

## Exchange Rates

The following table shows, for the years and dates indicated, certain information concerning the rate of exchange of US dollar per Swiss franc based on exchange rate information found on Bloomberg Market System. The exchange rate in effect on January 18, 2018, as found on Bloomberg Market System, was CHF 1.00 = \$1.04.

<b>Year ended December 31, (\$ per CHF)</b>	<b>Period End</b>	<b>Average<sup>(1)</sup></b>	<b>Low<sup>(2)</sup></b>	<b>High<sup>(2)</sup></b>
2013	1.12	1.08	1.05	1.12
2014	1.01	1.09	1.01	1.13
2015	1.01	1.04	0.97	1.08
2016	0.98	1.01	0.98	1.04
2017	1.02	1.02	0.99	1.04
<b>Month</b>				
August 2017			1.03	1.05
September 2017			1.03	1.06
October 2017			1.00	1.03
November 2017			1.00	1.02
December 2017			1.00	1.02
January 2018 (through January 18, 2018)			1.02	1.04

(1) Represents the average of the exchange rates on the last day of each month during the year.

(2) Represents the lowest, respectively highest, of the exchange rates on the last day of each month during the year.

### 3.B Capitalization and Indebtedness

Not applicable.

### 3.C Reasons for the offer and use of proceeds

Not applicable.

### 3.D Risk Factors

Our businesses face significant risks and uncertainties. You should carefully consider all of the information set forth in this annual report on Form 20-F and in other documents we file with or furnish to the SEC, including the following risk factors, before deciding to invest in or to maintain an investment in any Novartis securities. Our business, as well as our financial condition or results of operations could be materially adversely affected by any of these risks, as well as other risks and uncertainties not currently known to us or not currently considered material.

### Risks Facing Our Business

#### *Our products face important patent expirations and losses of intellectual property protection.*

Major products of our Innovative Medicines Division, as well as certain products of our Sandoz and Alcon Divisions, are protected by patent and other intellectual property rights, which provide us with exclusive rights to market the products, and give us an opportunity to recoup our investments in research and development. However, the strength and duration of those intellectual property rights can vary significantly from product to product and country to country, and they may be successfully challenged by

third parties or regulatory authorities. Loss of market exclusivity for one or more important products has had, and can be expected to continue to have a material adverse effect on our results of operations.

The introduction of generic competition for a patented branded medicine typically results in a significant and rapid reduction in net sales and operating income for the branded product because generic manufacturers typically offer their unpatented versions at sharply lower prices. Such competition can occur after successful challenges to intellectual property rights or the regular expiration of the term of the patent or other intellectual property rights. Such competition can also result from the entry of generic versions of another medicine in the same therapeutic class as one of our drugs or in another competing therapeutic class, from a Declaration of Public Interest or the compulsory licensing of our drugs by governments, or from a general weakening of intellectual property laws in certain countries around the world. In addition, generic manufacturers sometimes take an aggressive approach to challenging intellectual property rights, including conducting so-called "launches at risk" of products that are still under legal challenge for infringement, before final resolution of legal proceedings.

We also rely in all aspects of our businesses on unpatented proprietary technology, know-how, trade secrets and other confidential information, which we seek to protect through various measures including confidentiality agreements with licensees, employees, third-party collaborators, and consultants who may have access to such information. If these agreements are breached or our other protective measures should fail, then our contractual or other remedies may not be adequate to cover our losses.

Some of our best-selling products have begun or are about to face significant competition due to the end of market exclusivity resulting from the expiry of patent or other intellectual property protection.

- Our formerly best-selling product *Gleevec/Glivec* faces continued and increasing generic competition in the US, EU and Japan.
- Patent protection for the marketed forms of our *Sandostatin* products has expired. Generic versions of *Sandostatin* SC are available in the US, EU and Japan. While there is currently no generic competition in the US, EU or Japan for *Sandostatin* LAR, the long-acting version of *Sandostatin* which represents the majority of our *Sandostatin* sales, such generic competition may arise in the future.
- *Diovan* and *Co-Diovan/Diovan HCT*, which had long been our best-selling product, has generic competitors in the US, EU and Japan. In addition, the single pill combination products *Exforge* and *Exforge HCT*, which contain valsartan, the active ingredient in *Diovan*, face generic competition despite the existence of separate intellectual property covering those products. *Exforge* has generic competition in the US, EU and Japan. *Exforge HCT*, which is not marketed in Japan, has generic competition in the US and may face additional generic competition in the future.
- Intellectual property protecting a number of additional major products is either being challenged or will expire at various times in the coming years, raising the possibility of generic competition. Among these products that may begin to face generic competition in one or more major markets during the next three years are *Gilenya*, our everolimus products (*Afinitor/Votubia* and *Certican/Zortress*), *Exjade/Jadenu* and *Lucentis*.

For more information on the patent status of our Innovative Medicines Division's products see "Item 4. Information on the Company—Item 4.B Business Overview—Innovative Medicines—Intellectual Property."

In 2018, we expect an impact on our net sales of about \$1.5 billion as a result of the loss of intellectual property protection for our products. Because we typically have substantially reduced marketing and research and development expenses related to products that are in their final year of exclusivity, we expect that this loss of intellectual property protection also will have an impact on our 2018 operating income in an amount corresponding to a significant portion of the products' lost sales. The magnitude of the impact of generic competition could depend on a number of factors, including the time of year at which the

generic competitor is launched; the ease or difficulty of manufacturing a competitor product and obtaining regulatory approval to market it; the number of generic competitor products approved, including whether, in the US, a single competitor is granted an exclusive marketing period, and whether an authorized generic is launched; and the geographies in which generic competitor products are approved, including the strength of the market for generic pharmaceutical products in such geographies and the comparative profitability of branded pharmaceutical products in such geographies.

Clearly, with respect to major products for which the patent terms are expiring, the loss of exclusivity of these products can be expected to have a material adverse effect on our business, financial condition and results of operations. In addition, should we unexpectedly lose exclusivity on additional products as a result of patent litigation or other reasons, this could also have a material adverse effect on our business, financial condition and results of operations, both due to the loss of revenue and earnings, and the difficulties in planning for such losses.

***Our financial performance depends on the commercial success of key products.***

Our financial performance, including our ability to replace revenue and income lost to generic and other competition and to grow our business, depends heavily on the commercial success of our products. If any of our major products were to become subject to problems such as changes in prescription growth rates, unexpected side effects, loss of intellectual property protection, supply chain issues or other product shortages, regulatory proceedings, changes in labeling, publicity affecting doctor or patient confidence in the product, material product liability litigation, or pressure from new or existing competitive products, the adverse impact on our revenue and profit could be significant. In addition, our revenue and profit could be significantly impacted by the timing and rate of commercial acceptance of key new products. See also "Our business is affected by pressures on pricing and reimbursement for our products," below, with regard to the impact of pricing and reimbursement issues on the commercial success of our products.

All of our businesses are broadly faced with intense competition from new products and technological advances from competitors, and physicians, patients and third-party payors may choose our competitors' products instead of ours if they perceive them to be safer, more effective, easier to administer, less expensive, more convenient, or more cost-effective. Products that compete with ours are launched from time to time. We cannot predict with accuracy the timing of the introduction of such competitive products or their possible effect on our sales. However, products significantly competitive to our major products, including *Cosentyx*, *Lucentis*, *Gilenya*, *Sandostatin*, *Tasigna* and *Afinitor*, are on the market, and others are in development. In addition, numerous companies are seeking to enter the healthcare field to take advantage of their expertise in digital and other new technologies. See "We may fail to develop or take advantage of transformational technologies and business models," below. We may also face new competitors from different regions of the world, including China, which is moving aggressively to expand its role in the sciences and in many industries. Such new competitors may successfully develop products or technologies which could make products of ours uncompetitive or obsolete.

