NOVARTIS

HIGHLIGHTS 2014

Novartis is a global healthcare company based in Basel, Switzerland, with roots dating back more than 150 years. We provide healthcare solutions that address the evolving needs of patients and societies worldwide. Our portfolio focuses on pharmaceuticals, eye care products and generic medicines. Novartis products are available in more than 180 countries worldwide. About 133 000 associates of 150 nationalities worked to help our products reach more than 1 billion people globally in 2014.

58.0 bn
Net sales (USD)

1 bn+
Patients reached with Novartis products

9.9 bn
Group R&D spend, amounting to 17.1% of net sales (USD)

100%
Of top 20 conditions causing the global disease burden addressed by our portfolio

#4
Novartis rank in Access to Medicine Index, up three positions from 2012

700 m
Malaria treatments delivered without profit since 2001

122 689
Associates completed Code of Conduct e-training and certification

40%
Novartis Group company managers are women

12.1%
Reduction in greenhouse gas emissions since 2008, while business has grown by 21%

Cover
Maria Lúcia Martins Moreira (left), shortly before undergoing cataract surgery at an eye care clinic in São Paulo, Brazil. The clinic uses surgical equipment supplied by Alcon.

Joerg Reinhardt
Chairman of the Board of Directors

DEAR READER,

In 2014, Novartis initiated a major structural, operational and cultural transformation with the goal of strengthening the company for the long term. The sharpening of our portfolio, the restructuring of our internal services and the revision of our Values and Behaviors will put us in a position to profitably grow our businesses in pharmaceuticals, eye care and generics and enable us to address growing healthcare needs around the world.

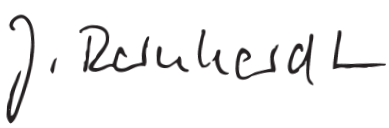
As we strive for sustainable growth, we must remain dedicated to corporate responsibility. For Novartis, this includes improving access to healthcare and strengthening our ethical business practices, which we consider vital for the sustainable success of Novartis and where we see further potential for improvement. Progress in healthcare relies on making important therapies available to the people who need them, whatever their means; and our focus on ethical business practices as an integral part of our business is essential to long-term success in all markets.

Despite the great advances in providing sustainable healthcare solutions in developing countries, concerted efforts and new ideas from healthcare players are needed to address pressing patient needs in regions such as Africa, Asia and Latin America. For instance, the Ebola outbreak in western Africa emphasizes the need for stronger collaboration between all stakeholders to rebuild and reinforce healthcare systems, the need for healthcare players to respond quickly to emergencies, and the potential impact of innovation to address emerging threats to health.

Developing new and innovative ways to reach more patients has always been important to Novartis and will remain so in the future. Working closely together with key stakeholders, we have developed new models to expand access to our therapies and continued our program to provide malaria treatments to millions of patients. In parallel, we have accelerated our research efforts to find effective treatments for communicable diseases.

We have also made substantial progress in providing access to healthcare information and treatment in predominantly rural regions of the developing world through innovative social business initiatives, such as Arogya Parivar in India. The lasting impact of this initiative on millions of people has encouraged us to pursue similar initiatives in Kenya, Indonesia and Vietnam, which we aim to expand.

We are aware that our business success and our ability to generate trust with our stakeholders will depend on our capacity to provide innovative and affordable medicines to our patients, as well as our willingness to meet the highest ethical standards while executing our business. As we continue to evolve our culture and reinforce our focus on integrity, I am convinced that we will continue to make progress as we remain dedicated to doing business responsibly in the interest of our stakeholders.



Joerg Reinhardt
Chairman of the Board of Directors

Left: **Joseph Jimenez**
Chief Executive Officer

Right: **Juergen Brokatzky-Geiger**
Global Head, Corporate Responsibility

WELCOME

We are pleased to share our 2014 Corporate Responsibility (CR) Performance Report, which outlines the progress we have made and underlines our determination to remain a leader in CR.

Last year was an important one at Novartis. We transformed our business, restructured internal operations and delivered strong financial performance, while also reaching more than 1 billion patients in over 180 countries with our products.

Our business strategy is to improve treatment outcomes for patients through science-based innovation. We strive to deliver benefits for patients and healthcare providers, from improving the cost-effectiveness of high quality treatment to prolonging lives. We aim to lead in growing areas of healthcare and to expand our presence in emerging markets across Asia, Africa and Latin America.

We realize there remains considerable unmet medical need around the world, particularly in these emerging markets. That is why CR is integral to the company's strategy. Novartis reached 72.4 million patients through access to healthcare programs worldwide in 2014. We also reached 6.6 million people with health education across India, Kenya, Vietnam and Indonesia through social business initiatives.

We supported Malaria No More's Power of One campaign and matched funds raised by our associates to make a total donation of close to 1 million antimalarial treatments for children in Zambia and Kenya. We have now delivered more than 700 million antimalarial treatments without profit since 2001.

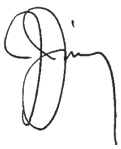
Reinforcing our efforts to get more medicines to more people, we set up an Access to Medicine Committee comprising leaders from each of the company's key businesses to identify and assess opportunities to continue expanding access. We know there is more to be done, and we intend to go even further in widening access in the coming year.

In 2014, we also took steps to reaffirm the company's focus on doing business responsibly. New Novartis Values and Behaviors have an increased emphasis on integrity and the courage to do the right thing in the face of resistance or moral dilemmas. We named former Novartis Pharmaceuticals Chief Commercial Officer Eric Cornut as Chief Ethics, Compliance and Policy Officer. This appointment elevates the Compliance function to the highest levels in the company and will further ingrain ethics into our culture.

Although we are embedding a culture of high performance with integrity, we acknowledge that issues can still arise in a global organization such as ours. We are determined to take swift action whenever they do. We also remain committed to offsetting greenhouse gas emissions. Having met or exceeded our 2014 environmental targets, we are reviewing and raising the bar on our long-term environmental goals.

Finally, the Novartis Board of Directors reinforced the company's commitment to CR at Board level through the creation of a Governance, Nomination and Corporate Responsibilities Committee to oversee our strategy and governance on CR-related issues. These activities underscore our commitment to incorporating the 10 principles of the United Nations Global Compact into our strategy and operations.

We are proud of the progress we made in 2014. At the same time, expectations are rising and we recognize we must continue to strengthen our approach to directly meet the challenges ahead. We look forward to continuing our work to expand access to healthcare and to doing business responsibly in collaboration with all our stakeholders.



Joseph Jimenez
Chief Executive Officer

Juergen Brokatzky-Geiger
Global Head, Corporate Responsibility

Fernando Sánchez, seated on the left, has Type 2 diabetes but exercises regularly, eats carefully and enjoys socializing. Here playing dominos with friends in the Andalusian village of Carcabuey in Spain.

KEY PERFORMANCE INDICATORS 2014

Financial

KEY FIGURES [1]
(in USD millions, unless indicated otherwise)

	2014	2013	% Change USD	% Change Constant currencies	% Change Constant currencies excluding diagnostics [2]
Net sales	**57 996**	57 920	0	2	3
Operating income	**10 736**	10 910	–2	5	7
Return on net sales (%)	**18.5**	18.8			
Net income	**10 280**	9 292	11	17	19
Basic earnings per share (USD)	**4.21**	3.76	12	18	20
Core operating income	**14 616**	14 191	3		8
Core return on net sales [2] (%)	**25.2**	24.7			
Core net income	**12 755**	12 351	3		8
Core earnings per share (USD)	**5.23**	5.01	4		10
Group free cash flow	**10 762**	9 945	8		

Innovation

KEY FIGURES [3]

	2014	2013
Projects entering portfolio [4]	**30**	31
Ongoing Phase III programs [5]	**37**	48
US FDA breakthrough therapy designations [6]	**2**	3
Major submissions (US, EU, JP) [7]	**15**	16
Major approvals (US, EU, JP) [7]	**13**	19
New molecular entity (NME) approvals [8]	**5**	4

[1] The financial key figures include non-IFRS financial measures such as core results, constant currencies, free cash flow and comparisons against 2013 data excluding the results of the blood transfusion diagnostics unit, which was divested on January 9, 2014. Core measures exclude items which can vary significantly from year to year, such as the impact of certain significant exceptional and other items related to disposals and acquisitions, as well as other exceptional items over a USD 25 million threshold. Core measures for 2013 also exclude the results of the blood transfusion diagnostics unit divested on January 9, 2014. Constant currency figures show changes in our results adjusted for fluctuations in the exchange rates between the US dollar and other currencies. Free cash flow is an indicator of the Group's ability to operate without additional borrowing or the use of existing cash. Comparisons against 2013 data excluding the results of the blood transfusion diagnostics unit assist with the comparability of our 2014 performance against the prior year. For more detail on these measures, see explanations starting on page 150 of the Annual Report 2014.

[2] Excludes the impact of the blood transfusion diagnostics unit divested on January 9, 2014.

[3] Include Pharmaceuticals, Sandoz biosimilars and Alcon ophthalmic pharmaceuticals only

[4] Include clinical Phase II programs only, post proof of concept. First patient, first visit (FPFV) has occurred. Also include small molecules, biologics; new fixed-dose combinations of existing active pharmaceutical ingredients (APIs), and new target indications, defined as new disease or new line of treatment (e.g. first- vs. second-line).Counted by indication and not compound

[5] Include projects with FPFV in a Phase III study but not yet filed in US, EU or Japan

[6] Therapies under development by Novartis designated as breakthrough therapies by the US FDA

[7] Include small molecules, biologics; new fixed-dose combinations of existing APIs, and new target indications, defined as new disease or new line of treatment (e.g. first- vs. second-line)

[8] Include new molecular entities such as small molecules, biologics; in the EU, new fixed-dose combinations of existing APIs

Social and Environmental

ACCESS

	Patients reached (thousands)			People reached (thousands)[6]	2014 Value USD (millions)[1]
	2014	2013	2012	2014	
Research & Development					
Novartis Institutes for BioMedical Research and Pharmaceuticals development on malaria, tuberculosis and neglected diseases					**41.8**[5]
Patient assistance					
Novartis Patient Assistance Foundation, Inc.	**61.3**	85.0	100		546.9
Glivec patient assistance	**60.7**	55.0	52.3		1 215.2
Tasigna patient assistance	**6.4**	4.1	3.1		184.4
Exjade patient assistance	**8.1**	6.8	6.4		31.6
Alcon medical missions[2]	**438.6**	549.3	712.2		41.4
Alcon US patient assistance	**9.3**	11.9	19.4		13.1
Malaria / *Coartem*	**70 027.9**	102 273.5	99 799.9		137.4
Leprosy (WHO)	**308.3**	243.6	266.1		5.6
Pediatric pneumonia / amoxicillin dispersible tablets	**500.0**	n/a	n/a		0.5
Tuberculosis	**n/a**	22.0	97.3		
Fascioliasis / *Egaten*[3]	**233.0**	152.7	178.5		0.1
Emergency relief (medicine donations)					1.9
Total	**71 653.6**	**103 403.9**	**101 235.2**		**2 178.1**
Health systems strenghtening					
Novartis Foundation[4]				3 560.2	13.1[5]
Novartis research capacity-building programs				1.0	5.0[5]
Social Business: Healthy Family in India, Kenya, Vietnam and Indonesia[12]	788.4	239.2	248.1	6 646.0	
Grand Total	**72 442.0**	**103 643.1**	**101 483.3**	**10 207.2**	**2 238.0**

PEOPLE

	2014	2013	2012	2014 Target
Full-time equivalent positions	**133 413**	135 696	127 724	
Voluntary turnover[7] (%)	**7.2%**	6.3%	6.1%	
Overall turnover[7] (%)	**13.2%**	10.8%	12.1%	
Women in management[8]: % of management / % of Board of Directors	**40%/18%**	38%/14%	37%/17%	
Number of associate nationalities	**150**	155	153	
% employees receiving performance reviews	**90%**	93%	91%	
Annual training hours per employee	**27**			
% associates represented by a trade union or covered by a collective bargaining agreement[9]	**43**	43		
Lost-time injury and illness rate, LTIR (per 200 000 hours worked)[10]	**0.12**	0.13	0.16	<0.14
Total recordable case rate, TRCR (per 200 000 hours worked)[11]	**0.41**	0.44	0.52	<0.46

[1] Wholesale acquisition cost (WAC) plus logistics costs for some programs
[2] Retail value for surgical products
[3] Manufacturing costs
[4] Previously known as the Novartis Foundation for Sustainable Development
[5] Operating costs
[6] Via training and service delivery
[7] Permanent employees
[8] Management defined locally
[9] Non-management associates, according to a survey conducted every two years
[10] Data include Novartis associates and third-party personnel managed by Novartis associates
[11] Includes all work-related injury and illness, whether leading to lost time or not
[12] People reached via training

ETHICS

	2014	2013	2012
Novartis associates trained and certified on the Code of Conduct[1]	**122 689**	113 092	98 175
Misconduct cases reported/substantiated	**1 699/930**	1 501/939	
Cases investigated through BPO process (%, by type of violations[2])			
Fraud	**44%**	33%	
Professional practices	**26%**	24%	
Employee relations	**18%**	28%	
Conflict of interest	**6%**	7%	
Information protection	**5%**	5%	
Quality assurance	**4%**	4%	
Research and development	**2%**	1%	
Other	**3%**	4%	
Dismissals and resignations related to misconduct	**485**	459	566
Suppliers posing an elevated risk under Responsible Procurement	**480**	368	
Suppliers with active follow-up[3,4]	**125**	144	
Suppliers audited[3]	**79**	44	
% Regulatory inspections without major findings	**98.40%**	98.50%	

ENVIRONMENT

	2014	2013	2012	2014 Target	2014 Achievement
Energy use (million gigajoules) on site and purchased	**19.1**	19.8	19.4		
GHG Scope 1 combustion and process (1 000 t)	**469.4**	475.3	463.5		
GHG Scope 1 vehicles (1 000 t)	**158.6**	168.1	176.6	16% reduction based on 2010	27% based on 2010
GHG Scope 2, purchased energy (1 000 t)	**930.3**	942.8	1 001.2		
GHG Scope 3, business travel (1 000 t)	**222.0**	285.0	303.0		
Total GHG Scope 1 and Scope 2 (1 000 t)	**1 558.3**	1 586.1	1 641.3		
GHG (Scope 1 and Scope 2) per sales (tCO_2e per million USD)	**26.9**	27.4	29.0		
GHG (Scope 1 and Scope 2) per associate (tCO_2e)	**11.5**	11.8	12.8		
Halogenated VOCs (t)	**86.1**	103.0	110.6	40% reduction based on 2008	63% based on 2008
Non-halogenated VOCs (t)	**660.8**	849.2	947.2	37% reduction based on 2008	60% based on 2008
Non-hazardous waste recycled (%)	**65%**	62%	60%		
Hazardous waste recycled (%)	**68%**	65%	67%		
Non-hazardous waste not recycled (1 000 t)	**37.7**	41.1	40.5	8% reduction based on 2010	16% based on 2010
Hazardous waste not recycled (1 000 t)	**63.3**	73.6	66.6	8% reduction based on 2010	13% based on 2010
Water use (million m^3)	**95.1**	98.2	95.7		
Water discharges (million m^3)	**17.4**	18.0	17.9		

[1] Active Novartis associates with email addresses, trained via e-learning
[2] One case can fall under several categories so the total is greater than 100%
[3] Includes new suppliers and new products, services or sites from existing suppliers; figures include data on Labor Rights, HSE, and Animal Welfare
[4] Follow-up includes more information requested, audits, or on-site assesments

Community healthcare worker Dismus Mwalukwanda runs a malaria workshop in Chongwe, Zambia. He services more than 500 households, testing for malaria and administering Novartis antimalarial *Coartem*.

CORPORATE RESPONSIBILITY AT NOVARTIS

We focus our corporate responsibility work in two key areas: expanding access to healthcare and doing business responsibly. We work to develop innovative products for underserved patients, pioneer new social business approaches in low- and middle-income communities, drive environmental sustainability and meet high ethical standards.

MANAGING CORPORATE RESPONSIBILITY

We take very seriously our commitment to improve access to healthcare and to do business responsibly. Our efforts were recognized in 2014: Novartis was one of the Global 100 Most Sustainable Corporations by Corporate Knights; ranked fourth in the Access to Medicine Index; was included in the Dow Jones Sustainability World, FTSE4Good and UN Global Compact 100 indices. In 2014, we made changes to our corporate responsibility (CR) governance, management and reporting to ensure more oversight of our CR work.

Strengthening CR management

The Board of Directors created the Governance, Nomination and Corporate Responsibilities Committee to oversee our company's strategy and governance on CR-related issues that may affect Novartis business and reputation.

To better lead and support our company-wide efforts and coordinate our ongoing activities, we appointed Juergen Brokatzky-Geiger – former Global Head of Human Resources – as Global Head, Corporate Responsibility, reporting directly to the CEO. He leads the Corporate Responsibility Board, made up of senior managers who drive our efforts.

Setting CR priorities

We completed a materiality analysis to measure the importance of specific CR issues to the company and key outside stakeholders. We interviewed nearly 100 individuals, representing patient organizations, NGOs, health institutions, customers, academics and others, to better understand the issues that matter to them, and determine their expectations and requirements.

Overall, three priority topics stood out: access to healthcare, governance and ethical business practices, and research and development. We assigned sponsors to each of these topics to develop action plans based on the feedback we received and regularly report on progress.

We use the findings to guide our CR strategy, track issues of concern, inform and prioritize our programs, and establish metrics against which to measure our performance.

Consolidating our reporting

In June 2014, we issued a Corporate Responsibility Performance Report, which consolidated information previously published in our separate Global Reporting Initiative (GRI); Health, Safety and Environment; and United Nations Global Compact reports. We have structured our report content in accordance with the GRI G4 guidelines one year in advance of required implementation.

By issuing a single report, we aim to meet the needs and expectations of CR professional audiences by offering easy access to key data. The report also enhances our transparency in several key areas, including human resources, supply chain and ethics.

To better lead our CR efforts, we appointed a Global Head, Corporate Responsibility, reporting directly to the CEO

EXPANDING ACCESS TO HEALTHCARE

The number of people in need continues to exceed the capacity of corporate philanthropy. That's why our strategy includes shared value business models that complement philanthropic and zero-profit initiatives, unique fundraising activities, and investment in training and education to strengthen healthcare systems.

To advance our goal of making healthcare more accessible to more people – and build on our strong history of expanding access – we established a dedicated Access to Medicine Committee in 2014. Chaired by the CEO, the committee reviews opportunities to expand access to Novartis medicines and treatments to more patients, especially in underserved communities.

In 2014, our access programs continued to help more people secure the healthcare they need, regardless of where they live.

Fighting malaria

Year after year, our associates have asked how they can get more directly involved in the Novartis Malaria Initiative. In April 2014, we kicked off an internal campaign to support fundraising for Power of One, a global digital fundraising campaign run by charity Malaria No More. The goal was to fund 100 000 malaria treatments for children in Africa.

Employees from around the world found creative ways to raise donations and spread the word about malaria to their colleagues, friends and families. Including the Novartis match, this led to a total donation of close to 1 million antimalarial treatments for children in Zambia and Kenya.

The Malaria Initiative is our largest access program, as measured by the number of patients reached. We believe that no one should die of malaria, which is a preventable and treatable disease. To support efforts to contain the disease, in 1999 when Novartis launched *Coartem*, the first artemisinin-based combination therapy (ACT), the company and its partners committed not to enforce the patent. Since then, we have supplied 700 million *Coartem* treatments without profit. The World Health Organization (WHO) estimates that international efforts against the disease reduced malaria mortality by 54% from 2000 through 2013, and reduced incidence of malaria by 34%.

Several trends have contributed to this achievement, including more systematic use of diagnostic testing in endemic countries, enabling more effective targeting of malaria patients. In addition, because we did not enforce the patent on *Coartem*, we enabled generic manufacturers to obtain WHO prequalification and become eligible to participate in donor-funded programs, ultimately enhancing patient access. As a result, in 2014 we began to see a drop in demand for *Coartem*. Last year we delivered treatments for 70 million patients in endemic countries, compared to treatments for 100 million patients in 2013.

Despite significant progress, the fight against malaria is not over and Novartis continues to lead research and development of next-generation medicines. A new drug candidate called KAE609 is one of two new classes of antimalarial compounds that Novartis has discovered in the past four years. Both classes of drugs treat malaria in different ways than current therapies, which helps combat emerging drug resistance. In July, *The New England Journal of Medicine* published clinical study results for KAE609 – which is the first antimalarial treatment with a novel mechanism of action to reach Phase II clinical development in more than 20 years. The next round of trials is currently being planned.

The Novartis Foundation also announced a new partnership with the University of California, San Francisco; the University of Namibia; and the National Vector-borne Disease Control Program at the Ministry of Health and Social Services of Namibia. This partnership will drive research, including training and technical assistance on targeted elimination of the malaria parasite in the Zambezi region in northeastern Namibia.

Commitment to the developing world

Novartis works on innovative ways to improve access to healthcare for people in developing countries, with a particular focus on Africa. In Kenya, social business Familia Nawiri modified its portfolio to include low-cost, essential drugs, with the goal of driving enough sales to create a self-sustaining business model. More than 160 000 people attended Familia Nawiri health education meetings in 2014 – and health camps helped diagnose and treat more than 3 200 patients.

The Novartis Foundation supported the WHO and the Swiss Tropical and Public Health Institute in developing e-learning tools to increase maternal and child health training for health workers in 25 countries. The Novartis Foundation and the Millennium Villages Project also expanded their novel use of mobile phones for training sessions and healthcare

72.4 m

Patients reached through access programs in 2014

700 m

Malaria treatments delivered without profit since 2001

consultations to cover the Amansie West District in Ghana, home to approximately 135 000 people. The experience and success of this phase will help determine if we are able to expand teleconsultation services on a national level to support health workers across Ghana.

Additionally, the Novartis Institutes for BioMedical Research (NIBR) is working with the University Teaching Hospital in Lusaka, Zambia, to determine rheumatic heart disease prevalence and monitor treatment. NIBR teams are also working with the University of Chicago, Lagos University and Ibadan University to better understand the genetics of an aggressive form of breast cancer in Nigerian women.

We also support scientific education and research to help strengthen African healthcare systems by offering African scientists the opportunity to train in Novartis labs in Switzerland and the United States, and by establishing training and research centers across the continent.

Sandoz working to combat childhood pneumonia

In June, Sandoz announced a long-term commitment to help prevent the deaths of millions of children worldwide from pneumonia. As part of the United Nations' Every Newborn Action Plan, Sandoz will provide amoxicillin dispersible tablets, which is the WHO recommended first-line treatment for pneumonia in children under 5, to developing countries. In 2014, Sandoz delivered medicines to UNICEF to treat 500 000 children.

Alcon driving eye care for underprivileged patients

Alcon maintains numerous partnerships with nonprofit organizations to raise awareness and educate about eye health, train local physicians to perform state-of-the-art surgery, and bring much-needed eye care treatments and services to places where it doesn't yet exist. Since 1964, Alcon's Medical Missions program has supported eye care professionals around the world in their work to bring eye care to those in need. In 2014, Alcon supported 576 medical missions, reaching 438 674 patients with eye conditions, and restoring sight for more than 35 000 patients through surgery. Through the US Patient Assistance program, Alcon helped 9 310 patients get the sight-saving medications they needed in 2014.

DOING BUSINESS RESPONSIBLY

Building a culture of integrity

We are committed to creating a culture of integrity at Novartis and demonstrating ethical leadership – because as a global leader in healthcare, we have a responsibility to serve as a role model in how we conduct our business. That means striving to go beyond the basic standards, regulations and legal stipulations to exceed expectations wherever we can.

This year, we have taken concrete steps to increase transparency and strengthen our ethical business practices. We named Eric Cornut, formerly Chief Commercial Officer, Novartis Pharmaceuticals, as Chief Ethics, Compliance and Policy Officer reporting to the CEO. This change elevated the Compliance function to the highest levels in the company and aims to further ingrain ethics into our culture. Mr. Cornut's experience in our commercial organization – as well as prior positions at regional and country levels – ensure that he can help teams continue to embed a culture of high performance with integrity.

We know there are potential pockets of bad behavior in a global business with more than 130 000 associates, but we work to take swift action when this occurs. Our goal is to prevent issues from recurring, drive personal accountability for behaviors, and generate learnings that can be applied across the organization. We have further strengthened our compliance system by adding country and global compliance risk assessments for marketing and sales. We work to identify and mitigate risk exposure proactively so it can be reviewed and discussed at a management level.

In 2013, for example, we uncovered several issues regarding conflict of interest and reliability of data with a number of investigator-initiated trials (IITs) in Japan. As soon as these issues came to light, we commissioned an independent panel of experts to investigate.

Early in 2014, we released the panel's findings, which included concerning information about possible breaches of patient confidentiality and cases when documents were destroyed. In response, we announced wide-ranging changes at our Japanese business. Among the measures were the appointment of new senior executives at Novartis Japan, an independent review of all our IIT programs in the country, and additional training for all Novartis Japan associates to ensure compliance with our Code of Conduct. We also issued new guidelines relating to all IITs that we run worldwide.

We have taken concrete steps to increase transparency and strengthen our ethical business practices

6.6m

People reached with health education through social business initiatives

35 000+

Patients with restored sight through Alcon medical missions

Also during 2014, we introduced a series of changes in China to enhance compliance with our Code of Conduct and strengthen our culture of performance with integrity. The changes apply across our business, including the organization of external meetings, financial controls, and funding to healthcare organizations. Our goal is to maintain consistent standards of business practices across Novartis, ultimately enabling us to provide the best possible care for patients in China and globally. We do not tolerate unethical behavior by our associates anywhere, and we will take all necessary steps to ensure compliance with our Code of Conduct and all applicable laws.

Safety

The overall trend on safety at Novartis was positive, although there remains room for improvement. There were fewer incidents of occupational injury and illness in 2014 than 2013, with the number of injuries requiring associates to take time off work declining by 6.5%. Countering this overall positive trend, however, two Novartis employees and two contractors died tragically in work-related incidents during the year, compared to a single fatality in 2013. In response, Novartis has accelerated a program aiming to further reduce the potential of serious injury. The program, begun in early 2014, examines every process or situation that could lead to life-threatening injury and proposes measures to remedy or avoid the risk. By the end of 2014, all manufacturing and research sites had undertaken risk assessments and begun prevention activities, which will continue during 2015 as the program progresses.

Carbon sink forestry projects

While our main focus is to lower greenhouse gas (GHG) emissions by using renewable energy, purchasing energy from renewable sources, and improving the energy efficiency of our operations, we also use voluntary carbon sink options in line with the United Nations Clean Development Mechanism. These help us compensate part of our emissions through afforestation, particularly in developing countries or emerging markets. We also believe that carefully selected forestry projects help foster long-term economic growth for local populations in developing economies, while supporting Novartis in meeting our emission reduction target.

We have three well-established carbon sink forestry projects in Argentina, Mali and China. These are large-scale efforts. About 3 million trees were planted on our land in Argentina between 2007 and 2010. Additionally, an area of 4 100 hectares in southwestern Sichuan, China is being planted with 9 million trees, with 1 719 hectares planted in 2014.

Rather than planting only exotic tree species, which grow fast and absorb large amounts of carbon, we have designed our projects to generate benefits for local communities and improve local biodiversity. For example, since 2007, 5 000 local farmers in Mali have planted jatropha bushes. The harvest from these plantations is pressed into jatropha oil for soap manufacturing and fuel.

A fourth forestry project kicked off in the Altillanura region of Colombia – a rapidly developing area, with petroleum and agricultural activities displacing traditional pastures. After purchasing 3 596 hectares of farmland and starting preparatory work, in 2014 we began planting the first 356 hectares with local tree species such as acacia, rubber and other native hardwoods. Carbon offsets achieved in 2014 from our forestry projects totaled 67 kilotons of CO_2e, or 3.8% of our 2008 baseline emissions.

3 596 ha

Land Novartis purchased in Colombia for new carbon sink forestry project

As chairman of the Governance, Nomination and Corporate Responsibilities Committee, I am pleased with the progress Novartis has made in advancing corporate responsibility governance and reporting in 2014. Looking forward, we are well positioned to seek new ways to expand access to our medicines, particularly in the developing world, as well as continue to uphold strong ethical values across the company and proactively manage our environmental impact.

Pierre Landolt
Member of the Board of Directors, Novartis

ABOUT THIS REPORT

For the second consecutive year, Novartis is publishing an annual Corporate Responsibility (CR) Performance Report. In 2014, we have again structured our report in accordance with the Global Reporting Initiative's G4 guidelines, with disclosure at "Core" level.

As a LEAD participant and a signatory to the United Nations Global Compact (UNGC), this report also fulfills our commitment to producing a UNGC Communication on Progress – a public disclosure outlining our progress in implementing the 10 principles of the UNGC, and in supporting broader UN development goals.

Novartis has reported on CR since 2000 through our Annual Report and several online and printed materials. In July 2014, we issued our first consolidated CR Performance Report, including information previously published in our separate Health Safety and Environment, GRI and UNGC reports.

We have made changes to the structure of this report based on feedback from readers of our 2013 CR Performance Report. Our new preface adds context to the information in the report and our material issues, describing how CR is embedded in our business strategy and how it underscores our mission of caring and curing. As the Board of Directors strengthened its oversight of corporate responsibility in 2014 through a newly formed Governance, Nomination and Corporate Responsibilities Committee (GNCRC), we have added a statement from Joerg Reinhardt, Chairman of the Board of Directors. The GNCRC, which is the highest CR body in the company, has reviewed this report. The 2014 report also has a new look and feel, in line with the Novartis Annual Report 2014, with infographics on our supply chain and stakeholder engagement, as well as performance tables to measure our progress over time.

This report covers all regions and divisions from 1 January 2014 to 31 December 2014. It aims to meet the needs and expectations of CR professional audiences by offering easy access to data. It details progress against Novartis priorities, defined following our CR materiality analysis. You can read more about the assessment and how it maps to G4 Aspects and Indicators in our response to GRI indicators G4–18 to 21. This year, we also disclose additional governance, financial and environmental indicators. The GRI Content Index on p15–22 provides links to content within this report.

PricewaterhouseCoopers AG provides independent assurance on CR information in the Novartis Annual Report. For more detail, see the Independent Assurance Report on the Novartis CR Reporting on page 65 of the Novartis Annual Report 2014.

Learn more about our CR activities: www.novartis.com/corporate-responsibility
See our CR reports, including CDP questionnaires and Conflict Minerals: www.novartis.com/corporate-responsibility/metrics-and-reporting
Receive the Novartis CR e-newsletter via e-mail

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General standard disclosures

Economic

Environment

Social: Labor practices and decent work

Social: Human rights

Social: Society

Social: Product responsibility

United Nations Global Compact

We report our CR performance following the GRI (G4) guidelines and the UNGC principles. The GRI is split into General and Specific standard disclosures. Specific standard disclosures cover the six areas shown above. The UNGC has 10 guiding principles. The above icons reflect these relevant sections throughout the report.

NOVARTIS AND THE UNITED NATIONS GLOBAL COMPACT

Source: United Nations Global Compact

IMPLEMENTING THE 10 PRINCIPLES INTO STRATEGIES AND OPERATIONS

This report forms our UN Global Compact (UNGC) Communication on Progress (COP). We report against Global Reporting Initiative (GRI) indicators relevant to each of the 10 UNGC principles, outlining our commitments and policies, management and monitoring systems, projects and activities, results and targets. See our content index for details on how the report content maps against the UNGC principles.

Corporate responsibility (CR) is endorsed and ingrained at the highest level in Novartis. We work to embed our approach to CR across the organization, including through our CR Guideline (reflecting the 10 principles of the UNGC). See G4–34: Governance structure of the organization.

Our Novartis supplier code sets out the CR requirements we expect our suppliers to meet. We promote the societal and environmental values of the UNGC to our suppliers and use our influence where possible to encourage their adoption.

TAKING ACTION IN SUPPORT OF BROADER UN GOALS AND ISSUES

1. Core business contribution to UN goals and issues
Through our core business, we focus our CR contributions on the health-related Millennium Development Goals (MDGs).

2. Strategic social investments and philanthropy
Beyond our core business, the Novartis Foundation supports projects in developing countries primarily focused on the achievement of the MDGs, particularly in relation to health.

