Novartis India Limited Annual Report 2008-2009

NOVARTIS

caring and curing

CONTENTS

Board of Directors

Dr P. Jager	Chairman [upto 31st July 2008]
C.Snook	Chairman [w.e.f. 1st August 2008]
R. Shahani	Vice-Chairman & Managing Director
A. Mirchandani	Executive Finance Director [upto 31st October 2008] Non-Executive Director [upto 12th March 2009]
Dr J. Acebillo	[upto 12th March 2009]
J. Hiremath	
Dr R. Mehrotra	

Executive Committee

R. Shahani	Vice-Chairman & Managing Director
P. Gupta	Finance
A. Matai	Pharmaceuticals
Dr P. R. Rao	Animal Health
V. Singhal	OTC

General Counsel Company Secretary & Head Investor Relations	H. K. Maniar
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Telephone Nos.	6772 0400/0451/0452/0450
E-mail	indira@shareproservices.com umeshs@shareproservices.com
Registered Office	Sandoz House Shivsagar Estate Dr Annie Besant Road Worli, Mumbai 400 018

Members are requested to bring their copy of the Annual Report to the meeting. Members are also requested to direct all correspondence relating to shares to the Company's Registrar and Transfer Agents, Sharepro Services, at the address above.

Annual General Meeting

11.00 am 17th July 2009

Y.B. Chavan Auditorium
Yashwantrao Chavan Pratishthan
Gen. Jagannath Bhosale Marg
Next to Sachivalaya Gymkhana
Mumbai 400 021

"At the bottom of the pyramid, there are tough challenges in access, awareness, affordability and availability, and only those who are grounded in the realities of their consumers' lives will understand their priorities." – *Prof C K Prahalad*

Dear Shareholder

India's rural population of over 700 million represents one of the biggest healthcare challenges in the world. The complexity created by inadequate infrastructure, poverty and illiteracy is compounded by the fact that most pharmaceutical companies in India have tended to concentrate on areas with a developed healthcare infrastructure – the urban market. The rural masses, as a result, are primarily served by the public health system, which is overstretched and significantly inadequate, with many local and national NGOs attempting to provide a buffer.

Yet the fact is that, as Prof C K Prahalad so eloquently pointed out in his book, *The Fortune at the Bottom of the Pyramid*, this large population also represents an under-served market. But to benefit from this opportunity, companies need to be innovative, creative and inclusive; for what works at the top of the pyramid does not, and will not, work at the bottom. Couple this opportunity with the corporate philosophy of the Novartis Group of providing medical care to those who have the most need for it and yet the least access, and it forms a compelling reason to embark on an innovative social-marketing initiative – Arogya Parivar – a first-of-its-kind in the Novartis world.

Launched after the running of a successful pilot program in 2007, Arogya Parivar today covers seven states and a population of roughly 25 million people in 18,000+ villages. It is a holistic program covering everything from health awareness at the grassroots level through meetings with villagers using audio-visual aids to educating healthcare professionals and organising health camps. The differentiating factor for Arogya Parivar is that it aims to achieve social good in a "For Profit" business model. The goal now is to double the reach by the end of the year.

Along the way, your Company has had to unlearn several traditional aspects of doing business and learn others. For example, traditional pharma marketing primarily consists of detailing product benefits to doctors. But this assumes a certain level of patient awareness and that he or she will ask for medical help when things go wrong. This is just not the case in a rural milieu. In a situation where ignorance and blind faith leads to people believing that a disease like TB is a curse, creating grassroots level awareness is critical. Even more important is to target women and child health, as they typically suffer from several completely preventable diseases because of lack of awareness and understanding. This awareness is only possible if the organization takes a holistic approach, involving all stakeholders – the people, the pharmacies, the doctors, the government and the NGOs.

Arogya Parivar's inherent success lies in its replicability. Once you understand the basic DNA of how it works, it can be replicated across cultures and geographies. There is no single template that can be followed and each intervention has to be customized to the local environment, but the broad learnings are applicable in any bottom-of-the-pyramid market. No doubt efforts such as these by private companies can only attempt to bridge the gap that exists in our public health infrastructure. What is really needed is much stronger government intervention – both at a policy and execution level.

