



Novartis report on child labor due diligence in our supply chain

Re: Art. 964j-k of the Swiss Code of Obligations and the Swiss Ordinance on Due Diligence and Transparency in Relation to Minerals and Metals from Conflict-Affected Areas and Child Labour

This report relates to the due diligence and reporting obligations covering child labor required by Art. 964j-k of the Swiss Code of Obligations and the Swiss “Ordinance on Due Diligence and Transparency in Relation to Minerals and Metals from Conflict-Affected Areas and Child Labour.” It covers the period January 1, 2023, to December 31, 2023. During the reported period, Novartis complied with the due diligence obligations regarding child labor, as further detailed below.

About Novartis

Novartis is reimagining medicine to improve and extend people’s lives. We deliver high-value medicines that alleviate society’s greatest disease burdens through technology leadership in R&D and novel access approaches. In our quest to find new medicines, we consistently rank among the world’s top companies investing in research and development. More than 78 000 people of 143 nationalities work together to bring Novartis products to approximately 284 million people around the world.

Novartis headquarters are in Basel, Switzerland. In addition, we have more than 250 operating, production, and research and development facilities around the world.

Our commitment to human rights

We are committed to respecting human rights throughout our value chain as articulated in our [Human Rights Commitment Statement](#) and in accordance with the United Nations Guiding Principles on Business and Human Rights (UNGPs) and the Organisation for Economic Co-operation and Development’s Guidelines for Multinational Enterprises.

Our commitment covers all internationally recognized human rights, including those contained in the International Bill of Human Rights¹ and the International Labour Organization’s (ILO) core labor rights conventions, including the Minimum Age Convention (no. 138) and the Worst Forms of Child Labour Convention (no. 182). We are also signatories to the United Nations Global Compact, and report annually on our progress.

Our policies on child labor in our supply chain

We hold ourselves to high ethical standards. The Novartis [Code of Ethics](#) commits us to “conduct our business in a manner that respects the rights and dignity of all people.”² Our [Human Rights Commitment Statement](#) (HRCS) specifically commits us to respect international labor rights, including child labor: “Consistent with ILO Conventions 138 and 182, we strictly prohibit child labor in our own operations and require third parties to apply the same approach in line with our expectations as set out in the Novartis Third Party Code.”³

The HRCS specifies the binding nature of our human rights commitments and related policies: “Our human rights commitments are global and apply throughout our value chain. Policies and procedures, including those relevant to human rights, are binding on all Novartis employees.”⁴

Our [Third Party Code \(TPC\)](#) requires our direct suppliers to prohibit child labor in their businesses and requires Novartis to investigate when we have reasonable grounds to suspect that child labor may be occurring. The TPC states that “Children below the local minimum working age, the age of compulsory education or the ages set out in the International Labour Organization core conventions (whichever is higher)

¹ Consisting of the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights and the International Covenant on Economic, Social and Cultural Rights.

² Novartis Code of Ethics, “Human Rights” section, p. 13, available at https://www.novartis.com/sites/novartis_com/files/code-of-ethics-english.pdf

³ Novartis Human Rights Commitment Statement, “Labor Rights” section, p. 7, available at https://www.novartis.com/sites/novartis_com/files/novartis-human-rights-commitment-statement.pdf

⁴ Novartis Human Rights Commitment Statement, “Human Rights Governance” section, p. 4, available at https://www.novartis.com/sites/novartis_com/files/novartis-human-rights-commitment-statement.pdf

shall not be employed.”⁵ It also provides that “No young worker below the age of 18 shall be employed in hazardous or night work.”⁶

Should indications of child labor be alleged or found at a third party site, the TPC states that the third party “shall put in place a suitable plan to support the child, which may involve removing the child from the workplace while continuing to pay salary and the cost of formal or vocational training, accommodation or other costs as necessary, to the child until adulthood.”⁷ Any remedial actions should be consistent with ILO standards and the latest best practice guidance.

The TPC requires Novartis to follow-up on alleged violations of the code, including specific instances of child labor, stating that “Novartis is required to identify, assess, and address any human rights risks or impacts in its operations and supply chains.”⁸ The TPC gives Novartis the right to audit direct suppliers, stating that “Novartis may audit (or engage a third party to audit on their behalf) the third party at any time upon reasonable prior notice, to ensure its compliance with the standards in the Third Party Code.”⁹ The TPC is incorporated into our standard contract terms with third parties, giving us the contractual right to conduct an audit to monitor compliance with the TPC as well as the right to immediately terminate an agreement for non-compliance with the TPC.