Such competitive products could significantly affect the revenue from our products and our results of operations. This impact could also be compounded to the extent such competition results in us making significant additional investments in marketing and sales, or in research and development.

In particular, our Alcon Division and our US Sandoz business each has suffered declines in sales and profits in recent years due at least in part to increased competition for its products, although Alcon's results improved in 2017, returning to growth. There can be no certainty either that Sandoz US sales will recover, or that Alcon's improved results will be repeated in the coming years. In any event, such competition and the costs of our efforts to improve these businesses' performance, as well as other factors, can be expected to affect the business, financial condition or results of operations of these organizations, at least in the near term. In addition, despite the devotion of significant resources to our efforts to improve the performance of Alcon and Sandoz US, those efforts may ultimately prove insufficient. Should our efforts fail to accomplish their goals, or fail to do so in a timely manner, it could have a material

adverse impact on our business, financial condition or results of operations beyond the near term, as well. See also "—Our research and development efforts may not succeed in bringing new products to market, or may fail to do so in a cost-efficient manner, or in a manner sufficient to grow our business, replace lost revenue and income and take advantage of new technologies," and "—Intense competition from patented and generic pharmaceuticals companies, as well as failure to obtain marketing exclusivity periods for new generic products, or to successfully develop biosimilars and other differentiated products, may have a material adverse effect on the success of our Sandoz Division," below.

***Our research and development efforts may not succeed in bringing new products to market, or may fail to do so in a cost-efficient manner, or in a manner sufficient to grow our business, replace lost revenue and income and take advantage of new technologies.***

Our ability to continue to maintain and grow our business, to replace sales lost due to competition, entry of generics or other reasons, and to bring to market products and medical advances that take advantage of new, and potentially disruptive technologies depends in significant part upon the success of our research and development activities in identifying, and successfully and cost-effectively developing new products that address unmet medical needs, are accepted by patients and physicians, are reimbursed by payors, and are commercially successful. To accomplish this, we commit substantial effort, funds and other resources to research and development, both through our own dedicated resources and through collaborations with third parties. However, developing new healthcare products and bringing them to market is a highly costly, lengthy and uncertain process. In spite of our significant investments, there can be no guarantee that our research and development activities will produce commercially successful new products that will enable us to replace revenue and income lost to generic and other competition and to grow our business. See also "—We may not successfully achieve our goals in transactions or reorganizations," below, with regard to our recent reorganization of our pharmaceutical product development organization.

Using the products of our Innovative Medicines Division as an example, the research and development process for a new product can take up to 15 years, or even longer, from discovery to commercial product launch—and with limited available intellectual property protections, the longer it takes to develop a product, the less time there may be for us to recoup our research and development costs. New products must undergo intensive preclinical and clinical testing, and must be approved by means of highly complex, lengthy and expensive approval processes which can vary from country to country.

During each stage, there is a substantial risk that we will encounter serious obstacles that will further delay us and add substantial expense, that we will develop a product with limited potential for commercial success, or that we will be forced to abandon a product in which we have invested substantial amounts of time and money. These risks may include failure of the product candidate in preclinical studies, difficulty enrolling patients in clinical trials, clinical trial holds or other delays in completing clinical trials, delays in completing formulation and other testing and work necessary to support an application for regulatory approval, adverse reactions to the product candidate or other safety concerns, insufficient clinical trial data to support the safety or efficacy of the product candidate or to differentiate our product candidate from competitors, an inability to manufacture sufficient quantities of the product candidate for development or commercialization activities in a timely and cost-effective manner, and failure to obtain, or delays in obtaining, the required regulatory approvals for the product candidate or the facilities in which it is manufactured.

In addition, following the "Brexit" vote in the UK, the EU has decided to move the headquarters of the EU's health authority, the EMA, from the UK to the Netherlands by March 2019. It is expected that a significant percentage of the current employees of the EMA will decide not to make the move to the Netherlands. This raises the possibility that new drug approvals in the EU could be delayed as a result.

Further, in recent years, in order to achieve approvals of and reimbursement for new products and new indications, governmental authorities and payors around the world have increasingly required more clinical trial data than they had in the past, the inclusion of significantly higher numbers of patients in clinical trials, and more detailed analyses of the trials. As a result, despite significant efforts by health authorities such as the FDA to accelerate the development of new drugs, the already lengthy and expensive process of obtaining regulatory approvals and reimbursement for pharmaceutical products has in many cases become even more challenging.

Similarly, the post-approval regulatory burden has also increased. Approved drugs are subject to various requirements such as risk evaluation and mitigation strategies (REMS), risk management plans, comparative effectiveness studies, health technology assessments, and requirements to conduct post-approval Phase IV clinical trials to gather additional safety and other data on products. These requirements have the effect of making the maintenance of regulatory approvals and of achieving reimbursement for our products increasingly expensive, and further heightening the risk of recalls, product withdrawals, loss of market share, and loss of revenue and profitability.

There is also the risk that we may fail to identify significant new product candidates for development or potentially disruptive new technologies, and so may fail to take advantage of a potential new wave of innovation.

Our Alcon Division faces similar challenges in bringing new products to market, including both the products and components that have been developed in house, as well as those that have been acquired from third parties. Alcon's Surgical and Vision Care products face medical device development and approval processes that are often similarly as difficult as those faced by our Innovative Medicines Division. For example, the new EU Medical Devices Regulation could bring substantial changes to the way medical device manufacturers bring new products to the European market, including with respect to labelling, technical documentation and quality management systems. Alcon has taken steps to increase its innovation power and the success of its research and development efforts. But these efforts are costly and require extensive efforts over time. There can be no certainty that Alcon will be successful in these efforts, in either the short- or the long-term, and if Alcon is not successful, there could be a material adverse effect on the success of the Alcon Division, and on the Group as a whole.

In addition, our Sandoz Division has made, and expects to continue to make, significant investments in the development of differentiated, "difficult-to-make" generic products, including biotechnology-based, "biologic" medicines, including those intended for sale as bioequivalent or "biosimilar" generic versions of currently-marketed biotechnology products. While the development of such products typically is significantly less costly and complex than the development of the equivalent originator medicines, it is nonetheless often significantly more costly and complex than those for non-differentiated generic products. In addition, many countries do not yet have fully-developed legislative or regulatory pathways to facilitate the development of biosimilars and permit biosimilars to be sold in a manner in which the biosimilar product would be readily substitutable for the originator product. Further delays in the development and completion of such regulatory pathways, or any significant impediments that may ultimately be built into such pathways, or any other significant difficulties that may arise in the development or marketing of biosimilars or other differentiated products, could put at risk the significant investments that Sandoz has made, and will continue to make, in the development of differentiated products in general, and in its biopharmaceuticals business in particular, and could have a material adverse effect on the long-term success of the Sandoz Division and the Group as a whole. See also "Intense competition from patented and generic pharmaceuticals companies, as well as failure to obtain marketing exclusivity periods for new generic products, or to successfully develop biosimilars and other differentiated products, may have a material adverse effect on the success of our Sandoz Division," below.

