across the value chain.

Our Code of Ethics sets out how we aim to act with high ethical standards wherever we operate and to be accountable for the way our business impacts society. Embodied in our Code is our commitment to “conduct our business in a manner that respects the rights and dignity of all people”.

To foster increased collaboration between our human rights and anti-bribery risk management with external partners, we have convened a human rights capability building workshop for our anti-bribery risk experts, enabling them to identify human rights risks in their anti-bribery and corruption risk assessments and due diligence with external partners.

We have updated our external partner risk questionnaire and expanded the scope of our background checks to include human rights risks for all external partners that are in scope for anti-bribery and corruption assessments. In parallel, we have leveraged data from existing anti-bribery due diligence to inform both human rights and anti-bribery risks, as part of our human rights impact assessments in specific markets.

We have used the International Organization of Employers (IOE) and Business at OECD (BIAC) guide⁴ as a reference to conduct a gap assessment to identify further synergies and opportunities to increase collaboration between our human rights and anti-bribery program. We plan to continue implementing initiatives to close gaps and strengthen the management ties between human rights and anti-bribery and corruption.

⁴ [Connecting the anti-corruption and human rights agendas - Guide for business and employers' organizations - September 2020.pdf \(hubspotusercontent-eu1.net\)](https://www.hubspotusercontent-eu1.net)

Enhanced reporting

How does the company address potential risks arising from novel technologies like Artificial Intelligence (AI)?

The use of new technology, including AI or generative AI is paramount to driving innovation. We believe that any development, application, or use of an AI system should be governed within ethical principles that are fully aligned to our Code of Ethics, as set out in our commitment to the ethical and responsible use of AI already established in 2020.

In October 2023, we started to implement a new AI Risk and Compliance Management framework to safeguard us from risks stemming from new AI-based technology. Once implemented, it will provide a fully integrated, structured, and comprehensive approach to assessing and managing risks relating to the exploration, design, development, deployment, and usage of AI systems. The framework includes a two-stage process to identify the potential impact of an AI system and then to treat and monitor the risks that are associated with high-risk applications.

Theme 4: The Compliance function

“As One ERC, we take our responsibility of ensuring Novartis holds itself to high ethical standards seriously. We strive for excellence as we support Novartis to be compliant, and effectively navigate risks, and we do this with great pride.

Our objective is to enable our associates to do what's right in all engagements and to deliver for patients with uncompromising integrity.”

- Extract from the Novartis ERC Charter

Indicator 4.1

The organizational structure of the company is transparent, including the location of the compliance function within the structure, and it identifies where the Chief Compliance Officer is situated.



The Novartis organizational structure is published on our external website: [Novartis Organizational Structure](#) and shows clearly where the ERC function and CERCO are based.

Our CERCO reports to the CEO and is a permanent member of the Executive Committee of Novartis (ECN).

The role has global responsibility for overseeing, developing, implementing, and maintaining an effective ERC program in alignment with the Novartis corporate strategy, and is fully supported by the Executive Committee Novartis (ECN).

The various organizational units are responsible for implementing the ERC program within their respective areas. The Global heads of ERC within each organizational unit are responsible for contributing to the development of the ERC program and leading its implementation within their respective areas.

Within the International and US organizational units, regional ERC heads support the countries and ensure the proper implementation of the ERC program within the respective region.

Indicator 4.2

The governance structure of the company enables the Chief Compliance Officer to execute her / his responsibilities impartially.

Klaus Moosmayer was appointed in 2018 as Chief Ethics, Risk & Compliance Officer (CERCO) and is a member of the Executive Committee of Novartis (ECN). As mentioned in Indicator 4.1, he reports operationally to Vas Narasimhan, our Chief Executive Officer (CEO) and so has the seniority and authority to fulfil the duties of the role effectively and impartially.

Klaus Moosmayer brings to the position a global reputation as a leader in the field of ethics and compliance. He was previously Chief Compliance Officer at Siemens AG, and the first head of compliance from a company to be invited to address the General Assembly of the United Nations on the issue of fighting corruption.