On-site audits are conducted by the Novartis Third Party Labor Rights team or qualified external labor rights auditors. Non-compliance with local law and/or our TPC, including the prohibition on child labor, result either in immediate termination or in remediation measures agreed with the third party and captured in a Corrective and Preventive Action (CAPA) plan. Failure to adequately remedy the non-compliance may result in contract termination.

Novartis expects third parties to adopt similar standards for their own supply chains, including on child labor, stating that “Third Parties are expected to adopt standards that cover the same principles and content included in our Third Party Code with their own suppliers and to perform beyond legal compliance.”¹⁰ In addition, “Third Parties are expected and strongly encouraged to conduct human rights due diligence, as set out in the UNGPs.”¹¹

The TPC provides that any concerns about child labor in the supply chain can be reported via the Novartis SpeakUp channel. See “Grievance mechanism” section below for more details.

Our supply chain risk management system for Tier 1 (direct) suppliers

We monitor compliance with our TPC, and assess and engage suppliers, through our external party risk management (EPRM) system, which was established in 2018 and has been continuously developed and enhanced since then. The EPRM system covers third parties with whom we have a direct contractual relationship. We screen all third parties for negative media coverage on human and labor rights risks, including child labor. We investigate any third parties with negative media coverage, including on child labor, to understand the potential issue and determine whether corrective action needs to be taken.

In addition, we rank all third parties on labor rights risk (high, medium, or low) through an automated tool based on two factors: procurement category risk and country human rights risk. The “procurement category” risk rating is a score assigned by our Third Party Labor Rights team based on ongoing risk monitoring of supplier categories and accumulated experience engaging with suppliers across various procurement categories. The “country human rights” risk rating is based on a risk prioritization tool that aggregates data from 15 publicly available databases regarding country human rights performance, and country risk data

⁵ Novartis Third Party Code, Section 2.2 “There shall be no Child Labor,” p. 5, available at https://www.novartis.com/sites/novartis_com/files/novartis-third-party-code-v-3.pdf

⁶ Novartis Third Party Code, Section 2.2 “There shall be no Child Labor,” p. 5, available at https://www.novartis.com/sites/novartis_com/files/novartis-third-party-code-v-3.pdf

⁷ Novartis Third Party Code, Section 2.2 “There shall be no Child Labor,” p. 5, available at https://www.novartis.com/sites/novartis_com/files/novartis-third-party-code-v-3.pdf

⁸ Novartis Third Party Code, Section 1 “Human rights,” p. 4, available at https://www.novartis.com/sites/novartis_com/files/novartis-third-party-code-v-3.pdf

⁹ Novartis Third Party Code, Section 12.5 “Audit Right,” p. 13, available at https://www.novartis.com/sites/novartis_com/files/novartis-third-party-code-v-3.pdf

¹⁰ Novartis Third Party Code, “Introduction” section p. 3, available at https://www.novartis.com/sites/novartis_com/files/novartis-third-party-code-v-3.pdf

¹¹ Novartis Third Party Code, Section 1 “Human rights,” p. 4, available at https://www.novartis.com/sites/novartis_com/files/novartis-third-party-code-v-3.pdf

provided by a third party provider. The risk ratings for both sources are reviewed annually by our labor rights and human rights experts.

All medium and high-risk third parties are required to complete a Third Party Questionnaire (TPQ) which includes specific human rights criteria, including on child labor. The TPQ requires third parties to provide us with their policy prohibiting child labor. We ask for evidence of management systems and due diligence the third party has conducted across relevant areas to ensure no child labor is present in their operations. These include checks that systems of ID verification are in place, the ages of the youngest workers are documented, protocols are in place for remediation, and laws regarding minimum age limits and young workers are understood and upheld. The specific questions include:

- What systems and processes are in place to verify the age of workers?
- Do policies and procedures on managing child labor and young workers align with the ILO and/or local legislation?
- What remediation measures are taken in the case that child labor is detected?
- What is the age of the youngest worker on site?

We also request information on contractors and temporary workers from Tier 1 suppliers.

Based on third party responses to the TPQ, our labor rights risk experts determine if further investigation is required through additional assessments and audits. Should serious gaps be identified, the investigations may lead to the creation of a CAPA plan to remediate issues. CAPAs are monitored by a dedicated Third Party Labor Rights team in Novartis to track and record evidence of remediation. Enforcement actions may be applied to third parties that are unable to meet the requirements set out in a CAPA plan, including termination of our contract with the third party.

In 2023, as part of our risk management plan, we screened 4362 third parties for labor rights risks including child labor. Of these, 614 were classified as medium and high risk based on country and procurement category risks, and were then assessed through the TPQ. Five third parties were identified as not having effective child labor management systems and policies in place, of which four have been remediated and one is ongoing for remediation.

