

Corporate Responsibility Materiality Analysis – Results report

Taking action on what matters most

March 2014



Executive summary

Corporate Responsibility (CR) at Novartis focuses on two areas that underscore our mission of caring and curing: expanding access to healthcare and doing business responsibly.

Why a CR materiality analysis

We recognize that our activities – and the way we carry them out – impact not only our business performance but also our stakeholders. In order to remain successful long term, we need to create value for our shareholders, our stakeholders and society more broadly.

This is why we need a clear understanding of the CR issues that matter to our stakeholders and their expectations and requirements. We need to know their views on the economic, ethical, social, environmental and governance issues affecting Novartis and understand how we can best address their concerns. A materiality analysis helps identify CR topics that affect our stakeholders and are particularly relevant for Novartis and our business today and in the future.

Our materiality analysis process

With this in mind, we undertook a thorough materiality analysis among our stakeholders. During 2013, with support from AccountAbility, a CR consultancy, Novartis interviewed nearly 100 individuals, including executives from across the company and representatives of patient organizations, NGOs, health institutions, customers, academics and other groups considered important to the industry and our business.

We are grateful to those who took the time to share their perspectives about what matters most to you about our business and operations.

What we found

Our research showed that 25 issues, grouped into eight key clusters, consistently stood out as most material (see matrix on page 4). Of these, we decided to focus on three priority clusters with the following issues:

Access to healthcare	Governance and ethical business practices	Research and development
<ul style="list-style-type: none"> • Lower income patients • Product pricing • Partnering • Intellectual property 	<ul style="list-style-type: none"> • Integrity and compliance management • Responsible clinical trials • Bribery and corruption 	<ul style="list-style-type: none"> • Innovation and R&D pipeline • R&D for neglected diseases

What's next

In December 2013, the results of the CR materiality analysis were endorsed by our Corporate Responsibility Steering Committee (CRSC), comprising senior executives from key functions and all divisions. Each of the three priority clusters has been assigned two lead sponsors from the CRSC. The remaining five clusters – employees, environmental protection, patient focus, product quality, and transparency and communication – will be addressed as part of the ongoing work of the Novartis CR team with relevant areas of the business.

How we will use the findings

We will use 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. We also plan to use the analysis to strengthen the focus and content of our CR reporting.

Our approach to CR materiality

We sought views from a wide variety of stakeholders with an interest in our business, including patient organizations, NGOs, health institutions, customers, partners, employees, suppliers, regulators, academics and our own senior managers. These individuals represented stakeholders across a range of countries and interest areas.

“The approach Novartis has undertaken for its materiality analysis provides the company with a sound basis for better managing and reporting on the issues that matter most to its stakeholders and its business. We hope this approach gives inspiration to other companies to follow.”

Christopher Greenwald, Co-Head Sustainable Investment Research,
RobecoSAM

Our process

Preparation phase

Completed in Q4 2012

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.

Phase one: internal

Completed in Q1 2013

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.

Phase two: external

Completed in Q4 2013

Based on input from internal interviewees, we completed an in-depth stakeholder mapping exercise and identified 100 key external stakeholders to include.

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 stakeholders who were invited, more than 50 completed an online survey and were interviewed by phone.