For many years he has been involved in global integrity, compliance, and anti-corruption bodies to represent business for example at the OECD, G20/B20, WEF and other institutions. He also co-founded and chaired a not-for-profit association of compliance heads from major European companies.

As CERCO of Novartis, he leads the Ethics, Risk and Compliance function that helps the company to deliver on its strategy to build trust with society. His role is independent and separate from any business or other corporate functions, such as the Legal function.

Klaus Moosmayer is a permanent member of the ECN ESG Committee, which is chaired by our CEO. The ECN ESG committee is responsible for the oversight of the strategy and progress in each of the key areas underpinning the Novartis strategic priority to build trust with society, which includes the ERC program. The committee meets at least quarterly. He is also a member of the Finance and Governance Committee (FGC), the Disclosure and the Deal Committee (DC), which are sub-committees of the Executive Committee of Novartis.

The CERCO is a permanent attendee of the Risk Committee (RC) and the Audit and Compliance Committee (ACC) of the Novartis Board of Directors. Both are sub-committees of the Board of Directors and meet quarterly. If needed, the CERCO can request a closed session with the RC, ACC, or the Chairman of the Board of Directors.

Indicator 4.3

Ethics and integrity are integral components in all talent and leadership development programs.

Establishing a culture of integrity relies on strong, ethical leadership and Novartis is keen to ensure that leaders are well equipped to identify and manage risks and role model ethical leadership. Our Values & Behaviors (which includes Integrity) therefore form an integral part of all talent and leadership development programs at Novartis.

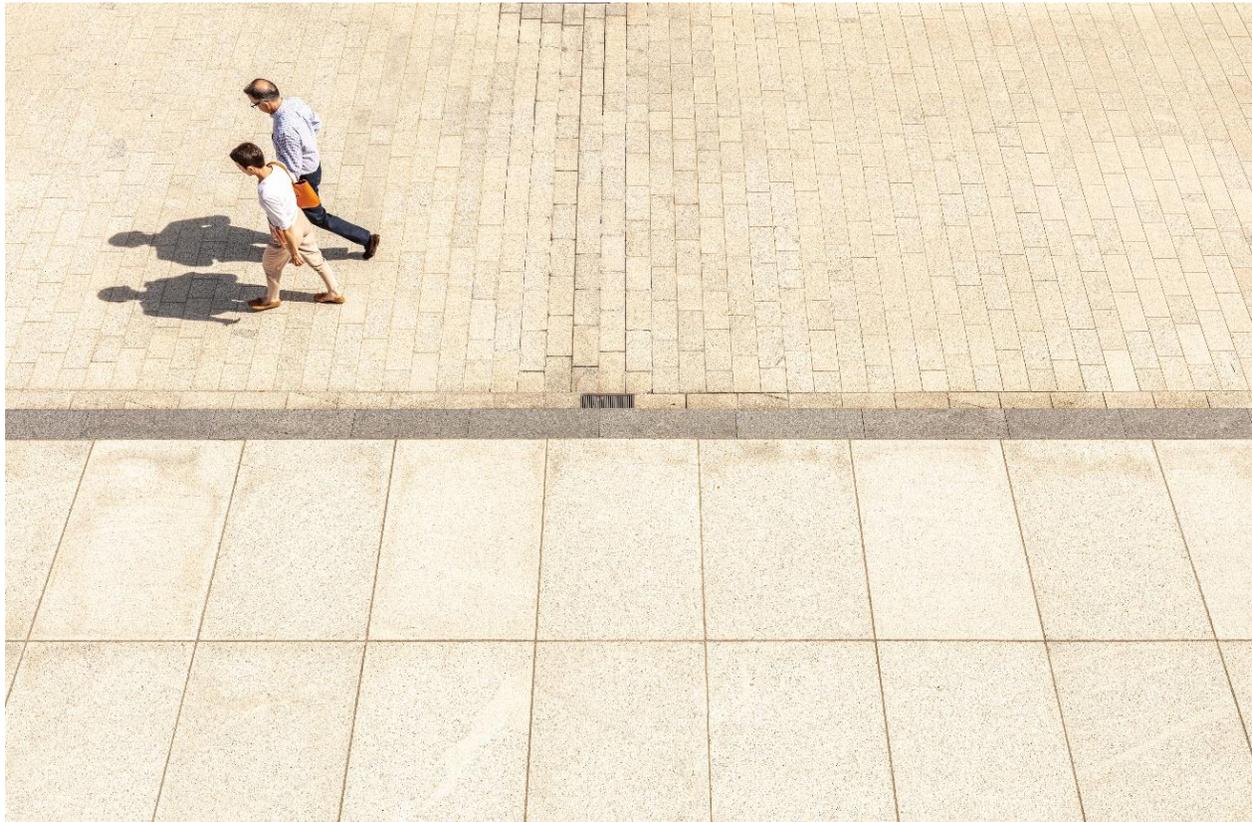
The Executive On-boarding Program provides new local Executive leaders with training in ethical business practices, enables a partnering relationship between local leaders and ERC and ensures business goals can be achieved ethically.