3. Advocacy and public policy engagement
Novartis contributes to the international CR and sustainability debate. We participate in key UN summits and conferences and are actively engaged with CR stakeholders within and beyond the UN system.

4. Partnerships and collective action
Our ongoing alliances and collaborations with public and private organizations worldwide are vital to advancing access to medicine and healthcare delivery to patients. We work with a range of organizations to improve access to healthcare.

Read more about our approach to Access to healthcare.

ENGAGING WITH THE UNGC

1. Local networks and subsidiary engagements
Novartis supports local UNGC networks. As our company is headquartered in Switzerland, Novartis is a member of the UNGC Network Switzerland.

Novartis subsidiaries are free to join their local UNGC network (there is no “headquarters only” policy). Novartis subsidiaries in some countries also publish a UNGC COP report.

2. Global and local working groups
Juergen Brokatzky-Geiger, Novartis Global Head, Corporate Responsibility, is a member of the UNGC LEAD Steering Committee, and he is also the Co-Chair of the Roadmap for Integrated Sustainability project. Novartis also has representatives participating in two other projects: Post-2015 Development Agenda, and Shaping the Future Business Leader.

3. Issue-based and sector initiatives
Novartis Group companies are members of various chambers of commerce, sustainability industry associations, and pharmaceutical industry associations. We also participate in sector initiatives such as the Pharmaceutical Supply Chain Initiative to promote high ethical standards in the supply chain and the Pharmaceutical Security Institute to combat counterfeit medicines. Novartis has signed the BSR Guiding Principles on Access to Healthcare. In addition, Novartis has co-founded and co-initiated a multi-stakeholder project with representation from business, academia and NGOs, facilitated by FSG, to develop a framework for measuring impacts of social business initiatives.

Further, Novartis contributed to the United Nations Development Program foundational report on The Role of the Private Sector in Inclusive Development.

4. Promotion and support of the UNGC
Juergen Brokatzky-Geiger, Novartis Global Head, Corporate Responsibility, is a member of the UNGC LEAD Steering Committee and Co-Chairs one of the project teams.

GRI G4 CONTENT INDEX

General standard disclosures

G4
SD

REF.	DESCRIPTION [LINK TO SECTION OF REPORT ➔]	UNGC PRINCIPLE	NOTES	PAGE
Strategy and analysis				
G4–1	Statement from the most senior decision-maker of the organization ➔			03
G4–2	Key impacts, risks and opportunities ➔			23
Organizational profile				
G4–3	Name of the organization ➔			12
G4–4	Primary brands, products and services ➔			26
G4–5	Location of the organization's headquarters ➔			02
G4–6	Countries of operation ➔			26
G4–7	Nature of ownership and legal form ➔			AR 2014 p94
G4–8	Markets served ➔			26
G4–9	Scale of the organization ➔			02
G4–10	Number of employees ➔	**6**		26
G4–11	Employees covered by collective bargaining agreements ➔	**3**		27
G4–12	Organization's supply chain ➔	**3, 4, 5, 6, 8, 10**		27
G4–13	Significant changes to the organization's size, structure, ownership, or its supply chain ➔			30
G4–14	Precautionary approach ➔	**7**		30
G4–15	Economic, environmental and social charters, principles, or other initiatives ➔	**1, 8**		31
G4–16	Memberships of associations and national or international advocacy organizations ➔	**1, 8**		31
Identified material Aspects and Boundaries				
G4–17	Entities included in the organization's consolidated financial statements or equivalent documents ➔			32
G4–18	Process for defining the report content and the Aspect Boundaries ➔			32
G4–19	Material Aspects identified in the process for defining report content ➔			33
G4–20	Aspect Boundary within the organization ➔			34
G4–21	Aspect Boundary outside the organization ➔			34
G4–22	Restatements of information ➔			38
G4–23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries ➔			38
Stakeholder engagement				
G4–24	Stakeholder groups engaged by the organization ➔			38
G4–25	Basis for identification and selection of stakeholders with whom to engage ➔			38
G4–26	Approach to stakeholder engagement ➔			39
G4–27	Key topics and concerns raised through stakeholder engagement ➔			39

G4
SD

REF.	DESCRIPTION [LINK TO SECTION OF REPORT ➔]	UNGC PRINCIPLE	NOTES	PAGE
Report profile				
G4–28	Reporting period ➔			12
G4–29	Date of most recent previous report ➔			12
G4–30	Reporting cycle ➔			12
G4–31	Contact point for questions regarding the report or its contents ➔			12
G4–32	'In accordance' option, Index and External Assurance ➔			12
G4–33	External assurance policy ➔			12
Governance				
G4–34	Governance structure of the organization ➔			40
G4–35 NEW	Process for delegating authority for economic, environmental and social topics from the highest governance body to senior executives and other employees ➔			08
G4–36 NEW	Executive-level position with responsibility for economic, environmental and social topics ➔			08
G4–37 NEW	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics ➔			40
G4–38	Composition of the highest governance body and its committees ➔			41
G4–39 NEW	Report whether the Chair of the highest governance body is also an executive officer ➔			41
G4–40 NEW	Nomination and selection processes for the highest governance body and its committees, and the criteria used ➔			41
G4–41 NEW	Processes for the highest governance body to ensure conflicts of interest are avoided and managed ➔			41
G4–42 NEW	The highest governance body's and senior executives' roles in the development, approval, and updating of the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts ➔			41
G4–43 NEW	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics ➔			41
G4–44 NEW	Processes for evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics ➔			AR 2014 p81
G4–45 NEW	The highest governance body's role in the identification and management of economic, environmental and social impacts, risks, and opportunities ➔			41
G4–46 NEW	The highest governance body's role in reviewing the effectiveness of the organization's risk management processes for economic, environmental and social topics ➔			AR 2014 p82
G4–47 NEW	Frequency of the highest governance body's review of economic, environmental and social impacts, risks, and opportunities ➔			AR 2014 p79
G4–48 NEW	The highest committee or position that formally reviews and approves the organization's sustainability report and ensures that all material Aspects are covered ➔			12
G4–49 NEW	Process for communicating critical concerns to the highest governance body ➔			41
G4–51 NEW	Remuneration policies for the highest governance body and senior executives ➔			AR 2014 p96–125
G4–52 NEW	Process for determining remuneration ➔			AR 2014 p96–125
G4–53 NEW	How stakeholders' views are sought and taken into account regarding remuneration ➔			AR 2014 p96–125
Ethics and integrity				
G4–56	Organization's values, principles, standards and norms of behavior such as codes of conduct and codes of ethics ➔	**10**		42
G4–57 NEW	Internal and external mechanisms for seeking advice on ethical and lawful behavior ➔	**10**		CR website
G4–58 NEW	Internal and external mechanisms for reporting concerns about unethical or unlawful behavior ➔	**10**		CR website

Economic

G4
EC

REF.	DESCRIPTION [LINK TO SECTION OF REPORT ➔]	UNGC PRINCIPLE	NOTES	PAGE
Economic performance				
G4–EC1 NEW	Direct economic value generated and distributed ➔			44
G4–EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change ➔	**7, 8, 9**		45
G4–EC3 NEW	Coverage of the organization's defined benefit plan obligations ➔			AR 2014 p204–207
G4–EC4	Financial assistance received from government ➔			46
Market presence				
G4–EC5	Ratios of standard entry-level wage by gender compared to local minimum wage at significant locations of operation ➔	**6**	Data not split by gender – see full response for detail	47
Indirect economic impacts				
G4–EC8	Significant indirect economic impacts, including the extent of impacts ➔			47
Procurement practices				
G4–EC9	Proportion of spending on local suppliers at significant locations of operation ➔	**6**	Data split by net sales rather than procurement budget – see full response for detail	48

Environment

G4
EN

REF.	DESCRIPTION [LINK TO SECTION OF REPORT ➔]	UNGC PRINCIPLE	NOTES	PAGE
Materials				
G4–EN1	Materials used by weight or volume ➔	**7, 8**	Detail not provided on specific material types, sources and percentage of renewable content – see full response for detail	49
Energy				
G4–EN3	Energy consumption within the organization ➔	**8, 9**		49
G4–EN6	Reduction of energy consumption ➔	**7, 8, 9**		50
Water				
G4–EN8	Total water withdrawal by source ➔	**7, 8**		51
G4–EN9	Water sources significantly affected by withdrawal of water ➔	**7, 8, 9**		52
G4–EN10	Percentage and total volume of water recycled and reused ➔	**7, 8, 9**		53
Emissions				
G4–EN15	Direct greenhouse gas (GHG) emissions (Scope 1) ➔	**7, 8**	Biogenic emissions not reported – see full response for detail	53
G4–EN16	Energy indirect greenhouse gas (GHG) emissions (Scope 2) ➔	**7, 8**		54
G4–EN17	Other indirect greenhouse gas (GHG) emissions (Scope 3) ➔	**7, 8**		55
G4–EN18 NEW	Greenhouse gas (GHG) emissions intensity ➔	**7, 8, 9**		55
G4–EN19	Reduction of greenhouse gas (GHG) emissions ➔	**7, 8, 9**		55
G4–EN20	Emissions of ozone-depleting substances (ODS) ➔	**7, 8, 9**	Total inventory provided rather than imports and exports	56
G4–EN21	NO_x, SO_x, and other significant air emissions ➔	**7, 8, 9**		57
Effluents and waste				
G4–EN22	Total water discharge by quality and destination ➔	**7, 8, 9**		59
G4–EN23	Total weight of waste by type and disposal method ➔	**7, 8**		60
G4–EN24	Total number and volume of significant spills ➔	**8, 9**		62
Products and services				
G4–EN27	Extent of impact mitigation of environmental impacts of products and services ➔	**7, 8, 9**		63
Compliance				
G4–EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations ➔	**7, 8**	Non-monetary sanctions and cases brought through dispute resolution mechanisms not reported – see full response for detail	63
Transport				
G4–EN30	Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce ➔	**8, 9**		64
Overall				
G4–EN31	Total environmental protection expenditures and investments by type ➔	**7, 8, 9**		65
Supplier environmental assessment				
G4–EN32	Percentage of new suppliers that were screened using environmental criteria ➔	**7, 8, 9**	Absolute number provided rather than % – see full response for detail	27
Environmental grievance mechanisms				
G4–EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms ➔	**8**		65

Social: Labor practices and decent work

G4
LA

REF.	DESCRIPTION [LINK TO SECTION OF REPORT ➔]	UNGC PRINCIPLE	NOTES	PAGE
Employment				
G4–LA1	Total number and rates of new employee hires and employee turnover by age group, gender and region ➔	**6**		66
G4–LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation ➔	**6**		67
Labor/management relations				
G4–LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements ➔	**3**		67
Occupational health and safety				
G4–LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs ➔		Data reported by % sites rather than % total workforce – see full response for detail	67
G4–LA6	Type of injury and rates of injury, occupational diseases, lost days and absenteeism, and total number of work-related fatalities, by region and by gender ➔		Data not split by gender; data on non-occupational absenteeism, and on injury rate and occupational disease for contractors not available – see full response for detail	67
G4–LA7	Workers with high incidence or high risk of diseases related to their occupation ➔			71
G4–LA8	Health and safety topics covered in formal agreements with trade unions ➔			72
Training and education				
G4–LA9	Average hours of training per year per employee by gender, and by employee category ➔	**6**		72
G4–LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings ➔			72
G4–LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category ➔	**6**		73
Diversity and equal opportunity				
G4–LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity ➔	**6**		73
Equal remuneration for women and men				
G4–LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation ➔	**6**		74
Supplier assessment for labor practices				
G4–LA14	Percentage of new suppliers that were screened using labor practices criteria ➔	**6**	Absolute number provided rather than % – see full response for detail	27
Labor practices grievance mechanisms				
G4–LA16	Number of grievances about labor practices filed, addressed and resolved through formal grievance mechanisms ➔	**6**	Specific number for labor practices not available – see full response for detail	74

Social: Human rights

G4
HR

REF.	DESCRIPTION [LINK TO SECTION OF REPORT ➔]	UNGC PRINCIPLE	NOTES	PAGE
Investment				
G4–HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening ➔	**1, 2**	Inclusion of figures not possible – see full response for detail	75
G4–HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained ➔	**1, 2**		75
Non-discrimination				
G4–HR3	Total number of incidents of discrimination and corrective actions taken ➔	**6**	Number of incidents not reported – see full response for detail	75
Freedom of association and collective bargaining				
G4–HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights ➔	**3**		76
Child labor				
G4–HR5	Operations and suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor ➔	**5**		76
Forced or compulsory labor				
G4–HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor ➔	**4**		77
Security practices				
G4–HR7	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations ➔	**1, 2**		77
Indigenous rights				
G4–HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken ➔	**1**		77
Assessment				
G4–HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments ➔	**1**	Inclusion of figures not possible – see full response for detail	77
Supplier human rights assessment				
G4–HR10	Percentage of new suppliers that were screened using human rights criteria ➔	**2**	Absolute number provided rather than % – see full response for detail	27
Human rights grievance mechanisms				
G4–HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms ➔	**1**	Specific number for human rights not available – see full response for detail	77

Social: Society

G4
SO

REF.	DESCRIPTION [LINK TO SECTION OF REPORT ➔]	UNGC PRINCIPLE	NOTES	PAGE
Local communities				
G4–SO1	Percentage of operations with implemented local community engagement, impact assessments and development programs ➔	**1**	Percentage figure not reported – see full response for detail	78
Anti-corruption				
G4–SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified ➔	**10**		79
G4–SO4	Communication and training on anti-corruption policies and procedures ➔	**10**	Figures for training of governance body members and business partners not reported	80
G4–SO5	Confirmed incidents of corruption and actions taken ➔	**10**	Nature of confirmed incidents of corruption; termination or non-renewal of contracts with business partners due to violations related to corruption not reported – see full response for detail	80
Public policy				
G4–SO6	Total value of political contributions by country and recipient/beneficiary ➔	**10**	Data not reported by country and recipient – see full response for detail	81
Anti-competitive behavior				
G4–SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes ➔			20-F 2014 F60–F67
Compliance				
G4–SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations ➔			20-F 2014 F60–F67
Supplier assessment for impacts on society				
G4–SO9	Percentage of new suppliers that were screened using criteria for impacts on society ➔		Absolute number provided rather than % – see full response for detail	27
Grievance mechanisms for impacts on society				
G4–SO11	Number of grievances about impacts on society filed, addressed and resolved through formal grievance mechanisms ➔		Specific number for impacts on society not available – see full response for detail	82

Social: Product responsibility

G4
PR

REF.	DESCRIPTION [LINK TO SECTION OF REPORT ➔]	UNGC PRINCIPLE	NOTES	PAGE
Customer health and safety				
G4–PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement ➔		No overall % reported – see full response for detail	83
Product and service labeling				
G4–PR3	Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements ➔		No overall % reported – see full response for detail	84
Marketing communications				
G4–PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship, by type of outcomes ➔		Data not split by type of non-compliance – see full response for detail	84
Customer privacy				
G4–PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data ➔			84
Compliance				
G4–PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services ➔			20-F 2014 F60–F67

Esmé suffers from PCDH19 female limited epilepsy, a rare genetic disorder. She is a participant in research into neurological disorders by the Boston Children's Hospital and Novartis.

General standard disclosures

G4 SD 2

KEY IMPACTS, RISKS AND OPPORTUNITIES

We aim to improve global health. Novartis collaborates with others to help address some of the world's greatest health challenges. We focus our corporate responsibility (CR) work on two areas that underscore our mission of caring and curing:

- **Expanding access to healthcare.** We work to control and eliminate diseases such as malaria and leprosy, pioneer new business approaches to reach underserved patients, and find new treatments and adaptive solutions to improve health in developing countries. In recent years, these efforts have reached more than 100 million people annually
- **Doing business responsibly.** This is a core part of Novartis. We care for our associates, strive to positively contribute to the communities where we live and work, and protect the environment. We conduct business ethically, maintaining a Code of Conduct and governance system to ensure our associates uphold our values

Our CR efforts are guided by common principles:

- We apply our expertise in science and innovation to society's biggest health challenges
- We take a long-term view and commitment to address global health priorities where we can lead and make a significant impact
- We are guided by a central philosophy, and programs are conceived of and implemented by our divisions and within our functional areas where the required expertise and infrastructure is strongest
- We apply business principles to investments – talent and capital – where the potential for joint value creation is the greatest; philanthropy plays a useful, but limited, role
- We understand that partnerships are key – improving global health is a goal we share with governments, international agencies, foundations and nongovernmental organizations
- We measure and communicate the results of our efforts and the impact on patient and societal health

We published the results of a comprehensive CR materiality assessment in 2014 through which we identified the issues that are most important to our stakeholders and our business. G4–18: Process for defining the report content and the Aspect Boundaries and G4–19: Material Aspects identified in the process for defining report content for more details.

In 2014 Novartis received numerous awards for progress in research and development, our working environment, and our CR activities. Some of these awards included:

- Novartis ranked fourth in the **Access to Medicine Index**, gaining three positions vs. 2012
- Novartis again included in the **Dow Jones Sustainability Index** (World) as one of eight pharma companies (57 were assessed)
- Novartis listed as a top 3 company in its industry in *Fortune's* **World's Most Admired Companies**
- Novartis listed in the top 25 in *Barron's* **World's most respected companies**
- Novartis achieved a score of 94 B in the **Carbon Disclosure Project (CDP)**
- Novartis recognized among the world's most sustainable companies in **Corporate Knights Global 100**. Inclusion in the 2014 index acknowledges Novartis leadership in key areas of corporate responsibility
- Novartis was included in the **Global Compact 100 indices**
- Novartis listed in **STOXX Global ESG Leaders Index**. For the third consecutive year, Novartis remains in the STOXX Global ESG Leaders indices – comprising the leading global companies in terms of ESG (environmental, social and governance) performance
- Novartis honored with the first ever **Scrip Award for Best Advance in an Emerging Market** for its Jian Kang Kuai Che healthcare project in China, which helps to improve healthcare conditions in rural Xinjiang through educational programs in schools and by recruiting and training healthcare workers
- Novartis among top 20 best performing companies worldwide in carbon emissions from 2005 to 2012 in **Climate Counts' Science-Based Carbon Study**. Of 100

companies analyzed, Novartis ranked #18 across all industries, #4 in the healthcare sector and #1 in Switzerland
- Novartis Pharmaceuticals Corporation again listed as one of the **100 Best Companies for Working Mothers**
- Novartis listed as a top employer for students (business administration/engineering) in several markets including Switzerland **(The Swiss Graduate Barometer)**, Europe **(European Student Barometer)**, and worldwide **(Global Top 50 – The World's Most Attractive Employers)**
- Novartis named in top ten of **Aon Hewitt's Global Top Companies for Leaders®**. Listed 9th, Novartis is the highest ranked healthcare company and highest ranked European company to be named
- Novartis named a **Thomson Reuters 2014 Top 100 Global Innovator**, recognizing achievement as one of the world's most innovative companies

For a list of our most recent awards and awards archive, see the Careers section of the Novartis website.

In 2014 Novartis sharpened its strategy and launched a major transformation to prepare for a more competitive future. We announced several transactions that focus our business on three leading divisions with innovation power and global scale: pharmaceuticals, eyecare and generics.

Risks and opportunities

Long-term trends in the composition and behavior of the global population, as well as advances in science and technology, are opening new frontiers in patient treatments and driving demand for healthcare around the world. In the coming years, these changes are expected to drive steady growth overall in the healthcare market and accelerate growth in key segments of our business. At the same time, the current business and regulatory environment poses significant risks and potential impediments to our growth and to the growth of the healthcare industry.

Transformational changes fueling demand

Aging population and shifting behaviors

Scientific advances and increased access to healthcare have contributed to a rise in life expectancy and a fall in birth rates, increasing the proportion of elderly people worldwide. Another major trend in global health is an increase in obesity rates.

Global rise in healthcare spending

Global healthcare spending continues to rise around the world. While developed countries still dedicate a higher percentage of their GDP to healthcare than the rest of the world, emerging markets are contributing an increasing proportion of global healthcare spending, due in part to a growing middle class.

Scientific advances opening new opportunities

As research in the fields of biotechnology and genomics has become more sophisticated, we have developed a better understanding of the cellular and genetic basis of diseases. This has given rise to a new generation of innovative therapies that could more effectively target the underlying causes of disease.

New technologies changing the delivery of healthcare

New healthcare technologies are streamlining the delivery of healthcare and improving patient outcomes. Connected medical devices, for example, can automatically record and share information about a patient's daily medicine intake, allowing doctors to monitor patient adherence and response to treatment.

Patient engagement

Patients now have greater access to healthcare information as well as easy tools to communicate with providers, allowing them to be active participants in their own health.

Increasingly challenging business environment

Patent expirations and product competition

IMS Health estimates that between 2012 and 2016, patents will expire on branded pharmaceuticals with global sales totaling $126 billion. The products of our Pharmaceuticals and Alcon Divisions are generally protected by patent rights, allowing us to exclusively market most products. The loss of market exclusivity has had, and will continue to have, an adverse effect on our results of operations. In 2015, the impact of generic competition on our net sales is expected to be as much as $2.5 billion.

Though patent expirations present a significant challenge to our Pharmaceuticals and Alcon Divisions, they also create an opportunity for Sandoz, our generics business.

Heightened regulatory and safety hurdles

Our ability to grow our business is dependent on our ability to bring new products to market. In recent years, health regulators have raised the bar on product innovation, and focused on the benefit-risk profile of pharmaceutical products, emphasizing product safety and incremental improvements over older products in the same therapeutic class. These developments have led to requests for more clinical trial data, the inclusion of significantly higher numbers of patients in those trials, and more detailed analyses post-trial. As a result, the long and expensive process of obtaining regulatory approvals for pharmaceutical products has become even more challenging.

Weak economic environment and increasing pressure on pricing

Against the backdrop of a gradual and uneven global economic recovery, governments have continued to impose cost-containment measures, such as rebates and price reductions, to make medicines more affordable. Pricing pressures affect all of our divisions, that rely on reimbursement, including Pharmaceuticals, Alcon, Sandoz and Vaccines. In addition to pricing pressures, there are continuous concerns that some countries, including Greece, Italy, Portugal and Spain,

may not be able to fully pay us for our products. Other countries, such as Venezuela, have taken steps to introduce exchange controls and limit companies from distributing retained earnings or paying intercompany payables due from those countries. In addition, increasing political and social instability around the world, including in Russia, Ukraine and parts of the Middle East, may lead to significant business disruptions, or other adverse business conditions.

Risk of liability and supply disruption from manufacturing issues

The manufacture of our products is both highly regulated and complex, which introduces a greater chance for disruptions and liabilities.

Potential liability arising from legal proceedings

In recent years, there has been a trend of increasing government investigations and litigation against companies operating in our industry, both in the US and other countries. We are obligated to comply with the laws of all countries in which we operate, with new requirements imposed on us as government and public expectations of corporate behavior change. We have a significant global compliance program in place, and devote substantial time and resources to ensure that our business is conducted in a legal and publicly acceptable manner. Despite our efforts, any failure to comply with the law could lead to substantial liabilities that may not be covered by insurance and could affect our business and reputation.

Risks involved in strategic transactions and reorganizations

In 2014, we announced agreements with GlaxoSmithKline plc (GSK), Eli Lilly and Company (Lilly) and CSL Limited (CSL) on a set of transactions intended to transform our portfolio of businesses. In a series of inter-conditional transactions with GSK, Novartis agreed to: acquire GSK oncology products and certain related assets, and was granted a right of first negotiation over the co-development or commercialization of GSK's current and future oncology R&D pipeline, excluding oncology vaccines; create a joint venture with GSK in consumer healthcare, in which Novartis would own 36.5%; and divest its Vaccines Division (excluding the influenza vaccines business) to GSK. Separately, Novartis agreed to divest its Animal Health Division to Lilly, and to divest our influenza vaccines business to CSL. On January 1, 2015, we completed our divestiture of Animal Health to Lilly. The transactions with GSK were completed on March 2, 2015, and the transaction with CSL is expected to close in the second half of 2015.

Managing risks

All organizations face a variety of risks at both strategic and operational levels. Some risks are beyond an organization's immediate control. Each risk has a certain likelihood of occurrence and potential impact, including impact on people, equipment or property, the environment, reputation or business.

Novartis aims to systematically identify and assess these risks. We manage risks proactively by implementing preventive and contingency measures to reduce the likelihood of an event occurring and the severity of its consequences.

The two most important tools for Health, Safety and Environment (HSE) and business continuity risk management are risk portfolios and audits. In addition, a business continuity management process is an integral part of the Novartis risk management framework for business-related risks.

The Corporate Risk Management function is overseen by the Board's independent Risk Committee. The Compensation Committee works closely with the Risk Committee to ensure that the compensation system does not lead to excessive risk-taking by management (for details see the Compensation Report on p97 of the Novartis Annual Report 2014). Organizational and process measures have been established to identify and mitigate risks at an early stage. Organizationally, the individual divisions are responsible for risk and risk mitigation, with specialized corporate functions – such as Group Finance, Group Quality Assurance, Corporate Health, Safety and Environment, Business Continuity Management, and Integrity & Compliance – providing support and controlling the effectiveness of risk management by the divisions in these respective areas.

For further details about our risks and opportunities, see p8–23 and p156-161 of the Novartis Form 20-F 2014. For further details on how we manage our risks, see the CR section of the Novartis website and see p283 of the Novartis Form 20-F 2014.

For an overview of our 2014 financial, innovation and social key performance indicators, see the tables on p6–7 of the Novartis Annual Report 2014. To learn more about our progress expanding access to healthcare and doing business responsibly, see p09–10.

For a detailed list of our environmental sustainability key performance indicators, see p07.

G4 SD 4

PRIMARY BRANDS, PRODUCTS AND SERVICES

In 2014, our broad portfolio included innovative medicines, eye care, cost-saving generic pharmaceuticals, preventive vaccines and diagnostic tools, OTC and animal health products.

In 2014, the Group's wholly-owned businesses are organized into six global operating divisions, and we report our results in the following five segments. In addition, we separately report Corporate activities. Following the announcement of the transactions with GSK, Lilly and CSL, in order to comply with IFRS, Novartis has separated the Group's reported financial data for the current and prior year into "continuing" operations and "discontinuing" operations:*

Continuing operations:
- Pharmaceuticals: Innovative patent-protected prescription medicines
- Alcon: Surgical, ophthalmic pharmaceutical and vision care products
- Sandoz: Generic pharmaceuticals
- Corporate activities

Discontinuing operations:
- Vaccines: Preventive human vaccines and the blood transfusion diagnostics unit, which was divested on January 9, 2014.
- Consumer Health: OTC (over-the-counter medicines) and Animal Health
- Corporate: certain transactional and other expenses related to the portfolio transformation

For a list of key marketed Pharmaceuticals products, see p32–39 of the Novartis Form 20-F 2014.

For a list of key marketed Alcon products, see p76–78 of the Novartis Form 20-F 2014.

For a list of key marketed Sandoz products, see p85-86 of the Novartis Form 20-F 2014.

For a list of key marketed Vaccines and Diagnostics products, see p94 of the Novartis Form 20-F 2014.

For a list of key marketed OTC and Animal Health products, see p98-99 of the Novartis Form 20-F 2014.

For further product overviews, see the Products section of the Novartis website.

* The divestment of our Animal Health Division to Lilly was completed in January 1, 2015 and the transactions with GSK to create a joint venture in consumer healthcare, in which Novartis owns 36.5%, were completed on March 2, 2015.

G4 SD 6

COUNTRIES OF OPERATION

Novartis products are available in more than 180 countries. For a list of our principal group subsidiaries and associated companies' capital, equity interest, and activities, see p224–226 of the Novartis Annual Report 2014.

G4 SD 8

MARKETS SERVED

Novartis products are available in more than 180 countries. Principal markets:
- Pharmaceuticals: US, Europe and Japan
- Alcon: US, Canada and Latin America, Japan and Europe
- Sandoz: US and Europe
- Vaccines: US and Europe
- Consumer Health: US and Europe

For details of net sales for each division in principal markets, see p57, 79, 87, 96 and 99 of the Novartis Form 20-F 2014.

G4 SD 10

UNGC 6

NUMBER OF EMPLOYEES

Novartis Group companies employed 138 137 people globally on December 31, 2014
- 32 774 work in Asia Pacific, 27 481 in North America, 69 836 in Europe, Middle East and Africa and 8 044 in Latin America
- 3% of all Novartis Group company associates work part-time. At our headquarters in Basel, Switzerland, the part-time workforce was approximately 11% in December 2014
- There are 131 865 permanent contracts and 6 272 temporary contracts

G4 SD 11

THE GLOBAL COMPACT 3

EMPLOYEES COVERED BY COLLECTIVE BARGAINING AGREEMENTS

According to a global survey conducted every second year, at the end of 2013, 51% of Group company non-management associates were represented by an internal employee representation (works council or any local employee representative body) and 27% were also represented by an external employee representation (e.g. trade union). 43% of Novartis Group company associates (excluding management) worldwide were represented by a trade union or covered by a collective bargaining agreement (agreement with a trade union).

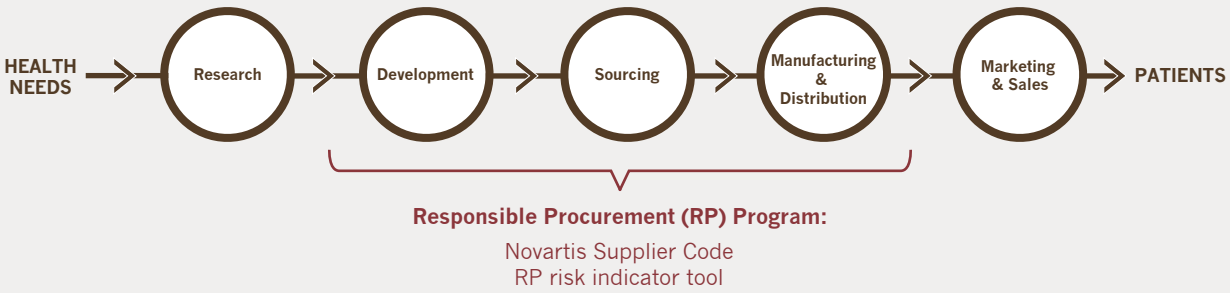
G4 SD 12

THE GLOBAL COMPACT 3,4,5,6,8,10

ORGANIZATION'S SUPPLY CHAIN

Procurement, accountable for an annual global spend of more than USD 22 billion, is a strategic partner to the business. Operating across 60 countries, Novartis has a network of approximately 1 200 procurement professionals and 120 000 suppliers.

OUR VALUE CHAIN



	Spend			Supplier[3]	
	Total %	Direct spend[1] %	Indirect spend[2] %	Total	%
USA	28.7 %	25.5 %	29.8 %	19 559	14.4 %
Switzerland	14.0 %	9.1 %	15.8 %	8 507	6.3 %
Germany	10.8 %	15.6 %	9.2 %	15 756	11.6 %
United Kingdom	5.3 %	2.9 %	6.2 %	5 713	4.2 %
China	3.6 %	4.5 %	3.4 %	4 129	3.0 %
Italy	3.5 %	4.3 %	3.2 %	4 285	3.1 %
France	3.3 %	4.9 %	2.8 %	7 482	5.5 %
Japan	2.7 %	3.0 %	2.5 %	5 813	4.3 %
Austria	2.5 %	2.4 %	2.5 %	3 573	2.6 %
India	2.3 %	4.2 %	1.6 %	4 140	3.0 %
Spain	2.1 %	2.8 %	1.9 %	3 675	2.7 %
Canada	1.9 %	1.8 %	1.9 %	3 409	2.5 %
Belgium	1.8 %	3.7 %	1.2 %	2 401	1.8 %
Russian Fed.	1.4 %	0.2 %	1.8 %	1 908	1.4 %
Brazil	1.3 %	0.7 %	1.6 %	3 570	2.6 %
Rest of the world	14.7 %	14.5 %	14.8 %	42 118	31.0 %
	100.0 %	**100.0 %**	**100.0 %**	**136 038**	**100.0 %**

[1] Purchases of goods and services directly incorporated into a product being manufactured. Examples: raw materials, subcontracted manufacturing services, packaging
[2] All supplies necessary to run an organization, such as utilities, IT hardware/software, furniture, capital expenditure, marketing supplies, etc.
[3] Suppliers with whom we have a direct contractual relationship pertaining to the delivery of goods and services

Working with our suppliers

Novartis engages thousands of new suppliers each year, across a supply chain that extends into almost every country in the world. We support the Pharmaceutical Industry Principles for Responsible Supply Chain Management (PSCI) and our standards are based on the UNGC and other applicable international standards or accepted good practices such as those of the International Labor Organization (ILO).