Further, in all of our divisions, our research and development activities must be conducted in an ethical and compliant manner. Among other things, we must be concerned with patient safety, data privacy, Good Clinical Practices requirements, data integrity requirements, the fair treatment of patients

in developing countries, and animal welfare requirements. Should we fail to properly manage such issues, we risk injury to third parties, damage to our reputation, negative financial consequences as a result of potential claims for damages, sanctions and fines, and the potential that our investments in research and development activities could have no benefit to the Group.

If we are unable to cost-effectively maintain a flow of successful new products and new indications for existing products sufficient to maintain and grow our business, cover our substantial research and development costs and the decline in sales of older products that become subject to generic or other competition, and take advantage of technological and medical advances, then this could have a material adverse effect on our business, financial condition or results of operations. For a description of the approval processes which must be followed to market our products, see the sections headed "Regulation" included in the descriptions of our operating divisions under "Item 4. Information on the Company—Item 4.B Business Overview."

***Our business is affected by pressures on pricing and reimbursement for our products.***

Our businesses are operating in an ever more challenging environment, with significant pressures on the pricing of our products and on our ability to obtain and maintain satisfactory rates of reimbursement for our products by governments, insurers and other payors. The growth of overall healthcare costs as a percentage of gross domestic product in many countries means that governments and payors are under intense pressure to control healthcare spending even more tightly than in the past. These pressures are particularly strong given the increasing demand for healthcare resulting from the aging of the global population and associated increases in non-communicable diseases, and the resulting impact on healthcare budgets. These pressures are further compounded by consolidation among distributors, retailers, private insurers, managed care organizations and other private payors, which can increase their negotiating power, particularly with respect to our generic drugs. In addition, these pressures are augmented by significant controversies and intense publicity about prices for pharmaceuticals that some consider excessive, as well as government investigations and legal proceedings regarding pharmaceutical pricing practices.

As a result, we face numerous cost-containment measures by governments and other payors, including government-imposed industry-wide price reductions, mandatory pricing systems, reference pricing systems, payors limiting access to treatments based on cost-benefit analyses, an increase in imports of drugs from lower-cost countries to higher-cost countries, shifting of the payment burden to patients through higher co-payments, limiting physicians' ability to choose among competing medicines, mandatory substitution of generic drugs for the patented equivalent, growing pressure on physicians to reduce the prescribing of patented prescription medicines, the imposition or threat of imposition of compulsory licensing or Declarations of Public Interest, and requirements for increased transparency on pricing. For more information on such price controls see "Item 4. Information on the Company—Item 4.B Business Overview—Innovative Medicines—Price Controls." See also "—Ongoing consolidation among our distributors and retailers is increasing both the purchasing leverage of key customers and the concentration of credit risk," below, with regard to the impact on pricing of the consolidation among our customers, and "—Political and economic instability may have a material adverse effect on our results," below, with regard to the impact of economic conditions on our pricing. These factors may materially affect our ability to achieve an acceptable return on our investments in the development of our products, and may impact our ability to invest in the research and development of new products.

We expect these challenges to continue—and potentially to increase in 2018 and following years—as political pressures mount, and healthcare payors around the globe, including government-controlled health authorities, insurance companies and managed care organizations, step up initiatives to reduce the overall cost of healthcare, restrict access to higher-priced new medicines, increase the use of generics and impose overall price cuts. Such pressures could have a material adverse impact on our business, financial condition or results of operations, as well as on our reputation.

***Failure to comply with law, legal proceedings and government investigations may have a significant negative effect on our results of operations.***

We are obligated to comply with the laws of all of the countries around the world in which we operate and sell products with respect to an extremely wide and growing range of activities. Such legal requirements can vary from country to country and new requirements may be imposed on us from time to time as government and public expectations regarding acceptable corporate behavior change.

For example, we are faced with increasing pressures, including new laws and regulations from around the world, to be more transparent with respect to how we do business, including with respect to our interactions with healthcare professionals and organizations. These laws and regulations include requirements that we disclose payments or other transfers of value made to healthcare professionals and organizations, as well as with regard to the prices for our products.

In addition, we have significant activities in a number of developing countries around the world, both through our own employees, and through third parties retained to assist us. In some of these countries, a culture of compliance with law may not be as fully developed as in other countries.

To help us in our efforts to comply with the many requirements that impact us, we have a significant global ethics and compliance program in place, and we devote substantial time and resources to efforts to ensure that our business is conducted in a lawful and publicly acceptable manner. Nonetheless, despite our efforts, any actual or alleged failure to comply with law or with heightened public expectations could lead to substantial liabilities that may not be covered by insurance, or to other significant losses, and could affect our business, financial position and reputation.

In particular, in recent years, there has been a trend of increasing government investigations, legal proceedings and law enforcement activities against companies and executives operating in our industry, both in the US and in countries around the world. Increasingly, such activities can involve criminal proceedings, and can retroactively challenge practices previously considered to be legal. A number of our subsidiaries across each of our divisions are, or may in the future be subject to various investigations and legal proceedings that arise or may arise from time to time, such as proceedings regarding sales and marketing practices, pricing, corruption, trade regulation and embargo legislation, product liability, commercial disputes, employment and wrongful discharge, antitrust (including for so-called "pay for delay" patent settlements), securities, insider trading, occupational health and safety, environmental, tax, cybersecurity, data privacy and intellectual property matters. For information on significant legal matters pending against us see "Note 19. Provisions and other non-current liabilities" and "Note 27. Commitments and contingencies" in the "Excerpts from Novartis Annual Report 2017" furnished to the SEC on Form 6-K on January 24, 2018. See also "—Our reliance on outsourcing key business functions to third parties heightens the risks faced by our businesses," below.

Such proceedings are inherently unpredictable, and large judgments sometimes occur. As a consequence, we may in the future incur judgments that could involve large cash payments, including the potential repayment of amounts allegedly obtained improperly, and other penalties, including treble damages. In addition, such proceedings may affect our reputation, create a risk of potential exclusion from government reimbursement programs in the US and other countries, and may lead to civil litigation. As a result, having taken into account all relevant factors, we have in the past and may again in the future enter into major settlements of such claims without bringing them to final legal adjudication by courts or other such bodies, despite having potentially significant defenses against them, in order to limit the risks they pose to our business and reputation. Such settlements may require us to pay significant sums of money, and to enter into corporate integrity or similar agreements, which are intended to regulate company behavior for a period of years.

Any such judgments or settlements, and any accruals that we may take with respect to potential judgments or settlements, could have a material adverse impact on our business, financial condition or results of operations, as well as on our reputation.

Our Sandoz Division may from time to time seek approval to market a generic version of a product before the expiration of patents claimed by the marketer of the patented product. We do this in cases where we believe that the relevant patents are invalid, unenforceable, or would not be infringed by our generic product. As a result, affiliates of our Sandoz Division frequently face patent litigation, and in certain circumstances, we may elect to market a generic product even though patent infringement actions are still pending. Should we elect to proceed in this manner and conduct a "launch at risk," we could face substantial damages if the final court decision is adverse to us.

Adverse judgments or settlements in any of the significant investigations or cases against us could have a material adverse effect on our business, financial condition, results of operations and reputation.

***The manufacture of our products is highly regulated and complex, and may result in a variety of issues that could increase our cost of goods and lead to extended supply disruptions and significant liability.***

The manufacture of our products is complex and heavily regulated by governmental health authorities around the world, including the FDA. Whether our products and the related raw materials are manufactured at our own dedicated manufacturing facilities or by third parties, we must ensure that all manufacturing processes comply with current Good Manufacturing Practices (cGMP) and other applicable regulations, as well as with our own high quality standards. In recent years, health authorities have substantially intensified their scrutiny of manufacturers' compliance with such requirements.