More generally, we take an 'end-to-end' approach to associate development from recruiting and onboarding, through professional and leadership development and reinforcing the importance of ethical behavior plays a key role in this.

For more details, please refer to Indicators 1.3 and 1.4.

Indicator 4.4

The program is adequately resourced and empowered to function effectively.



To be effective, a compliance management system requires a strong commitment from senior and middle management across the organization, adequate and capable resources within the risk function, and oversight at the executive and board level.

Our Ethics, Risk and Compliance (ERC) program is adequately resourced and empowered. All ERC associates report directly into the function, which strengthens the function's independence. To ensure we maintain close proximity to the business, all Country ERC Heads remain a member of their Country Leadership Teams. The ERC budget is owned and managed centrally to ensure funding for corporate and unit ERC initiatives.

Novartis employs over 500 ERC associates who oversee our activities and risk areas, and the function is fully integrated within all operating units and leadership teams at all levels of the organization.

The structure of our ERC organization mirrors the organizational structure of Novartis. This ensures that ERC maintains close proximity with the business and operating units. Across all levels, ERC maintains a seat at the leadership table where key decisions on strategy and execution are made.

Creating a standalone Ethics, Risk & Compliance Organization, elevating the role of the CERCO as permanent member of the ECN, reporting directly into the CEO highlights the importance Novartis places on this function's independence (see indicator 4.2). This decision at the top cascaded through all layers of the organization, with ERC having a seat in the leadership team of all units at global, regional, and country level.

We recognize that our greatest strength is our people, whose diversity, energy, and creativity are crucial to our success which is why we continue to provide extensive funding to the functions. Since 2021, the Speak Up Office (our whistleblower program), HSE governance, Data Privacy, Digital and AI Compliance, Environmental Remediation and Liabilities, and external partners Labor Rights have joined the ERC function and further enhanced the remit. Only recently, the ERC function also assumed the governance responsibility for Trade Sanctions Compliance.

Budget is evaluated throughout the year and the impartial role of ERC enables the program to function effectively. Since 2020, we have seen a steady increase in our function's budget. This growth has been driven by increased scope (inclusion of new functions within ERC) and project costs (to drive process optimization and increased oversight by leveraging new technologies). This continued investment over the years reflects the organization's commitment to sustainably embed compliance within our ways of working. By leveraging advancements in technology and insights generated through our analytics, we continuously find ways to automate, simplify and harmonize ERC processes across the organization.

Indicator 4.5

The frequency of the board actively reviewing the sufficiency of resources allocated to the global anti-corruption and bribery program including the compliance function.

As stipulated in the Novartis Regulations of the Board of Directors, the Board Committees and the Executive Committee of Novartis AG, the Audit and Compliance Committee (ACC) of the Board reviews at least annually the processes and procedures used by management to execute an effective compliance program.

Our CERCO presents on a regular basis to the Board of Directors and its sub-committees. He also has private sessions with the Chair of the Board of Directors to discuss ethics, risk, and compliance topics.

The results and insights of the annual evaluation (see Indicator 2.3.) are presented by the CERCO and discussed with the Executive Committee Novartis (ECN) as well as the ACC of the Board. This evaluation also includes relevant aspects of:

- Support of business units by the assigned dedicated ERC partner.
- Turnover of the ERC partner and their training.
- Open and filled ERC partner roles.