Novartis Supplier Code

The Novartis Supplier Code sets out our expectations of suppliers on ethical standards in fair labor practices, health and safety, environmental protection, animal welfare, anti-bribery and data privacy.

The Supplier Code is universally applicable to all types of suppliers and is independent of the applicability of the Responsible Procurement (RP) practice. However, there are some exceptions, for example, when individuals, such as healthcare professionals, supply services to Novartis, we may not expect them to comply with all aspects of the Code, only what is practical and relevant.

Responsible Procurement Program

RP focuses on four key principles:

- **Risk-based**: Using risk assessments that take country and sector into account, we identify suppliers who pose elevated risks and accurately target our efforts to where they are most needed: on high-risk suppliers
- **Modular**: Covers five areas: labor rights, HSE, animal welfare, anti-bribery and fair competition, and data privacy
- **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 RP practice is designed to provide a clear view of where potential issues exist or standards may be compromised, with speed and accuracy. It quickly filters out the approximate 95% of suppliers who present little or no ethical risk, allowing us to concentrate our efforts on the small number of suppliers where a significant risk exists or where we can influence change. Most importantly, it gives us this insight before we buy – we call it “buying with our eyes open”. Ongoing monitoring of these standards is also managed through the RP practice.

We focus on the suppliers who pose an elevated risk, and over whom we have higher influence, since the higher our influence, the greater our responsibility to work with the supplier to improve their practices.

2014 RP findings

In 2014, 486 suppliers were identified as posing a potential risk, including ethical, environmental, labor and human rights. One supplier can pose multiple risks. Of these:

- 268 suppliers were identified as posing an elevated HSE risk. Active follow-up actions were taken with 90 suppliers, including desktop review and/or audits. In 45 cases, HSE audits were conducted. In cases of non-compliance, improvement plans were developed in collaboration with relevant suppliers.
- 232 suppliers were identified as posing an elevated human rights or labor rights risk. Actions were taken with 103 suppliers, including desktop reviews and a total of 30 labor rights audits. In cases of non-compliance – which include wages, working hours and record keeping but no cases of child labor – improvement plans have been developed in collaboration with the relevant suppliers.
- Regarding screening for impacts on society, we include anti-bribery criteria. Data is aggregated and analyzed on a country-by-country basis. Our RP practice focuses on applying our expertise to help suppliers find lasting solutions to complex issues – ultimately improving standards and reducing their overall negative impacts on society.

Suppliers in scope include new suppliers, new supplier sites, and new products and/or services from existing suppliers, with whom we have a direct contractual relationship pertaining to the delivery of goods and services.

Practitioners Working Groups in India

In late 2013, the Novartis Responsible Procurement (RP) team held a supplier roundtable in India, attended by representatives from 20 of its key Indian suppliers. The purpose was to raise awareness of the new RP approach and look at its implications for Indian suppliers. The meeting also helped the Novartis team understand the labor rights and Health, Safety and Environment (HSE) management challenges Indian suppliers may face in responding to RP.

A key outcome of the roundtable was to set up Practitioners Working Groups (PWG) for Novartis and its suppliers to collaborate on the labor, human rights and HSE issues highlighted during the roundtable. Two PWGs were formed in 2014, respectively on labor rights and on HSE, to develop a plan of action on how to address the issues, analyze results, and provide feedback on progress. Through these PWGs, we hope we can collectively seek solutions to address issues and build closer partnerships with the supply base to gain deeper insights into the most prevalent ethical risks within the country.

Working Well project in China

Our reviews of supply chain labor rights in China have revealed systemic problems with working hours, staff pay and rest days, as well as poor systems for managing Health, Safety and Environment (HSE). In many cases, these issues stem from inadequate management skills and a lack of understanding of the link between improved labor standards, productivity and quality.

In 2014, Novartis initiated the Working Well project, a first of its kind sector-wide capability building effort, to specifically address these issues. Our aim is to help Chinese pharmaceutical supply chain managers to understand that better management of the workforce and health and safety can lead to decreased risk and increased margin. Data and performance metrics will be used to make the case to suppliers for improving their practices. Although the main emphasis is on supplier development, we also hope Working Well will provide an opportunity for pharmaceutical companies operating in China to share learnings on managing supply chain labor rights issues.

The RP risk indicator tool

The RP risk indicator tool uses the category risk, country risk and contract value in combination to indicate a potential risk around the five areas of elevated ethical risk in the supply chain: labor rights, HSE, animal welfare, anti-bribery and data privacy. Data privacy is not included in the table below because we currently do not have a global approach to managing data privacy – this is managed at a country level.

The RP risk indicator tool

	Labor rights	HSE general	HSE specific	Animal welfare	Anti-bribery
Policy or guidelines	Novartis Supplier Code	Novartis Supplier Code	HSE Guideline 1 / HSE Guidance note 7.2	Novartis Animal Welfare Policy	Novartis Anti-Bribery Policy and Third-Party Guideline
Applies to	All third-party suppliers	All third-party suppliers	Contract manufacturers, waste contractors, chemical producers	Third-party suppliers handling animals	Third-party suppliers acting on behalf of Novartis
Risk indication trigger	Category risk Country risk Contract value	Category risk Country risk Contract value	Category only (independent of country or contract value)	Category only (independent of country or contract value)	Category only (independent of country or contract value)
Assessment and due diligence	Depending on the risk type, Policies and/or Guidelines and related standards set forth the due diligence process for suppliers using a variety of tools including desktop review, supplier questionnaires, assessment visits and audits				
Collaboration/ engagement	Focuses on implementing improvement plans (developed after audits or other assessments) and other targeted initiatives to help suppliers improve their standards and ethical business practices				
Case Review	If non-compliance is found through assessment and due diligence, the matter is escalated to a Case Review				

G4 SD 13

SIGNIFICANT CHANGES TO THE ORGANIZATION'S SIZE, STRUCTURE, OWNERSHIP, OR ITS SUPPLY CHAIN

2014:

- **January:** Novartis implements several changes to its governance structure. These include elimination of the Chairman's Committee of the Novartis AG Board of Directors; transfer of operational responsibilities that previously rested with the Chairman or the Chairman's Committee, such as approval authority for management compensation, to the CEO or the Executive Committee; and establishment of the Research and Development Committee of the Novartis AG Board of Directors to oversee Novartis research and development strategy and advise the Board on scientific trends and activities.
- **February:** Novartis announces the acquisition of CoStim Pharmaceuticals Inc., a Cambridge, Massachusetts-based, privately held biotechnology company focused on cancer immunotherapy. The acquisition brings to Novartis late discovery stage immunotherapy programs directed to several targets, including PD-1. Novartis appoints a Global Head, Corporate Responsibility reporting directly to the CEO.
- **April:** Novartis announces a set of definitive inter-conditional agreements with GSK. Under these agreements, Novartis would acquire GSK oncology products and certain related assets, would be granted a right of first negotiation over the co-development or commercialization of GSK's current and future oncology R&D pipeline (excluding oncology vaccines) and would divest the Vaccines Division (excluding its influenza vaccines business) to GSK. The two companies would also create a joint venture in consumer healthcare, of which Novartis would own 36.5%. These transactions closed in March 2015.
  Novartis also announces a definitive agreement with Lilly to divest the Company's Animal Health Division. This divestment was completed on January 1, 2015.
  Novartis announces the creation of a shared services organization, Novartis Business Services (NBS). NBS consolidates a number of business support services previously spread across divisions, including Information Technology, Financial Reporting and Accounting Operations, Real Estate & Facility Services, Procurement, Payroll and Personnel Administration and the Pharmaceuticals Global Business Services. This reorganization was designed to improve profitability and free up resources that could be reinvested in growth and innovation, and to allow our divisions to focus more on customer-facing activities. NBS became effective on July 1, 2014.
- **June:** Novartis announces that the FDA licensed its manufacturing facility in Holly Springs, North Carolina, for the commercial production of cell-culture influenza vaccines, with the capacity to significantly increase production in the event of an influenza pandemic.
- **August:** Novartis appoints a Chief Ethics, Compliance and Policy Officer reporting directly to the CEO.
- **October:** Novartis announces a definitive agreement with CSL of Australia to divest its influenza vaccines business for USD 275 million.
  Novartis announces changes to the Novartis Executive Committee. Three members of the Executive Committee of Novartis, George Gunn, Brian MacNamara and Andrin Oswald, would leave the Company following the completion of the relevant portfolio transactions announced in April 2014.

2015:

- **January:** Novartis announces it has completed the divestment of its Animal Health Division to Eli Lilly and Company (Lilly) for approximately USD 5.4 billion.
- **March**: Novartis announces the completion of the transactions with GSK, including the acquisition of GSK's oncology portfolio, the creation of a Consumer Healthcare joint venture and the sale of its non-influenza Vaccines business.

For complete details of important corporate developments from 2012 to 2014, see p24–27 of the Novartis Form 20-F 2014.

G4 SD 14

THE GLOBAL COMPACT 7

PRECAUTIONARY APPROACH

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 the benefits and risks of innovation in a scientific and transparent manner. Novartis takes its responsibility for environmental impacts seriously. Although there may not be full scientific certainty about the link between our activities and potential environmental degradation, we will continue to do what we can to reduce or mitigate our environmental impacts:

- We apply a precautionary approach in all operations to minimize environmental impacts (emissions to air and water, waste to landfill, efficient use of water and energy resources).
- We manage risks proactively by implementing appropriate preventive and contingency measures. This risk management process is designed to identify potential hazards and take action to reduce the risk of an event – the likelihood of occurrence and severity of consequences – to an acceptable minimum level. Risk portfolios are elaborated on the sites, consolidated at divisional and corporate levels and reviewed by senior management.
- We identify and manage HSE risks by conducting site analyses and audits by corporate HSE & Business Continuity (BC) and the HSE & BC organizations of the divisions and business units.

For more about reducing risk and ensuring continuity, see the CR section of the Novartis website.

G4 SD 15

1,8

ECONOMIC, ENVIRONMENTAL AND SOCIAL CHARTERS, PRINCIPLES, OR OTHER INITIATIVES

- Novartis signed the Women's Empowerment Principles launched by the UNGC and the UN Development Fund for Women (UNIFEM)
- As a signatory to the UNGC, Novartis supports the Universal Declaration of Human Rights, the ILO's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, the United Nations Convention Against Corruption, the OECD Guidelines for Multinational Enterprises, and the OECD Convention on Combating Bribery of Foreign Public Officials
- International Chamber of Commerce's Business Charter for Sustainable Development
- ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy
- Signatory to the CEO Letter on the UN Convention against Corruption
- Support for the Pharmaceutical Industry Principles for Responsible Supply Chain Management set by the Pharmaceutical Supply Chain Initiative
- Voluntarily agreed to reduce GHG emissions in line with the Kyoto Protocol and subsequent international target commitments, such as those of the European Union (GHG emissions are reported according to the GHG Protocol)
- Signatory to the UNGC/UNEP/World Business Council for Sustainable Development (WBCSD) initiative of "Caring for Climate: The Business Leadership Platform"
- Classifies and disposes of waste according to the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal
- Member of the Carbon Disclosure Project, Water Disclosure Project and Supply Chain Disclosure Project
- Signatory to the WBCSD's Manifesto for Energy Efficiency in Buildings
- Signatory to the Guiding Principles on Access to Healthcare (GPAH), which frame the pharmaceutical industry's approach to expanding access to quality healthcare globally
- Strategic partner of the World Economic Forum (WEF) in Davos

G4 SD 16

1,8

MEMBERSHIPS OF ASSOCIATIONS AND NATIONAL OR INTERNATIONAL ADVOCACY ORGANIZATIONS

Novartis Group companies are members of various chambers of commerce, sustainability industry associations, and pharmaceutical industry associations. We also participate in sector initiatives such as the PSCI to promote high ethical standards in the supply chain, and the Pharmaceutical Security Institute to combat counterfeit medicines. Novartis is a member of:

- The Business for Social Responsibility (BSR) Healthcare Working group, and is a signatory to the BSR GPAH
- The Bill & Melinda Gates Foundation CEO Roundtable on Neglected Tropical Diseases, formed to accelerate progress toward eliminating or controlling 10 neglected tropical diseases (NTDs) by 2020
- The Clinton Global Initiative, which convenes global leaders to create solutions to the world's most pressing challenges
- The International Integrated Reporting Council (IIRC)
- The UNGC LEAD initiative, of which it was one of the 54 founding members
- The Private Sector Delegation Advisory Group as well as of the Global Fund Private Sector Delegation
- The Private Sector Constituency to the Roll Back Malaria Partnership
- Various chambers of commerce and sustainability industry associations, including BSR; CSR Europe; SustainAbility; WBCSD; EH&S, Inc. (Corporate Environmental, Health & Safety Roundtable); ORC (Organization Resource Counselors) Safety & Health Forum; Conference Board (Chief EH&S Council, Business Continuity & Crisis Management Council, and Corporate Responsibility & Sustainability Council); European Biosafety Association (EBSA); American Biosafety Association (ABSA); Medichem and European Process Safety Center
- Pharmaceutical Industry Associations: Novartis is a member of national pharmaceutical industry associations in countries or regions where the company operates, notably:
  - Switzerland, where the national associations are Interpharma and Intergenerika
  - The United States, where the key national organizations are: PhRMA, BIO, GPhA, CHPA, and AH institute
  - The European Union, where regional organizations are: AESGP, EFPIA, EuropaBio, EGA, AESGP, EPAA, EVM, EBE and Euromcontact
  - Global associations including the IFPMA and IFAH
- National associations in most markets where Novartis has a legal subsidiary

G4 SD 17

ENTITIES INCLUDED IN THE ORGANIZATION'S CONSOLIDATED FINANCIAL STATEMENTS OR EQUIVALENT DOCUMENTS

Business operations are conducted through Novartis Group companies. Novartis AG, a holding company, owns or controls directly or indirectly all entities worldwide belonging to the Novartis Group. The report covers all entities included in the organization's consolidated financial statements or equivalent documents.

In 2014, the businesses of Novartis were divided on a worldwide basis into six operating divisions: Pharmaceuticals, Alcon (eye care), Vaccines, Sandoz (generics), Over-the-Counter (OTC) and Animal Health. In addition there are Novartis Business Services (shared services organization, delivering services to the divisions), Novartis Institutes for BioMedical Research (the global pharmaceutical research organization of Novartis), and Corporate activities. In March 2015, Vaccines (excluding the influenza business) was divested, and OTC brought into a joint venture with GlaxoSmithKline's business in this area with Novartis holding a 36.5% minority stake in this joint venture. Animal Health was also divested in January 2015.

For further information about the group structure of Novartis and its operating divisions, see p224–226 of the Novartis Annual Report 2014.

G4 SD 18

PROCESS FOR DEFINING THE REPORT CONTENT AND THE ASPECT BOUNDARIES

The content of this report is based on the issues identified through the CR materiality analysis Novartis conducted in 2013. In 2014, we began implementing activities to follow up on the results of our materiality analysis.

Identification

We evaluated a vast range of internal and external data, including analyst reports, media articles and stakeholder feedback, and identified more than 100 issues relevant to Novartis stakeholders. We aggregated this list into 46 issues, which formed the basis of our CR materiality survey.

Prioritization and validation

We surveyed 43 internal stakeholders via an online questionnaire, then conducted one-on-one interviews to determine the issues they thought were most important and relevant to Novartis. The interviewees included senior executives from all Novartis divisions.

Based on input from internal interviewees, we completed an in-depth stakeholder mapping exercise and identified 100 key external stakeholders, including representatives of patient organizations, NGOs, health institutions, customers, academics and other groups considered important to the industry and our business.

This list of stakeholders was reviewed and amended by three external CR experts – John Elkington from Volans, Mark Little from BSR and Kyle Peterson from FSG – all of whom have in-depth knowledge about our industry.

Of the 100 external stakeholders who were invited, more than 50 completed an online survey and were interviewed by phone. The list of material topics was presented and reviewed by the Novartis CR Board.

Review

We are using findings from the materiality analysis to guide our business strategy, track issues of concern, inform and prioritize our CR programs, and establish meaningful metrics against which to measure our performance. In 2015, we will conduct a review of our materiality analysis.

G4 SD 19

MATERIAL ASPECTS IDENTIFIED IN THE PROCESS FOR DEFINING REPORT CONTENT

The following 25 issues, grouped into eight key clusters, consistently stood out as most significant to the internal and external stakeholders we engaged in our CR materiality analysis. Of these eight clusters, we decided to focus on three priority clusters: Access to healthcare; Governance and ethical business practices; and Research and development.

This year we are not reporting against the GRI biodiversity Aspect. Although the indicators within this Aspect are relevant to UNGC principles 7, 8 and 9, they are not significant to us because our operations are located in specially designated zones for industrial purposes outside of natural conservation areas or protected habitats. For more on this topic, see our position on Biodiversity/Bioprospecting.

MATERIALITY PROCESS CYCLE

Access to healthcare
1 Lower income patients
2 Product pricing
3 Partnering
4 Intellectual property

Employees
5 Recruitment & retention of employees
6 Diversity & inclusion
7 Health & safety

Environmental protection
8 Pollution, waste & effluents
9 Energy & climate change

Governance & ethical business practices
10 Integrity & compliance management
11 Responsible clinical trials
12 Bribery & corruption
13 Responsible marketing/advertising
14 Board structure & independence
15 Responsible lobbying & political contributions
16 Risk & crisis management

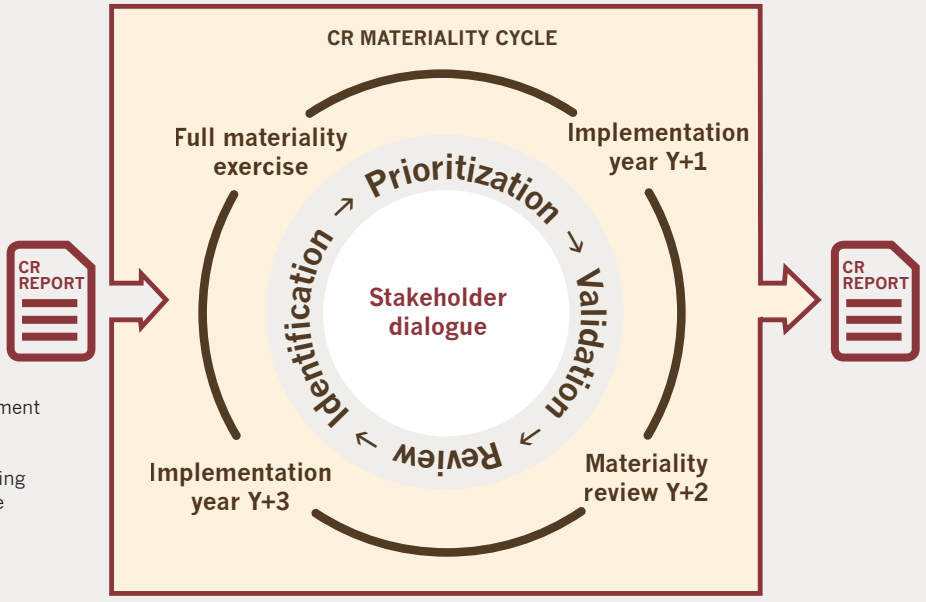
Patient focus
17 Health outcome contribution
18 Demographic changes in society
19 Security of product supply
Product quality
20 Quality of drugs
21 Counterfeit medicines

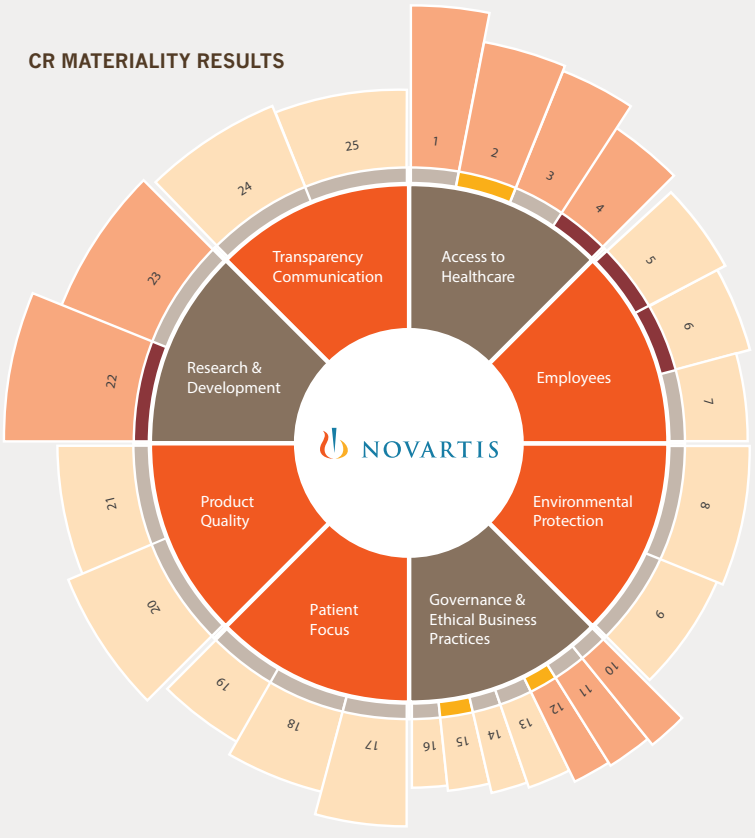
Research & development
22 Innovation & R&D pipeline
23 R&D in neglected diseases

Transparency & communication
24 Stakeholder engagement & dialogue
25 Disclosure & labeling

Key
- Novartis CR material topics
- Novartis most material CR topics
- Novartis priority areas
- Other areas
- External expectations exceed internal by more than 10%
- Internal expectations exceed external by more than 10%
- Difference between expectations is less than 10%

Topics gaining importance
– Demographic changes
– Health outcome contribution
– Integrity & compliance management
– Lower income for patients
– Product pricing
– Quality of drugs
– Responsible marketing
– Stakeholder engagement





G4 SD 20

G4 SD 21

ASPECT BOUNDARIES WITHIN AND OUTSIDE THE ORGANIZATION

The Aspect Boundary, within the organization, applies across the organization (as defined by inclusion in this report).

Aspect	Indicators	Aspect Boundary outside the organization	
Economic performance	G4 EC 1, G4 EC 2, G4 EC 3, G4 EC 4	— Academia and scientific community — Customers — Financial markets — Health authorities — Healthcare professionals — Local communities	— NGOs — Patients and patient groups — Pharmaceutical industry — Shareholders — Suppliers — Trade unions
Market presence	G4 EC 5	— Customers — Financial markets — Health authorities — Healthcare professionals — Local communities — NGOs	— Patients and patient groups — Pharmaceutical industry — Regulators — Shareholders — Suppliers
Indirect economic impacts	G4 EC 8	— Governments — Health authorities — NGOs/IGOs — Patients and patient groups — Trade unions	
Procurement practices	G4 EC 9	— Customers — Financial markets — Health authorities — Healthcare professionals — NGOs	— Patients and patient groups — Pharmaceutical industry — Shareholders — Suppliers
Materials	G4 EN 1	— Academia and scientific community — Customers — Health authorities — Local communities	— NGOs — Shareholders — Suppliers
Energy	G4 EN 3, G4 EN 6	— Academia and scientific community — Customers — Health authorities — Local communities	— NGOs — Shareholders — Suppliers
Water	G4 EN 8, G4 EN 9, G4 EN 10	— Academia and scientific community — Customers — Health authorities — Local communities — NGOs — Shareholders — Suppliers	
Emissions	G4 EN 15, G4 EN 16, G4 EN 17, G4 EN 18, G4 EN 19, G4 EN 20, G4 EN 21	— Academia and scientific community — Customers — Health authorities — Local communities — NGOs — Shareholders — Suppliers	
Effluents and waste	G4 EN 22, G4 EN 23, G4 EN 24	— Academia and scientific community — Customers — Health authorities — Local communities — NGOs — Shareholders — Suppliers	

Aspect	Indicators	Aspect Boundary outside the organization	
Products and services	G4 EN 27	— Academia and scientific community — Customers — Health authorities — Local communities	— NGOs — Shareholders — Suppliers
Compliance	G4 EN 29	— Academia and scientific community — Customers — Health authorities — Local communities	— NGOs — Shareholders — Suppliers
Transport	G4 EN 30	— Academia and scientific community — Customers — Health authorities — Local communities	— NGOs — Shareholders — Suppliers
Overall	G4 EN 31	— Academia and scientific community — Customers — Health authorities — Local communities	— NGOs — Shareholders — Suppliers
Supplier environmental assessment	G4 EN 32	— Academia and scientific community — Customers — Financial markets — Health authorities — Healthcare professionals	— Local communities — NGOs — Patients and patient groups — Shareholders — Suppliers
Environmental grievance mechanisms	G4 EN 34	— Academia and scientific community — Customers — Health authorities — Local communities	— NGOs — Shareholders — Suppliers
Employment	G4 LA 1, G4 LA 2	— Customers — Financial markets — Local communities — NGOs	— Regulators — Shareholders — Suppliers — Trade unions
Labor/ management relations	G4 LA 4	— Customers — Financial markets — Local communities — NGOs	— Regulators — Shareholders — Suppliers — Trade unions
Occupational health and safety	G4 LA 5, G4 LA 6, G4 LA 7, G4 LA 8	— Customers — Financial markets — Local communities — NGOs — Regulators — Shareholders — Suppliers	— Trade unions
Training and education	G4 LA 9, G4 LA 10, G4 LA 11	— Customers — Financial markets — Local communities — NGOs — Regulators — Shareholders — Suppliers	— Trade unions
Diversity and equal opportunity	G4 LA 12	— Customers — Financial markets — Local communities — NGOs	— Regulators — Shareholders — Suppliers — Trade unions
Equal remuneration for women and men	G4 LA 13	— Customers — Financial markets — Local communities — NGOs	— Regulators — Shareholders — Suppliers — Trade unions
Supplier assessment and labor practices	G4 LA 14	— Customers — Financial markets — Health authorities — Healthcare professionals — NGOs	— Patients and patient groups — Shareholders — Suppliers — Trade unions
Labor practices grievance mechanisms	G4 LA 16	— Customers — Financial markets — Health authorities — Healthcare professionals — NGOs	— Patients and patient groups — Shareholders — Suppliers — Trade unions

Aspect	Indicators	Aspect Boundary outside the organization	
Investment	G4 HR 1 G4 HR 2	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers
Non-discrimination	G4 HR 3	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers — Trade unions
Freedom of association and collective bargaining	G4 HR 4	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers — Trade unions
Child labor	G4 HR 5	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers — Trade unions
Forced or compulsory labor	G4 HR 6	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers — Trade unions
Security practices	G4 HR 7	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers
Indigenous rights	G4 HR 8	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers
Assessment	G4 HR 9	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers — Trade unions
Supplier human rights assessment	G4 HR 10	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers
Human rights grievance mechanisms	G4 HR 12	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers — Trade unions

Aspect	Indicators	Aspect Boundary outside the organization	
Local communities	G4 SO 1	— Customers — Financial markets — Governments — Health authorities — Healthcare professionals — Key Opinion Leaders	— Local communities — NGOs/IGOs — Patients and patient groups — Shareholders — Suppliers — Trade unions
Anti-corruption	G4 SO 3, G4 SO 4, G4 SO 5	— Customers — Financial markets — Health authorities — Healthcare professionals — Patients and patient groups — Shareholders — Suppliers	
Public policy	G4 SO 6	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers
Anti-competitive behavior	G4 SO 7	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers
Compliance	G4 SO 8	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers
Supplier assessment for impacts on society	G4 SO 9	— Customers — Financial markets — Health authorities — Healthcare professionals	— NGOs — Patients and patient groups — Shareholders — Suppliers
Grievance mechanisms for impacts on society	G4 SO 11	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers
Health and safety impacts on products and services	G4 PR 1	— Customers — Financial markets — Governments — Health authorities — Healthcare professionals	— NGOs/IGOs — Patients and patient groups — Pharmaceutical industry — Shareholders — Suppliers
Product and service labeling	G4 PR 3	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers
Marketing communications	G4 PR 7	— Customers — Financial markets — Health authorities — Healthcare professionals	— Media — Patients and patient groups — Shareholders — Suppliers
Customer privacy	G4 PR 8	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers
Compliance	G4 PR 9	— Customers — Financial markets — Health authorities — Healthcare professionals	— Patients and patient groups — Shareholders — Suppliers

G4 SD 22

RESTATEMENTS OF INFORMATION

The HSE data published in the Novartis Annual Report 2014 has been restated to include the final actual data. This has resulted in no material change.

G4 SD 23

SIGNIFICANT CHANGES FROM PREVIOUS REPORTING PERIODS IN THE SCOPE AND ASPECT BOUNDARIES

No significant changes occurred in the 2014 reporting period.

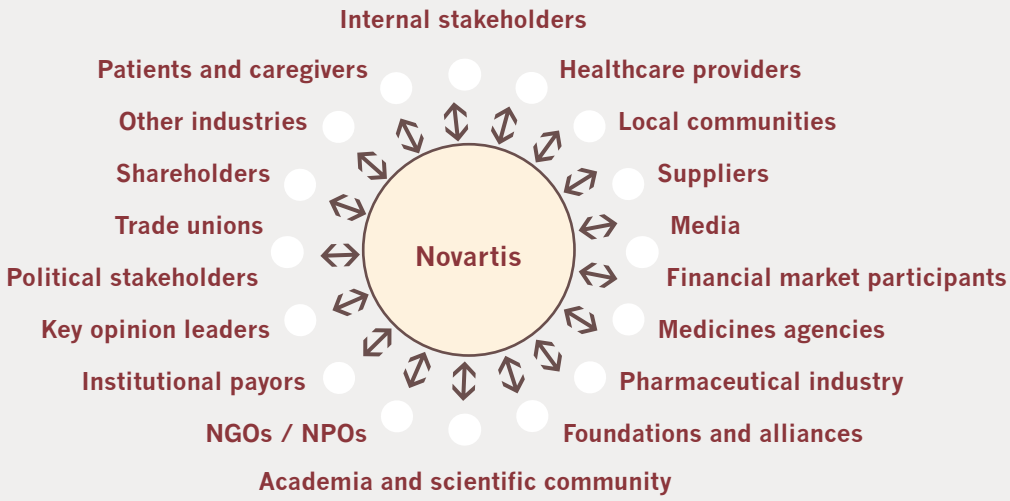
G4 SD 24

STAKEHOLDER GROUPS ENGAGED BY THE ORGANIZATION

Our stakeholders include our associates, companies, governments, IGOs and NGOs, customers, shareholders, financial market participants, suppliers, local communities and others. We engage with these diverse groups to understand their needs and expectations, and to improve access to healthcare.

We continuously strive to improve how we engage with our stakeholders.

STAKEHOLDERS WE ENGAGE WITH



G4 SD 25

BASIS FOR IDENTIFICATION AND SELECTION OF STAKEHOLDERS WITH WHOM TO ENGAGE

Novartis interacts with an increasingly complex map of stakeholders with diverse – sometimes conflicting – expectations. We identify our stakeholders based on the impact and influence level they exert over our company and vice versa. We must engage with diverse groups to understand their needs and expectations, and to improve access to healthcare. In order to deepen these insights, in 2013 Novartis completed an extensive CR materiality analysis to gauge the views of key internal and external stakeholders. We will update our CR materiality analysis in 2015, through a series of stakeholder dialogues, online and face-to-face.

We are embracing new technologies and information channels to better engage with our stakeholders. For instance, we are engaging with patients by providing them with platforms and tools to become more active managers of their diseases. As part of a multiple sclerosis (MS) disease awareness campaign, we created an online platform with educational resources for people with relapsing MS to learn more about their condition, including tips on how to engage with healthcare practitioners to optimize their care. Separately, in the UK, we launched the SymTrac app for MS patients, helping them record detailed information about their symptoms and track changes over time. Through digital tools and applications like these, we can complement our medicines and deliver more holistic solutions for patients.