Any significant failure by us or our third-party suppliers to comply with these requirements or the health authorities' expectations, may cause us to shut down the production facilities or production lines. Alternately, we may be forced to shut them down by a government health authority, or could be prevented from importing our products from one country to another. This could lead to product shortages, or to our being entirely unable to supply products to patients for an extended period of time. Such shortages or shut downs have led to and could continue to lead to significant losses of sales revenue and to potential third-party litigation. In addition, health authorities have in some cases imposed significant penalties for such failures to comply with cGMP. A failure to comply fully with cGMP could also lead to a delay in the approval of new products to be manufactured at the impacted site.

In addition to these regulatory requirements, the technically complex manufacturing processes required to manufacture many of our products increase the risk of production failures, and can increase the cost of producing our goods. For example, we manufacture and sell a number of sterile products, including oncology products, which require sophisticated environmental controls. In addition, a significant number of our products are "biologic" products. Unlike traditional "small-molecule" drugs, biologic drugs or other biologic-based products cannot be manufactured synthetically, but typically must be produced from living plant or animal micro-organisms. As a result, the production of biologic-based products that meet all regulatory requirements is especially complex. Even slight deviations at any point in the production process may lead to production failures or recalls. In addition, because the production process involves living plant or animal micro-organisms, the process could be affected by contaminants that could impact those micro-organisms. Further, for our new oncology product *Kymriah*, each dose must be separately produced, using the individual patient's own cells as a basis, without contingencies for production failures. As a result, because the production process for many of our products is so complex and sensitive, the cost of production and the chance of production failures and lengthy supply interruptions is increased.

In order to meet increasing health authority expectations and our own high quality standards, we are devoting substantial time and resources to remediate issues, improve quality and assure consistency of product supply at our manufacturing sites and third party suppliers around the world. However, there can be no guarantee as to the outcome of these efforts, or that we or our third parties suppliers will not face significant manufacturing issues, or that we will successfully manage such issues when they arise. For example, our Sandoz Division has been unable to launch its *Glatopa* 40mg product due to a Warning Letter received from the FDA by our third party supplier with respect to its manufacturing facility.



In addition, many of our products require a supply of highly specialized raw materials. For some of our products and raw materials, we may rely on a single source of supply. As a result, we are required to plan our production activities well in advance. If we should suffer from product shortages, including as a result of a natural disaster at a production facility, or if we should underestimate market demand for a product, or should fail to accurately predict when the product would be approved for sale, then we may not be able to produce sufficient product to meet demand. Alternately, if we overestimate the quantity or timing of product to be produced, then we may be required to dispose of excess product, which would result not only in the loss of the product, but also the resources spent to produce it.

Further, because our products are intended to promote the health of patients, for some of our products, a supply disruption or other production issue could endanger our reputation and subject us to lawsuits or to allegations that the public health, or the health of individuals, has been harmed.

Thus, complex production processes and compliance with regulatory requirements can increase our cost of producing our products, and any significant disruption in the supply of our products could impact our sales, either of which could have a material adverse effect on our business, financial condition or results of operations, as well as our reputation. See also "—We may not successfully achieve our goals in transactions or reorganizations," below, with regard to our recent reorganization of our product manufacturing organization, and "—Extreme weather events, earthquakes and other natural disasters could adversely affect our business," below.

***Foreign exchange fluctuations may adversely affect our earnings and the value of some of our assets.***

Changes in exchange rates between the US dollar, our reporting currency, and other currencies can result in significant increases or decreases in our reported sales, costs and earnings as expressed in US dollars, and in the reported value of our assets, liabilities and cash flows.

In addition to ordinary market risk, there is a risk that countries could take affirmative steps that could significantly impact the value of their currencies. Such steps could include "quantitative easing" measures and potential withdrawals by countries from common currencies. In addition, countries facing local financial difficulties, including countries experiencing high inflation rates and highly indebted countries facing large capital outflows, may impose controls on the exchange of foreign currency. Such exchange controls could limit our ability to distribute retained earnings from our local affiliates, or to pay intercompany payables due from those countries.. See "—Political and economic instability may have a material adverse effect on our results," below.

Despite measures undertaken to reduce, or hedge against, foreign currency exchange risks, because a significant portion of our earnings and expenditures are in currencies other than the US dollar, including expenditures in Swiss francs that are significantly higher than our revenue in Swiss francs, any such exchange rate volatility may negatively and materially impact the Group's business, results of operations and financial condition, and may impact the reported value of our net sales, earnings, assets and liabilities. In addition, the timing and extent of such volatility can be difficult to predict. Further, depending on the movements of particular foreign exchange rates, the Group may be materially adversely affected at a time when the same currency movements are benefiting some of our competitors.

For more information on the effects of currency fluctuations on our consolidated financial statements and on how we manage currency risk, see "Item 5. Operating and Financial Review and Prospects—Item 5.B Liquidity and Capital Resources—Effects of Currency Fluctuations" "Item 11. Quantitative and Qualitative Disclosures about Market Risk", and "Note 28. Financial instruments—additional disclosures" in the "Excerpts from Novartis Annual Report 2017" furnished to the SEC on Form 6-K on January 24, 2018.

***We may not successfully achieve our goals in transactions or reorganizations.***

As part of our strategy, from time to time we acquire and divest products or entire businesses, in order to expand or complement our existing businesses, or to enable us to focus more sharply on our strategic businesses. For example, we recently completed the acquisition of Advanced Accelerator Applications, a radiopharmaceutical company that develops, produces and commercializes molecular nuclear medicines including *Lutathera*, a first-in-class radioligand therapy product for neuroendocrine tumors.

Despite expending significant efforts and resources in this area, we cannot ensure that we will identify products or businesses that are suitable for acquisition. In addition, acquisition activities can be thwarted by governmental regulation, including market concentration limitations, political interference, overtures from competitors for the targeted assets, potentially increasing prices demanded by sellers, and other issues. Once an acquisition is agreed upon with a third party, we may not be able to complete the acquisition in the expected form or within the expected time frame, or at all, due to a failure to obtain required regulatory approvals or a failure to achieve contractual or other required closing conditions. Further, after an acquisition, efforts to develop and market acquired products, including products acquired by Alcon, or to integrate the acquired business may not meet expectations, or may otherwise not be successful, as a result of difficulties in retaining key personnel, customers and suppliers, difference in corporate culture, standards, controls, processes and policies, or other reasons. Acquisitions and divestments can also divert management's attention from our existing businesses, and could result in the existing businesses failing to achieve expected results, or in liabilities being incurred that were not known at the time of acquisition, or the creation of tax or accounting issues.

Similarly, we cannot ensure that suitable buyers will be identified for businesses or other assets that we might want to divest. Neither can we ensure that we will correctly select businesses or assets as candidates for divestiture, that we will be able to successfully complete any agreed upon divestments, or that any expected strategic benefits, synergies or opportunities will arise as a result of any divestiture. For example, in early 2017, we announced a strategic review of the Alcon Division in order to explore all options to maximize value for our shareholders. Key criteria for a final decision and timing remain continued Alcon sales growth and margin improvement which need to be demonstrated for multiple quarters leading to potential action not likely before the first half of 2019. But there can be no certainty that the strategic review will reach any particular results, or at any particular time, or that it will in fact maximize shareholder value.

