



Novartis report on child labor due diligence in our supply chain 2024

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. 964-j-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, 2024, to December 31, 2024. During the reported period, Novartis complied with the due diligence obligations regarding child labor, as further detailed below.

This report was approved by the Novartis Board of Directors on 24 January 2025.

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 work together to bring Novartis products to approximately 296 million people around the world.

Novartis headquarters are in Basel, Switzerland. In addition, we have 197 operating sites worldwide, including manufacturing plants, R&D facilities and corporate offices.

Our commitment to human rights

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

We hold ourselves to high ethical standards. Our commitment covers all internationally recognized human rights, including those contained in the International Bill of Human Rights 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 strictly prohibit any violation of human rights including child labor and modern slavery (including forced labor and human trafficking) in our own operations and require our third parties to apply the same approach.

We are also signatories to the United Nations Global Compact, and report annually on our progress in implementing its 10 principles.

Our policies on child labor

Code of Ethics

The Novartis Code of Ethics sets out our overall global commitment to conduct business in an ethical manner and helps guide our employees in making the right decisions.

The Code of Ethics is binding on all Novartis employees and commits us to “conduct our business in a manner that respects the rights and dignity of all people” by “preventing, mitigating, and addressing adverse human rights impacts within our workplace, business operations, and the communities we serve.”¹

Human Rights Commitment Statement (HRCS)

Our HRCS establishes Novartis’ overarching commitment to respect all internationally recognized human and labor rights, including child labor.

¹ Novartis Code of Ethics, “Human Rights” section, p. 45, available at https://www.novartis.com/sites/novartis_com/files/code-of-ethics-english.pdf

The human rights commitments enshrined in the HRCS are global and apply throughout our value chain. They include our adherence to ILO Conventions 138 and 182 and our strict prohibition of the use of child labor.²

Third Party Code (TPC)

The TPC requires our external partners to prohibit human rights abuses (including child labor) in their businesses. It also requires Novartis to identify, assess and address any human rights and child labor risks or impacts in its operations and supply chains, including to investigate when we have reasonable grounds to suspect that a violation may be occurring.

With regards to child labor, 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) shall not be employed.”³ It also provides that “No young worker below the age of 18 shall be employed in hazardous or night work.”⁴

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.”⁵ Any remedial actions should be consistent with ILO standards and the latest best practice guidance.

Novartis expects external partners to adopt standards that cover the same principles and content included in the TPC with their own suppliers and to perform beyond legal compliance.⁶ In addition, “Third Parties are expected and strongly encouraged to conduct human rights due diligence, as set out in the UNGPs.”⁷

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

Assessing and mitigating risks of child labor

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

We monitor compliance with our TPC, and assess and engage Tier 1 suppliers, through our External Partner Risk Management (EPRM) system. This was established in 2018 and has been continuously developed and enhanced since then. We screen all suppliers for negative media coverage on human and labor rights risks, including child labor. We investigate any suppliers with negative media coverage to understand the potential issue and determine **whether** corrective action needs to be taken.

In addition, we rank all suppliers 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 External Partner 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

² 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

³ 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

⁴ 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

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

⁷ 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 suppliers are required to complete a Third Party Questionnaire (TPQ) that includes specific human rights criteria. With regards to child labor, the TPQ requires suppliers to:

- Provide their policy on prohibiting child labor
- Provide evidence of management systems and due diligence conducted across relevant areas to ensure no child labor is present in their operations
- Describe the systems and processes of ID verification they have in place to verify the age of workers
- Confirm whether policies and procedures on managing child labor and young workers align with the ILO and/or local legislation
- Outline remediation measures in the case that child labor is detected
- Provide 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. The TPC is incorporated into our standard contract terms with suppliers, giving us the right to audit direct suppliers at any time, upon reasonable prior notice, to ensure their compliance with the standards in the TPC.⁸

On-site audits are conducted by the Novartis labor rights risk experts (part of the Human Rights Team) or qualified external labor rights auditors. Should serious gaps be identified, the investigations may lead to the creation of a Corrective and Preventive Action (CAPA) to remediate issues. CAPAs are monitored by the labor rights risk experts to track and record evidence of remediation. Enforcement actions may be applied to suppliers that are unable to meet the requirements set out in a CAPA plan, including termination of our contract with the supplier.

In 2024, as part of our risk management plan, we screened approximately 8,029 suppliers for labor rights risks including child labor. Of these, 944 were classified as medium and high risk based on country and procurement category risks and were then assessed through the TPQ. Ten suppliers were identified as not having effective child labor management systems and policies in place, of which four have been remediated and six are 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.

In 2024, we expanded our due diligence processes for wholesalers and distributors to include human and labor rights risk assessments. Similarly to the process in place for Tier 1 direct suppliers (described above), in-scope wholesalers and distributors will be screened for negative media coverage on human and labor rights risks and will be required to complete a human rights TPQ assessment.

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 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 materials that we procure with potential risk for child labor along the supply chain, including at the source level. These were identified 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.

⁸ 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

Based on this research, we have implemented 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. Through our “Raw Material Certification” program, suppliers of certain high-risk raw materials such as aluminum, palm oil, soy, sugar and magnesium are invited to provide information on their sub-supply chain and any relevant human rights certifications that they may already hold. Insights gathered from this process are intended to help enhance transparency and further inform our approach to human rights due diligence in these complex supply chains. This program will be reviewed periodically to assess its effectiveness. For non-responsive suppliers, we will engage with them to understand the reason for their lack of response and potential challenges.

Supply chain traceability system

Names and addresses of all our Tier 1 suppliers, 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.

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. 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 Ethics, Risk & Compliance (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 second line of assurance, the Corporate ERC Assurance team. This creates focus on ensuring that any remediation resulting from investigations is prompt, addresses the root cause, and is subject to follow-up.

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

During 2024, we did not receive any SpeakUp complaints about child labor in our own operations or our supply chain.

Transparency and reporting

Our Code of Ethics, HRCS and TPC are all publicly available 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](#).