G4 SD 26

APPROACH TO STAKEHOLDER ENGAGEMENT

We engage with our stakeholders in a variety of ways, including through focus groups and collaborations with patient advocacy organizations to better understand patient needs, participation at scientific congresses to interact with the scientific community, public policy work to meet with authorities and regulators, global associate surveys to gauge associates' perspectives on the company, or roundtables to exchange experiences and expectations with our suppliers. These are just some examples of how we interact with our diverse range of stakeholders.

Stakeholder engagement at Novartis helps us to:

- Participate actively in civil society
- Learn and gain relevant knowledge regarding our business and expectations of our stakeholders
- Correct misperceptions and voice our arguments in the social debate
- Make strategic adjustments in corporate practice in order to optimize our business success
- Reach trust and common understanding when differences arise

We find this approach to be beneficial in many ways. It serves as an early warning system, supplies us with knowledge of stakeholders and opinion leaders, and provides an opportunity to influence the development of a debate through sound arguments.

A key example of our stakeholder engagement is our interaction with patient groups. Building and sustaining relationships with patient advocates and the groups they represent is an important way we can help meet our patient commitment and our commitment to society as a whole. As we share balanced, accurate and easy-to-understand scientific information on diseases, treatments, and health policies impacting patients, we learn about patient concerns and needs. Patient advocates also offer us valuable insights and counsel that inform our work around the world and across therapeutic areas – from drug development through regulatory approval and reimbursement into product launch and marketing.

Novartis believes open dialogue and transparent exchange of information among all the stakeholders in the healthcare community is vital to advancing access and healthcare delivery to patients. In all our interactions with patient groups, we are committed to working ethically and transparently while respecting their integrity. With regards to the disclosure of patient group support, Novartis strives to be fully compliant with all applicable legal requirements in every country in which it operates. We commit to disclose the names of patient groups that have received funding or non-monetary support from Novartis as well as the purpose of this support in Europe and the US. In the case of European patient groups, Novartis also discloses the funding amount. This list is updated annually.

Regarding investors, we typically directly engage 10–20 institutional investors per year in face-to-face meetings or phone conversations about our Environment, Social and Governance (ESG) performance, and respond to additional written information requests. We have also established regular meetings of our governance specialists with the respective peers from shareholder groups.

For more on our approach to stakeholder engagement, including a list of patient groups we support, see the CR section of the Novartis website.

G4 SD 27

KEY TOPICS AND CONCERNS RAISED THROUGH STAKEHOLDER ENGAGEMENT

The following key topics were raised by stakeholders during our 2013 materiality analysis and addressed in 2014.

Access to healthcare

We set up a dedicated Access to Medicine Committee in 2014 to establish guiding principles, and continually assess opportunities to expand access to medicine and treatments to more patients, especially in underserved communities.

For more information, see p09–10 and Corporate Responsibility Guideline.

Governance and ethical business practices

In the area of Governance and ethical business practices, we also took concrete steps in 2014 to strengthen our CR management and to increase transparency and strengthen our ethical business practices. The Board of Directors created the Governance, Nomination and Corporate Responsibilities Committee to oversee our company's strategy and governance on CR-related issues that may affect Novartis business and reputation. Further, we named Eric Cornut, formerly Chief Commercial Officer, Novartis Pharmaceuticals, as Chief Ethics, Compliance and Policy Officer reporting to the CEO. This change elevated the Compliance function to the highest levels in the company and aims to further ingrain ethics into our culture. Mr. Cornut's experience in our commercial organization – as well as prior positions at regional and country levels – ensure that he can help teams continue to embed a culture of high performance with integrity.

For more information, see p10–11.

Research and Development

In the area of R&D, significant progress on clinical trial transparency and governance was made in 2014. Novartis signed the EFPIA principles regarding clinical trial results disclosure

and issued global guidelines on investigator-initiated trials (IITs). We are also in the process of identifying areas to strengthen R&D for diseases that disproportionately affect the developing world both through innovative research and adaptive development – for instance by modifying existing medicines to serve the needs of underserved and vulnerable patient groups (e.g. children, elderly people). This may include formulations that are age-appropriate, heat-stable in high heat or tropical climates, or new dosage strengths with improved efficacy that help to increase treatment adherence.

For more information, see p41–52 of the Novartis Annual Report 2014.

For our positions on various issues affecting our business, see the Positions page found in the CR section of the Novartis website.

CR MATERIALITY ANALYSIS RESULTS

Eight clusters and 25 issues (three priority clusters highlighted in brown)

Clusters	Issues
Access to healthcare	— Lower-income patients — Product pricing — Partnering — Intellectual property
Employees	— Recruitment and retention of employees — Diversity and inclusion — Health and safety
Environmental protection	— Pollution, waste and effluents — Energy and climate change
Governance and ethical business practices	— Integrity and compliance management — Responsible clinical trials — Bribery and corruption — Responsible marketing/advertising — Board structure and independence — Responsible lobbying and political contributions — Risk and crisis management
Patient focus	— Health outcome contribution — Demographic changes in society — Security of product supply
Product quality	— Quality of drugs — Counterfeit medicines
Research and development	— Innovation and R&D pipeline — R&D in neglected diseases
Transparency and communication	— Stakeholder engagement and dialogue — Disclosure and labeling

G4 SD 34

GOVERNANCE STRUCTURE OF THE ORGANIZATION

The company's highest governance body is the Board of Directors. It has five committees with various responsibilities. For full detail of all the committees, refer to p78–79 of the Novartis Annual Report 2014.

The Board of Directors approved the expansion of the mandate of the former Corporate Governance and Nomination Committee to include CR, effective January 1, 2014. The **Governance, Nomination and Corporate Responsibilities Committee** oversees our company's strategy and governance on CR topics that may affect the company's business and reputation. It is the highest Board-level committee related to CR.

At the operational level, the **Novartis Corporate Responsibility Board** coordinates activities across the company through representation from all relevant functions and divisions. Led by the Global Head, Corporate Responsibility, the CR Board meets three times per year to direct, guide and coordinate CR activities across the company, with the mandate to advance Novartis CR in two areas of strategic focus: expanding access to healthcare and doing business responsibly.

The charter of the CR Board is to make decisions and recommendations on global CR matters and those with cross-divisional/cross-functional implications, as well as report on priorities and progress. The CR Board is ultimately responsible for shaping the company's strategy and performance measurements for CR and making recommendations to the ECN.

Specific accountabilities of the CR Board include:

— Approving and/or recommending to the Executive Committee of Novartis (ECN) on overall CR strategy, CR targets, CR policies, external CR positions, CR materiality assessment, CR communication and reporting approach, CR stakeholder engagement plan and major ESG index submissions
— Convening CR dialogue sessions with external stakeholders on most material CR topics for Novartis, and developing reports for internal and external use
— Ensuring information sharing of CR activities of other bodies: Health, Safety and Environment (HSE) Steering Committee, Access to Medicine Committee

In 2014, the **Access to Medicine Committee**, chaired by the CEO, was established to develop and implement company-wide positions, commitments, and targets on access to medicine and related issues.

The **Health, Safety and Environment (HSE) Steering Committee** is responsible for providing overall guidance within its functional portfolio.

There are a number of other steering committees that address CR-specific topics, such as the Integrity and Compliance Steering Committee, and the Board of Trustees of the Novartis Foundation.

For further details about governance at Novartis, including a summary of our corporate governance regime, and listed responsibilities of the Board committees, see p76–82 of the Novartis Annual Report 2014.

G4 SD 38

COMPOSITION OF THE HIGHEST GOVERNANCE BODY AND ITS COMMITTEES

The Board of Directors is led by an independent, non-executive Chairman and all its members qualify as independent non-executive Directors.

The Executive Committee is headed by the Chief Executive Officer. The members of the Executive Committee are appointed by the Board of Directors. The Chief Executive Officer, in addition to other duties that may be assigned to him by the Board of Directors, leads the Executive Committee, building and maintaining an effective executive team, and, together with the Executive Committee, is responsible for the operational management of Novartis.

Members of the Corporate Responsibility Board include the Global Head, Corporate Responsibility (Chair) and representatives from all business divisions. Furthermore, all functions that are strategically relevant for CR are represented, e.g., Head of CR Communications and Reporting, Head of Public Affairs, Head of Health Safety & Environment, Chief Ethics Compliance & Policy Officer, Head of Novartis Foundation, Head of Health Policy for NIBR, Head of Investor Relations, Head of CR Strategy and Stakeholder Engagement, Legal representative for Corporate Responsibility and the Secretary of the CR Board.

For further detail about the functions of the Board of Directors, Executive Committee, CEO, and other management details, see p76, p87 and p88 of the Novartis Annual Report 2014. During our Annual General Meeting in February 2015, the composition of the Board changed. For further details, please see our media release dated February 27, 2015.

Independence

The independence of Board members is a key corporate governance issue. Accordingly, Novartis established independence criteria based on international best-practice standards.

The Novartis independence criteria require that the majority of Board members and any member of the Audit and Compliance Committee; the Compensation Committee; and the Governance, Nomination and Corporate Responsibilities Committee must meet the Novartis independence criteria. These include, inter alia, (i) a Board member not having received compensation of more than USD 120 000 per year from Novartis, except for Board compensation, (ii) a Board member not having been within the last three years an employee of Novartis, (iii) a family member not having been within the last three years an executive officer of Novartis, (iv) a Board member or family member not being employed by the external auditor of Novartis, (v) a Board member or family member not being a board member, employee or 10% shareholder of an enterprise that has made payments to, or received payments from, Novartis, in excess of the greater of USD 1 million or 2% of that enterprise's gross revenues. For members of the Audit and Compliance Committee and the Compensation Committee even stricter rules apply.

For more detail, see the complete Independence Criteria for the Board of Directors and its Committees.

In addition, the Board members are bound by the Novartis Conflict of Interest Policy, which prevents a Board member's potential personal interests from influencing the decision-making of the Board.

The Governance, Nomination and Corporate Responsibilities Committee annually submits to the Board a proposal concerning the determination of the independence of each Board member. For this assessment, the committee considers all relevant facts and circumstances of which it is aware – not only the explicit formal independence criteria. This includes an assessment of whether a Board member is truly independent, in character and judgment, from any member of the senior management and from any of his/her current or former colleagues. In its meeting of December 11, 2014, the Board determined that all of its members are independent.

For further details about the Board of Directors and Board committees, see p78–81 of the Novartis Annual Report 2014.

Board composition

Knowledge and experience in the following fields must be represented on the Board: leadership and management, healthcare, life sciences and medicine, research and development, engineering and technology, manufacturing and marketing, banking, finance and accounting, legal and public affairs, and risk management.

For further information about Board member qualifications, see p84–86 of the Novartis Annual Report 2014.

Board members represent important stakeholder interests for the company, including areas of research, science, academia, ethics, health and development, environmental stewardship, and sustainable development. For instance:

- **Verena A. Briner, M.D.**, is a member of various medical and ethical institutions and commissions, a professor of internal medicine at the University of Basel, Switzerland, and chief medical officer and head of the Department of Medicine at the Lucerne Cantonal Hospital in Switzerland. Dr. Briner has been a member of the Board of Directors since 2013
- **Pierre Landolt, Ph.D.,** is a member of the board of EcoCarbone SAS, France, a company he co-founded in 2000 active in the design and development of carbon-sequestration processes. He is also associate and president of AxialPar Ltda., Brazil, an investment company focused on sustainable development. He has been a member of the Board of Directors since 1996 and is Chairman of the Governance, Nomination and Corporate Responsibilities Committee
- **Charles L. Sawyers, M.D.**, serves on US President Barack Obama's National Cancer Advisory Board, is former president of the American Association of Cancer Research, and is a professor of medicine and of cell and developmental biology at the Weill Cornell Graduate School of Medical Sciences in the US. He has been a member of the Board of Directors since 2013
- **Ann Fudge** is a former chair and CEO of a global marketing communications company, is a trustee of the Rockefeller Foundation, and is chair of the US Programs Advisory Panel of the Bill & Melinda Gates Foundation. She has been a member of the Board of Directors since 2008 and is a member of the Risk Committee; the Compensation Committee; and the Governance, Nomination and Corporate Responsibilities Committee

For detailed profiles of all 11 members of the Board of Directors, see p84–86 of the Novartis Annual Report 2014.

Board diversity

Our Board includes members with diverse educations, experiences, nationalities and interpersonal skills. The diversity of a board of directors is a critical success factor for its effectiveness. Thus, when the Governance, Nomination and Corporate Responsibilities Committee identifies new Board member candidates to propose to the shareholders for election, the maintenance and improvement of the diversity of the Board is an important criterion. The Board's aspiration is to have a diverse Board in all aspects of diversity. This includes geographic origin, background, gender, race, faith, education, experience, viewpoint, interests and technical and interpersonal skills. In 2014, 18% of Board members were women.

For further information about Board diversity, and to view tables detailing the responsibilities of Board members and committees, see p77–79 of the Novartis Annual Report 2014.

G4 SD 56

THE GLOBAL COMPACT 1,2,3,4,5, 6,8,10

ORGANIZATION'S VALUES, PRINCIPLES, STANDARDS AND NORMS OF BEHAVIOR SUCH AS CODES OF CONDUCT AND CODES OF ETHICS

Our mission is to "care and cure". Our vision is to be the world's most respected and successful healthcare company.

Our strategy is to deliver better outcomes for patients through science-based innovation. We aim to lead in growing areas of healthcare. We maintain strong investment in research and development focused on areas of unmet medical need. Our goal is to create products that provide patients with clear health benefits in everyday use.

Strong values define our culture and help us execute the Novartis strategy in line with our mission and vision. Our values are innovation, quality, collaboration, performance, courage and integrity. They describe the professional behavior we expect from our employees.

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 UNGC. Our Code of Conduct was revised in 2001, and most recently in 2011.

Our Code of Conduct is based on five core principles (for details of these principles, see the Novartis Code of Conduct):

- **Patients:** Patient benefit and safety is at the heart of everything we do
- **Associates:** We treat our associates fairly and respectfully
- **Shareholders:** We are committed to outstanding and sustainable performance with integrity
- **Healthcare partners:** We strive to be a trusted healthcare partner
- **Society:** We aspire to be a good corporate citizen

Every Novartis associate is required to take part in yearly Code of Conduct training, including certification. In 2014, 122 689 associates were trained and certified on the Code of Conduct. Compliance with the Code of Conduct is included in the terms of employment of all Novartis associates and is closely monitored. Novartis further regulates ethical business practices through its internal policies, which are fully aligned to the overarching Code of Conduct. These policies set global standards for the most common business practices in Novartis. Implementation and enforcement of these policies is supported by regular training in local languages (including e-learning), monitoring of existing controls, and internal audits.

The policies, together covering all businesses comprising Novartis in 2014, are as follows:

- Novartis Global Anti-bribery Policy
- Pharma: Novartis Pharma Principles and Practices for Professionals (NP4)
- Alcon: Alcon Policy on Promotion and Interaction with Healthcare Professionals (AP3)
- Sandoz: Sandoz Professional Practices Policy (SP3)
- Vaccines: Novartis Vaccines Principles and Practices for Professionals Policy (VP4)
- Over the Counter: OTC Promotional Practices Principles (OTCP3)
- Animal Health: Novartis Animal Health Principles and Practices for Professionals (AHP3)
- Novartis Institutes for Biomedical Research: Policy for Interactions with Patients, Physicians, and Institutions for NIBR (PIPPIN)

A worldwide network of Compliance Officers advises on compliance matters and handles any issues that arise locally. The Novartis Chief Ethics, Compliance and Policy Officer presents an update of the compliance program semi-annually to the Audit and Compliance Committee of the Novartis Board of Directors.

The Chief Ethics, Compliance and Policy Officer reports to the Chief Executive Officer. He has overall responsibility for the Code of Conduct, the anti-bribery program and ethical business practices.

For more about our ethics, governance and compliance, see the CR section of the Novartis website.

Maria Lúcia Martins Moreira undergoes cataract removal surgery at an eye clinic in São Paulo, Brazil, that uses Alcon surgery equipment.

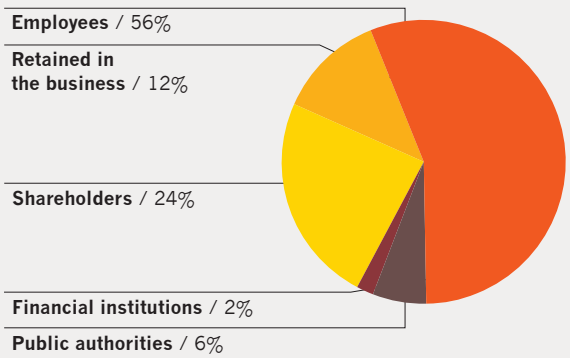
Economic

G4 EC 1

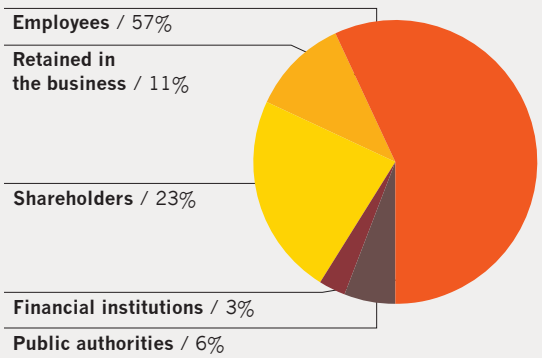
DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

Origin of value added	2014 USD millions	2014 % of net sales	2013 USD millions	2013 % of net sales
Net sales	57 996	100.0%	57 920	100.0%
Other revenues, change in inventory and own manufactured items	1 980	3.4%	1 564	2.7%
	59 976	**103.4%**	**59 484**	**102.7%**
Service bought from third parties				
Material costs	–16 245	–28.0%	–12 756	–22.0%
Other operating expenses	–8 402	–14.5%	–14 399	–24.9%
Gross value added	**35 329**	**60.9%**	**32 329**	**55.8%**
Depreciation, amortization and impairments	–6 035	–10.4%	–4 990	–8.6%
Financial income net	–31	–0.1%	–92	–0.2%
Net value added	**29 263**	**50.5%**	**27 247**	**47.0%**

DISTRIBUTION OF NET VALUE ADDED 2014



DISTRIBUTION OF NET VALUE ADDED 2013



G4 EC 2

7,8,9

FINANCIAL IMPLICATIONS AND OTHER RISKS AND OPPORTUNITIES FOR THE ORGANIZATION'S ACTIVITIES DUE TO CLIMATE CHANGE

Novartis responds to a range of physical, regulatory and other risks and opportunities driven by climate change.

For complete detail of our work to address climate change risks and opportunities, see CC5 and CC6 of the CDP Investor Information Request Response. An overview is provided below.

Physical risks

As a company with products available in more than 180 countries, we understand that potential physical risks as a result of climate change are not limited to a particular region or country.

Our operations may become directly affected by physical risks related to climate change in the same way as any other business that operates worldwide. While extreme weather events, changes in weather patterns and rising temperatures and/or sea levels are not expected to strongly influence our operational plans and decisions within the next 5 to 10 years, we are working to identify, quantify, and manage these potential risks. Reinforcement of site infrastructure to account for changes in precipitation extremes and droughts could amount to an estimated USD 2–5 million cost per site.

Suppliers of chemicals and intermediates, suppliers of energy and suppliers of packaging materials could be affected by physical risks of climate change. Severe events due to climate change could potentially affect supply continuity for such materials and services. We have programs in place to ensure business continuity, which include risks of supply interruptions. Prices for agricultural commodities may increase by 20–30% over the next 10 years as a result of climate change.

We are aware that rising sea levels could result in protective measures being required for industrial areas near the coastline and in low-land areas where we operate (e.g. in Shanghai, Dhaka or Singapore). Flooding of manufacturing operations could lead to higher capital and operational costs, and at-risk operations with smaller asset values or in poorer areas may need to be relocated.

The availability of fresh water is another area where some of the Novartis operations (primarily the manufacture of anti-infective pharmaceuticals by fermentation) could be affected in the long term. The fresh water needed for cooling is normally supplied directly from rivers or from groundwater layers at river banks. All of our anti-infective sites are located in areas where the availability of fresh water is currently abundant or sufficient, and is expected to be for the next 15 to 20 years. However, energy and water costs in water-scarce areas could increase by 20–30% due to increased water stress. For the top 10 water-scarce sites, total electricity costs in 2014 were USD 43 million and total water costs were USD 7 million. An increase as estimated above would result in an additional USD 8–12 million per year in costs.

At a corporate level, Novartis has identified short-term and long-term risks related to water scarcity based on the World Business Council for Sustainable Development's (WBCSD) *Global Water Tool*. Locations with higher potential risks have been asked to conduct assessments to manage and minimize their dependence on water.

Potential reductions in biodiversity caused by climate change may have long-term impacts on our business. Temperature increases of 1.5–2.5°C above pre-industrial levels (expected minimum increases to occur by 2050 due to global warming) could lead to the extinction of 20–30% of known plant and animal species (IPCC 2007). With over 60% of all new anti-cancer and anti-infective agents in the period 1984 to 1995 coming from natural products or their derivatives, Novartis could suffer from a reduction in biodiversity over the next 30 to 50 years. Current Novartis products based on natural compounds together bring in more than USD 2 billion in net sales.

Regulatory risks and opportunities

Regulation driven by climate change can present risks and opportunities for our business. For example, cap and trade schemes and international agreements could cause an increase in operational costs over the next 6 to 10 years, with a strong likelihood that they will directly impact Novartis.

We have invested on average USD 20–25 million per year on our energy and climate management programs over the last six years to ensure that we minimize the associated risks and position ourselves to benefit from potential opportunities.

Energy projects over the last six years had an average payback of less than three years. Management costs for the energy management programs were exceeded by the savings achieved. Since the introduction of our energy program in 2008, we have reduced annual energy costs by USD 74 million through projects, compared to a business-as-usual scenario.

With respect to regulatory schemes (such as the Kyoto Protocol and potential future agreements), Novartis has taken a proactive approach due to the growing importance of these schemes, even though climate change currently has limited direct impact on our industry. For more details about our Corporate Energy and Climate Strategy, see G4–EN15: Direct greenhouse gas (GHG) emissions (Scope 1).

Other risks and opportunities – changes in consumer demand

Climate change will also affect future consumer demand for pharmaceuticals by changing the spatial distribution and frequency of diseases. The IPCC (2007) and the World Health Organization (2007) both state that the effects of climate

change on human health are likely to include an increased frequency of heart disorders due to higher levels of ground-level ozone. Rates of infectious diseases such as malaria and dengue fever are also expected to increase due to changing climatic patterns. Predicted changes to global climate patterns (temperatures, precipitation patterns, etc.) are expected to have multiple and increasing impacts on public health over the next 20 to 30 years, including the spread of vector-borne diseases.

As part of our proactive energy and climate strategy, we voluntarily initiated four forestry carbon sink projects to help minimize the impacts of our operations on the climate. Our forestry projects will generate about 6 million tons of carbon sinks over 30 years. With a current credit price of USD 5–10 per metric ton for sustainable afforestation/reforestation offsets, these projects have a total long-term value of USD 30–60 million. Assuming an increase of the carbon credit price to USD 20 per metric ton, this total value could increase to USD 120 million.

For further details about our forestry carbon sink projects, see G4–EN19: Reduction of greenhouse gas (GHG) emissions.

G4 EC 4

FINANCIAL ASSISTANCE RECEIVED FROM GOVERNMENT

No government is registered with more than 2% of our share capital as of December 31, 2014.

Government grants

The Group was awarded government grants in the United States for the construction of a manufacturing facility to produce influenza vaccines which is reported in discontinuing operations. The contracts included a maximum of USD 330 million of cost reimbursement for construction activities and equipment, of which USD 284 million were received up to December 31, 2014 (2013: USD 260 million). For further details see p208 of the Novartis Annual Report 2014.

Tax relief and tax credits

Novartis publishes an overall analysis of the tax rate. Tax authorities offer different types of tax credits.

For Novartis, the tax benefits result from R&D credits which are typically offered to the pharmaceutical industry as an incentive to intensify R&D activities in the respective jurisdiction. In 2014, the overall effect of such credits and allowances on the expected tax rate amounts to a 1.8 percentage points benefit (approximately USD 220 million).

Analysis of tax rate

The main elements contributing to the difference between the Group's overall expected tax rate (which can change each year since it is calculated as the weighted average tax rate based on pre-tax income of each subsidiary) and the effective tax rate are:

	2014 (%)	2013 (%)
Expected tax rate	11.7	12.9
Effect of disallowed expenditures	2.9	3.4
Effect of utilization of tax losses brought forward from prior periods	–0.3	–0.1
Effect of income taxed at reduced rates	–0.6	–0.1
Effect of tax credits and allowances	–1.8	–2.0
Effect of write-off of deferred tax assets		0.1
Effect of tax rate change on opening balance		–0.2
Effect of tax benefits expiring in 2017	–0.8	–0.7
Effect of reversal of write-down of investments in subsidiaries	0.9	
Prior year and other items	0.6	0.6
Effective tax rate for continuing operations	**12.6**	**13.9**
Effective tax rate for discontinuing operations	–27.4	76.4
Effective tax rate	**13.8**	**13.4**

The utilization of tax-loss carry-forwards lowered the tax charge by USD 34 million in 2014 and by USD 13 million in 2013, respectively. For further details see p179 of the Novartis Annual Report 2014.

Investment grants, research and development grants, and other relevant types of grants

Within the Novartis Group, some entities receive grants from various governments and private organizations linked to specific activities. As an example, within the Novartis Institutes for BioMedical Research (NIBR), certain entities – mainly the Friedrich Miescher Institute (FMI), the Genomics Institute of the Novartis Research Foundation (GNF), the Novartis Institute

for Tropical Diseases (NITD) and the Novartis Vaccines Institute for Global Health (NVGH) – receive research grants from private organizations such as the Wellcome Trust and governments (US, EC, Switzerland). In the US, the Novartis Institutes for BioMedical Research, Inc. (NIBRI) also receive a grant from the US government. In total, these grants are not material to Novartis (2014 amount received: USD 32 million).

Financial assistance from Export Credit Agencies (ECAs)
Novartis uses Export Credit Agencies when insurance policies exist to cover or transfer political and commercial risk and if Novartis considers coverage necessary. Insurance premiums are paid and claims raised, if and when losses occur on covered transactions and recovery is considered impossible. However, these insurance policies and any related recovery are not material to the Group.

G4 EC 5

G4 6

RATIOS OF STANDARD ENTRY-LEVEL WAGE BY GENDER COMPARED TO LOCAL MINIMUM WAGE AT SIGNIFICANT LOCATIONS OF OPERATION

Each year, Novartis voluntarily sets a minimum living wage around the world, so that associates and their families can cover the costs of their basic living needs. These living wages are usually above the local minimum wage.

In 2014, the living wage survey covered 75 countries with 50 or more associates. There were no associates below agreed living wages reported from those countries.

At major operations* where local minimum wage (these wages tend to focus on poverty levels for individuals) requirements exist, the Novartis living wage can be higher than the legal minimum standard.

We do not track living wage data by gender. Associate level data on compliance with our living wage policy is tracked at country level. Country managers are tasked with ensuring that all associates, regardless of gender, are paid at least the confirmed living wage. They report back on any incidents of non-compliance to the Global Human Resources function, but the figures are not routinely consolidated to produce global-level data.

* Our major operations (based on number of associates) are located in Switzerland, Germany, United States, United Kingdom, China and Japan.

G4 EC 8

SIGNIFICANT INDIRECT ECONOMIC IMPACTS, INCLUDING THE EXTENT OF IMPACTS

In our industry, **main indirect impacts** are linked with increasing access to healthcare.

- Diseases cause governments to spend more on healthcare and also have wider economic and social costs. Our medicines, medical devices and vaccines help to reduce these costs, but quantifying these indirect savings is difficult. However, innovative medicines and treatments can reduce healthcare costs because fewer surgical procedures are required, hospital stays are shorter, and the associated costs of nursing care are also reduced.
- Since 2010, 17.5 million people in rural India, Kenya and Vietnam have attended 470 000 health awareness meetings arranged by our Social Ventures. More than 940 000 people were also diagnosed and treated in health camps.
- Through 576 medical missions in 80 countries, Alcon provided eye health education, trained physicians and brought treatments to places without access to care in 2014.
- In 2006, the Novartis Malaria Initiative introduced best practice sharing workshops in malaria-endemic countries in order to contribute to the strengthening of healthcare systems in those countries.
- We also promote development through our carbon sink projects as they help to foster sustainable economic growth for local populations in developing economies. Novartis currently operates four projects in Argentina, China, Colombia and Mali. Our 4 200 hectare reforestation project in Sichuan, China, contributes to improving environmental conditions in the region, while providing employment and income to local residents. The Novartis Sichuan forestry project is the second largest forestry carbon sink project in China, and Novartis is recognized as the first company to date having purchased Chinese forestry credits.

Access to healthcare
Novartis reached more than 1 billion patients with its products in 2014 and 72 million of these patients were reached through access to healthcare programs.

See the Access to healthcare section on the Novartis website.

Indirect impacts in Switzerland
In Switzerland where we are headquartered, Novartis offers jobs not only directly, but also indirectly as a buyer of goods and services from suppliers, including many small- and medium-sized enterprises. In 2014, the company placed orders worth about CHF 2.6 billion with companies in the 26 Swiss cantons. Novartis indirectly creates over 40 000 jobs in Switzerland through the procurement of products and services. Major areas of procurement include laboratory equipment, information technology products and services, raw materials, building costs, fixtures and fittings, as well as chemical products.

For further information about the local activities of Novartis in Switzerland, see the Novartis in Switzerland Passport 2015 edition.

Industry's direct economic impacts

According to the latest report from Wirtschaftsforschung on The economic footprint of the pharmaceutical industry, key statistics concerning direct economic impacts of the pharmaceutical industry include:

- Contribution to value added for the global GDP increased by 6.0 percent on an annual basis between 2006–2012, reaching a total of USD 437 billion.
- More than 4.4 million people worldwide are employed in the pharmaceutical industry.
- The global economic power of the sector roughly corresponds to the economic performance of Argentina, and there are almost as many people employed in the sector as are employed in Belgium as a whole.
- Over 3 million people are working in the pharmaceutical industry in Asia. In Europe around 750 000 employees are working in the pharmaceutical industry. This is almost three times higher than in Northern America which has more than 270 000 employees.
- The originators in the pharmaceutical industry are responsible for 60 percent of the global gross value added and 42 percent of the employment effects.

G4 EC 9

6

PROPORTION OF SPENDING ON LOCAL SUPPLIERS AT SIGNIFICANT LOCATIONS OF OPERATION

The Novartis Global Policy of Procurement of Goods and Services from Third-Party Suppliers describes expectations when committing company resources to third-party suppliers. It defines a competitive environment as one in which our suppliers and/or potential suppliers can compete independently, fairly and transparently for the goods or services we wish to acquire on the basis of price, quality, service and other criteria. The policy also provides the basis for division, region, country and site procurement guidelines and standard operating procedures. Divisions develop their guidelines in line with the Global Policy. The process and criteria for competitive bidding and supplier selection are aligned to Group and Divisional guidelines but are managed locally.

In 2014, Novartis Procurement managed spending in relation to net sales as follows:

Top 5 by sales	Net sales %	% spend[1] on local suppliers
United States	32.4	39
Germany	7.2	66
Japan	6.7	17
France	4.8	30
Italy	3.7	42

[1] **Spend:** purchases of goods and services from suppliers based in the same geographical market as the reported net sales

Acute lymphoblastic leukemia (ALL) patient Emily Whitehead was the first child to undergo chimeric antigen receptor T-cell (CART) therapy, being developed by the University of Pennsylvania and Novartis. Treated in 2012, she remains clear of the disease.

Environment*

G4 EN 1

THE GLOBAL COMPACT 7,8

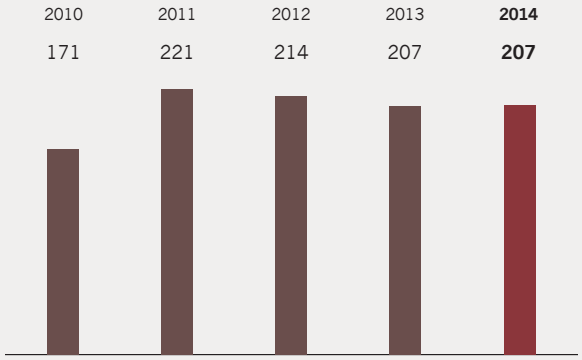
MATERIALS USED BY WEIGHT OR VOLUME

As a large global organization, we are expected to manage, minimize and report on our environmental impacts and increase the efficient use of raw materials and natural resources. Novartis monitors and reports total production as the total weight of all products delivered from all Novartis Group companies' manufacturing facilities. Total production covers all types of products, including chemical and fermentation products, active pharmaceutical ingredients (APIs) and finished dosage forms, as well as eye care drugs, surgical equipment and vision care products.

