(1) The Swiss franc amounts have been translated into US dollars at the rate of CHF 1.68 to the dollar. Such translations should not be construed as representations that the Swiss franc amounts represent, or have been or could be converted into, US dollars at that or any other rate.
(2) Adjusted for a forty-for-one share split and share-to-ADS ratio change on May 7, 2001.
(3) Adjusted for a two-for-one split for the ADSs on May 11, 2000.
(4) Dividend to be proposed at Annual General Meeting on March 21, 2002.

Exchange Rates

The following table shows, for the years and dates indicated, certain information concerning the rate of exchange of Swiss francs per US dollar based on exchange rate information found on Reuters Market System. The exchange rate in effect on March 11, 2002, as found on Reuters Market System, was CHF 1.68 = $1.00.

	Year ended December 31,			
	Period End	Average(1)	High	Low
1997	1.46	1.45	1.54	1.34
1998	1.37	1.45	1.54	1.29
1999	1.59	1.51	1.60	1.36
2000	1.64	1.69	1.83	1.55
2001	1.68	1.69	1.82	1.58
November 2001			1.67	1.63
December 2001			1.68	1.63
January 2002			1.71	1.64
February 2002			1.72	1.68
March 2002(2)			1.71	1.67

(1) Represents the average of the exchange rates on the last day of each full month during the year.
(2) The high and low US dollar/Swiss Franc exchange rate is current as of March 11, 2002.

3.B Capitalization and Indebtedness

Not applicable.

3.C Reasons for the offer and use of proceeds

Not applicable.

3.D Risk factors

You should carefully consider all of the information set forth in this annual report and the following risk factors. The risks below are not the only ones we face. Additional risks not currently known to us or that we presently deem immaterial may also impair our business operations. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. This annual report also contains forward-looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere. See "Forward-Looking Statements."

Risks Related to our Business

We face intense competition from new products and from lower-cost generic products

Our products that are under patent protection face intense competition from competitors' proprietary products. This competition may increase as new products enter the market. We also face increasing competition from lower-cost generic products after patents on our products expire. Loss of patent protection typically leads to a rapid loss of sales for that product and could affect future results. Patent protection is no longer available in major markets for the active ingredients used in a number of Novartis Pharmaceuticals' leading products. Patent protection exists for the micro-emulsion formulation and other cyclosporin formulations through 2009 in major markets. Despite that protection, generic products competing with Neoral® entered the transplantation market segment in the United States, Germany and elsewhere. Our patent protection for Aredia® is limited. A generic version of Aredia® was launched in the United States in 2001. Others have been tentatively approved by the FDA and are expected to be launched in May of 2002. Generic products in competition with Aredia® are on sale in Canada and elsewhere. Patent protection or regulatory exclusivity will expire in the next few years in major markets for the key product Sandostatin®. The basic octreotide substance patents expire in late 2002 in the United States and Japan, and from 2003 to 2009 in major EU countries. Voltaren® is off-patent and revenue declines year-over-year may be significant over the next few years.

As new products enter the market, our products may become obsolete or our competitors' products may be more effective or more effectively marketed and sold than our products. If we fail to maintain our competitive position, this could have a material adverse effect on our business and results of operations.

Product regulation may adversely affect our ability to bring new products to market

We and our competitors are subject to strict government controls on the development, manufacture, labeling, distribution and marketing of products. We must obtain and maintain regulatory approval for our pharmaceutical and other products from regulatory agencies before products may be sold in a particular jurisdiction. The submission of an application to a regulatory authority does not guarantee that a license to market the product will be granted. Each authority may impose its own requirements and delay or refuse to grant approval, even though a product has been approved in another country. In our principal markets, the approval process for a new product is complex, lengthy and expensive. The time taken to obtain approval varies by country but generally takes from six months to several years from the date of application. There have been recent press articles indicating a possible general slowing of review and approval of new pharmaceutical products by regulatory authorities, the US FDA in particular. While it is not possible for us to say that there is in fact a conscious policy to slow down the approval and registration process, the implementation of such a policy is possible and is a risk that must be considered real in our industry.

In addition to regulatory delays, other risks associated with product regulation include the inability to successfully complete clinical trials, claims and concerns about safety and efficacy, new discoveries, patents and products of competitors

and related patent disputes and claims about adverse side effects. These risks are only a few of the factors that could delay or even prevent registration of a product. The registration process increases the cost to us of developing new products and increases the risk that we will not succeed in selling them successfully.