Greater government investments in building healthcare infrastructure and monitoring will all go to improving healthcare access. Government measures are key to widening the scope of inclusive healthcare through partnerships with industry and through measures such as reduction in transaction costs of medicines, imposing zero import duties on life-saving drugs and greater incentivising of R&D, especially for solutions aimed at the rural sector.

We now have a new government at the Centre, one that is committed to greater social and financial inclusion, and I hope that the issues related to infrastructure, education, and healthcare are addressed urgently. I take this opportunity to thank you, our shareholders, for supporting us whole-heartedly in all our access to medicines initiatives.

With best wishes

Ranjit Shahani

The healthy family

As the sun beats down on the bylanes and dirt tracks of villages near Nashik in Maharashtra, Sunita Bhalerao makes her way on her moped across rough terrain, reaching out to men, women and children, spreading the vital message of health awareness.

Empowered as a Supervisor with Novartis' Arogya Parivar initiative, Sunita is a familiar sight for the vulnerable and poverty-stricken villagers. In these rural areas where medical aid is difficult to access, she represents hope and a sense of greater well-being. She forms part of a team of eight health educators and supervisors in the region who visit weekly open-air markets, fairs and festivals, where they address groups of people and distribute pamphlets increasing health awareness.

Sunita and her colleagues help organise health camps, interact with Anganwadi workers to reach out to women and children, work with local pharmacists to ensure stocks of medicines are always in supply and liaise closely both with doctors and patients to ensure patient compliance. On a single day, Sunita has been known to traverse up to 35 km; riding her moped to Ghodegaon village to see a local paediatrician and gynaecologist to brief them on health issues affecting the villagers; talking to 50 women in Wadgaon about the intestinal worms that aggravate malnutrition and iron deficiency, and then traveling to Naroli, to meet an all-male group, to convince them to spend their scarce resources on the health of their wives in order to benefit the entire family.

Sunita is among the 220 third party supervisors and educators carefully chosen from across the country for Arogya Parivar, a unique program that has proved to be both a humane initiative and a sound business model. Overseeing their work is a team of dedicated Novartis managers.

Born of Novartis' strong corporate philosophy of providing medical care to those who have the most need but the least access to it, Arogya Parivar, which means 'healthy family' in Hindi, works at the grassroots level with local resources.

Candidates are recruited for their social equity and community acceptance, among other things, with the help of local doctors, non-governmental

organisations (NGOs) and other similar groups; local face with community familiarity is a must-have qualification. However, this is certainly not enough; they then undergo rigorous training, both on the field and in formal settings, to equip them for the important task of ensuring healthcare in areas where illiteracy and disease are rampant.

Arogya Parivar is a unique social marketing exercise that is not only profitable, but in tune with the Novartis Group's firm commitment to the improvement of healthcare of the 'not-so-privileged' millions, where the smallest of interventions tend to make the largest of impacts.

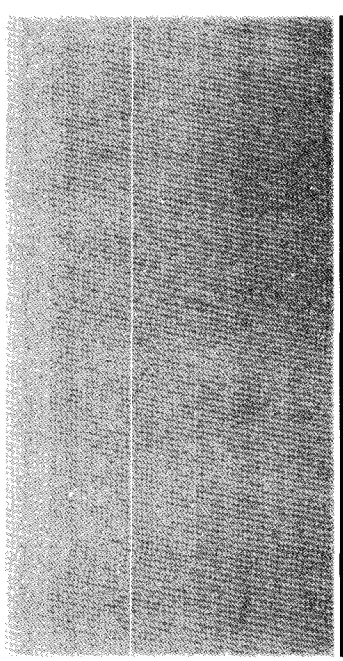
Complex challenges

Despite being among the fastest growing economies in the world, India presents complex public health challenges, most of them born out of poverty, poor quality of basic infrastructure and ignorance. According to estimates, only around 30% of rural India has access to potable water and just 19% of the people have access to proper sanitation. Malnutrition is also a serious problem, with 47% of children undernourished, and India leading the global statistics in terms of iron deficiency. As many as 66% of all deliveries that take place are with the help of untrained hands, and 51% of children have never been vaccinated. India has over a third of the world's TB cases, the majority in rural areas.