Total production for 2014 was 207 kt (2013: 207 kt). The biggest contributors to total weight of products are: Sandoz (80 kt), Alcon (76 kt), Pharmaceuticals (29 kt) and Consumer Health (21 kt).

Novartis collects measured data on raw material use and packaging material use on a quarterly basis.

PRODUCTION TOTAL
(in kt)



HSE data reflects continuing operations, including Alcon from 2011.

G4 EN 3

THE GLOBAL COMPACT 8,9

ENERGY CONSUMPTION WITHIN THE ORGANIZATION

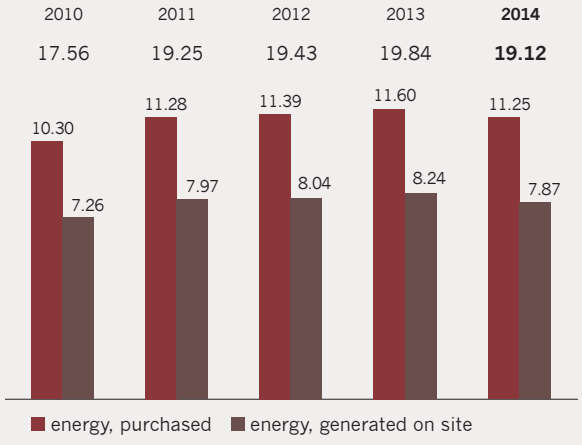
Novartis has a longstanding, comprehensive energy program with two objectives:

— Improve energy efficiency for all industrial and commercial operations
— Use renewable energy sources where available and feasible

Energy consumption is reported quarterly at all Novartis sites. The data is separated into energy generated from fossil sources (natural gas, light oil, heavy oil and fossil waste), biomass fuels and renewable sources (photovoltaic, thermal solar, hydroelectric, etc.). Conversion and transformation factors for fuels are based on standards used by the International Energy Agency (IEA).

In 2014, total energy use decreased by 3.6% to 19.12 million GJ, compared to 19.84 million GJ in 2013. This included a decrease of energy generated on-site of 4.5%, from 8.24 million GJ in 2013 to 7.87 million GJ in 2014.

ENERGY USE
(in million GJ)



HSE data reflects continuing operations, including Alcon from 2011.

* Rounding up figures extracted from our data collection system may lead to discrepancies in totals shown in charts.

Low carbon-intensity and renewable sources

A high proportion of our energy use comes from less carbon-intensive and renewable energy sources. In 2014, 92% of our on-site energy came from the combustion of natural gas and 2.3% from renewable fuel sources, which is a slight increase compared to 2.1% in 2013.

On-site renewable sources are primarily wood chips, sugar cane residues (bagasse) and biogas from mycelium waste. Additional photovoltaic (PV) arrays of 120 kW peak capacity were added in Barcelona, Spain, in 2014. Total solar PV capacity of Novartis in 2014 amounts to 2010 kW.

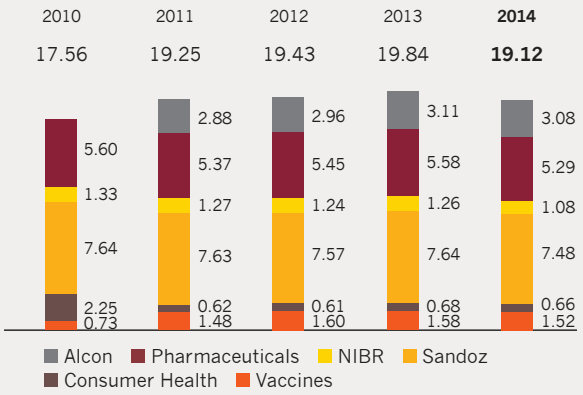
Purchased energy

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. Conversion and transformation factors for purchased energy are based on standards used by the IEA. Our total purchased energy decreased by 3.0% from 11.60 million GJ in 2013 to 11.25 million GJ in 2014. Sandoz (7.48 million GJ) was the largest energy user in the Novartis Group in 2014, followed by Pharmaceuticals (5.29 million GJ) and Alcon (3.08 million GJ).

Purchased electricity currently accounts for around 79% of the total amount of purchased energy, with approximately 9.3% of all purchased energy originating from renewable sources, compared to 8.3% in 2013. Purchased steam accounts for 16% of the total amount of purchased energy, with other energy, such as hot water, making up the remainder.

Total energy costs for the Novartis Group were USD 387 million for 2014 (USD 432 million in 2013), of which USD 256 million were spent on electricity.

ENERGY USE BY DIVISION
(in million GJ)



HSE data reflects continuing operations, including Alcon from 2011. Consumer Health data includes Animal Health, Ciba Vision & OTC until 2011. CV included under Alcon from 2011.

G4 EN 6

THE GLOBAL COMPACT 7,8,9

REDUCTION OF ENERGY CONSUMPTION

The availability of resources, predominantly energy and fresh water, is becoming more constrained and prices are expected to increase in the longer term. Novartis makes every effort to protect the environment, limit the intake of natural resources and use them more efficiently.

Energy management program

In an effort to further increase energy efficiency, ultimately reducing GHG emissions, Novartis has a comprehensive energy management program in place at all levels of the organization. Energy managers use a systematic process to ensure energy considerations are given appropriate attention in all investment projects. All of our major sites have been audited to assess energy systems and identify potential for improvement, for example through energy-saving measures and use of renewable energy.

We apply energy management tools and dedicated training programs systematically, together with continuous monitoring of targets and performance. Novartis has a long-term view on capital investments associated with energy conservation, allowing payback periods up to the lifetime of the asset for projects that save energy.

New projects are a major focus for energy savings, as it is more effective to build in efficiency from the beginning than to redesign an existing system. Many of our energy-efficiency projects demonstrate short payback periods: Novartis has invested over the last years on average about USD 25 million in energy projects with a payback between 2 and 3 years. Energy savings achieved over the last six years sum up to 16% of the company's total baseline energy consumption in 2008.

Energy efficiency targets and outlook

Since 2003, the Novartis Group has successfully introduced energy-efficiency targets in all divisions. A target of 15% improvement in energy efficiency was set for 2011–2015, based on 2010 levels. In 2014, energy efficiency per sales improved by 18% compared to 2010 – this is 6% ahead of the expected improvement of 12% for 2011 to 2014.

For details on energy types and calculation methods, see G4–EN3: Energy consumption within the organization.

In 2008, Novartis started to report energy savings achieved with energy projects and use this data to set energy performance targets for sites and divisions. Each division is expected to implement energy projects to reduce its 2008 energy consumption by 14% by 2015, or 2% per year. As of 2014, total annual energy savings achieved with energy projects amounted to USD 74 million of energy costs and 2.97 million GJ of energy. This accounts for 15.9% of the 2008 energy consumption across all sites and divisions, exceeding the 2015 target by 1.9% one year ahead of time.

We believe these significant achievements result from our ongoing energy management programs. We continue our efforts to further improve our energy performance and support our GHG emissions-reduction targets. We expect the trend in improved energy efficiency to continue in future years as a result of our energy-efficiency programs spreading throughout the organization. See the energy efficiency case studies below for successful examples of energy efficiency projects.

Fluid filtration replacing thermal sanitization
Typically, ingredients for fermentation are thermally sterilized before being added to the fermentation process at the Sandoz Anti-Infectives production site in Kundl, Austria. The process development team has now found a solution to replace thermal sterilization by multi-stage membrane filtration. While membrane filters have been used before, the novelty is to have a filter combination that allows a long-term use with one set of equipment only. The project was piloted in 2014 and will be implemented in 2015. The previous batch sterilization process was not only very energy-intensive, but also a thermal stress on the ingredient solutions and thereby negatively impacted product quality. With the transfer to fluid filtration, annual savings will amount to USD 140 000 in costs, 12 300 GJ in energy and 680 tons CO_2 in greenhouse gas emissions.

Two-stage heat exchanger in fresh air pre-conditioning
The Novartis Pharmaceuticals product packaging site in Sasayama, Japan, implemented a completely new energy saving solution in 2014. Until now, cold fresh air was used during winter times for indoor air conditioning, by heating it up to desired temperatures with hot water generated in the boiler with fossil fuels. The new system allows the site to use excess heat from chilled water and from the air compressor in a two-step heat exchanger. The outside air can thus be pre-heated from 0°C to 12.5°C. The new solution saves the site USD 50 000 in costs, 2 200 GJ in energy and 40 tons in CO_2 emissions annually. While limited to areas with seasonal climate with cold winters, this innovative concept can be replicated at many other locations.

Set point control and optimization program
The Novartis Pharmaceuticals production site in Beijing, China, implemented a comprehensive program to optimize its air conditioning system for its clean rooms in 2014. Temperature and humidity set points were adapted and controls installed to prevent over heating, cooling and dehumidification. These rather simple control measures enabled the site with relatively small investments in 2014 to save USD 60 000 in costs and 3 000 GJ in energy compared to 2013. This action can be applied at many other locations without big investments.

For more about our approach to energy efficiency, see the Managing energy and mitigating climate change page of the Novartis website.

G4 EN 8

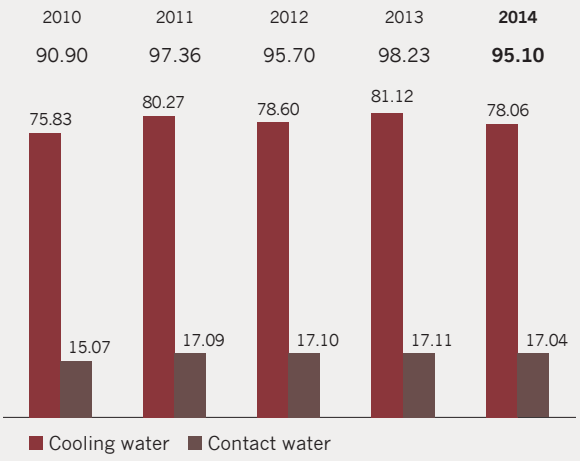
THE GLOBAL COMPACT 7,8

TOTAL WATER WITHDRAWAL BY SOURCE

Conserving water at our facilities is a priority, especially in geographical areas where water is scarce, and particularly at our manufacturing facilities where our water use is highest. Novartis monitors water streams into its sites by source and out by discharge stream, as well as various types of water use on a quarterly basis. Water volumes are measured at all manufacturing sites and the majority of large administration sites. Water data is estimated at small administration sites based on associate numbers and average consumption of 40 liters per person, per day. Such water balance methodology allows effective water resource and cost management, and helps achieve complete and accurate information on water use.

Our total water use decreased from 98.2 million m^3 in 2013, to 95.1 million m^3 in 2014. We purchased 31.2 million m^3 (33%) from water suppliers, and 64.3 million m^3 (67%) is abstracted from groundwater wells or from surface water bodies (directly from the environment). The water directly abstracted from the environment is used mainly for cooling purposes before being returned to the source. This water is primarily used for

WATER USE
(in million m^3)



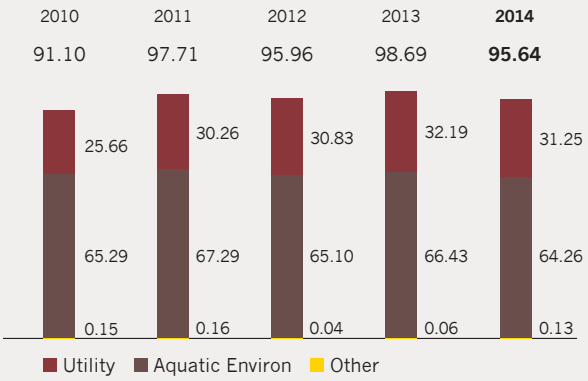
HSE data reflects continuing operations, including Alcon from 2011.

the cooling of fermentation and other biochemical processes and for the cooling of data centers, or for air conditioning of offices, because the environmental impact is lower than using mechanical chillers.

The use of contact water (water that came into contact with process ingredients) decreased slightly in 2014 to 17.0 million m³, compared to 17.1 million m³ in 2013. Major users of contact water were Sandoz (49%), Pharmaceuticals (21%) and Alcon (18%). Our operational water footprint decreased to 19.8 million m³ in 2014, compared to 20.3 million m³ in 2013. Our operational water footprint includes our grey water footprint (water output that goes through wastewater treatment, 17.4 million m³) and blue water footprint (water that is lost mainly through evaporation from cooling towers, 2.4 million m³).

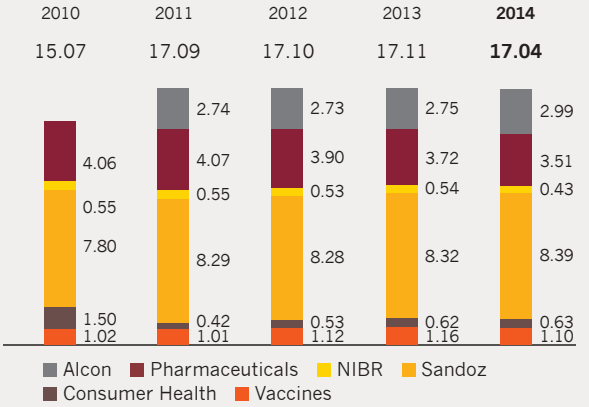
We have reported water use via the CDP water program since 2010. Our last response to CDP Water can be found here.

WATER INPUT BY SOURCE
(in million m³)



HSE data reflects continuing operations, including Alcon from 2011.

CONTACT WATER USE BY DIVISION
(in million m³)



HSE data reflects continuing operations, including Alcon from 2011. Consumer Health data includes Animal Health, Ciba Vision & OTC until 2011. CV included under Alcon from 2011.

G4 EN 9

7,8,9

WATER SOURCES SIGNIFICANTLY AFFECTED BY WITHDRAWAL OF WATER

There are no water sources significantly affected by withdrawal of water from our operations: 33% of total water used is supplied by local public water utilities. The remaining 67% of total water used is drawn from groundwater wells or from surface water bodies and used for cooling before being returned to the source with a minor increase in temperature.

Water scarcity

Novartis assesses the location of sites according to areas of potential water scarcity by 2025 using the World Business Council for Sustainable Development's *Global Water Tool*. We have intensified water-saving initiatives at sites located in these water-scarce areas, as well as other locations.

Strategies on water abstraction and the use of water for cooling vary widely from site to site, depending on the availability of water. We have made concerted efforts to reduce our water footprint, including water lost and water that requires treatment at locations where fresh water is scarce. Sites located in areas where water is scarce are identified, and their specific risks considered in a risk portfolio. Sites with a high level of water scarcity and high water usage are included in a corporate water-saving program.

Water footprint reduction achievement and outlook

In 2013, a water-saving program was initiated at the top 10 sites with respect to water footprint and water scarcity. The 10 sites, located in South and South East Asia, the United States and Europe, conducted water audits, determined water flows, identified water-saving opportunities and set local water-saving targets and have implemented relevant water-saving projects in 2014. The top 10 Novartis sites in water-scarce regions achieved almost 20% savings of their total water footprint since 2010. Eight additional sites were included in the program during 2014.

G4 EN 10

THE GLOBAL COMPACT 7,8,9

PERCENTAGE AND TOTAL VOLUME OF WATER RECYCLED AND REUSED

The availability of resources, predominantly energy and fresh water, is becoming more constrained and prices are expected to continue to increase. Novartis makes every effort to protect the environment, limit the intake of natural resources and use them more efficiently.

In 2014, Novartis recycled 22 million m³ of water, which is 23% of our total water use, including contact water and non-contact cooling water. For more detail on overall volumes and calculation methods, see G4–EN8: Total water withdrawal by source.

Potable water savings

Potable water used at the Sandoz Final Dosage Form (FDF) production site Gebze 2 in Turkey is pre-treated using an ozone sanitization system. In an effort to save water, the site facility team is now collecting drains from its reverse osmosis system, backwashing and sampling waters in a separate tank and bringing them back for reuse to the potable water pre-treatment process. The project saves 7 800 m³ or 12% of the total amount of water used at the site annually, totaling USD 35 000 in savings.

Saving water by retrofitting irrigation nozzles

In 2014, at the Alcon headquarters in Fort Worth, Texas, the facility management team changed the spray system to irrigate gardens and green areas at the site to precision irrigation nozzles. So far, a total of 9 000 nozzles with a reduced flow rate of 30% have been installed on four irrigation zones on the campus, resulting in an annual saving of 30 000 m³ of water or 2% of the site's total water usage. The investment in the new system will be paid back in less than 2 years.

G4 EN 15

THE GLOBAL COMPACT 7,8

DIRECT GREENHOUSE GAS (GHG) EMISSIONS (SCOPE 1)

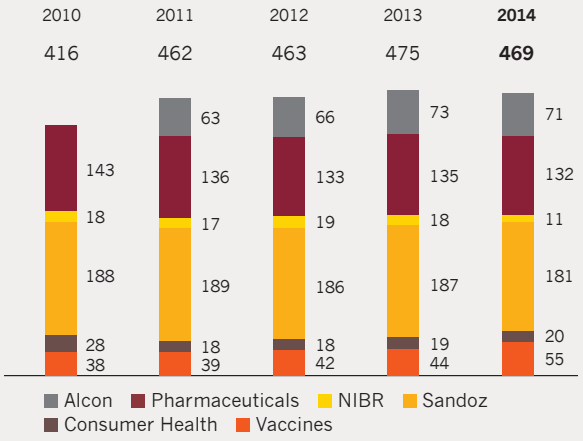
Novartis has reported its GHG emissions in accordance with the World Resources Institute's (WRI) and WBCSD's *Greenhouse Gas Protocol* for all sites under its operational control since 2005, and has reported emissions via the CDP since 2003. The reporting structure includes Scope 1 CO_2 emissions from stationary combustion installations and from production processes, as well as Scope 1 CO_2 emissions from company-owned or leased vehicles. GHG emissions are reported on a quarterly basis and calculated in metric tons of CO_2 equivalent using emission factors provided by energy suppliers or factors from the IEA. Novartis uses the global warming potential (GWP) factors from the 2007 IPCC Report for GHGs other than CO_2.

For more detail on our overall GHG emissions target, performance and reduction measures, including carbon offsets, see G4–EN19: Reduction of greenhouse gas (GHG) emissions.

The total amount of on site Scope 1 GHGs, mainly carbon dioxide (CO_2), emitted from the combustion of fossil fuels at Novartis sites in 2014, was 469 kt, a 1.2% decrease compared to 2013 (475 kt). Emissions of hydrofluorocarbons (HFCs) from refrigeration systems totaled 27 kt. GHG emissions from production processes amounted to approximately 3 kt.

GHG EMISSIONS, SCOPE 1, COMBUSTION AND PROCESS BY DIVISION

(in kt CO_2e)



HSE data reflects continuing operations, including Alcon from 2011. Consumer Health data includes Animal Health, Ciba Vision & OTC until 2011. CV included under Alcon from 2011.

Scope 1 GHG emissions from the use of company-owned or leased vehicles are monitored and reported separately. In 2014, these totaled 159 kt, compared to 168 kt in 2013, a 5.6% decrease. When including Alcon data in the 2010 baseline for our current 2015 target on GHG emissions, Scope 1 GHG emissions from vehicles have decreased by 27%. This decrease is due to the use of more efficient fleet vehicles. Carbon offsets are not considered for this target. With this decrease, we overachieved our previous Scope 1 GHG from vehicles target. This is why we have increased the target from a 20% reduction to a 30% reduction on 2010 emissions by 2015.

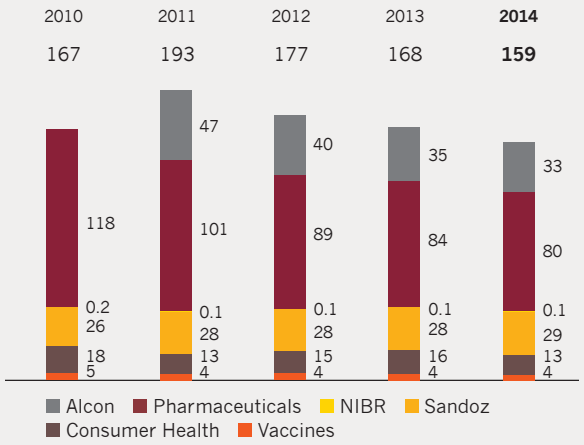
GHG emissions of non-Kyoto gases such as hydrochlorofluorocarbons (HCFCs), which are not included in Scope 1 GHG emissions, totaled approximately 4.5 kt. The primary source of these emissions are losses from refrigeration equipment.

Novartis does not collect data on biogenic CO_2 emissions as the potential quantities are not considered relevant.

External schemes

Novartis has seven sites in the European Union that are part of the European Emissions Trading Scheme (EU-ETS). With respect to regulatory schemes, such as the Kyoto Protocol and potential future agreements, we have taken a proactive approach toward existing legal schemes on GHG emissions.

GHG EMISSIONS, SCOPE 1 FROM VEHICLES
(in kt CO_2e)



HSE data reflects continuing operations, including Alcon from 2011. Consumer Health data includes Animal Health, Ciba Vision & OTC until 2011. CV included under Alcon from 2011.

G4 EN 16

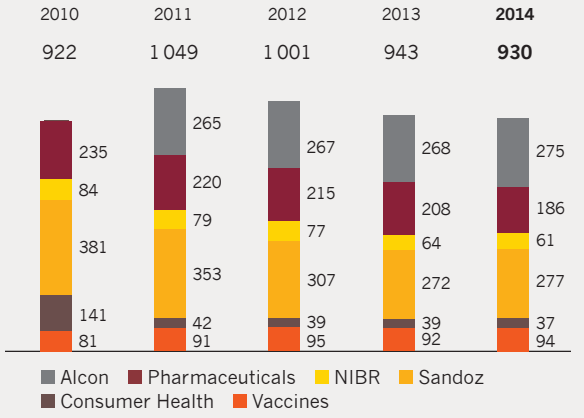
ENERGY INDIRECT GREENHOUSE GAS (GHG) EMISSIONS (SCOPE 2)

Novartis has reported its GHG emissions in accordance with the World Resources Institute's and WBCSD's *Greenhouse Gas Protocol* for all sites under its operational control since 2005. The reporting structure includes Scope 2 GHG emissions from purchased energy sources such as electricity, steam and other purchased energy sources. Scope 2 GHG emissions are calculated using emission factors provided by energy suppliers or factors from the IEA and are reported on a quarterly basis in metric tons of CO_2 equivalent.

Scope 2 GHG emissions in 2014 – mainly from electricity generation – totaled 930 kt, which represents a reduction of about 1.3% from 943 kt in 2013, and a reduction of 11.4% since 2011.

For more detail on our GHG emissions target and reduction measures, see G4–EN19: Reduction of greenhouse gas (GHG) emissions.

GHG EMISSIONS, SCOPE 2, BY DIVISION
(in kt CO_2e)



HSE data reflects continuing operations, including Alcon from 2011. Consumer Health data includes Animal Health, Ciba Vision & OTC until 2011. CV included under Alcon from 2011.

G4 EN 17

7,8

OTHER INDIRECT GREENHOUSE GAS (GHG) EMISSIONS (SCOPE 3)

Scope 3 GHG emissions from our global business flights in 2014 totaled 222 kt compared to 285 kt the year before. This number is based on detailed information from our worldwide travel agent who calculates the data in metric tons of CO_2 equivalent using the UK Department for Environment Food and Rural Affairs (DEFRA) emission factors. GHG emissions from the six company-owned or leased aircraft, totaling 6 kt, have been included in the Scope 1 company vehicle fleet reporting.

Scope 3 GHG emissions from waste disposal are calculated every year on the basis of waste disposal quantities and GHG emission factors from the Ecoinvent database. In 2014, Scope 3 GHG emissions from the disposal of waste were calculated to be 74 kt of CO_2 equivalent, compared to 85 kt of CO_2 equivalent in 2013.

The use of Novartis products does not generally result in GHG emissions, with the exception of an inhaler product that uses HFC R134a as a propellant. The Scope 3 emissions from the use of this product in 2014 amounted to 99 kt of CO_2 equivalent, which is less than the 113 kt of CO_2 equivalent reported in 2013.

Biogenic CO_2 emissions are not considered relevant and are not included in the Scope 3 figures calculated above.

G4 EN 19

7,8,9

REDUCTION OF GREENHOUSE GAS (GHG) EMISSIONS

As in previous years, the Novartis Group achieved an absolute reduction in total Scope 1 and Scope 2 GHG emissions in 2014, decreasing by 1.8% from 1 586 kt of CO_2 equivalent in 2013 to 1 558 kt of CO_2 equivalent in 2014, not considering carbon offsets. Total Scope 1 GHG emissions decreased by 2.4% between 2013 and 2014, while Scope 2 GHG emissions were reduced by 1.3% over the same period due to more sites purchasing CO_2-free energy.

For more detail on specific GHGs and calculation methods, see G4–EN15: Direct greenhouse gas (GHG) emissions (Scope 1).

Total Scope 1 and 2 GHG emissions per sales were 26.9 t CO_2 equivalent per million USD in 2014 compared to 27.4 t CO_2 equivalent per million USD in 2013, while total Scope 1 and 2 GHG emissions per associate were 11.5 t CO_2 equivalent per person in 2014 compared to 11.8 t CO_2 equivalent per person in 2013.

In 2010, we set targets on total GHG emissions for 2015 and 2020: respectively a 17% (increased from 15%) and 20% reduction compared to 2008, including our carbon sink projects. These are in line with targets set by leading countries for the same target years. Compared to a 2008 baseline, which includes acquisitions made since, total GHG emissions for the Novartis Group have decreased by 12.1%. This has been achieved through our comprehensive energy-savings program, as well as increased use of renewable energy.

We set a separate 30% reduction target on vehicle GHG emissions for 2015 compared to 2010 emissions. Reductions of 27% compared to the 2010 baseline have been achieved as a result of more fuel-efficient vehicles, introduction of hybrid gasoline-electric cars, increased use of diesel engines fitted with particulate filters and other emission-reduction measures such as use of liquid natural gas or biofuels.
We continue to strengthen our efforts and investments in more energy-efficient technology and the use of renewable sources in order to further reduce total GHG emissions in the coming years.

Forestry carbon sinks

While our main focus is to lower GHG emissions through internal operational improvement programs, the Novartis Group is also taking advantage of carbon sinks which are generated by owned forestry projects. These forestry projects are implemented in accordance with certification schemes such as the UN-CDM and voluntary-offset schemes. These schemes are designed to quantify the amount of carbon dioxide removed from the atmosphere through sequestration into the forest's biomass. They can be accounted for offsetting part of the GHG emissions generated from the use of fossil energy in our operations.

Novartis has established four forest carbon sink projects in Argentina, Mali, China and Colombia so far.

Around 3 million trees were planted in **Argentina** on Novartis-owned land between 2007 and 2010. The forestry project was certified by the Forest Stewardship Council (FSC) and registered by the United Nations Framework Convention on Climate Change (UN-FCCC) as a Clean Development Mechanism (CDM) project in February 2011. The carbon credits, issued by UN-FCCC on December 9, 2013 for the period from May 2007 to October 2012 were accounted by Novartis as offsets for part of its own GHG emissions and formally retired from the UN-FCCC credit accounts. Total carbon sinks achieved by end of 2014 from this afforestation amount to 239 kt CO_2 equivalent.

Novartis sponsors a jatropha plantation and biofuel project in **Mali**, which is the first agro-forestry project, registered under the voluntary Verified Carbon Standard (VCS) in Africa. The harvest from these plantations is pressed into jatropha oil used for soap manufacturing, engine fuel and electricity generation. Since 2007, jatropha bushes have been planted by more than 5 000 local farmers. Carbon sinks achieved with the Mali jatropha agro-forestry project amount to 8 kt of CO_2 equivalent.

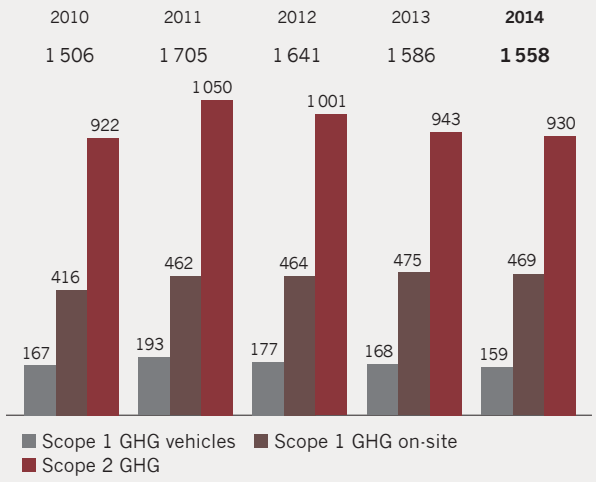
In **China**, we are supporting afforestation of 4 100 hectares of land in the southwest of Sichuan with 9 million trees. The project began in 2011 and, by the end of 2014, more than 3 000 hectares were planted with the help of local communities. The project will also generate benefits for the local communities and for environmental protection and biodiversity.

In 2013 and 2014, we purchased 3 596 hectares of farmland in **Colombia** for afforestation, and planted the first 356 hectares with native tree species in 2014. This plantation will increase by another 600 hectares in 2015 and the preparations for registration as a UN-FCCC CDM project are ongoing.

Carbon sinks achieved in 2014 from our forestry projects in Argentina and Mali amount to 67 kt CO_2 equivalent, or 3.8% of our 2008 baseline GHG emissions. As of 2014, we have reduced total GHG emissions, taking into account offsets from our forestry projects, by 16.0 % compared with 2008.

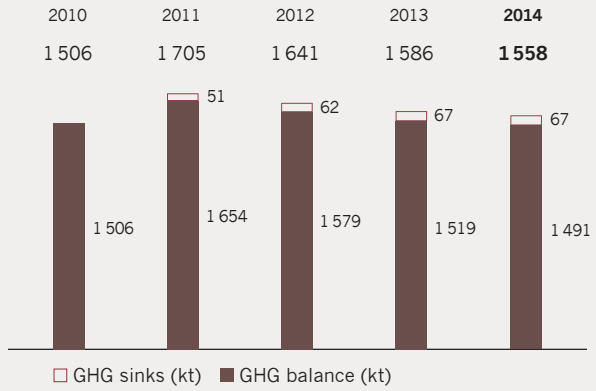
We believe these carefully designed forestry projects can foster local development and long-term economic growth for local populations in developing economies, protect the natural environment and foster biodiversity, while also supporting Novartis in meeting its Group GHG reduction target.

GHG EMISSIONS
(in kt CO_2e)



HSE data reflects continuing operations, including Alcon from 2011.

GHG BALANCE
(in kt CO_2e)



HSE data reflects continuing operations, including Alcon from 2011.

G4 EN 20

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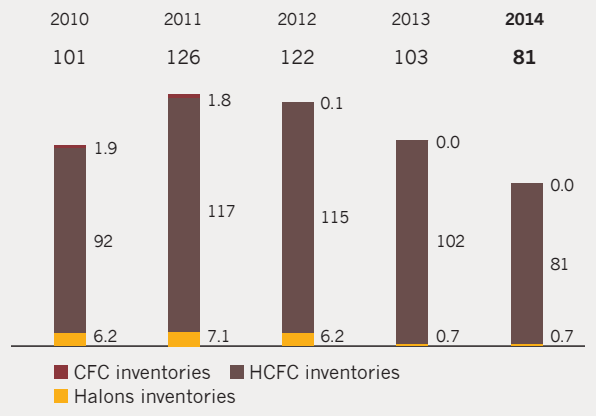
EMISSIONS OF OZONE-DEPLETING SUBSTANCES (ODS)

In 2014, Novartis sites globally reported a total inventory of 81 t of ozone-depleting substances (ODS), which amounts to 9.6 t of CFC-R11 equivalent – compared to 103 t in 2013 (10.5 t of CFC-R11 equivalent). The 2014 figure includes 80.5 t of HCFC refrigerants and 68 kg of halons. CFC refrigerants have now been completely phased out of all Novartis facilities. Additionally, HCFC inventories are continually replaced with chlorine-free HFCs or with natural refrigerants. In 2014, HFCs, which have an ODS factor of zero, amounted to 145 t for Novartis. We do not produce ODS through our processes or products.