Changes in intellectual property protections and remedies, trade regulations and procedures and actions affecting approval, production, pricing, reimbursement and marketing of products, as well as unstable governments and legal systems, intergovernmental disputes and possible nationalization could also materially adversely affect our business or results of operations.

Risks Affecting our Industry

Our research and development efforts may not succeed or our competitors may develop more effective or successful products

In order to remain competitive, we must continue to launch new and better products each year. To accomplish this, we commit substantial resources to research and development through our dedicated resources. In addition, we spend considerable effort and funds on various collaborations with third parties. Our ongoing investments in new product launches and research and development for future products could produce higher costs without a proportional increase in revenues.

In the pharmaceutical business, the research and development process can take from 10 to 12 years from discovery to commercial product launch. This process is conducted in various stages, and during each stage there is a substantial risk that we will not achieve our goals and accordingly we may abandon a product in which we have invested substantial amounts. If we fail to continue developing commercially successful products, or if competitors develop more effective products or a greater number of successful new products, this could have a material adverse effect on our business and results of operations.

Price controls can limit our revenues and adversely affect our business and results of operations

In addition to normal price competition in the marketplace, the prices of our pharmaceutical products are restricted by price controls imposed by governments and health care providers in most countries. Price controls operate differently in different countries and can cause wide variations in prices between markets. Currency fluctuations can aggravate these differences. The existence of price controls can limit the revenues we earn from our products and may have an adverse effect on our business and results of operations.

In the United States, the current national debate over Medicare reform could increase pricing pressures. If Medicare reform results in the provision of outpatient pharmaceutical coverage for beneficiaries, the United States government could use its enormous purchasing power to demand discounts from pharmaceutical companies thereby creating de facto price controls on prescription drugs. In Europe, our operations are also subject to price and market regulations. Many governments are introducing healthcare reforms in an attempt to curb increasing healthcare costs. In Japan, where we also operate, governmental price cut rounds generally are introduced biannually. In response to rising healthcare costs, many governments and private medical care providers, such as HMOs, have instituted reimbursement schemes that favor the substitution of generic pharmaceuticals for more expensive brand-name pharmaceuticals. In the United States, generic substitution statutes have been enacted by virtually all states and permit or require the dispensing pharmacist to substitute a less expensive generic drug instead of an original ethical drug. As a result, we expect that pressures on pricing and operating results will continue and may increase.

We operate in highly competitive and rapidly consolidating industries

We operate in highly competitive and rapidly consolidating industries. Our principal competitors are major international corporations with substantial resources for research and development, production and marketing. Our competitors are consolidating, and the strength of combined companies could affect our competitive position in all of our business sectors.

Product liability claims could adversely affect our business and results of operations

Potentially, product liability is a significant commercial risk for us. Substantial damage awards have been made in some jurisdictions against pharmaceutical companies based upon claims for injuries allegedly caused by the use of their products. We are involved in a number of product liability cases claiming damages as a result of the use of our products. While we hold insurance for product liability in reasonable and prudent amounts, it is possible that not all risks may be covered by such insurance. We believe, but do not know with certainty, that any reasonably foreseeable unaccrued costs and liabilities associated with the risks of product liability claims will not have a material adverse effect on our consolidated financial position, results of operations or liquidity.

Our business will continue to expose us to risks of environmental liabilities

We use hazardous materials, chemicals, viruses and toxic compounds in our product development programs and manufacturing processes which have exposed us and in the future could expose us to risks of accidental contamination and events of noncompliance with environmental laws and regulatory enforcement, personal injury, property damage and claims resulting therefrom. If an accident occurred or if we were to discover contamination caused by prior operations, we could be liable for cleanup obligations, damages or fines, which could have an adverse effect on our business and results of operations.

The environmental laws of many jurisdictions impose actual and potential obligations on us to remediate contaminated sites. These obligations may relate to sites:

- that we currently own or operate;
- that we formerly owned or operated; or
- where waste from our operations was disposed.

These environmental remediation obligations could significantly reduce our operating results. In particular, our accruals for these obligations may be insufficient if the assumptions underlying the accruals prove incorrect or if we are held responsible for additional contamination.

Stricter environmental, safety and health laws and enforcement policies could result in substantial costs and liabilities to us, and could subject our handling, manufacture, use, reuse or disposal of substances or pollutants to more rigorous scrutiny than is currently the case. Consequently, compliance with these laws could result in significant capital expenditures as well as other costs and liabilities, thereby harming our business and operating results.