In addition, as part of our strategy, from time to time we reassess the optimal organization of our business, including the allocation of products by division and the level of centralization and simplification of certain functions across the Group, to better align those products and functions with the capabilities and expertise required for competitive advantage. As an example of this, in October 2017, we announced that certain over-the-counter and diagnostic ophthalmic products would be moved from the Innovative Medicines Division to the Alcon Division effective January 1, 2018, where we believe the products will create the most value. We expect this and other similar actions, including our prior move of prescription ophthalmic pharmaceutical products from our Alcon Division to our Innovative Medicines Division, to help further strengthen our competitive position, enable us to maintain our leading position in research and development, and free resources for our growth priorities. But the expected benefits of such reorganizations may never be fully realized or may take longer to realize than expected. There can be no certainty that the businesses and functions involved will be successfully integrated into the new organizations or that key personnel will be retained. Disruption from the reorganizations may make it more difficult to maintain relationships with customers, employees or suppliers, and the reorganizations may result in the Group not achieving the expected productivity and financial benefits, shortfalls in program oversight, or, potentially, sales declines and lost profits.

Both with respect to the transactions and reorganizations previously announced, and to potential future transactions and reorganizations, if we fail to timely recognize or address these risks, or to devote

adequate resources to them, we may fail to achieve our strategic objectives, including our growth strategy, or otherwise may not realize the intended benefits of the acquisition, divestiture or reorganization.

***Significant breaches of data security or disruptions of information technology systems and the use of Internet, social media and mobile technologies could adversely affect our business and expose people's personal information.***

We are heavily dependent on critical, complex and interdependent information technology systems, including Internet-based systems, to support our business processes. In addition, Novartis and our employees rely on Internet and social media tools and mobile technologies as a means of communications, and to gather information, which can include people's personal information. We are also increasingly seeking to develop technology-based products such as mobile applications and other digital health products that go "beyond the pill" to improve patient welfare in a variety of ways, which could also result in us gathering personal information about patients and others electronically.

The size and complexity of our information technology systems, and, in some instances, their age, make them potentially vulnerable to external or internal security incidents, breakdowns, malicious intrusions, cybercrimes, including State-sponsored cybercrimes, malware, misplaced or lost data, programming or human errors, or other similar events. Although we have devoted and continue to devote significant resources and management attention to cybersecurity and to business continuity efforts, like many companies, we have experienced certain of these events and expect to continue to experience them in the future, as the external cyber-attack threat only keeps growing. We believe that the information security incidents we have experienced to date have not resulted in significant disruptions to our operations, and have not had a significant adverse effect on our results of operations, or on third parties. However, we may not be able to prevent future breakdowns or breaches in our systems and we may not be able to prevent such events from having a material adverse effect on our business, financial condition, results of operation or reputation.

Any such event could negatively impact important business processes, such as the conduct of scientific research and clinical trials, the submission of the results of such efforts to health authorities in support of requests for product approvals, the functioning of our manufacturing and supply chain processes, our compliance with legal obligations and other key business activities, including our employees' ability to communicate with one another and with third parties. Such potential information technology issues could also lead to the loss of important information such as trade secrets or other intellectual property and could accelerate the development or manufacturing of competing products by third parties. In addition, malfunctions in software or in devices that make significant use of information technology, including our Alcon surgical equipment, could lead to a risk of harm to patients.

In addition, our routine business operations, including through the use of information technologies such as the Internet, social media, mobile technologies, and technology-based medical devices, increasingly involve our gathering personal information (including sensitive personal information) about patients, vendors, customers, employees, collaborators and others. Breaches of our systems or those of our third-party contractors, or other failures to protect such information, could expose such people's personal information to unauthorized persons. Any such event could give rise to significant potential liability and reputational harm, including potentially substantial monetary penalties. We also make significant efforts to ensure that any international transfers of personal data are done in compliance with applicable law. Any additional restraints that may be placed on our ability to transfer such data could have a material adverse effect on our business, financial condition, results of operations and reputation.

We also use Internet, social media and mobile tools as a means to communicate with the public, including about our products or about the diseases our products are intended to treat. However, such uses create risks, such as the loss of trade secrets or other intellectual property. In addition, there continues to be significant uncertainties as to the rules that apply to such communications, and as to the interpretations that health authorities will apply in this context to the rules that do exist. As a result, despite our efforts to

comply with applicable rules, there is a significant risk that our use of Internet, social media and mobile technologies for such purposes may cause us to nonetheless be found in violation of them.

Our dependence upon information technology, including any breaches of data security, technology disruptions, privacy violations, or other uses of interconnected technologies could give rise to the loss of trade secrets or other intellectual property, to the public exposure of personal information, and to interruptions to our operations, and could result in enforcement actions or liability, including potential government fines, claims for damages, and shareholders' litigation. Any such events could require us to expend significant resources beyond those we already invest to further modify or enhance our protective measures, to remediate any damage, and to enable the continuity of our business. Such events could have a material adverse effect on our business, financial condition, results of operations and reputation.

***We may fail to develop or take advantage of transformational technologies and business models.***

Rapid progress in digital technologies and in the development of sometimes radical new business models is substantially transforming numerous industries around the world, creating new businesses and new opportunities for revenue and profit, while sometimes quickly rendering established businesses uncompetitive or obsolete. The potential exists for such transformations, both positive and negative, to impact the pharmaceutical industry, and numerous companies from the digital technology and other industries are seeking to enter the healthcare field.

To take advantage of these opportunities, Novartis has embarked upon a digital transformation strategy, with the goal of making Novartis an industry leader in leveraging advanced analytics and other new technologies. As part of this effort, we have created a new role of Chief Digital Officer, reporting directly to the CEO, charged with creating and executing a company-wide digital strategy, to be led by the Executive Committee of Novartis.

In order to reach our goal, we expect to invest substantial resources into efforts to improve the way we use data in drug discovery and development, to improve the ways we engage with patients, doctors and other stakeholders, and to automate business processes. With our commitment to using science-based innovation to deliver better outcomes for patients, together with our expertise and the valuable data we have and continue to amass, we believe that we have an opportunity to transform our business model using digital technologies.

There is no guarantee that our efforts toward a digital transformation will succeed, or that we will successfully transform our business model, or that we will be able to do so at any particular cost or any particular time. In order to succeed, we will be required to encourage a cultural change amongst our employees, attract and retain employees with appropriate skills and mindset, and successfully innovate across a variety of technology fields, while other companies, including both specialized start-up organizations and established technology companies such as IBM, with its Watson project, and Alphabet, with its subsidiary Verily, aggressively move forward in this field.

At the same time, there is a risk that other companies with specialized expertise or business models may enter the healthcare field, potentially disrupting our relationships with patients, healthcare professionals, customers, distributors and suppliers, with unknown potential consequences for us. For example, new entrants may seek to enter the pharmaceutical distribution field.

If we should fail to succeed in our efforts at a digital transformation of our company, then there is a risk that we may fail to create the innovative new products, tools or techniques that such technologies may make possible, or may fail to create them as quickly and efficiently as such technologies may enable. We may also lose opportunities to engage with our stakeholders and to profit from improved business processes, and may lose the resources devoted to these efforts to transform our business. At the same time, should third parties successfully enter the healthcare field with disruptive new technologies or business models, then we potentially may see our business supplanted in whole or in part by these new

entrants. Any such events could have a material adverse effect on our business, financial condition or results of operations.