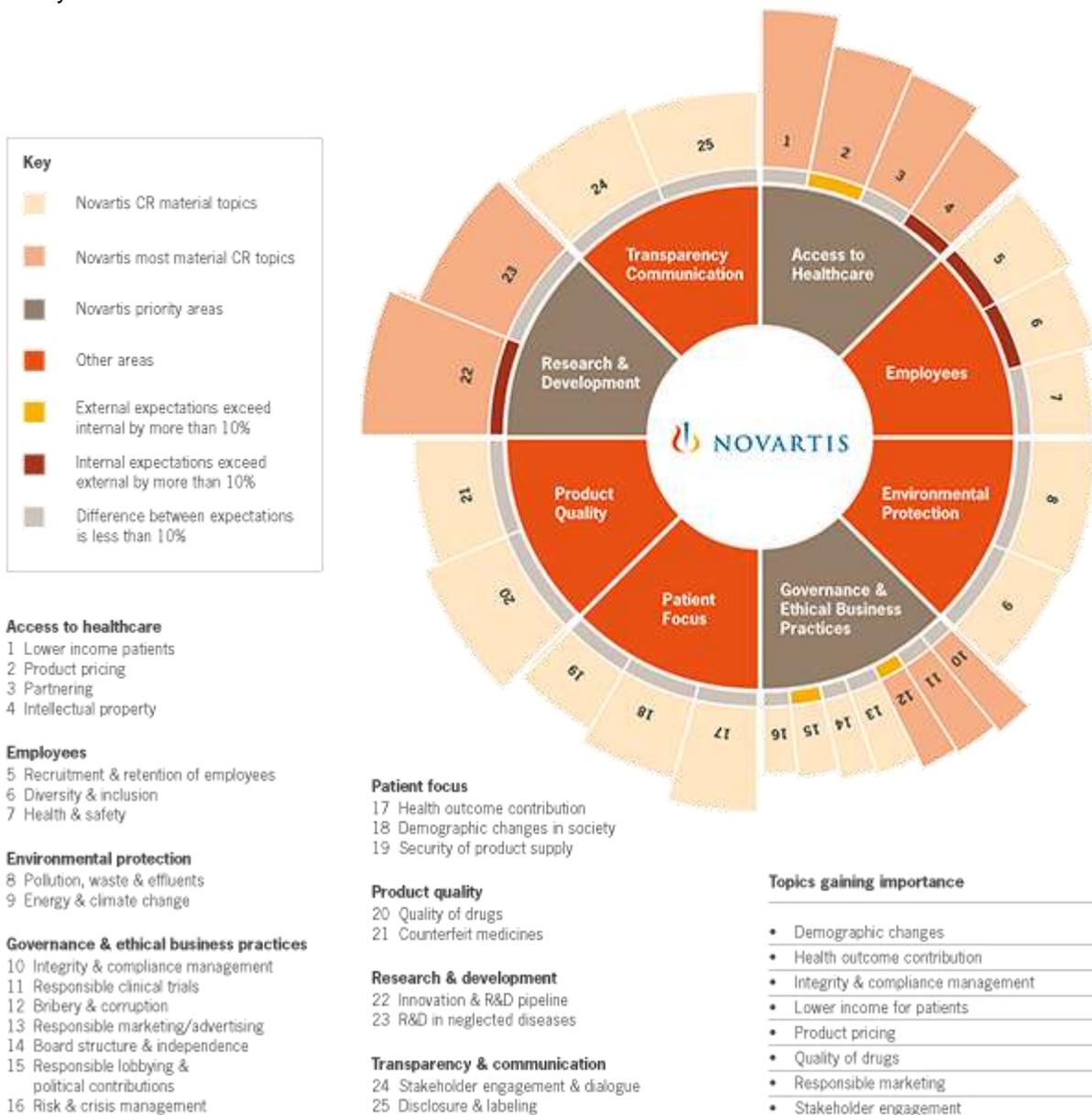
Results: CR materiality matrix

The materiality matrix below provides an overview of the CR issues that matter most to our external and internal stakeholders about our business. It features 25 issues, which fall into eight areas.

External and internal views are aggregated, and the relative importance of an issue is indicated by the height of the column (not its width). In its inner circle, the matrix also highlights the similarities and differences of opinion between stakeholders.

Overall, there was a great alignment of the views of external and internal stakeholders, and there were only substantial differences about the materiality of seven issues. Novartis interviewees evaluated four issues as being significantly more material than external stakeholders (intellectual property, recruitment and retention of employees, diversity and inclusion, innovation and R&D pipeline) while externally, three topics (product pricing, bribery and corruption, responsible lobbying and political contributions) were seen as more material.

While the clusters are in alphabetical order, the issues within each cluster appear in order of their aggregated materiality score.



Analysis and key insights

Our research showed that 25 issues, grouped into eight key clusters, consistently stood out as most material. These are detailed below. The three priority clusters are listed first, with other clusters in alphabetical order; the key issues under each cluster are listed in order of importance.

Access to healthcare – *how we enhance access to healthcare across the world*

Key issues: lower income patients | product pricing | partnering | intellectual property

Why this is material to our stakeholders

With 2 billion underserved patients across the world, there is a clear expectation that we should play an active, long-term role in improving access to healthcare. Access to healthcare was identified as material by all our audiences as it is a key driver in future growth markets and will help build business in the long term.