Emissions caused by ODS losses in 2014, reported in metric tons of CFC-R11 equivalents, were 131 kg, compared to 314 kg in 2013. The largest ODS emissions in 2014 by division were 59 kg R11 equivalent from Sandoz, 28 kg from Vaccines, 26 kg from Pharmaceuticals and 16 kg from Alcon. ODS are

ODS INVENTORIES
(in t)

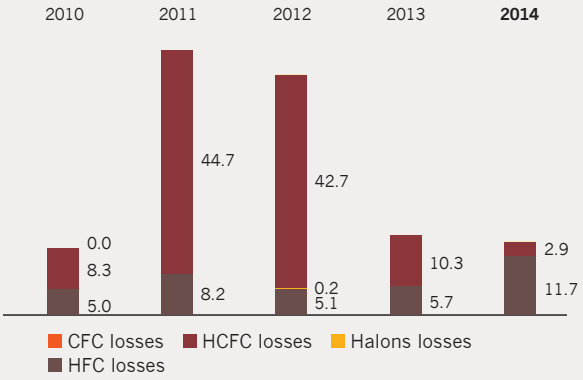


HSE data reflects continuing operations, including Alcon from 2011.

not included in any Novartis product. Novartis intends to minimize the use of synthetic refrigerant materials, and natural refrigerant materials are the preferred alternative in new equipment. HCFCs and halons in existing equipment are being replaced when refilling becomes necessary.

Data is calculated into CFC-R11 equivalents using the factors from the 2007 IPCC Report.

COOLANT GAS LOSSES
(in t)



HSE data reflects continuing operations, including Alcon from 2011.

G4 EN 21

THE GLOBAL COMPACT 7,8,9

NO_x, SO_x, AND OTHER SIGNIFICANT AIR EMISSIONS

As a further disclosure of relevant emissions into air, Novartis reports halogenated and non-halogenated Volatile Organic Compounds (VOCs), sulfur dioxide (SO_2) and nitrogen oxide (NO_x) inorganic pollutants and particulates. VOCs mainly originate from the use of halogenated and non-halogenated solvents in various production processes and are either measured or calculated using mass-balance equations. Inorganic pollutants and particulates arise primarily from the combustion of fuels for steam generation and heating and are either measured or calculated using standard emission factors from the IEA. Other possible air emissions are not considered relevant.

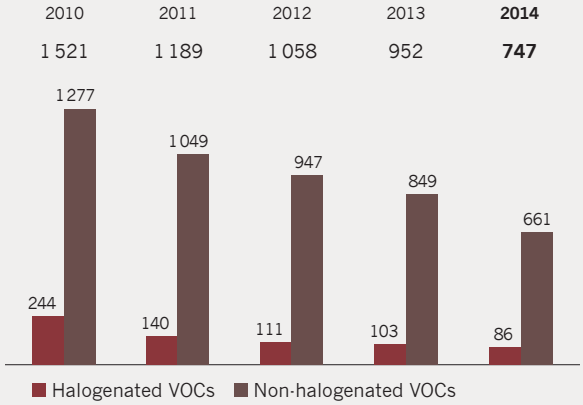
VOCs

In 2014, our emissions of halogenated VOCs decreased to 86 t, from 103 t in 2013. Similarly, non-halogenated VOC emissions were reduced from 849 t in 2013 to 661 t in 2014. Emissions of halogenated VOCs originated predominantly from Sandoz (99.4%). Emissions of non-halogenated VOCs came from Sandoz (69%), Pharmaceuticals (19%) and Alcon (7%).

VOCs are the precursors of photochemical (tropospheric) ozone creation that leads to smog and related detrimental effects on health and the environment. Halogenated VOCs can also contribute to emissions of GHGs.

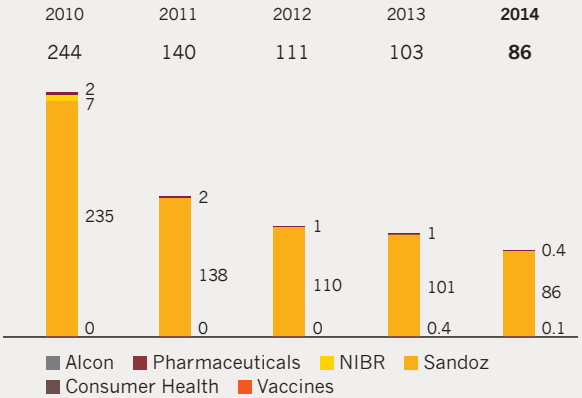
The Novartis Group emphasizes reductions in VOC emissions in operations worldwide and has set a target to reduce non-halogenated VOC emissions by 40% and halogenated VOCs by 48% below 2008 values by 2016. Emissions are strongly influenced by products that require solvent-based production processes and by the significant lead time to change production processes.

VOC EMISSIONS
(in t)



HSE data reflects continuing operations, including Alcon from 2011.

HALOGENATED VOC EMISSIONS BY DIVISION
(in t)



HSE data reflects continuing operations, including Alcon from 2011. Consumer Health data includes Animal Health, Ciba Vision & OTC until 2011. CV included under Alcon from 2011.

Emissions of VOCs overall decreased significantly again in 2014, and both 2016 targets have already been exceeded, primarily due to the installation of abatement measures in Sandoz. We are leaving our existing VOC targets in place as they take into account the fact that the product portfolio may change and affect emissions in the future.

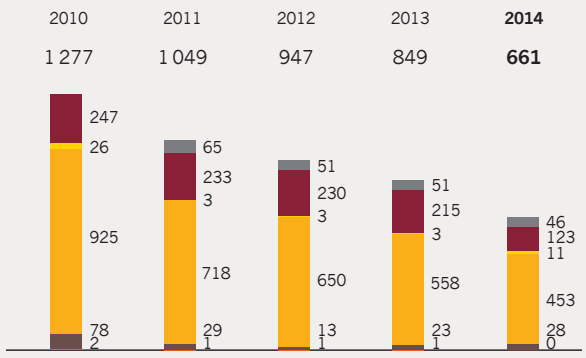
Inorganic air pollutants and particulates

In 2014, inorganic air pollutant emissions for the Novartis Group totaled 29 t for SO_2 and 311 t for NO_x, compared to 62 t and 303 t in 2013 respectively. NO_x emission levels from company-owned or leased vehicles are not included in these figures. Major contributors to Group SO_2 emissions were Sandoz (21 t) and Pharmaceuticals (5 t). Strong reductions occurred as a result of several sites in India replacing fuel oil with natural gas. The distribution of NO_x emissions is similar to that for the consumption of on-site-generated energy. The main contributors in 2014 were Sandoz (45%), Pharmaceuticals (28%) and Alcon (15%).

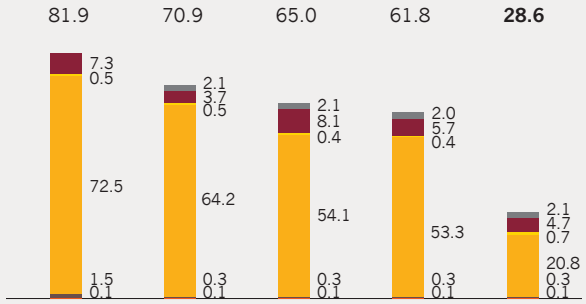
Inorganic air pollutants have long been a focus of environmental improvement at Novartis. Given the measures we have implemented to increase energy efficiency and replace fuel oil, we expect inorganic air pollutants, including SO_2, to further decrease in the coming years.

Particulate emissions amounted to 81 t in 2014, compared to 72 t in 2013.

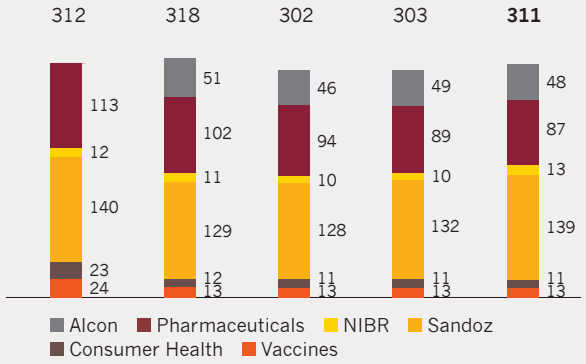
NON-HALOGENATED VOC EMISSIONS BY DIVISION
(in t)



SO_2 EMISSIONS BY DIVISION
(in t)

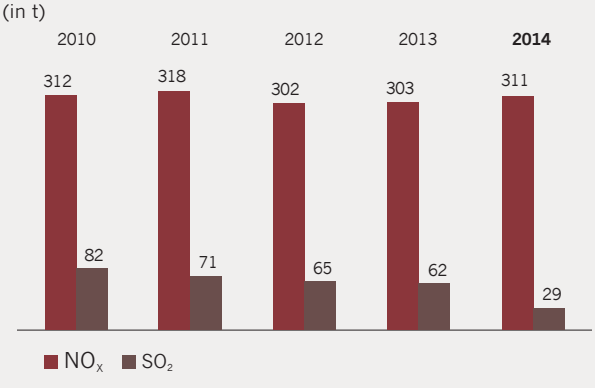


NO_x EMISSIONS BY DIVISION
(in t)



HSE data reflects continuing operations, including Alcon from 2011. Consumer Health data includes Animal Health, Ciba Vision & OTC until 2011. CV included under Alcon from 2011.

INORGANIC AIR POLLUTANTS
(in t)



HSE data reflects continuing operations, including Alcon from 2011.

G4 EN 22

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TOTAL WATER DISCHARGE BY QUALITY AND DESTINATION

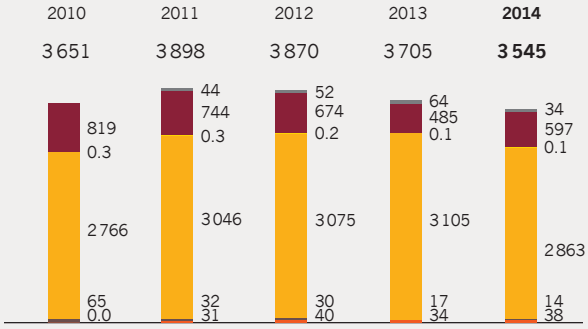
Novartis monitors water streams into its sites by source and out by discharge stream, as well as various types of water use on a quarterly basis. Water discharge is reported in volumes released to the environment, sent for treatment, entering products, evaporated or used for other purposes. Discharge volumes to treatment closely match input and contact water usage volumes, and amounted to 17.4 million m^3 in 2014. More than 96% of all non-contact water used for cooling is released back into the environment, which accounts for 79% of all water outputs. The rest of the cooling water, together with the contact water used in processes, is sent to water treatment plants, accounting for 18% of our water outputs – as treatment generally occurs in off-site wastewater treatment plants, treatment methods will vary. The remaining water is used in products, evaporates, or is used for other purposes, such as irrigation.

With regards to the quality of water discharged, Novartis reports total effluent load using the standard chemical oxygen demand (COD) and total suspended solids (TSS) parameters. The amounts reported are the loads that finally reach groundwater or surface water bodies. In cases where discharged wastewater is treated off-site, for example in public wastewater treatment plants, the specific removal efficiency of such treatment is considered for the amounts reported.

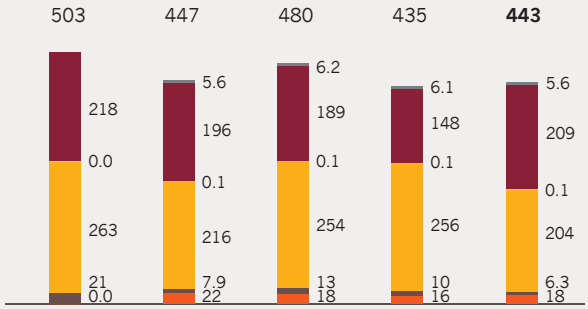
The COD load on the aquatic environment from Novartis Group operations slightly decreased in 2014, from 3 705 t in 2013 to 3 545 t. COD loads for 2014 were attributable to: Sandoz (81%), Pharmaceuticals (17%) and other divisions (2%). TSS increased slightly from 435 t in 2013 to 443 t in 2014. Total nitrogen load decreased from 560 t in 2013 to 523 t in 2014 and phosphate load increased from 47 t in 2013 to 56 t in 2014.

Novartis has not set a Group target on emissions into water. Effluent water is always treated in state-of-the-art facilities and therefore remaining effluent loads do not have a big impact on the environmental quality of water bodies near our sites. However, we closely monitor specific parameters such as the release of drug substances into water, and take the appropriate mitigation and risk minimization measures when necessary.

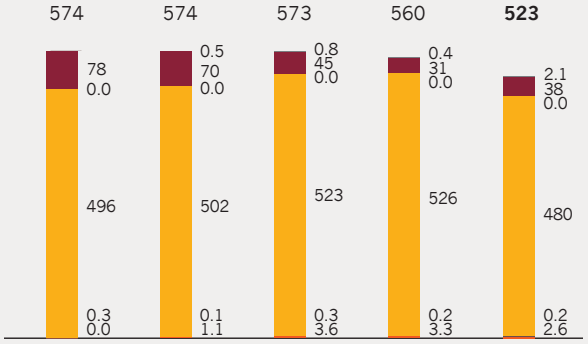
CHEMICAL OXYGEN DEMAND LOAD BY DIVISION (in t)



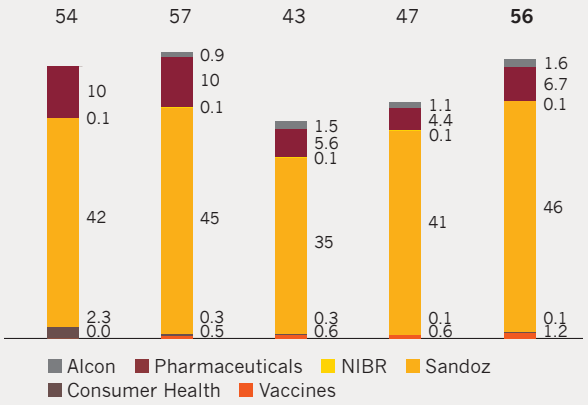
TOTAL SUSPENDED SOLIDS EMISSIONS INTO WATER BY DIVISION (in t)



NITROGEN LOAD BY DIVISION (in t)



PHOSPHATE LOAD BY DIVISION (in t)



HSE data reflects continuing operations, including Alcon from 2011. Consumer Health data includes Animal Health, Ciba Vision & OTC until 2011. CV included under Alcon from 2011.

Step change in reducing effluent load to the environment

In 2014, a new wastewater treatment technology based on fine-bubble diffused aeration was installed at the chemical synthesis site for Active Pharmaceutical Ingredients (APIs) of Novartis Pharmaceuticals in Ringaskiddy, Ireland. The new technology is more energy efficient and more effective in the decomposition of pollutants. This has led to significant reductions in the emissions of key pollutant parameters: Total Suspended Solids, Chemical and Biochemical Oxygen Demand and Total Nitrogen were reduced between 62 and 88%.

The new technology can be readily retrofitted to other facilities that use an aerobic wastewater treatment process (incorporating activated sludge) and can be scaled in size for multiple plants and various capacities. The new technology also offers the potential to reduce discharges of residual APIs to the environment. Many of these substances adsorb onto activated sludge – more of which is now retained in the wastewater treatment plant to be subsequently removed as a solid for incineration.

Innovating to reduce Pharmaceuticals in the Environment

In Mengeš, Slovenia, the Sandoz chemical synthesis site for Active Pharmaceutical Ingredients (APIs) evaluated options to effectively remove API residues from its waste water. The site could not release the waste water with the factory effluents as these molecules are neither biodegradable nor can they be decomposed by conventional waste water treatment. Therefore, the waste water had to be decomposed by energy-intensive incineration. Several waste water treatment options were explored and ozonation (i.e. oxidation with ozone) was found to be the best method to effectively clean the waste water from these API residues.

The new treatment, tested in a pilot plant before scale-up, can reduce the daily API load in the waste water by more than 99.9%, meaning the waste water can now be released with the site effluents. The remaining quantity of APIs reaching the aquatic environment is well below the predicted no-effect limit and thereby in line with the stringent Novartis requirement of at least 10-fold below that limit.

G4 EN 23

THE GLOBAL COMPACT 7,8

TOTAL WEIGHT OF WASTE BY TYPE AND DISPOSAL METHOD

Novartis follows a clear waste management strategy. The aim is to prevent, reduce, recycle or use waste as an energy source, before safe disposal. Waste prevention and reduction is always preferred to treatment, incineration or disposal. This ensures the overall environmental impact related to waste 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. All Novartis sites report waste data on a quarterly basis. Novartis classifies waste by type and according to the disposal routes: recycling, treatment, incineration with and without energy recovery, and landfill.

We have a strict policy of not sending any hazardous waste to landfill regardless of local regulations that may permit this. Waste contractors are audited on a regular basis to ensure adherence to our standards.

Operational waste – both hazardous and non-hazardous – is an important area of environmental management for our manufacturing facilities, as well as for research and administrative sites. Group objectives include the proper management of hazardous waste and risks related to disposal, in particular disposal into landfills.

In 2014, the total amount of hazardous waste for the Novartis Group decreased to 198 kt, from 211 kt in 2013; non-hazardous waste totaled 107 kt in 2014, compared to 109 kt in 2013.

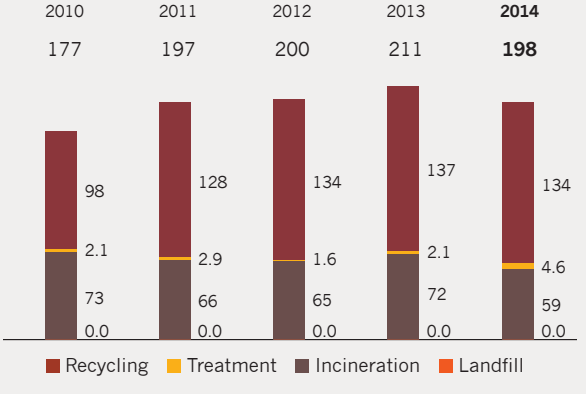
TOTAL OPERATIONAL WASTE

(in kt)

Data excludes construction debris.
HSE data reflects continuing operations, including Alcon from 2011.

HAZARDOUS WASTE BY DISPOSAL ROUTE

(in t)



Data excludes construction debris.
HSE data reflects continuing operations, including Alcon from 2011.

Hazardous waste was generated primarily by Pharmaceuticals (46%) and Sandoz (45%). Non-hazardous waste was generated by: Sandoz (44%), Pharmaceuticals (16%), Alcon (17%), Vaccines (15%), Consumer Health (5%), and NIBR (2%).

Hazardous waste

The total amount of hazardous waste not recycled in 2014 for the Novartis Group was 63.3 kt, compared to 73.6 kt in 2013. An additional 134 kt of hazardous waste was subject to recycling. The recycling rate for hazardous waste increased in 2014 to 68% from 65% in 2013. Novartis has completely eliminated disposal of hazardous waste with organic content to landfills. Small amounts of some inorganic residues (1.7 t) for which no other disposal route exists, such as incinerator ash, continue to be disposed in accredited landfills.

Novartis puts a high priority on reducing the amount of hazardous waste generated and on increasing recycling rates. We have set a target to reduce the intensity of hazardous waste not recycled per ton of production by 10% by 2015 compared to 2010. This target has already been achieved in 2014, with a 12.8% improvement on hazardous waste not recycled per ton of production compared to the baseline.

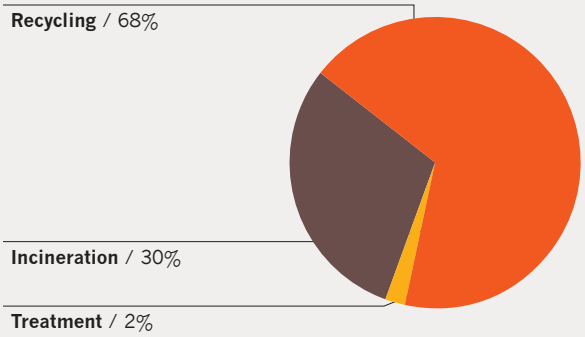
Non-hazardous waste

Non-hazardous waste reported includes mixed or household waste, packaging waste, compostable waste and inert waste. Total amounts of non-hazardous waste not recycled for the Novartis Group in 2014 were 37.7 kt compared to 41.1 kt in 2013. An additional 69.4 kt of non-hazardous waste was collected for recycling.

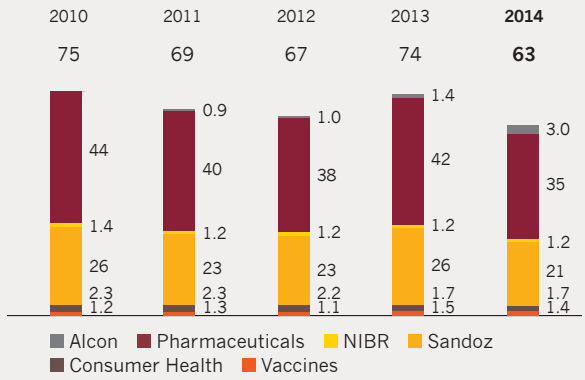
Keeping non-hazardous waste to a minimum and maximizing its recycling rate is a constant challenge. Novartis makes ongoing efforts in all areas to minimize non-hazardous waste that cannot be recycled at its operations globally. We are installing waste-segregation programs at many sites that allow better use of recycling routes for materials such as paper, cardboard, glass and plastics – for example from packaging, offices and production processes.

The recycling rate for non-hazardous waste is up from 62% in 2013 to 65% in 2014. We have set a target to reduce the per-associate intensity of non-hazardous waste not being recycled by 8% in 2014 and 10% by 2015, based on 2010 values. In 2014, the non-hazardous waste intensity was already reduced by 16 % compared to 2010, which is substantially better than envisioned by our target path. As a consequence, we have raised the target to a 15% improvement on 2010 values for 2015.

DISPOSAL OF HAZARDOUS WASTE IN 2014



HAZARDOUS WASTE NOT RECYCLED BY DIVISION
(in kt)



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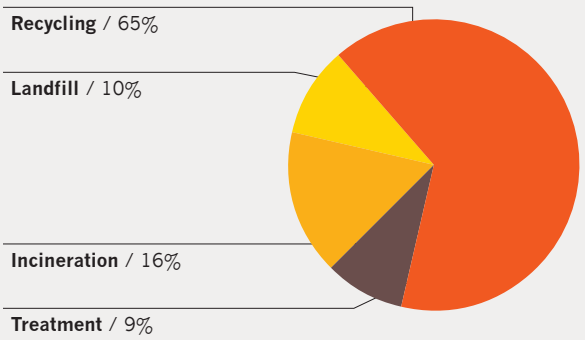
DISPOSAL OF NON-HAZARDOUS WASTE IN 2014



Sustainable packaging

Novartis maintains a Group-wide initiative on sustainable packaging, and seeks to design packaging that both minimizes environmental impacts and meets all regulatory, quality, functional and design requirements.

We have developed and issued a sustainable packaging guide for packaging design teams. We also engage with clients and packaging material suppliers to determine needs and identify more sustainable packaging solutions.

Best-practice packaging case examples are collected and shared among packaging designers across the company. Improvements are quantified based on a set of packaging indicators.

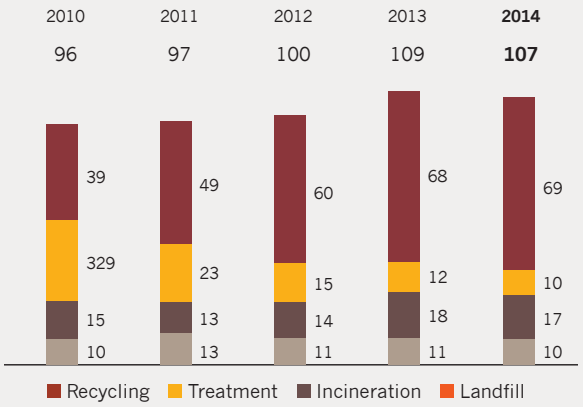
Packaging of back-up lenses

Alcon inter-ocular lenses (IOL) had been packaged separately and shipped to the customer in individual cardboard boxes. Optimizing the ordering and automation process at the warehouse has enabled two lenses to be packed in one unit and shipped in a single tertiary box. The new solution delivers cost savings in material and reduces storage space, while protecting the fragile lenses. Combining the two IOLs and shipping them in one box, instead of two separate boxes, has reduced 0.8 t of cardboard packaging material and waste sent out from the Puurs facility in Belgium to the European markets per year. Using only one shipping box also diminishes the storage space required by the warehouse and the customer.

Breezhaler 90-day package option

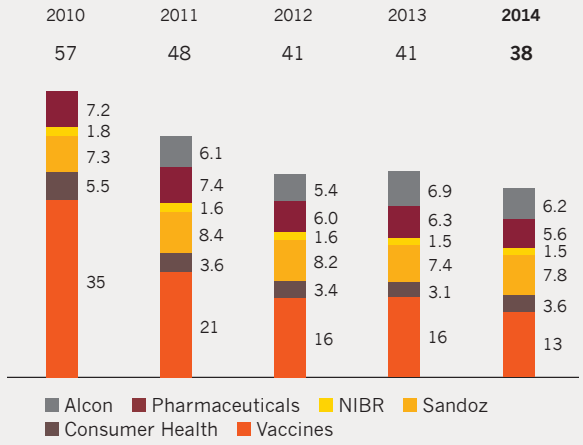
Redesigning the primary packaging of the Novartis Chronic Obstructive Pulmonary Disease portfolio, including Onbrez®, Seebri® and Ultibro® Breezhaler® from the standard 30-day pack to a fully optimized 90-day pack, will unlock significant cost and material savings. This challenging project took a multi-team approach to streamline the packaging while ensuring effective delivery of the drug. Switching from a "bundled" 90-day pack to a standalone 90-day pack is expected to reduce materials by about 62% and increase in line capacity by 66%. The new 90-day pack will also have substantially less volume than the "bundled" version, lowering storage and distribution costs. This will allow the new offer to be more conveniently stored by pharmacies and patients.

NON-HAZARDOUS WASTE BY DISPOSAL ROUTE
(in kt)



Data excludes construction debris.
HSE data reflects continuing operations, including Alcon from 2011.

NON-HAZARDOUS WASTE NOT RECYCLED BY DIVISION
(in kt)



Data excludes recycled waste and construction debris.

HSE data reflects continuing operations, including Alcon from 2011. Consumer Health data includes Animal Health, Ciba Vision & OTC until 2011. CV included under Alcon from 2011.

G4 EN 24

TOTAL NUMBER AND VOLUME OF SIGNIFICANT SPILLS

No significant spills were reported in 2014. This was also the case in 2013.

8,9

G4 EN 27

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EXTENT OF IMPACT MITIGATION OF ENVIRONMENTAL IMPACTS OF PRODUCTS AND SERVICES

Novartis is committed to minimizing the environmental impact of its products over their entire life cycle. As scientific knowledge and stakeholder expectations evolve in this field, we regularly benchmark our activities and actively support researchers, regulators and other groups in developing more efficient environmental practices.

For more about our efforts to reduce the environmental impact of our products and services in relation to sustainable packaging see G4–EN23: Total weight of waste by type and disposal method.

For more about our efforts to reduce our footprint, see the Reducing our product footprint page of the Novartis website.

For more about our strategy to minimize the impact of pharmaceuticals in the environment, including the release of drug substances into water, read our position on the Novartis website.

G4 EN 29

7,8,

MONETARY VALUE OF SIGNIFICANT FINES AND TOTAL NUMBER OF NON-MONETARY SANCTIONS FOR NON-COMPLIANCE WITH ENVIRONMENTAL LAWS AND REGULATIONS

Novartis Group companies around the world paid a total of USD 35 683 in fines for minor Health, Safety and Environment (HSE) violations in 2014. We have introduced the reporting of non-monetary sanctions and cases brought through dispute resolution mechanisms in 2015, and will begin reporting on this in next year's Corporate Responsibility Performance Report.

Management systems

We operate using robust environmental management systems to drive good practice and compliance across our sites. A total of 52 Novartis Group company facilities have ISO 14001 or Eco-Management and Audit Scheme (EMAS) certification for their environmental management systems: Sandoz (19), Alcon (14), Pharmaceuticals (13), Vaccines (5) and Consumer Health (1). Five sites also have ISO 50001 energy management system certification: Sandoz (3), Alcon (1) and Vaccines (1).

In addition, 36 sites have OHSAS 18001 (British Standard for Occupational Health and Safety management systems) certification: Sandoz (17), Pharmaceuticals (11), Alcon (3), Vaccines (3), and Consumer Health (2).

ISO/EMAS certifications cover 98% of the Vaccines, 90% of Alcon, 84% of Sandoz and 79% of Pharmaceuticals production. OHSAS certifications cover 77% of Vaccines, 66% of Sandoz and 57% of Pharmaceuticals production (in terms of production amounts from certified sites).

Risk management

We take a precautionary approach to minimizing environmental impacts across all our operations.

This includes managing risks proactively through appropriate preventative and contingency measures – see G4–14: Precautionary approach for more detail.

We undertake site analyses and audits to assess site-specific risks, and deliver HSE training to staff in order to embed good HSE practice. Divisional and Corporate risk portfolios are prepared on an annual basis and corresponding risk-minimization actions are devised and implemented.

In 2014, 10 Corporate and 10 divisional HSE audits of Novartis facilities were undertaken. The Corporate HSE department held 8 process safety and 15 HSE data-reporting training courses. A new online HSE training platform was developed and launched in 2014.

G4 EN 30

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SIGNIFICANT ENVIRONMENTAL IMPACTS OF TRANSPORTING PRODUCTS AND OTHER GOODS AND MATERIALS FOR THE ORGANIZATION'S OPERATIONS, AND TRANSPORTING MEMBERS OF THE WORKFORCE

The largest direct transportation impact identified at Novartis is the GHG emissions associated with the use of passenger cars for sales representatives. CO_2 emissions of owned and leased vehicles are measured and reported on a yearly basis in CO_2 equivalents based on the *GHG Protocol* methodology and factors from the 2007 IPCC Report.

In 2014, Scope 1 GHG emissions from the use of company-owned or leased vehicles totaled 159 kt, a 5.6% decrease compared to 168 kt in 2013. When including Alcon data in the 2010 baseline for our current 2015 emissions target, Scope 1 GHG emissions from vehicles have decreased by 27.0%. This decrease is due to the introduction of hybrid gasoline-electric cars, increased use of diesel engines fitted with particulate filters, and other emission-reduction measures such as the use of liquid natural gas or biofuels.

Scope 3 GHG emissions from our global business flights in 2014 totaled an estimated 222 kt compared to 285 kt the year before. This number is based on detailed information from our worldwide travel agent who calculates the data in metric tons of CO2 equivalent using the UK Department for Environment Food and Rural Affairs (DEFRA) emission factors. GHG emissions from the six company-owned or leased aircraft, totaling 6 kt, have been included in the Scope 1 company vehicle fleet reporting.

Switch from air to sea freight

At the beginning of 2014, oversea shipments were mainly done by air (90% based on actual weight). There were multiple handling points and limited capacity in the airfreight environment which led to an increased risk of temperature deviations.

Upon discussions with its logistic partner DHL, Novartis Pharmaceuticals realized it could reduce CO_2 emissions by changing the transport mode from air to sea freight. An airplane emits on average 500g CO_2 per metric ton of freight and kilometer of transportation compared to 10 to 40g for an ocean vessel. Sea freight also offers significant savings potential compared to the high cost of air freight.

In just one year, transportation volume of sea freight was increased by 620 tons which resulted in a reduction of more than 4 000 tons of CO_2 equivalent and in cost savings of USD 2.5 million while maintaining a consistently high customer service. Key benefits included maintaining an uninterrupted temperature environment during transportation, thus reducing the risk of deviations through minimizing the handling points of the products.

The initiative required a change of mindset as the standard transport mode was airfreight and logistics know-how also had to be built up within the company. Yet, through collaboration between Pharmaceuticals organizations in countries, plants and supply units, the team succeeded in gaining acceptance for use of ocean freight. Thirteen countries in the Novartis Pharmaceuticals network are now set for ocean freight.