For identified improvement areas, relevant actions to ensure program effectiveness are also discussed with this committee. This provides the opportunity to address topics related to the sufficiency of resources.

Theme 5: Oversight

Indicator 5.1

Access by the Chief Compliance Officer to the Board, including the Board committees (i.e. supervisory level of the company) on a formalized basis and the actual frequency of that access in practice.



In 2023, the CERCO attended all quarterly Board of Director meetings including a two-day Strategy meeting. He also participated in all quarterly meetings of the Audit and Compliance Committee as well as the Risk Committee.

The CERCO also held four private sessions with the Chairman of the Board of Directors.

Please refer to Indicator 4.2 for further information.

“We will always do our work without compromising our ethics in the name of performance.

We know in the long run we will be measured not only by our financial performance and our innovation performance, but how we deal with the stakeholders in society, how we act every single day to build that invaluable trust.”

*- Vas Narasimhan,
Chief Executive Officer*

Summary

Acting in an ethical manner is essential to building trust with society. We hold ourselves accountable to not only do what is legally required, but to set high standards of ethical behavior and share information about our anti-corruption efforts.

In June 2020, Novartis reached a settlement with the DOJ that resolved all FCPA investigations into historical conduct by Novartis and its subsidiaries. To resolve the DOJ investigation, Novartis Hellas entered into a deferred prosecution agreement (DPA) with the DOJ. The DPA contained certain reporting and compliance obligations for a three-year term, which ended on June 26, 2023. On December 21st, 2023, the court granted DOJ's motion to dismiss the charges that were filed in connection with the DPA. DOJ determined that Novartis Hellas and Novartis AG had "fully met their disclosure obligations under the DPA, including full cooperation with the United States, implementation of an enhanced compliance program and procedures, and satisfaction of the terms of the provisions regarding self-reporting," and this matter is now concluded.

We aim to be fully transparent in what we do and how we contribute to the fight against any form of bribery and corruption. For Novartis, openness and transparency are not only elements of good governance but hallmarks of strong and trustful relationships that we desire to build and maintain with our stakeholders and society.

This is our second external report. As well as demonstrating our commitment to meeting all reporting indicators as required by the Norges Bank Investment Management guidance, we have also addressed other areas we deem to be important. Hence, we are delivering on our aspiration to expand the report beyond the published indicators to cover other areas that might be of interest to our external stakeholders and society over the next few years.



Glossary

ABC	Anti-Bribery and Corruption	FGC	Finance and Governance Committee
ACC	Audit and Compliance Committee	GH&S	Global Health and Sustainability
ACC	Annual Compliance Confirmation	GPS	Galvanize the Private Sector as Partners to Combat Corruption
BIAC	Business at OECD	GRACE	Global Resource for Anti-Corruption Education and Youth Empowerment
CEO	Chief Executive Officer	HSE	Health, Safety and Environment
CERCO	Chief Ethics, Risk & Compliance Officer	IFPMA	International Federation of Pharmaceutical Manufacturers and Associations
CwB	Compliance without Borders program	IOE	International Organization of Employers
DBE	Doing Business Ethically	OECD	Organization for Economic Co-operation and Development
DC	Disclosure and the Deal Committee	PACI	Partnering Against Corruption Initiative
DOJ	Department of Justice	RAM	Compliance Risk Assessment and Management
eBIC	Ethics and Business Integrity Committee	SEC	Securities and Exchange Commission
ECCIOF	European Chief Compliance and Business Integrity Officer Forum	SOE	State-Owned Enterprises
ECN	Executive Committee Novartis	SOX	Sarbanes - Oxley Act
ECOWAS	Ethics and Business Integrity Committee	SSA	Sub-Saharan Africa
EPRM	External Partner Risk Management	UNCAC	United Nations Convention against Corruption
ERC	Ethics, Risk and Compliance	UNGC	UN Global Compact
ERM	Enterprise Risk Management	UNODC	United Nations Office on Drugs and Crime
ESG	Environmental, Social and Governance		