Key insights from stakeholder interviews

- Novartis flagship access programs, such as Arogya Parivar and SMS for Life, were highlighted as particularly strong and both internal and external stakeholders felt these should be scaled up. Feedback suggested that Novartis should establish a stronger strategic direction and more meaningful targets for access-to-healthcare programs.
- Stakeholders felt Novartis senior management should be more visible on this important topic.

Governance and ethical business practices – *how we promote ethical behavior and manage governance and risks*

Key issues: 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

Why this is material to our stakeholders

Governance and ethical business practices is seen as the most material CR topic from a financial perspective, because poor ethical practices can lead to fines, public scrutiny and distrust, ultimately affecting sales and profits. Ethical issues can overshadow good performance, destroy reputation and undermine the morale and engagement of employees. All these elements compound the financial impact of bad performance.

Key insights from stakeholder interviews

- Ethics and governance is an industry-wide challenge, and a lack of transparency on ethical dilemmas hinders trust and credibility.
- External stakeholders highlighted the opportunity for the industry to increase the emphasis on values and behaviors when establishing incentive programs, e.g., for the sales force, and to reduce the focus on short-term targets and financials.

Research and development – *how we develop innovative products*

Key issues: innovation and R&D pipeline | R&D in neglected diseases

Why this is material to our stakeholders

R&D and a strong pipeline of potential medicines are critical for future business and long-term success. They support our growth in emerging markets and can help us respond to unmet medical needs of patients in the developing world. Innovation more broadly is also a key enabler of access to healthcare.

Key insights from stakeholder interviews

- There is a desire to better understand our R&D story – from our scientific contributions through to our products – and more fully gauge how our investment in R&D is directly improving access to healthcare.
- Thanks to our continued focus on R&D and diversified pipeline, we are recognized as being well placed to effectively meet changing patient needs and expand in new growth markets, but would benefit from increased collaboration with other organizations.

Employees – *how we treat our employees around the world*

Key issues: recruitment and retention of employees | diversity and inclusion | health and safety

Why this is material to our stakeholders

Competition for talent is increasing, particularly in emerging markets, and business success is intrinsically linked to attracting and retaining talented employees. We need highly skilled and highly motivated people to help us pursue our mission of caring and curing.

Key insights from stakeholder interviews

- Novartis is seen as a good employer with a strong culture and attractive programs for employees by external stakeholders, but our internal stakeholders think the balance between attracting and retaining talent should be addressed.
- External stakeholders would like a deeper understanding of how we value human capital, retain employees and create a unique workplace culture.
- Novartis has an opportunity to share best practice more formally across countries and bring a greater level of consistency to talent management.

Environmental protection – *how we protect the environment*

Key issues: pollution | waster and effluents | energy and climate change

Why this is material to our stakeholders

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, such as water. Environmental issues were not among the most material issues for Novartis, partly because stakeholders recognize these are already well managed, and partly because the sector is not a major polluter.

Key insights from stakeholder interviews

- Our processes and systems to address environmental impacts were recognized as robust and well managed.
- Some stakeholders suggested Novartis should be more visible in the environmental community and on international platforms, especially in the area of energy consumption and climate change.

Patient focus – *how we put patients first and ensure security of product and service supply*

Key issues: health outcome contribution | demographic changes in society | security of product supply

Why this is material to our stakeholders

Improving healthcare globally requires a sound understanding of patient needs in local communities and the ability to adapt products and services to meet these needs. It also requires ensuring products and services reach patients when needed. It is important to effectively measure our contributions to improving healthcare systems and patient care, and to demonstrate the value of these contributions to governments and others.

Key insights from stakeholder interviews

- We are viewed as a patient-centric company with strong engagement amongst patient groups.
- There is an opportunity to strengthen how we measure the health outcomes and impact of our programs and ensure meaningful Key Performance Indicators (KPIs) are engrained across all geographies during the planning of new initiatives. Arogya Parivar, a business model expanding healthcare access in rural India, was highlighted as an exception.
- External stakeholders would like to see greater collaboration across the industry in defining meaningful impact measurements and KPIs.