G4 EN 31

7,8,9

TOTAL ENVIRONMENTAL PROTECTION EXPENDITURES AND INVESTMENTS BY TYPE

We believe environmental stewardship makes good business sense. We adopt a preventive approach, striving to make efficient use of natural resources and to minimize the environmental impact of our activities and products.

Our structured approach to minimizing our environmental impact has helped us make considerable progress: while Group sales have more than doubled in 15 years, emissions have been reduced, and consumption of energy and water has increased at a much slower pace.

Novartis does not collect separate expenditures for all areas of environmental protection as many measures are integrated and therefore expenditures cannot feasibly and reliably be extracted as separate figures.

ENVIRONMENTAL PROTECTION EXPENDITURES

Type of expenditure	Amount (USD millions)
Total costs for waste disposal	57
Total costs for energy	387
Investments in energy-saving projects	19
Total costs for water supply and treatment	53

G4 EN 34

8

NUMBER OF GRIEVANCES ABOUT ENVIRONMENTAL IMPACTS FILED, ADDRESSED, AND RESOLVED THROUGH FORMAL GRIEVANCE MECHANISMS

Novartis is not aware of any grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms in 2014.

Engagement with Honeywell on lifecycle assessment of blister film material

Novartis undertook a lifecycle assessment (LCA) study in 2012 to compare the environmental impacts of various blister packaging options. One of the options in the study included a high moisture barrier film produced by Honeywell called Aclar®.

Studies undertaken by Honeywell provided Novartis with accurate data for the LCA and also highlighted additional opportunities for carbon footprint reductions in the production of Aclar®.

As a company committed to efficient and sustainable production processes, Honeywell made a significant investment in thermal oxidation equipment in 2014 at its production facility to further reduce greenhouse gas emissions from these processes. The carbon footprint of the blister film, which is now being used by Novartis, has effectively been halved as a result.

We are proud that our engagement with Novartis created sustainable growth opportunities for both parties to reduce GHG emissions during all stages of production – from the manufacturing of Aclar® films to the packaging of Novartis drug products. Honeywell will continue to make its business operations more environmentally-friendly and sustainable by focusing on and achieving aggressive internal targets.

Scott Gaddis
Global Business Leader, Honeywell Aclar Films

Maria Lúcia Martins Moreira catches up on her sewing following cataract surgery at an eye care clinic in São Paulo, Brazil. The clinic uses surgical equipment supplied by Alcon.

Labor practices and decent work

G4 LA 1

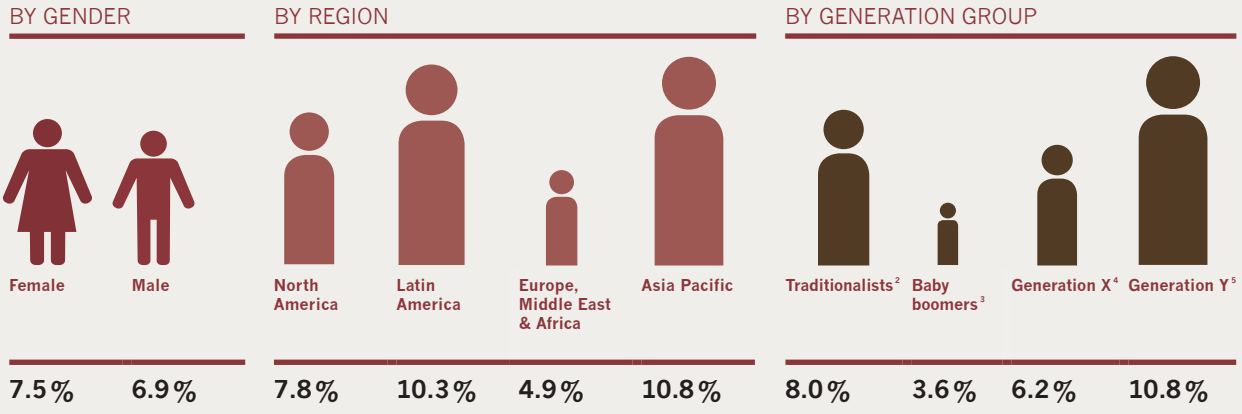
THE GLOBAL COMPACT 6

TOTAL NUMBER AND RATES OF NEW EMPLOYEE HIRES AND EMPLOYEE TURNOVER BY AGE GROUP, GENDER AND REGION

In 2014, new hires totaled 9 723 men and 10 003 women. The overall turnover rate in 2014 was 13.2% and voluntary turnover was 7.2% (permanent employees only). The highest voluntary turnover rate (16.9%) is among the 21–25 years age group within the Y Generation and the lowest voluntary turnover (2.9%) is among the 51–55 years age group within the Baby boomers Generation.

Information is reported by generation group rather than age group.

VOLUNTARY TURNOVER IN 2014



NEW HIRES[1] IN 2014 (♀ = 100)

[1] Variation in figures are due to non-assigned details in the system
[2] Generation groups are defined as follows: Born 1928–1944, [3] Born 1945–1964, [4] Born 1965–1979, [5] Born 1980–2000

G4 LA 2

BENEFITS PROVIDED TO FULL-TIME EMPLOYEES THAT ARE NOT PROVIDED TO TEMPORARY OR PART-TIME EMPLOYEES, BY SIGNIFICANT LOCATIONS OF OPERATION

At significant locations of operations*, full-time Group company associates are eligible for or covered by health, retirement, disability and maternity benefits. In most significant locations of operations, Novartis Group company associates are also eligible for flex time, telecommuting, child care, bereavement leave, sabbatical programs, and employee assistance programs. At some significant locations of operations, health management services, parental leave and paternity leave are also provided.

Depending on specific legal requirements, additional benefits, such as pension and medical insurance, are also available to associates.

In Brazil, Russia, India and China (BRIC), full-time Group company associates are eligible for or covered by health, retirement, disability and maternity benefits. At some BRIC operations, flex time, parental leave, paternity leave and marriage leave are also provided.

* Our significant locations of operations (based on number of associates) are located in Switzerland, Germany, United States, United Kingdom, China and Japan.

G4 LA 4

MINIMUM NOTICE PERIODS REGARDING OPERATIONAL CHANGES, INCLUDING WHETHER THESE ARE SPECIFIED IN COLLECTIVE AGREEMENT

We engage in constructive dialogue with employees and employees' representatives.

In general, minimum notice periods regarding operational changes are defined by law, by collective bargaining agreement or by individual labor contract in all countries. Where relevant, local legislation and collective bargaining agreement specifications on notice periods vary, and range from 30 to 180 days and above. Where there is no binding minimum notice period, Novartis Group company associates and their representatives are informed at the earliest possible time (usually between 30 and 180 days).

In addition to regulations in collective bargaining agreements, social plans and balance of interests negotiated with employee representatives may allow longer pre-notice and notice periods. They also may provide severance pay, redeployment to other Novartis companies, outplacement services or transition assistance in compliance with the regulatory or collective bargaining agreement requirements.

In many cases we provide more than the required minimum.

G4 LA 5

PERCENTAGE OF TOTAL WORKFORCE REPRESENTED IN FORMAL JOINT MANAGEMENT-WORKER HEALTH AND SAFETY COMMITTEES THAT HELP MONITOR AND ADVISE ON OCCUPATIONAL HEALTH AND SAFETY PROGRAMS

The 2008 Novartis safety culture survey, undertaken at sites with more than 100 Novartis Group company associates, showed that 80% of these sites have Health and Safety Committees. Relevant sites like manufacturing, research and development have 100% coverage. Office sites infrequently have Health, Safety and Environment (HSE) committees, and tend to appoint safety coordinators instead.

Following recent acquisitions and divestments since the last survey, Novartis does not currently have data on the percentage of total workforce represented in such committees. We are starting to collect this information in 2015 and will be able to provide details in next year's report. In the meantime, internal inspections and audits show that all manufacturing, research and development sites have 100% coverage.

G4 LA 6

TYPE OF INJURY AND RATES OF INJURY, OCCUPATIONAL DISEASES, LOST DAYS AND ABSENTEEISM, AND TOTAL NUMBER OF WORK-RELATED FATALITIES, BY REGION AND BY GENDER

Employee safety is an integral part of an employer's responsibility. Novartis Group companies are committed to providing associates with safe workplaces.

Novartis continuously seeks innovative, sustainable strategies and systems to strengthen our commitment to HSE and Business Continuity. Rigorous technical standards, reinforced by engineering solutions to ensure that the workplace is safe for Novartis Group company associates, remain the foundation of HSE performance. Novartis proactively fosters and encourages a strong culture of safe behavior and on-site health promotion. Our Occupational Medicine department delivers programs to maintain health, reduce absenteeism and enhance ability to return to work after injury or illness.

Lost Time Injury and Illness Rate (LTIR)

Novartis reports work-related injuries or illnesses among Group company associates. Our Lost Time Injury and Illness Rate (LTIR) is a key performance indicator, enabling direct comparison between the performance of our units and on a country-by-country basis. From 2014 onwards, the LTIR also includes third-party personnel.

In 2014, the overall LTIR for Novartis associates and third-party personnel was further reduced to 0.12 per 200 000 hours, from 0.13 in the previous year: this represents a 6.5% reduction. Continuing management commitment and rigorous application of safety systems and procedures, combined with ongoing training for Group company associates, have driven our progress in the overall injury and illness reduction. Local management teams undertake a number of measures to promote safety awareness. These are reviewed by divisional HSE teams, and include four key measures:

- Walkthrough inspections with senior managers on-site
- HSE training targeted at 0.1–0.5% of total hours worked yearly, depending on the work area
- Increase percentage of recommendations from audits, inspections, walkthroughs and incident investigations that are implemented
- Ensure near misses are reported at a rate of at least 5–10 times the number of actual incidents

A significant number of units have introduced safety culture initiatives – behavior-based safety programs – to complement existing measures for ongoing safety management at sites.

We introduce tailored safety initiatives where relevant, for example driver safety for fleet or sales organizations and laboratory safety for Research and Development. We are also placing increasing emphasis on the analysis and reduction of cases with serious injury and fatality potential.

All significant incidents without lost time, incidents with lost time and relevant near misses are investigated. The level and extent of the investigation reflect the seriousness or potential impact of the event. Suitable processes and criteria – such as risk/potential consequences and learning potential – are put in place to ensure that investigations are carried out adequately. A systematic method (for example TapRooT®) is applied to guarantee a thorough investigation.

In-depth risk analysis – in accordance with the Zurich Hazard Analysis (ZHA) methodology – is fundamental to Novartis operations. It contributes substantially to process safety, including the prevention of fires, explosions, releases and spills. We provide regular training courses globally in hazard analysis, process safety management and systematic incident investigations. In 2014, more than 160 associates from sites across the world were trained in process safety. Tailor-made Laboratory Process Safety Training courses were delivered for associates working in the chemical and pharmaceutical development areas. In addition, extensive on-the-job HSE training is carried out at all sites.

Fatalities

Since 2005 there have been a total of 12 fatalities of Novartis Group company associates, of which nine were related to traffic incidents while traveling on public roads for business. These road fatalities were as follows: in 2005, two fatalities in Indonesia and the Czech Republic; in 2006, two fatalities in Indonesia; in 2008, one fatality in Pakistan; in 2010, two fatalities in Germany and China; and in 2011, two fatalities in Ukraine and the US. In 2012, we recorded a fatal industrial incident at Novartis, India. In 2007, 2009 and 2013 there were no work-related fatalities of Novartis associates. However, in 2014, we unfortunately recorded two employee fatalities in manufacturing facilities: one in Switzerland and one in Turkey. In addition, two contractor fatalities also occurred at Novartis sites in 2014: one in Switzerland and one in Poland. Furthermore, a member of the public who illegally gained access to a Novartis construction site in China was fatally injured.

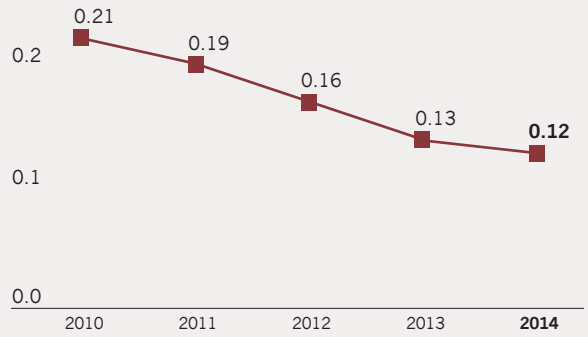
To address this undesirable situation, a comprehensive program to evaluate and prevent serious injuries and fatalities has now been rolled out at all Novartis manufacturing and research facilities and program implementation will be closely monitored in 2015 and beyond.

Furthermore, we recognize the importance of safety at work, including where our associates travel by road as part of their job. Driver safety campaigns have been launched at Novartis locations throughout the world and these include guidance on how to reduce the number of traffic-related accidents, as well as an increased level of driver safety training.

LOST TIME INJURY AND ILLNESS RATE TARGETS AND PERFORMANCE 2014 (INCLUDING THIRD-PARTY PERSONNEL)

	Target 2014	Achievement 2014	Achievement 2013
Novartis Group	≤ 0.14	0.12	0.13
Pharmaceuticals	≤ 0.14	0.12	0.13
Vaccines	≤ 0.14	0.11	0.12
Sandoz	≤ 0.14	0.13	0.12
Alcon	≤ 0.16	0.14	0.17
Novartis Research	≤ 0.14	0.01	0.05
OTC	≤ 0.14	0.19	0.12
Animal Health	≤ 0.14	0.17	0.03

LOST TIME INJURY AND ILLNESS RATE



HSE data reflects continuing operations, including Alcon from 2011.

Total Recordable Case Rate (TRCR)

Many injury and illness cases without lost time have the potential to lead to lost time. Identifying and managing the circumstances in which these incidents occur ultimately reduces the overall risk of having a serious incident, lost time injuries and illnesses or even fatalities. A recordable case includes:

- Work-related injury with or without lost time
- Work-related illness with or without lost time
- Work-related loss of consciousness
- Work-related fatality

The Total Recordable Case Rate (TRCR) equals the division of all recordable cases by the hours worked, multiplied by 200 000 for standardization. From 2014 onwards, the TRCR includes third-party personnel, in addition to Novartis associates. In 2014, the Novartis Group TRCR was 0.41, down from 0.44 in 2013.

Occupational injury and illness

During 2014, a total of 502 Group company associates suffered work-related injuries. Of these, 152 (2013: 150) led to days off work (integrated into the LTIR).

The distribution of injuries by immediate cause indicates that the most prominent safety issues are related to non-operational activities, such as slips, trips and falls at offices and sites, and transport accidents within the sales force. Together, these causes account for 52% of occupational injuries with lost time.

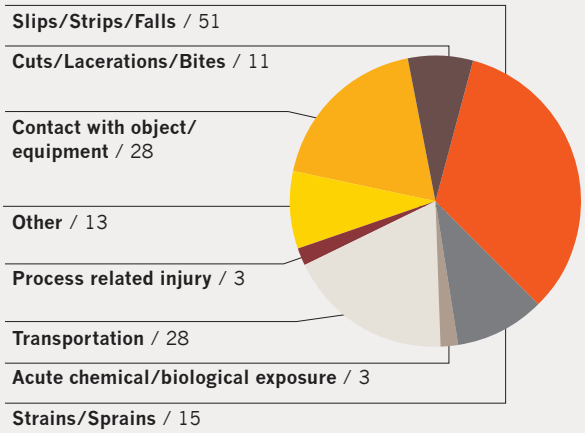
Novartis sites reported a total of 27 occupational illnesses in 2014, compared to 48 in 2013. Of these, three – compared to nine in 2013 – led to days off work. This figure is integrated into the LTIR, and represents 2% of the total lost time cases. There were no recorded chronic poisonings – we have an existing preventative health protection strategy with regards to the handling of potentially hazardous substances. The most prominent work-related health issue remains musculoskeletal disease, which accounted for 74% of illness cases in 2014, compared to 69% in 2013. Of these cases, two led to time off.

In addition, one case of occupational mental ill health leading to lost work time was recorded in 2014, compared to three cases with lost work time in 2013.

The Lost Time Occupational Illness Rate was 0.002 per 200 000 working hours in 2014, compared to 0.007 in 2013. The Total Recordable Occupational Illness Rate was 0.02 per 200 000 working hours in 2014, compared to 0.04 in 2013.

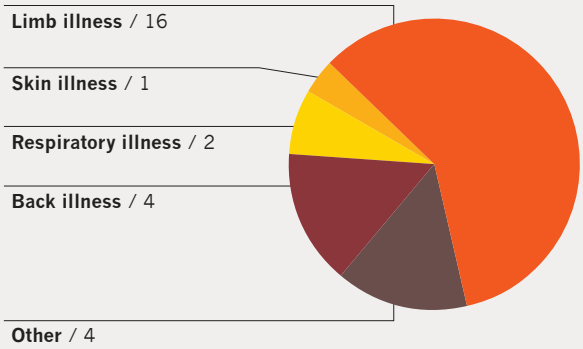
INJURY WITH LOST TIME 2014

Total: 152 associates



ILLNESS WITH & WITHOUT LOST TIME 2014

Illness Total: 27 associates



THIRD-PARTY PERSONNEL INJURIES

Year	Number of TPP	Number of injury cases w/wo lost time
2010	8 000	123
2011	11 400	90
2012	12 400	145
2013	14 100	82
2014	14 600	72

NOVARTIS GROUP COMPANY ASSOCIATES HEALTH AND SAFETY, BY REGION

Region	Total injury and illness cases	Fatalities	Total cases with lost time	Total lost time days	Total working hours	TRCR	LTIR
Europe	230	2	94	1 569	104 284 701	0.44	0.18
North America	191	0	27	1 140	58 682 235	0.65	0.09
Latin America	26	0	10	198	16 766 917	0.31	0.12
Asia	59	0	13	171	71 185 686	0.17	0.04
Middle East and Africa	8	0	3	54	7 994 905	0.20	0.08
Oceania	17	0	8	92	3 837 615	0.89	0.42
Total	**531**	**2**	**155**	**3 224**	**262 752 058**	**0.40**	**0.12**

Overall health and safety data by region
The following tables present selected key health and safety performance figures by region.

Due to privacy and equal opportunity considerations, Novartis does not break down health and safety data by gender. Novartis does not track non-occupational absenteeism data on a global level. We are planning to have a global aggregated report for non-work-related absences by 2015.

Occupational injury and illness to third-party personnel
Beyond Novartis Group company associates, we recognize our responsibility to promote the health and safety of third-party personnel (TPP).

TPP are those individuals employed by a third party that invoices Novartis for hours completed. They work regularly on Novartis premises and receive day-to-day work assignments from Novartis Group company associates. Some companies refer to these individuals, including sub-contracted workers, as contractors (see below Occupational injury and illness to contractors for our definition of contractors).

In 2014, Novartis employed more than 14 500 TPP. There were 72 occupational injuries and illnesses among this group. Of these, 25 resulted in lost time. There were no fatalities among TPP in 2014. Since 2011, we have been recording the hours worked for TPP so that we can calculate and compare the LTIR and a TRCR with Novartis associates. As with our own Group company associates, any incident is rigorously investigated in order to reduce the total number of work-related incidents.

Due to privacy and equal opportunity considerations, Novartis does not break down health and safety data by gender.

Due to the increasing number of TPP working for Novartis, LTIR and TRCR targets for 2014 and beyond include this population (see LTIR and TRCR sections above). The TPP LTIR for 2014 was 0.17 (compared to 0.23 in 2013) and the TPP TRCR for 2014 was 0.50 (compared to 0.59 in 2013).

Novartis does not differentiate between occupational injuries or illnesses for TPP. As a consequence, it is not possible to calculate a Lost Time Occupational Illness Rate for TPP. We will evaluate the feasibility of collecting this information in the future.

THIRD-PARTY PERSONNEL HEALTH AND SAFETY, BY REGION

Region	Total injury and illness cases	Fatalities	Total cases with lost time	Total working hours	TRCR	LTIR
Europe	44	0	21	10 852 522	0.81	0.39
North America	23	0	3	8 203 298	0.56	0.07
Latin America	2	0	0	1 385 538	0.29	0.00
Asia	3	0	1	7 100 951	0.08	0.03
Middle East and Africa	0	0	0	770 765	0.00	0.00
Oceania	0	0	0	328 324	0.00	0.00
Total	**72**	**0**	**25**	**28 641 397**	**0.50**	**0.17**

Occupational injury and illness to contractors
Beyond Novartis Group company associates and TPP, we recognize our responsibility to promote the health and safety of contractors. Contractors are those individuals employed by companies undertaking work for Novartis within the terms of a contract or service agreement. In contrast with TPP, contractors receive day-to-day work assignments from their companies' management and are hired to complete a job on their own. Novartis only reports health and safety data from contractors who regularly work at a Novartis site, such as cleaning, catering, security, engineering and maintenance personnel. These contractors, known as "fixed" or "nested" contractors, work a minimum of one month per year for Novartis.

As of 2011, Novartis reports the LTIR for contractors, but not the TRCR for this group. Because we cannot precisely determine the number of cases without lost time for this group on a global level, the rate would be inaccurate and unreliable.

Novartis employed approximately 27 000 contractors during 2014. There were 89 occupational injuries and illnesses with lost time and two fatalities among this group in 2014.

The contractor LTIR for 2014 was 0.48 (compared to 0.62 in 2013), Novartis does not differentiate between occupational injuries or illnesses for contractors. As a consequence, it is not possible to calculate a Lost Time Occupational Illness Rate for this group.

Due to privacy and equal opportunity considerations, Novartis does not break down health and safety data by gender.

For more about our approach to creating a safe workplace, see the Dedicated to safety section of the Novartis website.

NOVARTIS GROUP CONTRACTOR HEALTH AND SAFETY, BY REGION

Region	Fatalities	Total cases with lost time	Total working hours	LTIR
Europe	2	74	18 232 788	0.81
North America	0	9	6 609 498	0.27
Latin America	0	4	2 603 082	0.31
Asia	0	1	9 339 955	0.02
Middle East and Africa	0	1	220 241	0.91
Oceania	0	0	191 137	0.00
Total	**2**	**89**	**37 196 701**	**0.48**

G4 LA 7

WORKERS WITH HIGH INCIDENCE OR HIGH RISK OF DISEASES RELATED TO THEIR OCCUPATION

Novartis sites reported a total of 27 occupational illnesses in 2014. For more detail on types and occurrence of illness, see G4–LA6: Type of injury and rates of injury, occupational diseases, lost days, and absenteeism.

Biosafety

Handling biological materials is an integral and essential part of research, development and manufacturing programs at Novartis. Biological materials can include human or animal pathogens, and experimental or transgenic animals.

We take great care to ensure we prevent material misuse. Our biosafety program sets out standards, tools and practices for associates to manage potential risks when handling biological materials. Risk management and safety measures are stipulated in our guidelines on biosafety and in our detailed guidance notes. These standards are binding and based on best practice. We regularly assess compliance through audits at sites conducting biological activities.

Be Healthy workplace health promotion

Launched in 2011, Be Healthy is our first company-wide health and well-being initiative and builds on a tradition of providing health and well-being programs for Novartis Group company associates. The health and well-being of associates is a top priority and a natural extension of our company mission to "care and cure".

We place particular focus on prevention because statistics from the World Economic Forum (WEF) show that workplace health and well-being programs addressing lifestyle changes can help prevent up to 40% of non-communicable diseases (NCDs) such as cardiovascular disease, cancer and lung disorders.

Be Healthy aims to help associates around the world embrace healthy lifestyles by providing opportunities for them to take control of their personal health and help prevent future health issues. The initiative is based on four main pillars:

- Move – Increase physical activity and decrease sedentary behavior
- Choose – Eat healthy foods and appropriately to keep in top shape at work and at home
- Know your numbers – Help associates know their key health numbers so that they can take control of their health
- Manage – Provide support for associates with disabilities or illnesses to maintain or regain their ability to perform at home and at work

As part of Be Healthy, our health promotion focus at Novartis has expanded to include healthy living and screening activities and support to associates within our affiliates who suffer from chronic illnesses. Novartis believes it is important to ensure active care management, which includes looking beyond lost time cases, evaluating minor injuries or unsafe acts, and providing support to associates so they can return to work and perform in an environment that enables them to contribute optimally after an absence due to an illness or injury. In addition, as part of Be Healthy Novartis Group locations are asked to provide their associates access to an Employee Assistance Program (EAP) offering psychological, social, legal and

Novartis earns #2 spot in The Global Corporate Challenge® World's Most Active Organization ranking

In 2014, more than 15 000 Novartis Group company associates in more than 50 countries took part in the Global Corporate Challenge (GCC), a 100-day health event where teams of 7 associates walk, run, bike and swim around a virtual world race course while tracking their progress with accelerometers. During the course of the event, Novartis participants walked 18 241 036 992 steps or the equivalent of circumnavigating the world 291 times! By the 100th day, 77% of participants were taking more than the World Health Organization-recommended 10 000 steps per day – up from just 23% of participants moving that amount pre-GCC. Novartis teams' impressive commitment and drive earned the company the #2 spot on the GCC's World's Most Active Organization ranking out of 1 200 participating organizations and made a real impact in our associates' lives.

financial support services. In many locations – through the EAP or other services – we offer independent counseling services and help-lines to help associates cope with stress, depression and anxiety.

Novartis Group company associates also participate in the Be Healthy Celebration Week every September. This is a week-long celebration of health and well-being that includes free exercise classes and health screenings.

The Celebration Week was held at all participating sites between September 8 and 12, 2014.

Be Healthy reaches 95% of Group company associates worldwide in more than 50 countries.

Be Healthy wins Global Health Award
In 2014, Be Healthy was selected by the Institute for Health and Productivity Management (IHPM) to receive a Value-Based Health (VBH) Award. The awards recognize actions to improve employee health, including changes in health benefit design, establishment of well-being and disease management programs, and commitment to developing a supportive organizational culture of health.

G4 LA 8

HEALTH AND SAFETY TOPICS COVERED IN FORMAL AGREEMENTS WITH TRADE UNIONS

HSE is a fundamental component of our long-term business strategy. We consider HSE implications in every aspect of our worldwide healthcare activities with the intent to protect associates, neighbors, patients, business assets, natural resources and the environment. This commitment is part of everything we do, from the moment a scientist begins research, through production and distribution, until our customers and patients use and dispose of the final product.

We provide our Group company associates with safe working conditions, and strive to protect them from potential health hazards and injuries. Our emphasis on the health and well-being of associates is a natural extension of our mission to "care and cure".

All Novartis Group company associates are expected to adhere to the health and safety requirements outlined in the Novartis Global HSE Policy and the Novartis Code of Conduct. We do not cover health and safety topics in formal agreements with trade unions or with Novartis Employee Representative Councils (NERCs), but we consult local trade unions and NERCs to understand the approach to implementing these requirements on a country-by-country basis. For instance, at sites in Basel and the Rhine Valley, Novartis holds consultation processes and sets up commissions with Employee Representative Councils on various HSE topics.

We are committed to providing our associates with safe workplaces, fair working conditions and assurance of mutual respect. We also strive to provide programs that help them to maintain or improve their health, such as Be Healthy – see G4–LA7: Workers with high incidence or high risk of diseases related to their occupation.

The Global HR Guideline on the Promotion of Health outlines our commitment to influencing positive behaviors and providing opportunities for improving personal health, both in and outside of the workplace. It describes how programs promoting health at the workplace and beyond should be set up, executed and monitored.

G4 LA 9

UN Global Compact 6

AVERAGE HOURS OF TRAINING PER YEAR PER EMPLOYEE BY GENDER, AND BY EMPLOYEE CATEGORY

In 2014, on average, each Novartis Group company associate took 27 hours of training (excluding sales and in-country programs). Novartis is committed to increase learning and training among associates and is currently establishing a central learning function across all divisions and levels of the organization. This will allow a more centralized and cost-effective approach, expanding the learning offerings and opportunities. We are also shifting from instructor-led training to blended learning, making learning more easily accessible and flexible for associates.

G4 LA 10

PROGRAMS FOR SKILLS MANAGEMENT AND LIFELONG LEARNING THAT SUPPORT THE CONTINUED EMPLOYABILITY OF EMPLOYEES AND ASSIST THEM IN MANAGING CAREER ENDINGS

We offered more than 2 400 learning programs in 2014 – both internal and external – to support the employability of associates.

When restructuring occurs, we aim to offer career counsel to affected associates through our internal job centers.

2 418

learning programs

G4 LA 11

PERCENTAGE OF EMPLOYEES RECEIVING REGULAR PERFORMANCE AND CAREER DEVELOPMENT REVIEWS, BY GENDER AND BY EMPLOYEE CATEGORY

The Novartis Performance Management Process includes annual objective setting, mid-year review and year-end review. The process applies to permanent Novartis Group company associates who are not on long-term leave. Development areas are identified and discussed in the mid-year and year-end review discussions. 93%* of associates worldwide completed the process in 2014. We do not reach 100% because some employee groups subject to works council or collective labor agreements are excluded from participation in the Performance Management Process. Associates on long-term leave – including maternity absence, military service and sabbaticals – may also not be eligible.

The proportion of Group company associates with performance management review ratings by gender aligns with the proportion of men and women in the workforce, i.e. there is no gender imbalance in the availability of performance management reviews.

ASSOCIATES WITH A PERFORMANCE MANAGEMENT REVIEW RATING

Local manager	Female	11 521
	Male	17 229
	Result	28 750
Non-manager	Female	41 171
	Male	44 904
	Result	86 075
Overall Result		**114 825**

* The performance rating year is January to December. This data reflects the status on March 31, 2015 and only includes associates that were employed in 2014 and were still with the company in March 2015.

G4 LA 12

COMPOSITION OF GOVERNANCE BODIES AND BREAKDOWN OF EMPLOYEES PER EMPLOYEE CATEGORY ACCORDING TO GENDER, AGE GROUP, MINORITY GROUP MEMBERSHIP, AND OTHER INDICATORS OF DIVERSITY

Diversity

At least 150 different nationalities are represented at Novartis. Minority groups are not reported globally due to a lack of standard or global definitions for minority.

BREAKDOWN BY GENDER IN 2014

Employee Category	Female	Male
Overall	47%	53%
Management	40%	60%
Corporate Executive Group[1]	24%	76%

[1] Comprises 420 of the most senior managers at Novartis, including the Executive Committee of Novartis

BREAKDOWN BY GENERATION GROUP IN 2014

Employee Category	Generation Y	Generation X	Baby Boomers
Overall	36%	46%	18%
Management	18%	59%	23%
Corporate Executive Group[1]	–	42%	58%

[1] Comprises 420 of the most senior managers at Novartis, including the Executive Committee of Novartis

Generations are defined as follows:

Baby boomers: born between 1945–1964
Generation X: born between 1965 and 1979
Generation Y: born between 1980 and 2000

40%

Novartis Group Company Managers are women

G4 LA 13

6

RATIO OF BASIC SALARY AND REMUNERATION OF WOMEN TO MEN BY EMPLOYEE CATEGORY, BY SIGNIFICANT LOCATIONS OF OPERATION

Novartis Group companies associates are located in numerous countries with different legal and socio-economic environments. It is our policy to offer our associates fair and competitive wages based on level of responsibility, performance and ethical conduct. We appreciate the diversity and individuality of our associates and do not discriminate based on personal characteristics such as gender. Novartis is continuously working together with internationally recognized experts on the processes and tools to ensure consistent and competitive terms of employment.

For more data on gender breakdown, see indicator G4–LA12: Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity.

G4 LA 16

6

NUMBER OF GRIEVANCES ABOUT LABOR PRACTICES FILED, ADDRESSED AND RESOLVED THROUGH FORMAL GRIEVANCE MECHANISMS

Novartis Group companies employ more than 133 000 associates around the world. While we do not have a misconduct category called labor practices, our misconduct category "employee relations" includes issues pertaining to labor practices such as discrimination, harassment, inappropriate behavior, performance management violations, retaliation, unfair dismissals, etc. In 2014, 1 381 cases of alleged misconduct related to employee relations were reported, the majority of which were minor.

All 1 381 reports related to employee relations have been investigated or addressed and resolved:

- 1 072 reports that were not related to misconduct were delegated to local management for review and action
- 309 investigations were initiated by the Business Practices Office in 2014
- Of these 309 investigations, 252 were completed by December 31, 2014, the rest is still pending. 59% of those investigated cases were substantiated, resulting in 54 dismissals or resignations and 59 written warnings

Community healthcare worker Dismus Mwalukwanda takes a patient to a malaria clinic in rural Zambia. As he lives 14 kilometers (8 miles) from the nearest clinic, Dismus travels everywhere by bicycle.