***Intangible assets and goodwill on our books may lead to significant impairment charges in the future.***

We carry a significant amount of goodwill and other intangible assets on our consolidated balance sheet, primarily due to acquisitions, including, in particular, substantial goodwill and other intangible assets obtained as a result of our acquisitions of Alcon and the oncology assets from GSK. As a result, we may incur significant impairment charges in the future if the fair value of the intangible assets and the groupings of cash generating units containing goodwill would be less than their carrying value on the Group's consolidated balance sheet at any point in time.

We regularly review our long-lived intangible and tangible assets, including identifiable intangible assets, investments in associated companies and goodwill, for impairment. Goodwill, intangible assets with an indefinite useful life, acquired research projects not ready for use, and acquired development projects not yet ready for use are subject to impairment review at least annually. Other long-lived assets are reviewed for impairment when there is an indication that an impairment may have occurred. Impairment testing under IFRS may lead to impairment charges in the future. Any significant impairment charges could have a material adverse effect on our results of operations and financial condition. In 2017, for example, we recorded intangible asset impairment charges of \$0.7 billion. For a detailed discussion of how we determine whether an impairment has occurred, what factors could result in an impairment and the impact of impairment charges on our results of operations, see "Item 5. Operating and Financial Review and Prospects—Item 5.A Operating Results—Critical Accounting Policies and Estimates—Impairment of Goodwill, Intangible Assets and Property, Plant and Equipment" and "Note 1. Significant accounting policies" and "Note 10. Goodwill and intangible assets" in the "Excerpts from Novartis Annual Report 2017" furnished to the SEC on Form 6-K on January 24, 2018.

***Political and economic instability may have a material adverse effect on our results.***

Unpredictable political conditions currently exist in various parts of the world, including a backlash in certain areas against free trade, anti-immigrant sentiment, social unrest, the refugee crisis, fears of terrorism and the risk of direct conflicts between nations. In the US, the current presidential administration's opposition to free trade agreements could cause barriers to be raised to international trade, and the elimination of the Affordable Care Act's individual mandate could have a negative impact on individuals' ability to afford health insurance. Similarly, there is a risk that barriers to free trade and the free movement of people may rise in Europe following the UK's "Brexit" vote and the rise of nationalist, separatist and populist sentiment in various countries. And significant conflicts continue in parts of the Middle East, including conflicts involving Saudi Arabia and Iran, and with respect to places such as North Korea. Collectively, such difficult conditions could, among other things, disturb the international flow of goods and increase the costs and difficulties of international transactions.

In addition, local economic conditions may adversely affect the ability of payors, as well as our distributors, customers, suppliers and service providers, to pay for our products, or otherwise to buy necessary inventory or raw materials, and to perform their obligations under agreements with us. Although we make efforts to monitor these third parties' financial condition and their liquidity, our ability to do so is limited, and some of them may become unable to pay their bills in a timely manner, or may even become insolvent, which could negatively impact our business and results of operations. These risks may be elevated with respect to our interactions with fiscally-challenged government payors, or with third parties with substantial exposure to such payors. See also "—Our reliance on outsourcing key business functions to third parties heightens the risks faced by our businesses," below.

Financial market issues may also result in a lower return on our financial investments, and a lower value on some of our assets. Alternately, inflation could accelerate, which could lead to higher interest rates, increasing our costs of raising capital. Uncertainties around future central bank and other economic

policies in the US and EU, as well as high debt levels in certain other countries, could also impact world trade. Sudden increases in economic, currency or financial market volatility in different countries have also impacted, and may continue to unpredictably impact, our business and results of operations, including the conversion of our operating results into our reporting currency, the US dollar, as well as the value of our investments in our pension plans. See "-Foreign exchange fluctuations may adversely affect our earnings and the value of some of our assets," above, and "-If any of numerous key assumptions and estimates in calculating our pension plan obligations turn out to be different from our actual experience, we may be required to increase substantially our contributions to pension plans as well as the amount we pay toward pension-related expenses in the future," below. See also "-Our business is affected by pressures on pricing and reimbursement for our products," above, and "Item 5. Operating and Financial Review and Prospects-Item 5.B Liquidity and Capital Resources-Effects of Currency Fluctuations."

There is also a risk that countries facing local financial difficulties, including countries experiencing high inflation rates and highly indebted countries facing large capital outflows, may impose controls on the exchange of foreign currency. Such exchange controls could limit our ability to distribute retained earnings from our local affiliates, or to pay intercompany payables due from those countries. See also "Item 5. Operating and Financial Review and Prospects-Item 5.B Liquidity and Capital Resources-Condensed Consolidated Balance Sheets," and "Note 14. Trade receivables" and "Note 28. Financial instruments-additional disclosures" in the "Excerpts from Novartis Annual Report 2017" furnished to the SEC on Form 6-K on January 24, 2018.

Similarly, increased scrutiny of corporate taxes and executive pay may lead to significant business disruptions or other adverse business conditions, and may interfere with our ability to attract and retain qualified personnel. See "-Changes in tax laws or their application could adversely affect our results of operations" and "-An inability to attract and retain qualified personnel could adversely affect our business" below.

To the extent that economic and financial conditions directly affect consumers, some of our businesses, including the elective surgical and contact lens businesses of our Alcon Division, may be particularly sensitive to declines in consumer spending. In addition, our Innovative Medicines and Sandoz Divisions may not be immune to declines in consumer spending, particularly given the requirements in certain countries that patients directly pay an increasingly large contribution toward their own healthcare costs. As a result, there is a risk that consumers may cut back on prescription drugs and medical devices to help cope with rising costs.

At the same time, significant changes and potential future volatility in the financial markets, in the consumer and business environment, in the competitive landscape and in the global political and security landscape make it increasingly difficult for us to predict our revenues and earnings into the future. As a result, any revenue or earnings guidance or outlook which we have given or might give may be overtaken by events, or may otherwise turn out to be inaccurate. Though we endeavor to give reasonable estimates of future revenues and earnings at the time we give such guidance, based on then-current knowledge and conditions, there is a significant risk that such guidance or outlook will turn out to be, or to have been, incorrect.

Separately and collectively, such factors may have a material adverse effect on our revenues, results of operations, financial condition and, if circumstances worsen, our ability to raise capital at reasonable rates.

***Our indebtedness could adversely affect our operations.***

As of December 31, 2017 we had \$23.2 billion of non-current financial debt and \$5.3 billion of current financial debt. Our current and long-term debt requires us to dedicate a portion of our cash flow to service interest and principal payments and, if interest rates rise, this amount may increase. In addition, our existing debt may limit our ability to engage in transactions or otherwise may place us at a competitive disadvantage relative to competitors that have less debt. We may also have difficulty refinancing our

existing debt or incurring new debt on terms that we would consider to be commercially reasonable, if at all.

***Our reliance on outsourcing key business functions to third parties heightens the risks faced by our businesses.***

We outsource the performance of certain key business functions to third parties, and invest a significant amount of effort and resources into doing so. Such outsourced functions can include research and development collaborations, manufacturing operations, warehousing and distribution activities, certain finance functions, marketing activities, data management and others. In particular, in many developing countries, we rely heavily on third party distributors and other agents for the sales, marketing and distribution of our products. Similarly, we often obtain the intermediate and raw materials used in the manufacture of our products from third parties located in developing countries.

Our reliance on outsourcing and third parties for certain functions, such as the research and development or manufacturing of our products, may reduce the potential profitability of such products.

In addition, governments and the public are increasingly placing pressure on major corporations, including Novartis, to take responsibility for compliance with human rights and appropriate environmental practices, as well as other actions, of their third party contractors around the world. Examples of this include the Conflict Minerals rule in the US, and the UK Modern Slavery Act.