To date, we have not identified an actual case of child labor in our direct supply chain. Based on extensive human rights risk analysis, we believe that the risk of child labor in our Tier 1 (direct) supply chain is low.

Assessing and mitigating child labor risk in indirect suppliers (beyond Tier 1 direct suppliers)

Through our risk analysis, we recognize the potential for child labor to exist at the source level in our raw material commodity supply chains. Source-level suppliers in these supply chains are typically three to five tiers below our Tier 1 direct suppliers.

To mitigate potential child labor risks beyond Tier 1 direct suppliers, we identified 20 raw material commodities that we procure with potential risk for child labor along the supply chain, including at the source level, for example: palm oil, sugar, soy. We identified these 20 commodities by reviewing publicly available reports on potential human rights risk in commodity supply chains, including child labor. In addition to our own analysis, we participated in joint research and analysis undertaken by the Pharmaceutical Supply Chain Initiative (PSCI), a voluntary initiative with peer companies. Based on this research, we are implementing an external certification system to require key suppliers in these commodity supply chains to certify that human rights, including prohibitions on child labor, are respected. We have assessed and qualified the external certifications through a bespoke tool based on ILO labor standards, including Conventions 138 and 182 on child labor, and other human rights standards. We are actively collaborating with the PSCI and external experts to review and identify appropriate certification requirements. Once implemented, we will review this approach regularly to determine its effectiveness.

In addition to external certifications, we identify, assess, and monitor the risks of child labor beyond Tier 1 suppliers through a bespoke database that maps information from UN agencies and European research institutes on social issues, including child labor, against our global business footprint. The database provides a heatmap of risks occurring per country and per good or service provided to us. We are working to integrate the outputs of this database into our management systems to further trace the supply chain beyond Tier 1 and minimize any identified risk of child labor.

Supply chain traceability system

Names and addresses of all our Tier 1 third parties, as well as the commodity category of the goods or services they provide, are recorded systematically on both our risk management and procurement systems. We keep records of our monitoring activities, assessments, and completed TPQs as part of our EPRM process.

We will continue to monitor and enhance the tracking systems we use to trace goods from third parties beyond our Tier 1 suppliers.

Transparency and reporting

Our Code of Ethics, HRCS, and TPC are all available publicly on our website. We provide regular updates on our risk management system in our annual Novartis in Society Integrated Report and on our dedicated Human Rights webpage, at <https://www.novartis.com/esg/ethics-risk-and-compliance/human-rights>.

Grievance mechanism

Our risk management programs are supported by our SpeakUp Office grievance mechanism. Employees are required to report actual or suspected incidents of misconduct and can do so in confidence while being protected against retaliation. The mechanism is also open to external parties.¹² Regular surveys (Employee Engagement Survey and Ethics Survey) provide insights on how comfortable Novartis employees feel to speak up.

Grievances can be filed via webform or telephone with an independent external service available 24/7. Complaints can also be raised with any manager or Country President, any employee of our ERC, People & Organization, Legal or Global Security teams, or any representative of the local workers council. Our process helps ensure that complaints are swiftly received, risk-assessed, prioritized, investigated, and resolved.

We have a dedicated team of experts who document, assess, and follow-up on all cases in a timely manner. Follow-up actions may mean engaging with a relevant third party to discuss an issue, interviewing complainants and other affected stakeholders while protecting anonymity, conducting a full audit of operations, and developing a CAPA if necessary.

When risks that might have a systemic root cause are identified, a robust remediation process allows for both the allegation and the root cause to be addressed. Allegations that represent a higher risk to Novartis from a reputational, business, financial, legal and/or quality or safety perspective are investigated centrally at the corporate level by dedicated investigators. Lower-risk cases are investigated or addressed locally.

Higher-risk cases that are substantiated undergo a remediation process managed in close collaboration with our central Review, Monitoring and Remediation team. This creates focus on ensuring that any remediation resulting from investigations is prompt, addresses the root cause, and is subject to rigorous follow-up.

The SpeakUp Office provides regular updates to the Executive Committee and to the Board's Audit and Compliance Committee.

In 2023, we updated our SpeakUp policy and launched a new reporting tool. The new SpeakUp reporting tool makes it easier for both employees and external parties to raise complaints. It will also make case management and reporting more efficient and increase oversight of human rights grievances.

During 2023, we did not receive a SpeakUp complaint about child labor in our own operations or our supply chain.

¹² Available at: <https://www.novartis.com/esg/ethics-risk-and-compliance/ethical-behavior/speakup>