Human rights

G4 HR 1

THE GLOBAL COMPACT 1,2

TOTAL NUMBER AND PERCENTAGE OF SIGNIFICANT INVESTMENT AGREEMENTS AND CONTRACTS THAT INCLUDE HUMAN RIGHTS CLAUSES OR THAT UNDERWENT HUMAN RIGHTS SCREENING

Novartis Group company attorneys support the sourcing process by systematically establishing and updating general sourcing contract templates. These templates include specific references to the Novartis Supplier Code – similar references are also contained in standard Purchase Order language. Our Supplier Code is based on the United Nations Global Compact and other international standards or accepted good practices. It is aligned with the Novartis Code of Conduct. Our Supplier Code sets the expectation that suppliers commit to uphold the human rights of workers and to treat them with dignity and respect. It includes guidance on freely chosen employment, child labor and young workers, non-discrimination, fair treatment, wages, benefits and working hours, and freedom of association.

G4 HR 2

THE GLOBAL COMPACT 1,2

TOTAL HOURS OF EMPLOYEE TRAINING ON HUMAN RIGHTS POLICIES OR PROCEDURES CONCERNING ASPECTS OF HUMAN RIGHTS THAT ARE RELEVANT TO OPERATIONS, INCLUDING THE PERCENTAGE OF EMPLOYEES TRAINED

We seek to promote and protect the rights defined in the United Nations' Universal Declaration of Human Rights within our sphere of influence.

In 2014, we rolled out a New Hire e-training module, based on the Novartis Code of Conduct, which includes a reference to human rights. By December 31, 2014, 15 160 associates had been invited to undertake this training and 14 369 (95% of new hires invited) had completed it. The course is approximately one hour long, which amounts to more than 14 000 hours of employee training.

The e-training targets associates with an email address. All remaining associates are required to be trained face-to-face or through shared kiosks.

G4 HR 3

THE GLOBAL COMPACT 6

TOTAL NUMBER OF INCIDENTS OF DISCRIMINATION AND CORRECTIVE ACTIONS TAKEN

Novartis reports on all cases of misconduct – for more information, see G4–LA16: Number of grievances about labor practices, G4–HR12: Number of grievances about human rights impacts and G4–SO11: Number of grievances about impacts on society. Complaints are investigated by the Business Practices Office (BPO), and substantiated cases are referred to senior management for appropriate disciplinary action. Novartis Group company associates encourage associates to address discrimination, harassment and retaliation appropriately. We have established a process to coordinate information and actions with Human Resources partners and managers.

The Human Resources function provides guidance to managers in taking supportive and/or corrective measures in cases where misconduct and inappropriate treatment are established. In 2012, Global HR Guidelines regarding discrimination, harassment and retaliation as well as regarding disciplinary actions and dismissals have been rolled out globally and implemented as Country HR Standards in countries of operation according to local legal requirements and legislation. These Country HR Standards can be more specific and provide more detailed processes.

We do not specifically disclose the number of incidents relating to discrimination as this information is business confidential.

G4 HR 4

3

OPERATIONS AND SUPPLIERS IDENTIFIED IN WHICH THE RIGHT TO EXERCISE FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING MAY BE VIOLATED OR AT SIGNIFICANT RISK, AND MEASURES TAKEN TO SUPPORT THESE RIGHTS

None of our operations is identified as being at significant risk of violating the right to exercise freedom of association and collective bargaining.

As stated in our Code of Conduct, we support freedom of association and collective bargaining. These principles are included in the basic employment terms and contracts of Novartis associates.

The Novartis Global HR Principles Guideline outlines the standard applicable for all divisions across all countries: that Novartis fully respects the right of associates to choose to join a trade union or an employee association. In addition a Global HR Guideline regarding the involvement of Employee Representative Bodies confirms our commitment to dialogue constructively with workforce representatives and to involve works councils or trade unions according to local laws and regulations.

Through the 2013 Corporate Citizenship survey (the next survey will take place in 2015), we have gained insights from countries that allow us to monitor the freedom of association in the organization, such as associates' opportunities to access internal or external employee representation and/or, if associates are covered by a collective bargaining agreement, as allowed by local laws.

Novartis supports the right to exercise freedom of association, e.g. in China associates are informed of their right to associate with trade unions or employee representatives and across all divisions, associates are members of an internal works council or external union/employee representative body. In the course of reorganization projects (e.g. divestment of Animal Health, Vaccines, etc.), the involvement of local employee representatives globally has been carefully considered, managed and monitored according to local legal requirements.

In addition to our commitment to human rights and to the right to freedom of association, we also comply with regional and local legislation relating to employee consultation.

In accordance with applicable European Commission Directives regarding the implementation of European Works Councils, the Novartis Euroforum (NEF) has been implemented and representatives have been nominated and elected in their countries. The terms of reference of the NEF outline its rights and duties and confirm its constitution and consultation processes. Meetings with management take place regularly to provide information about transnational initiatives.

Due to legal requirements or other obligations, Employee Representative Bodies (ERBs), such as the NEF, must be involved in certain Novartis activities in the countries of the European Union and Switzerland. The respective agreement (NEF agreement) – a legally binding document – as well as a Global HR Guideline about the involvement of ERBs define NEF's involvement in activities that could impact employees in more than one EU country. Activities that are strictly limited to one country follow local laws and legislation on communication and consultation with local ERBs.

During several reorganizations in 2014, senior management has ensured flawless information and constructive dialogue with employee representatives globally. The views of the NEF delegates have also been considered by the project teams during implementation. This has helped to limit the impact on potentially affected associates in Europe and has supported the local consultation process in all countries required.

Novartis expects its suppliers to aspire to the standards defined in its Supplier Code. Whenever a supplier is identified with a potential labor right risk, the topic is discussed during an audit. If an issue surfaces, we address it by engaging with the supplier.

For more detail on our approach to managing human rights and why we think it is important, see our position on Human rights.

G4 HR 5

5

OPERATIONS AND SUPPLIERS IDENTIFIED AS HAVING SIGNIFICANT RISK FOR INCIDENTS OF CHILD LABOR, AND MEASURES TAKEN TO CONTRIBUTE TO THE EFFECTIVE ABOLITION OF CHILD LABOR

The Novartis Code of Conduct, which specifies our position on forced or compulsory labor, is included in the basic employment terms or contracts of associates. Novartis protects associates from unfair or unethical working conditions, including child labor. We annually monitor the global workforce for any associates below the age of 15, and take corrective actions when necessary. In 2014, monitoring showed no incidents of child labor in Novartis operations.

Our understanding is that the risk of child labor in our supply chain is low, and we have not identified any of our suppliers where we have a direct relationship as having a significant risk of incidents of child labor. This is because the majority of our key suppliers are involved in chemical and/or pharmaceutical production – high-tech sectors that rely on skilled labor and in which workers are usually older.

Based on external consultation and learning from other industries, we have identified the manufacturing of promotional items – typically low-value marketing items – as a potential risk area for child labor, since the workers are typically less skilled. Although our relationship with this type of supplier is indirect and our influence is low, we have launched a project in 2014 on Promotional Items Supply Chain Risk Management to further assess this part of our supply chain.

G4 HR 6

THE GLOBAL COMPACT 4

OPERATIONS AND SUPPLIERS IDENTIFIED AS HAVING SIGNIFICANT RISK FOR INCIDENTS OF FORCED OR COMPULSORY LABOR, AND MEASURES TO CONTRIBUTE TO THE ELIMINATION OF ALL FORMS OF FORCED OR COMPULSORY LABOR

None of our operations is identified as having a significant risk for incidents of forced or compulsory labor.

The Novartis Code of Conduct, which specifies our position with regards to forced or compulsory labor, is included in the basic employment terms or contracts of associates. Novartis protects associates from unfair or unethical working conditions, including bonded, forced or child labor, or any unsafe working conditions.

Our Human Resources Principles Guideline outlines how the Novartis HR function supports the Novartis Group's strategic goals – including a commitment to fair and respectful treatment of Group company associates, and to the development and growth of associates through HR processes, services and tools.

Novartis expects its suppliers to aspire to the standards defined in its Supplier Code. Whenever a supplier is identified with a potential labor right risk, the topic is discussed during an audit. If an issue surfaces, we address it by engaging with the supplier.

For more details on our approach to managing human rights and why we think it is important, see our Human rights position.

G4 HR 7

THE GLOBAL COMPACT 1,2

PERCENTAGE OF SECURITY PERSONNEL TRAINED IN THE ORGANIZATION'S HUMAN RIGHTS POLICIES OR PROCEDURES THAT ARE RELEVANT TO OPERATIONS

According to our Code of Conduct we strive to ensure that activities do not negatively impact fundamental human rights. 100% of the Novartis investigators, operating under the Novartis Business Services, are trained on the Code of Conduct. Site security personnel contracted through external service providers are currently not trained on the Code of Conduct.

For more details on our approach to managing human rights and why we think it is important, see our Human rights position.

G4 HR 8

THE GLOBAL COMPACT 1

TOTAL NUMBER OF INCIDENTS OF VIOLATIONS INVOLVING RIGHTS OF INDIGENOUS PEOPLES AND ACTIONS TAKEN

In 2014, there was no incident of violations involving rights of indigenous people.

Novartis uses natural sources for obtaining potential drugs or lead substances only in accordance with the UN Convention on Biological Diversity (CBD), the provision of the Nagoya protocol, and local regulations. Novartis accepts the CBD provision whereby countries maintain sovereignty over their genetic resources and may limit access to them, and supports sharing the benefits deriving from future products in accordance with the principles of the Convention, while ensuring compliance with intellectual property law. To drive CBD implementation and promote sustainable society development in less-developed countries, we transfer know-how and the latest technologies with local partners to help them build capacity, and we work closely with local authorities.

Read our position on Biodiversity/Bioprospecting.

G4 HR 9

THE GLOBAL COMPACT 1

TOTAL NUMBER AND PERCENTAGE OF OPERATIONS THAT HAVE BEEN SUBJECT TO HUMAN RIGHTS REVIEWS OR IMPACT ASSESSMENTS

Novartis does not conduct human rights reviews or assessments in its operations. Yet, our Business Practices Office provides a formal system for dealing with complaints of actual or suspected cases of misconduct, including those related to human rights. All complaints are investigated, and substantiated cases are escalated to management for appropriate action.

G4 HR 12

THE GLOBAL COMPACT 1

NUMBER OF GRIEVANCES ABOUT HUMAN RIGHTS IMPACTS FILED, ADDRESSED, AND RESOLVED THROUGH FORMAL GRIEVANCE MECHANISMS

Novartis Group companies employ more than 133 000 associates around the world. While we do not have a misconduct category called human rights, our misconduct category "employee relations" includes issues pertaining to human rights such as discrimination, harassment, inappropriate behavior, whereas the misconduct category "Information protection" covers the protection of personal data. In addition there is a category under "other" where any other non-covered issue would appear. In 2014, 277 cases of alleged misconduct related to human rights issues were reported and the Business Practices Office initiated investigations for all 277 cases in 2014. Of these 277 investigations, 221 were completed by December 31, 2014, the rest is still pending. 62% of those investigated cases were substantiated, resulting in 54 dismissals or resignations and 48 written warnings.

For more details on our approach to managing human rights and why we think it is important, see our Human rights position.

Fernando Sánchez and dance partner Filomena Zamit from Andalusia, Spain, see flamenco dancing as part of a healthier lifestyle to combat diabetes.

Society

G4 SO 1

THE GLOBAL COMPACT 1

PERCENTAGE OF OPERATIONS WITH IMPLEMENTED LOCAL COMMUNITY ENGAGEMENT, IMPACT ASSESSMENTS AND DEVELOPMENT PROGRAMS

We are an integral part of the communities that host our operations, and strive to contribute to their stability and prosperity.

As such, we support local communities through volunteer work and philanthropic activities.

Our major locally focused volunteer activity is our **Community Partnership Day**, a site-by-site initiative replicated at Novartis operations globally. In 2014, more than 24 000 associates took part in the Community Partnership Day. Activities included renovating schools, accompanying children with disabilities on day-trips, working at food-donation banks, and using business skills to help local organizations improve their efficiency. In Switzerland alone, some 4 000 associates volunteered in local projects.

Through its **Malaria Initiative,** Novartis has delivered more than 700 million antimalarial treatments without profit to endemic countries since 2001. These include more than 250 million pediatric formulations of the treatment. A child dies every 60 seconds of malaria, making it one of the top killers of children worldwide.

In late 2013, Novartis entered a collaboration with global charity Malaria No More on **Power of One**. Power of One is a fundraising campaign aiming to enlist public support to help close the malaria treatment gap in Africa. While past malaria campaigns have focused on increasing access to preventive tools such as bednets, for the first time, this campaign aims to help close the treatment gap and focuses on providing access to treatment for children with malaria. The campaign's dominant call for action is that just USD 1 can provide a child with a life-saving treatment against malaria.

To date, Power of One has delivered enough treatments to close the malaria treatment gap in Zambia, estimated at 3 million by the national government. In addition, 600 000 antimalarial treatments will also be delivered to Kenya by end of 2015.

Disaster relief is also part of our corporate responsibility commitment. We support the proportionate allocation of the right aid – medicine donations, financial contributions and matching gift programs – at the right time.

We operate a range of foundations and emergency relief programs globally. We give back to society through contributions to schools and universities, research prizes, and sponsorship of cultural events and sports teams.

Novartis does not currently compile global data regarding activities conducted in local communities.

For more details, see the Community engagement section of the Novartis website.

The **Novartis Foundation** works to create sustainable health service models and improve access to healthcare for those most in need, leveraging its on-the-ground experience and partnerships to bring private sector solutions to public health problems. For more details on its work, see the Novartis Foundation website.

We also aim to make efficient use of natural resources and to minimize the environmental impact of our activities in communities where we operate.

For details, see the Environment section of this report.

For more detail on our economic contribution to communities, see G4–EC8: Significant indirect economic impacts.

COMMUNITY ENGAGEMENT

Novartis is the first multinational company to have implemented a **living wage** for all Group company associates. This is an opportunity to contribute to the improvement of labor standards, and to have a positive impact on the communities where we operate. Such concerns have increasing urgency as Novartis and other leading pharmaceutical companies have stepped up activities in less developed countries, where legal protections for workers are often less stringent than in industrialized countries.

Communities living in the Bonsaaso cluster in Ghana, home to 32 000 people, are benefiting from the telemedicine project, supported by the **Novartis Foundation** in cooperation with the Millennium Villages Project (MVP), the Ministry of Health and the Ministry of Communications in Ghana, National Health Insurance Agency Ghana, Ghana Health Service, and Ghana Medical Association. Now scaling up to the whole Amansie-West district, community healthcare workers are equipped with mobile phones that connect them to doctors and nurses based at the district hospital to aid them in consultation during complicated cases and emergency situations.

Contacts of **newly diagnosed leprosy patients** in six endemic countries will soon be receiving routine chemoprophylaxis to reduce their risk of developing leprosy. Later this year in collaboration with the partners of the International Federation of Anti-Leprosy Associations (ILEP) and academic institutions, national leprosy programs, pilots will begin in select sites across Africa, Asia and Latin America.

Alcon donates products in support of medical missions, where local healthcare professionals travel abroad to help populations with unmet medical needs. In general, these missions focus on eye care, which can include addressing refractive errors, eye infections, cataracts, glaucoma, and other eye issues. In 2014, Alcon supported 576 medical missions, reaching more than 438 674 patients and restoring sight for more than 35 000 patients through surgery.

In 2007, Novartis started **Arogya Parivar** ("Healthy Family" in Hindi), a for-profit social business initiative to reach millions of people in rural India. The program offers health education, treatment options and prevention, as well as increasing access to affordable medicines. Health educators raise awareness about prevalent diseases and their symptoms, the importance of good hygiene and hand washing, proper nutrition, especially during pregnancy, rational use of medicines and prevention. Arogya Parivar was replicated in Kenya and Vietnam in 2012 and Indonesia in 2013. Although the basic principles are similar in each country with focus on awareness, access, affordability and adaptability, the program is modified to suit local conditions. The product portfolio targets illnesses that typically affect rural populations, including the majority of prevalent communicable diseases such as infections, tuberculosis, malaria and diarrhea. In addition, the portfolio also includes treatment for non-communicable diseases such as diabetes and hypertension, which represent a fast-growing area of need. At the same time there is also a focus on maternal health in an effort to reduce maternal deaths. Since 2010, more than 470 000 village health meetings have been arranged, attended by 17.5 million people. More than 940 000 people were also diagnosed and treated through health camps.

Following the initial success of **SMS for Life**, a public-private initiative to help prevent public health facilities in rural Africa from running out of critical malaria treatments, a new enhanced solution, eHealth for Africa, is currently being developed to be implemented in all public health facilities in the State of Lagos (population of 23 million) in Nigeria. The program uses tablet computers to provide online timely information on the stock levels of all malaria medicines, 7 vaccines, HIV medicines and tests in addition to surveillance indicators covering 7 critical diseases and detailed malaria related information. This will help improve patient access to essential antimalarial treatments and other critical medicines where and when needed. The platform will also be used to bring high-quality training directly to health workers at their health facility.

Furthermore, in 2014, Novartis launched an **m-health pilot in the private sector** in Nairobi and Mombasa, Kenya, to better understand the supply chain cycle and build capabilities to ensure its medicines reach patients at the right time. Pharmacists register their patients for surveys via SMS, and the survey results help Novartis to map out patients' locations and redistribute medicines to areas where they are needed most. For further information about our efforts to fight malaria, see the Malaria Initiative website.

G4 SO 3

TOTAL NUMBER AND PERCENTAGE OF OPERATIONS ASSESSED FOR RISKS RELATED TO CORRUPTION AND THE SIGNIFICANT RISKS IDENTIFIED

Our Code of Conduct clearly states our position on bribery and corruption. We do not tolerate any form of bribery or corruption. We do not bribe any public official or private person and we do not accept any bribes.

All operational reporting units (100% – approximately 350 units) undergo a financial risk assessment and have implemented the Novartis Financial Controls Manual (NFCM) requirements to ensure compliance with internal and relevant external financial standards and regulations. There are a number of significant risk areas and controls either directly or indirectly related to corruption – including proper segregation of duties, competitive bidding and supplier selection process, assurance

on external service providers, code of conduct, marketing and promotional activities, anti-bribery, and relationships with third parties.

In 2011, we launched a revised Code of Conduct, which contains a strong and clear prohibition of any form of bribery or corruption. This was communicated globally to all associates. In 2012 we also launched a new anti-bribery policy.

In 2014, Novartis introduced a mandatory formalized compliance risk assessment covering professional practices and anti-bribery, for units across all divisions. The purpose of this is to help units identify, evaluate and mitigate key risks in the areas of professional practices and anti-bribery in a proactive manner, and as an integral part of business decision-making. Units are required to report the outcome of this exercise to their regional or divisional functions annually.

G4 SO 4

COMMUNICATION AND TRAINING ON ANTI-CORRUPTION POLICIES AND PROCEDURES

In 2012, we launched a new anti-bribery policy as well as a third-party due diligence guideline, on which Novartis associates at all levels were trained intensively. Special focus was given to managers and associates with customer-facing positions.

In 2014, we rolled out a Professional Practices Policies (P3) course which outlines our commitment to ethical business practices when interacting with healthcare professionals, healthcare-related organizations and patients, and refers to our Anti-bribery policy. In 2014, 109 591 Novartis Group company associates were invited to complete the eTraining course and as of December 31 2014, 98 748 had completed the training.

In 2014 our Code of Conduct course contained a module with a case which discussed bribery of healthcare professionals and outlined our stance on anti-bribery; 124 523 associates were invited to complete the course and 122 689 had completed it by December 31 2014, including members of the Executive Committee of Novartis. This represents 99% of the invited population.

In 2014, we rolled out a New Hire e-training module, including a section on anti-bribery and corruption. As of December 31 2014, 15 160 associates had been invited and 14 369 (95%) of those had completed it.

Face-to-face training was also carried out at a local level to defined risk groups – this was not reported centrally.

Novartis does not currently report data on the number and percentage of governance body members and business partners receiving training on anti-corruption policies and procedures. Anti-bribery is also part of the Novartis Supplier Code.

G4 SO 5

CONFIRMED INCIDENTS OF CORRUPTION AND ACTIONS TAKEN

We ensure that our standards of ethical business conduct are put into practice through an integrated approach to decision-making, a robust system for handling complaints and ongoing monitoring and reporting procedures.

We support an open culture in which Novartis Group company associates can speak up and raise concerns. In 2005, we established the Business Practices Office (BPO) to provide a formalized system for dealing with complaints and offering employees and external stakeholders a channel to report actual or suspected cases of misconduct, anonymously or not. Upon receipt of those messages, the BPO endeavors to respond within three working days. The BPO generally aims to turn around each case within six weeks.

We have also introduced integrity telephone lines in 115 countries, through which employees have the option of reporting allegations in 41 languages.

As part of our commitment to a speaking up culture, we respect confidentiality and actively monitor potential retaliation.

The BPO assesses all complaints in terms of severity of the case. When misconduct is suspected, the case will be assigned to an investigator, who establishes the facts and sends the findings back to the BPO, which then reviews the entire case once again before a final report is sent to the respective Business Head for review and actions.

The business unit, usually involving Compliance, Legal and HR, then reviews the findings and recommends, if appropriate, remedial measures and/or disciplinary actions, including dismissal. However, before any action is taken, the BPO calibrates the recommendations for consistency of misconduct handling across the organization. In this way, fairness and transparency are guaranteed. The BPO also communicates to the business and key stakeholders in the organization root causes and lessons learned, in order to prevent similar issues arising elsewhere in the future.

We believe the above program is key to deterring and preventing misconduct and provides associates with the confidence that action is taken when cases are found to be substantiated.

The BPO investigated 1 699 cases in 2014, with 930 substantiated by year end. Of those investigated cases, 44% per-

tained to Fraud, 26% to Professional Practices and 6% to Conflict of interest. “Corruption” cases can be found across these three categories.

Novartis does not currently report data on the nature of confirmed incidents of corruption, or on the termination or non-renewal of contracts with business partners due to violations related to corruption. We will evaluate the feasibility of reporting this data in the future.

Please refer to the Ethics, governance and compliance section of the Novartis website for further details.

G4 SO 6

10

TOTAL VALUE OF POLITICAL CONTRIBUTIONS BY COUNTRY AND RECIPIENT/BENEFICIARY

Novartis makes political contributions to support political dialogue on public policy issues of relevance to Novartis, such as healthcare innovation or access to medicine.

Political contributions made by Novartis are not intended to give rise to any obligations of the party receiving it. Moreover, rules and procedures are in place to make sure that political contributions are never made with the expectation of a direct or immediate return for Novartis, and that they are fully compliant with applicable laws, regulations and industry codes.

Novartis only makes political contributions in countries where such contributions by corporations are legal and generally considered appropriate.

In 2014, Novartis made political contributions totaling approximately USD 766 000, thereof approximately USD 500 000 in Switzerland, USD 240 000 in the US (to non-federal candidates), and USD 26 000 in Canada.

In addition, in the US, a Political Action Committee (PAC) established by Novartis used funds received from Novartis employees (but not from the company) to make political contributions to US Federal and State candidates totaling USD 310 975.

An up-to-date overview of the PAC disbursements/beneficiaries can be found on: www.fec.gov

No in-kind contributions were identified.

In Switzerland, Novartis supports political parties that have a political agenda and hold positions that support the strategic interests of Novartis, its shareholders and other stakeholders.

Novartis currently does not report political contributions by specific recipients, except in the US where reporting is required by law.

For more information on responsible lobbying and our political contributions, see the Public policy and advocacy section of the Novartis website.

Information on trade associations funding is tracked separately since it does not correspond to political contributions. In 2014, Novartis Group companies contributed USD 27 million to various major trade associations.

For a detailed list of our Public Affairs 2014 targets and results, see the Targets and results page of the Novartis website.

G4 SO 11

NUMBER OF GRIEVANCES ABOUT IMPACTS ON SOCIETY FILED, ADDRESSED AND RESOLVED THROUGH FORMAL GRIEVANCE MECHANISMS

In 2014, 3 723 cases of alleged misconduct were reported. These fall under eight categories:

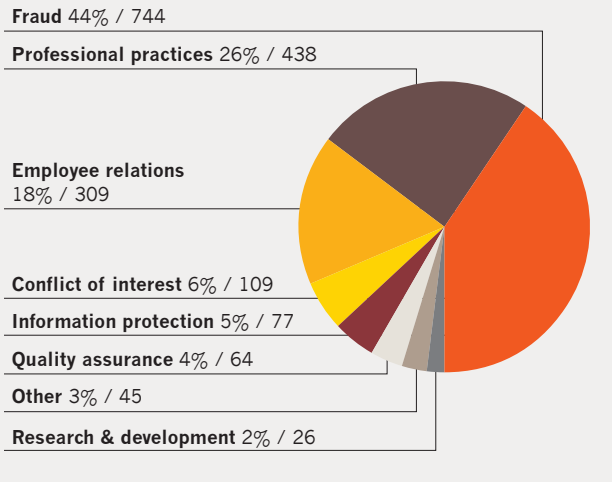
- Employee relations
- Fraud
- Professional practices/Bribery
- Conflict of interest
- Information protection
- Quality assurance
- R&D
- Other

All 3 723 reports have been investigated or addressed and resolved.

- 2 024 reports that were not related to misconduct were delegated to local management for review and action.
- 1 699 investigations were initiated by the Business Practices Office, 1 332 cases were completed by December 31, 2014, the rest is still pending. Of those investigated cases, 70% were substantiated across all misconduct categories. These led to 485 dismissals or resignations and 267 written warnings.

CASES INVESTIGATED THROUGH BPO PROCESS

(%, by type of violations)



Nikolay Ivanovich Platonov and his wife Galina Vasilevna go for a walk near their home in Yaroslavl, Russia. Enrolled in a Novartis-sponsored hypertension program at the Yaroslavl Veterans Hospital, they receive help to maintain a healthy lifestyle, including dietary advice, regular blood pressure monitoring and medication.

Product responsibility

G4 PR 1

PERCENTAGE OF SIGNIFICANT PRODUCT AND SERVICE CATEGORIES FOR WHICH HEALTH AND SAFETY IMPACTS ARE ASSESSED FOR IMPROVEMENT

As a core part of its business, Novartis Pharmaceuticals has put processes in place for the continuous and systematic review of the benefit-risk profile of all products in its portfolio, including those that are on the market as well as those that are still in development. These processes are designed to ensure the best possible safety and therapeutic benefit for patients.

Two key sources of safety data are pre-marketing clinical trial data and post-marketing pharmacovigilance activities. Clinical trials are well controlled studies seeking to answer questions about the safety and therapeutic benefit of a drug in a specific patient population. Together with pre-clinical safety data, the adverse events collected in these studies provide critical information for characterizing the safety profile of a drug. These safety data are closely scrutinized both internally and by regulators when assessing whether the benefits of a drug are expected to outweigh the potential risks, which is a pre-requisite for gaining marketing approval. Post-marketing pharmacovigilance activities play an important role in our ability to gain a deeper understanding of the safety profile of a specific product once that product is approved for marketing and becomes available to a wider number of patients. With increasing frequency, we conduct specific studies after regulatory approval to address safety questions that could not be conclusively answered in pre-approval trials and diligently collect the adverse events from these studies. In addition, in each country, qualified Novartis personnel is responsible for reporting and tracking adverse events for all of our products, investigating their causes, and communicating that information to the appropriate internal and external recipients in a timely manner.

The routine, continuous monitoring of the benefit-risk profile of each compound in the Novartis Pharmaceuticals portfolio based on all the safety data collected is the primary responsibility of cross-functional Safety Management Teams (SMT) under the leadership of a dedicated safety physician. This process is supported by an internal data mining tool which screens all data in our safety database. We require the safety data of each marketed product to be reviewed at least annually by the Signal Detection Board (SigDet) which is a functional board chaired by the Chief Safety Officer (CSO). Any changes in the safety profile must be reviewed and confirmed by this board on an ad hoc basis or during a regularly scheduled review. Confirmed changes in the safety profile of any marketed product are then incorporated in the product label, which is reviewed and approved by the cross-functional Global Labeling Committee (GLC).

The Novartis safety risk management process begins early in the development of new products. The SMTs develop safety monitoring and risk management plans for each product when they enter development. These plans are regularly updated as new safety information for a product becomes available. They are reviewed and approved by the Medical Safety Review Board (MSRB), which consists of senior-level experts in drug safety, safety operations, clinical research, biostatistics, epidemiology, legal affairs and preclinical and is chaired by the CSO. This board ensures that all relevant safety risks have been identified, that they are being appropriately managed and that risk minimization measures are in place whenever possible to ensure the best possible patient safety for as long as the product remains on the market.

Significant safety and product-related risk issues identified by the SigDet, MSRB or GLC can be escalated to the Portfolio Stewardship Board (PSB). In all Novartis divisions, a PSB ensures the continuous, systematic, proactive and timely identification of product-related safety risks including risks to the company's reputation or legal position. It also drives the performance of benefit-risk assessments, the development of appropriate risk mitigation measures and the monitoring of their implementation. The PSB is a standing, cross-functional senior executive board which is chaired by the Chief Medical Officer and reports to senior management in the Pharmaceuticals division. Its recommendations are made independently of project teams and business franchises with the intent to put patient safety first.

G4 PR 3

TYPE OF PRODUCT AND SERVICE INFORMATION REQUIRED BY THE ORGANIZATION'S PROCEDURES FOR PRODUCT AND SERVICE INFORMATION AND LABELING, AND PERCENTAGE OF SIGNIFICANT PRODUCT AND SERVICE CATEGORIES SUBJECT TO SUCH INFORMATION REQUIREMENTS

Product information on pharmaceutical products is heavily regulated in each market and takes into account national medical practice, regulations and the decisions of the competent health authorities. This applies to all pharmaceutical (patented or generic) as well as over-the-counter (OTC) products.

As required by law, labels of pharmaceutical products provide important safety and efficacy information as well as dosing and administration instructions. Novartis strives to ensure that information on a product which is known or believed to be supported by reasonable scientific proof – including information related to safety such as contraindications, warnings and precautions, drug-drug interactions, adverse drugs reactions and preclinical safety data – is included as part of the local product information where the product is registered and is updated or amended when appropriate.

For OTC products, there is an increasing need for consumers to have easily readable and understandable information about the drugs they are buying. Again, information which is known to Novartis and believed to be supported by reasonable scientific proof should be legible and accessible. For OTC products, this includes information on active ingredients, warnings, contraindications, directions, and purposes. This is particularly important as OTC products are widely available and used without medical supervision, and as more potent drugs have been switched from prescription to OTC status.

Novartis does not currently report an overall percentage of significant product and service categories for this indicator. We will evaluate the feasibility of collecting this information in the future.

G4 PR 7

TOTAL NUMBER OF INCIDENTS OF NONCOMPLIANCE WITH REGULATIONS AND VOLUNTARY CODES CONCERNING MARKETING COMMUNICATIONS, INCLUDING ADVERTISING, PROMOTION AND SPONSORSHIP, BY TYPE OF OUTCOMES

In 2014, 438 cases of alleged misconduct related to professional practices, including both compliance with our company's own marketing codes and compliance with industry codes and regulations, were reported. The Business Practices Office initiated 438 investigations, 352 cases were completed by December 31, 2014, the rest is still pending. Of those investigated cases, 77% were substantiated. These led to 74 dismissals or resignations and 112 written warnings.

G4 PR 8

TOTAL NUMBER OF SUBSTANTIATED COMPLAINTS REGARDING BREACHES OF CUSTOMER PRIVACY AND LOSSES OF CUSTOMER DATA

We adhere to all privacy laws and enforce clear policies on protecting personal information, including genetic data. Our data privacy program includes a global organization and infrastructure as well as procedures and trainings to support local activities and ensure compliance.

The Novartis Binding Corporate Rules are a system of principles, rules and tools to ensure effective levels of data protection, in particular relating to transfers of personal information outside Europe and Switzerland.

In 2014, Novartis had no substantiated complaints regarding breaches of customer privacy or losses of customer data.

2014 ratings and recognitions

access to medicine index

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

FTSE4Good

CDP DRIVING SUSTAINABLE ECONOMIES