Product quality – *how we ensure products and services adhere to the highest quality standards*

Key issues: quality of drugs | counterfeit medicines

Why this is material to our stakeholders

Delivering safe products to patients is paramount for consumer trust and a top KPI for investors and Environmental, Social and Governance (ESG) researchers. The rising complexity of manufacturing has also increased the focus from regulatory authorities on product quality and the risks of poor products are material to both patient health and financial performance. A powerful example of this is counterfeit medicine, which can threaten patient safety while immediately tarnishing trust in products.

Key insights from stakeholder interviews

- There was a wide disparity between the views of internal and external stakeholders. Internal stakeholders and investors were more critical of our performance, while external stakeholders highlighted quality as one of our top strengths.
- Many groups felt Novartis would benefit from being more transparent and reporting on the risks and challenges faced along its value chain (e.g., in the case of counterfeit medicines, to help explain how issues are identified and tackled).

Transparency and communication – how we communicate with stakeholders

Key issues: disclosure and labeling | stakeholder engagement and dialogue

Why this is material to our stakeholders

Transparency and communication are central to building trust and credibility with stakeholders. An ongoing dialogue with stakeholders helps bring an external perspective, drives new thinking, and ultimately improves CR programs by challenging us to continually link new initiatives with the core business.

Key insights from our stakeholders

- Both internal and external stakeholders would like to better understand the business narrative and motivations for our CR programs – from the choice of initiatives to the value they deliver.
- There is also a desire for greater openness about the challenges we face and an opportunity to take a more prominent role in discussing the global challenges linked to expanding access to healthcare.

Commitment to change and open communication

The results of the materiality analysis were presented to the Novartis Corporate Responsibility Steering Committee (CRSC) in December 2013. Comprising senior executives from key functions and all divisions, the CRSC is responsible for shaping the company's strategy and performance metrics for CR and making recommendations to the Executive Committee of Novartis.

The CRSC committed to focus action on the nine most material issues under the following three areas:

- **Access to healthcare**
 - Lower income patients
 - Product pricing
 - Partnering
 - Intellectual property
- **Governance and ethical business practices**
 - Integrity and compliance management
 - Responsible clinical trials
 - Bribery and corruption
- **Research and development**
 - Innovation and R&D pipeline
 - R&D for neglected diseases

“At AccountAbility, we approach materiality as an integrated and structured process to determine the issues, outcomes and impacts that are relevant to improving sustainability performance.

Novartis has adopted this perspective and has, in 2013, engaged a representative stakeholder set, run a thorough and transparent process and began integrating results into processes and decision making. This materiality exercise enables Novartis to better understand and address pressing CR issues and establishes a strong foundation for improved performance.”

Sunil A. Misser, Chief Executive Officer, **AccountAbility**

Each of the three priority areas has been assigned two lead sponsors from the CRSC. They will be accountable for the development of action plans, with tangible targets, and have committed to report back on progress by mid-and-end-2014.

The remaining areas – employees, environmental protection, transparency and communication, patient focus and product quality – are being championed and addressed by the central CR team in partnership with relevant areas of the business.

In addition, we are committed to full disclosure and will feature, on the Novartis website and other channels, our materiality assessment, including the process, analysis, matrix and follow-up actions.

We also want to maintain a dialogue with our key stakeholders and plan to organize meetings in 2014 to discuss some of the key issues identified through this work. Further, we will review opportunities for greater collaboration across industry, government and NGOs, to improve the speed and effectiveness of the commitments made in our priority clusters.

We recognize that continually tracking CR materiality, building the findings into the business and publicly reporting on our progress is essential to improving the way we do business.

Further information:

- Novartis CR programs: www.novartis.com/corporate-responsibility
- Access-to-healthcare initiatives: www.novartis.com/corporate-responsibility/access-to-healthcare/our-key-initiatives/index.shtml
- Arogya Parivar: www.novartis.com/corporate-responsibility/access-to-healthcare/our-key-initiatives/social-ventures.shtml
- SMS for Life: www.malaria.novartis.com/innovation/sms-for-life/
- CR overview: www.novartis.com/downloads/corporate-responsibility/novartis-cr-overview.pdf
- CR highlights: www.novartis.com/downloads/corporate-responsibility/resources/publications/novartis-corporate-responsibility-highlights.pdf

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