We place strict contractual requirements on such contractors to comply with law and with our high standards. We also expend significant resources on efforts to screen out inappropriate contractors, to monitor the activities of those we have retained, and to seek their compliance with the law and our expectations. Nonetheless, many of these companies have limited resources, and, in particular, do not have internal compliance resources comparable to those within our organization.

Ultimately, if the third parties fail to meet their obligations to us, we may lose our investment in the collaborations and fail to receive the expected benefits. In addition, should any of these third parties fail to comply with the law or should they act inappropriately in the course of their performance of services for us, there is a risk that we could be held responsible for their acts, that our reputation may suffer, and that penalties may be imposed upon us. Any such failures by third parties could have a material adverse effect on our business, financial condition, results of operations or reputation.

***Intense competition from patented and generic pharmaceuticals companies, as well as failure to obtain marketing exclusivity periods for new generic products, or to successfully develop biosimilars and other differentiated products, may have a material adverse effect on the success of our Sandoz Division.***

Our Sandoz Division faces intense competition from companies that market patented pharmaceutical products, which sometimes take aggressive steps to prevent or delay the introduction of generic medicines, to limit the availability of exclusivity periods or to reduce their value. At the same time, Sandoz faces strong competition from other generic pharmaceutical companies, which aggressively compete for exclusivity periods and for market share of generic products that may be identical to our generic products, including through significant price competition. In the US in 2017, industry-wide price competition among generic pharmaceutical companies significantly hurt Sandoz sales. More generally, such competitive actions by other patented and generic pharmaceutical manufacturers may increase the costs and risks associated with our efforts to introduce generic products, and may delay or entirely prevent their introduction and marketing. Such activities may further limit the prices at which we are able to sell these products and impact our results of operations.

In addition, the division achieves significant revenue opportunities when it secures and maintains exclusivity periods granted for generic products in certain markets—particularly the 180-day exclusivity period granted in the US by the Hatch-Waxman Act for first-to-file generics—and when it is able to develop biosimilars and other differentiated products with few, if any, generic competitors. Failure to obtain and maintain these market opportunities could have an adverse effect on the success of Sandoz.

Sandoz has also invested heavily in the development of biosimilar drugs, despite the fact that regulations concerning their approval, marketing and sale in certain countries, including in the US, are still under development or not entirely clear. If such regulations do not ultimately favor the development and sale of biosimilar products, then we may fail to achieve expected returns on the investments by Sandoz in the development of biosimilars. See also "Our research and development efforts may not succeed in bringing new products to market, or may fail to do so in a cost-efficient manner, or in a manner sufficient to grow our business and replace lost revenue and income" above, with regard to the risks involved in our efforts to develop differentiated generic products, and "Failure to comply with law, legal proceedings and government investigations may have a significant negative effect on our results of operations" above, with regard to the risks of damages involved in our efforts to market generic versions of patented products.

***If any of numerous key assumptions and estimates in calculating our pension plan obligations turn out to be different from our actual experience, we may be required to increase substantially our contributions to pension plans as well as the amount we pay toward pension-related expenses in the future.***

We sponsor pension and other post-employment benefit plans in various forms. These plans cover a significant portion of our current and former associates. While most of our plans are now defined contribution plans, certain of our associates remain under defined benefits plans. For these defined benefits plans, we are required to make significant assumptions and estimates about future events in calculating the present value of expected future plan expenses and liabilities. These include assumptions used to determine the discount rates we apply to estimated future liabilities and rates of future compensation increases. Assumptions and estimates used by Novartis may differ materially from the actual results we experience in the future, due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants, among other variables. For example, in 2017, a decrease in the interest rate we apply in determining the present value of expected future defined benefit obligations of one-quarter of one percent would have increased our year-end defined benefit pension obligation for plans in Switzerland, US, UK, Germany and Japan, which represent nearly 94% of the Group total defined benefit pension obligation, by \$0.8 billion. Any differences between our assumptions and estimates and our actual experience could require us to make additional contributions to our pension funds. Further, additional employer contributions might be required if plan funding falls below the levels required by local rules. Either such event could have a material effect on our results of operations and financial condition. For more information on obligations under retirement and other post-employment benefit plans and underlying actuarial assumptions, see "Item 5. Operating and Financial Review and Prospects—Item 5.A Operating Results—Critical Accounting Policies and Estimates—Retirement and Other Post-Employment Benefit Plans" and "Note 24. Post-employment benefits for associates" in the "Excerpts from Novartis Annual Report 2017" furnished to the SEC on Form 6-K on January 24, 2018. See also "Political and economic instability may have a material adverse effect on our results" above.

***Changes in tax laws or their application could adversely affect our results of operations.***

Our worldwide operations are taxed under the laws of the jurisdictions in which we operate. However, the integrated nature of our worldwide operations can produce conflicting claims from revenue authorities in different countries as to the profits to be taxed in the individual countries, including disputes relating to transfer pricing. The majority of the jurisdictions in which we operate have double tax treaties with other foreign jurisdictions, which provide a framework for mitigating the impact of double taxation on our revenues and capital gains. However, mechanisms developed to resolve such conflicting claims are largely untried, and can be expected to be very lengthy.

In recent years, tax authorities around the world have increased their scrutiny of company tax filings, and have become more rigid in exercising any discretion they may have. As part of this, the Organization for Economic Co-operation and Development (OECD) has proposed a number of tax law changes under



its Base Erosion and Profit Shifting (BEPS) Action Plans to address issues of transparency, coherence and substance.

At the same time, the European Commission is finalizing its Anti Tax Avoidance Directive, which seeks to prevent tax avoidance by companies and to ensure that companies pay appropriate taxes in the markets where profits are effectively made and business is effectively performed. The European Commission also continues to extend the application of its policies seeking to limit fiscal aid by Member States to particular companies, and the related investigation of the Member States' practices regarding the issuance of rulings on tax matters relating to individual companies.

These OECD and EU tax reform initiatives also need local country implementation, including in our home country of Switzerland, which may result in significant changes to established tax principles. Although we have taken steps to be in compliance with the evolving OECD and EU tax initiatives, and will continue to do so, significant uncertainties remain as to the outcome of these efforts.

In addition, in the United States, the president on December 22, 2017, signed into law the Tax Cuts and Jobs Act of 2017, which includes substantial changes to the US taxation of individuals and businesses. Although the new law substantially decreased tax rates applicable to corporations in the US, we do not yet know what all of the consequences of this new statute will be, including whether the law will have any unintended consequences. In particular, significant uncertainties remain as to how the US government will implement the new law, including with respect to the tax qualification of interest deductions, the concept of a territorial tax regime, royalty payments and cost of goods sold.

In general, such tax reform efforts, including with respect to tax base or rate, transfer pricing, intercompany dividends, cross border transactions, controlled corporations, and limitations on tax relief allowed on the interest on intercompany debt, will require us to continually assess our organizational structure against tax policy trends, and could lead to an increased risk of international tax disputes and an increase in our effective tax rate, and could adversely affect our financial results.

***Counterfeit versions of our products could harm our patients and reputation.***

Our industry continues to be challenged by the vulnerability of distribution channels to illegal counterfeiting and the presence of counterfeit products in a growing number of markets and over the Internet. Counterfeit products are frequently unsafe or ineffective, and can potentially be life-threatening. To distributors and patients, counterfeit products may be visually indistinguishable from the authentic version. Reports of product ineffectiveness or adverse reactions to counterfeit drugs, or increased levels of counterfeiting could materially affect patient confidence in the authentic product, and harm the business of companies such as ours or lead to litigation. In addition, it is possible that adverse events caused by unsafe counterfeit products could mistakenly be attributed to the authentic product. If a product of ours was the subject of counterfeits, we could incur substantial reputational and financial harm.