Aggravating the challenge is the poor quality of India's public health infrastructure. According to the World Health Organisation (WHO), over 65% per cent of India's population has limited access to healthcare. This is compounded by India being largely a self-pay market with less than 4% of the population being covered by some form of insurance, putting healthcare further out of reach for the millions who live in grinding poverty.

In rural areas, where medical aid is difficult to access, Arogya Parivar represents hope

The fundamental irony is inescapable. India is a country with the largest number of USFDA approved plants outside the USA. It is the nation, which in some sense, is re-defining the global generics industry. Yet it is also a country that is unable to provide 65% of its population with affordable and quality healthcare. In large swathes of the country it is easier to find a bottle



of aerated soft drink than it is to find a simple medicine like paracetamol.

India was thus a natural choice for initiating this innovative health outreach model. It made perfect business sense too. India's 600,000 villages house a population of over 700 million.

The Indian pharmaceutical industry is estimated to be about US$8.3 billion. It is growing at a compounded annual growth rate of 12.3% and is expected to be around US$20 billion by 2015. Interestingly the share of the rural spend in medicines is expected to increase from 18% to about 21%. This represents an aspiration that needs to be met.

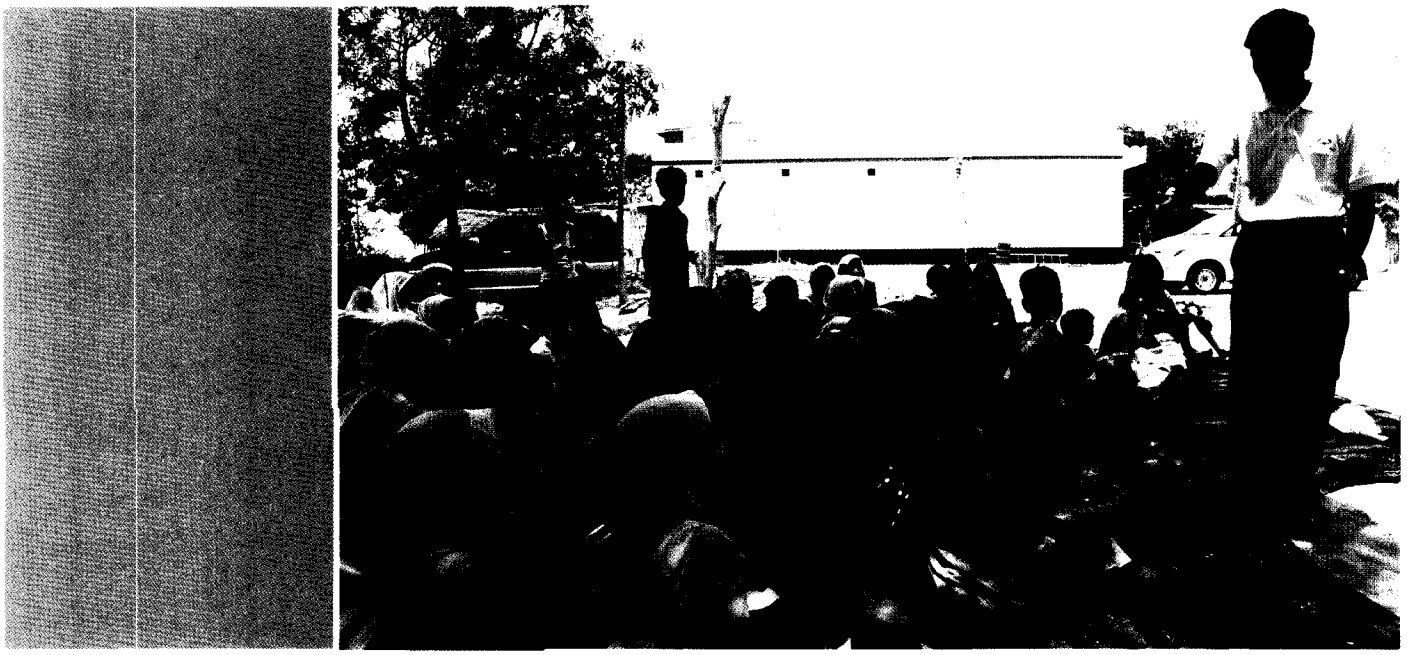
After initial research and learning from the pilot, the Company launched Arogya Parivar in July 2007. The vision: "Arogya Parivar shall improve access to healthcare for the 'under-served' millions in Rural India, using an innovative social-business approach".