***Ongoing consolidation among our distributors and retailers is increasing both the purchasing leverage of key customers and the concentration of credit risk.***

Increasingly, a significant portion of our global sales are made to a relatively small number of drug wholesalers, retail chains and other purchasing organizations. For example, our three most important customers globally are all in the US, and accounted for approximately 17%, 12% and 7%, respectively, of Group net sales in 2017. The largest trade receivables outstanding were for these three customers, amounting to 14%, 9% and 5%, respectively, of the Group's trade receivables at December 31, 2017. The trend has been toward further consolidation among distributors and retailers, both in the US and internationally. As a result, our customers are gaining additional purchasing leverage, which increases the pricing pressures facing our businesses. Moreover, we are exposed to a concentration of credit risk as a result of this concentration among our customers. If one or more of our major customers experienced financial difficulties, the effect on us would be substantially greater than in the past, and could include a

substantial loss of sales and an inability to collect amounts owed to us. Such events could have a material adverse effect on our business, financial condition and results of operations.

***An inability to attract and retain qualified personnel could adversely affect our business.***

We highly depend upon skilled personnel in key parts of our organization, and we invest heavily in recruiting, training and retaining qualified individuals, including significant efforts to enhance the diversity of our workforce. The loss of the service of key members of our organization—including senior members of our scientific and management teams, high-quality researchers and development specialists, and skilled personnel in developing countries—could delay or prevent the achievement of major business objectives.

Our future growth will demand talented associates and leaders, yet the market for talent has become increasingly competitive. In particular, emerging growth markets are expected to continue to be an important source of growth, but in many of these countries there is a limited pool of executives with the training and international experience needed to work successfully in a global organization like Novartis.

In addition, shifting demographic trends are expected to result in fewer students, fewer graduates and fewer people entering the workforce in the Western world in the next 10 years. Moreover, many members of younger generations around the world have changing expectations toward careers, engagement and the integration of work in their overall lifestyles.

The supply of talent for certain key functional and leadership positions is decreasing, and a talent gap is visible for some professions and geographies—engineers in Germany, for example. Recruitment is increasingly regional or global in specialized fields such as clinical development, biosciences, chemistry and information technology. In addition, the geographic mobility of talent is expected to decrease in the future, with talented individuals in developed and developing countries anticipating ample career opportunities closer to home than in the past. This decrease in mobility may be worsened by anti-immigrant sentiments in many countries, and laws discouraging immigration. See "Political and economic instability may have a material adverse effect on our results" above.

In addition, our ability to hire qualified personnel also depends on the flexibility to reward superior performance and to pay competitive compensation. Laws and regulations on executive compensation, including legislation in our home country, Switzerland, may restrict our ability to attract, motivate and retain the required level of qualified personnel.

We face intense competition for an increasingly limited pool of qualified individuals from numerous pharmaceutical and biotechnology companies, universities, governmental entities, other research institutions, other companies seeking to enter the healthcare space, and companies in other industries. As a result, despite significant efforts on our part, we may be unable to attract and retain qualified individuals in sufficient numbers, which could have an adverse effect on our business, financial condition and results of operations.

***Environmental liabilities may adversely impact our results of operations.***

The environmental laws of various jurisdictions impose actual and potential obligations on us to remediate contaminated sites, in some cases over many years. While we have set aside substantial provisions for worldwide environmental liabilities, there is no guarantee that additional costs will not be incurred beyond the amounts for which we have provided in the Group consolidated financial statements. If environmental contamination caused by us adversely impact third parties, if we fail to properly manage the safety of our facilities and the environmental risks, or if we are required to further increase our provisions for environmental liabilities in the future, this could have a material adverse effect on our business, financial condition, results of operations, and on our reputation. See also "Item 4. Information on the Company—Item 4.D Property, Plants and Equipment—Environmental Matters" and "Note 19. Provisions and other non-current liabilities" in the "Excerpts from Novartis Annual Report 2017" furnished to the SEC on Form 6-K on January 24, 2018.

***Extreme weather events, earthquakes and other natural disasters could adversely affect our business.***

In recent years, extreme weather events and changing weather patterns such as storms, flooding, drought, and temperature changes, appear to have become more common. We operate in countries around the world. As a result, we are potentially exposed to varying natural disaster or extreme weather risks like hurricanes, tornadoes or floods, or other events that may result from the impact of climate change on the environment. As a result of such events, we could experience business interruptions, destruction of facilities and loss of life, all of which could have a material adverse effect on our business, financial condition and results of operations.

In addition, our corporate headquarters, the headquarters of our Innovative Medicines Division, and certain of our major Innovative Medicines Division production and research facilities are located near earthquake fault lines in Basel, Switzerland. Other major facilities are located near major earthquake fault lines in various locations around the world. In the event of a major earthquake, we could experience business interruptions, destruction of facilities and loss of life, all of which could have a material adverse effect on our business, financial condition and results of operations. See also "—The manufacture of our products is highly regulated and complex, and may result in a variety of issues that could increase our cost of goods and lead to extended supply disruptions and significant liability," above.

**Risks Related To Our ADRs**

***The price of our ADRs and the US dollar value of any dividends may be negatively affected by fluctuations in the US dollar/Swiss franc exchange rate.***

Our American Depositary Shares (ADSs) each representing one Novartis share and evidenced by American Depositary Receipts (ADRs) trade on the NYSE in US dollars. Since the shares underlying the ADRs are listed in Switzerland on the SIX Swiss Exchange (SIX) and trade in Swiss francs, the value of the ADRs may be affected by fluctuations in the US dollar/Swiss franc exchange rate. In addition, since dividends that we may declare will be denominated in Swiss francs, exchange rate fluctuations will affect the US dollar equivalent of dividends received by holders of ADRs. If the value of the Swiss franc decreases against the US dollar, the price at which our ADRs trade may—and the value of the US dollar equivalent of any dividend will—decrease accordingly.

***Holders of ADRs may not be able to exercise preemptive rights attached to shares underlying ADRs.***

Under Swiss law, shareholders have preemptive rights to subscribe for issuances of new shares on a *pro rata* basis. Shareholders may waive their preemptive rights in respect of any offering at a general meeting of shareholders. Preemptive rights, if not previously waived, are transferable during the subscription period relating to a particular offering of shares and may be quoted on the SIX. US holders of ADRs may not be able to exercise the preemptive rights attached to the shares underlying their ADRs unless a registration statement under the US Securities Act of 1933 is effective with respect to such rights and the related shares, or an exemption from this registration requirement is available. In deciding whether to file such a registration statement, we would evaluate the related costs and potential liabilities, as well as the benefits of enabling the exercise by ADR holders of the preemptive rights associated with the shares underlying their ADRs. We cannot guarantee that a registration statement would be filed, or, if filed, that it would be declared effective. If preemptive rights could not be exercised by an ADR holder, JPMorgan Chase Bank, N.A., as depositary, would, if possible, sell the holder's preemptive rights and distribute the net proceeds of the sale to the holder. If the depositary determines, in its discretion, that the rights could not be sold, the depositary might allow such rights to lapse. In either case, the interest of ADR holders in Novartis would be diluted and, if the depositary allowed rights to lapse, holders of ADRs would not realize any value from the preemptive rights.