The ambitious program had several elements – to create Novartis' own capabilities around community education and advocacy of health through socially trained educators; create special rural specific products and packs to suit local affordability and address rural disease burdens; to motivate local doctors as well as partner with large hospital chains to reach villages through health camps – especially where healthcare infrastructure is weak/poor; and to build last-mile availability of medicines at pharmacies in villages.

"Arogya Parivar shall improve access to healthcare... using an innovative social-business approach"

Arogya Parivar is designed to motivate healthy living, especially for the rural Indian woman and child. The idea was to enhance access to medicines for the weaker sections of society; build strong bonds with the local community, and ensure long-term market leadership in bottom-of-the-pyramid locations.

The partners in the program come from varied backgrounds, and there are instances where even a city stockist is willing to participate. The one thing they have in common is their zeal to reach out to the less privileged members of society.



In fact, what lies at the root of the program's success is this ability to reach across various stakeholders, coupled with the ability to work with a diverse range of people in a language and style that they can relate to.

It is a task that calls for both sensitivity and a thorough approach. Efforts are made to find like-minded and talented field staff, partner with local NGOs for a wider reach, and use vernacular and multi-lingual collaterals and audio-visual communication tools for user-friendliness.

Once the recruitment process is complete, the field staff is then trained and supervised rigorously to empower them with the skills and knowledge to play an active role in the program.

Efforts are made to find talented and like-minded field staff and partner with local NGOs for a wider reach

Field operations are structured into independent cells, each covering a radius of approximately 35 km or 20 miles (the most that can be covered in a day with a light motorcycle on dirt roads). Each cell is managed by a supervisor, assisted by a few health educators. Each cell serves a cluster of 100 villages – approximately 180,000 people.

The cell supervisors are responsible for tying up with local doctors to jointly address the villagers, and with hospitals for health camps, among other things. They have at their disposal micro-vans capable of showing audio-visuals on health to help create awareness.

The health educator's job is to engage directly with the community, ensure village-to-village coverage and refer people to doctors. The educator often does this by becoming a member of the partner NGO.

Along the way, the initiative has had to overcome several challenges, including lack of basic awareness amongst people on healthcare issues. For example, there were several myths around diseases and cures. TB continues to have several myths attached to it with many villagers believing it to be a curse, and fatal. Another challenge was the fact that relatively low importance has been attached to women and child healthcare. Limited affordability is another issue; daily wage earners see medical expenses as being an unnecessary

burden. There were other practical difficulties, such as poor availability of medicines, pharmacies and doctors, and low literacy levels, leading to alienation towards names, brands and logos that are in English.

Arogya Parivar workers have also found that consumers are willing to invest in health but mostly 'pill-by-pill', and being daily wage earners, they prefer a fast acting drug to avoid loss of daily income. Non-compliance as a result of this is very high. Rural consumers also take a long time to build trust in brands, but tend to stay loyal once converted; medicines are also more appealing when they are sold under an umbrella vernacular brand name, with icons. Such customers do not respond so well to international brands.

The 4 As

Arogya Parivar has tackled these challenges by adopting four cardinal principles – the '4 As' – Awareness, Acceptability, Affordability and Availability.

Awareness: Education is the key to start the change process and given the close co-relation between health and economics – which is stark within the target community – this is one point that the field educators stress on. They address and educate the community, especially women, on health issues. They encourage people to consult doctors whenever unwell rather than ignore the disease and thus suffer further loss of income because of ill health. These efforts have been well appreciated by local doctors who were willing to go further and add value by agreeing to conduct field camps and reach out to those who had not yet got the message.

Arogya Parivar has tackled the multiple challenges of rural marketing by adopting the four cardinal principles of Awareness, Acceptability, Affordability and Availability

Acceptability: In an environment where healthcare is not seen as a priority and medicines are perceived as expensive and unattainable, acceptability proved to be a special challenge. Arogya Parivar's multi-pronged strategy has