Cash Dividends per Share

Cash dividends are translated into US dollars at the Reuters Market System Rate on the payment date. Because we pay dividends in Swiss francs, exchange rate fluctuations will affect the US dollar amounts received by holders of ADSs.

Year Earned	Month and Year Paid	Total Dividend[2] per share	Total Dividend[4] per ADS
		(CHF)	($)
1998	April 1999	0.73	0.40
1999	April 2000	0.80	0.41
2000	April 2001	0.85	0.43
2001	March 2002	0.90	0.54
2002[1][3]	March 2003	0.95	0.68

(1) If the Swiss franc amount for 2002 is translated into US dollars at the rate of CHF 1.40 to the dollar, the Total Dividend per share and Total dividend per ADS in US dollars would be $0.68. Such translation should not be construed as representations that the Swiss franc amount represent, or have been or could be converted into, US dollars at that or any other rate.
(2) 1998, 1999 and 2000 figures have been adjusted for a forty-for-one share split and share-to-ADS ratio change on May 7, 2001.
(3) Dividend to be proposed at the Annual General Meeting on March 4, 2003.
(4) 1998 and 1999 figures have been adjusted for a two-for-one split for the ADSs on May 11, 2000.

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 February 18, 2003, as found on Reuters Market System, was CHF 1.37 = $1.00.

	Year ended December 31,			
	Period End	Average[1]	High	Low
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
2002	1.40	1.55	1.72	1.39
September 2002			1.52	1.47
October 2002			1.51	1.47
November 2002			1.49	1.44
December 2002			1.49	1.39
January 2003			1.40	1.35
February 2003[2]			1.37	1.34

(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 February 18, 2003.

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 Form 20-F and the following risk factors which we face and which are faced by our industry. 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 Form 20-F 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."

We face intense competition from new products.

Our products face intense competition from competitors' products. This competition may increase as new products enter the market. In such an event, our competitors' products may be safer or 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.

Our research and development efforts may not succeed.

In order to remain competitive, we must continue to launch new and better products each year. To accomplish this, we commit substantial effort, funds and other resources to research and development, both through our own dedicated resources, and 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 up to 12 years, or even longer, from discovery to commercial product launch. This process is conducted in various stages. 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, this could have a material adverse effect on our business and results of operations.

Our dependence on research and development makes it highly important that we recruit and retain high quality

researchers and development specialists. We commit substantial efforts and funds to this purpose. Should we fail in our efforts, this could have a material adverse effect on our business and results of operations.

We face intense competition from lower-cost generic products.

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 our Pharmaceuticals Division's leading products.

- *Neoral.* Patent protection exists for the *Neoral* micro-emulsion formulation and other cyclosporin formulations through 2009 and beyond in major markets. Despite this protection, generic cyclosporin products competing with *Neoral* have entered the transplantation market segment in

the US, Germany and elsewhere. We have filed patent infringement actions against manufacturers of these generic products. However, despite a finding of infringement and an award of damages against one of these manufacturers in the US, we have so far not succeeded in obtaining an injunction, or a final judgment of damages against any of the manufacturers we have sued.

- *Aredia.* Our patent protection for *Aredia* is limited. Generic versions of *Aredia* were launched in the United States in 2001 and 2002. Generic products in competition with *Aredia* are on sale in Canada and elsewhere. However, in 2002, we launched *Zometa,* our more potent successor product to *Aredia.*

- *Sandostatin.* Basic patent protection for *Sandostatin* has expired in the US and Japan and will expire April 2003 in Germany and the UK, 2006 in France, and 2007 in Italy. However, protection extending to 2010 (2013 and beyond in the United States) continues in major markets for *Sandostatin LAR*, which represents a substantial and growing proportion of our octreotide sales.

- *Cibacen/Lotensin/Cibadrex.* The basic benazepril substance patent for *Cibacen/Lotensin/Cibadrex* expired in Japan in 2002 and will expire in the US in August 2003 (or expected to expire in February 2004 with any six-month pediatric exclusivity) and in 2004-08 in major markets in the EU. However, *Lotrel,* which is a combination of benazepril with amlodipine, is patented in the US until 2017.

- *Lamisil.* *Lamisil* is covered generically by a patent family which will expire in 2004 in the US, March 2003 in Japan and has expired in other major countries. Another patent family covers the product specifically and expires in 2006 in the US, 2004-05 in Japan and 2005-07 in major EU countries. The specific US patent is being challenged by Dr. Reddy Laboratories in the US.

- *Voltaren.* *Voltaren* is off-patent. As a result, revenue from *Voltaren* may decline significantly over the next few years.

Government regulation may adversely affect our business.

We and our competitors are subject to strict government controls on the development, manufacture, marketing, labeling, distribution and pricing of products. We must obtain and maintain regulatory approval for our pharmaceutical and other products from regulatory agencies in order to sell our products in a particular jurisdiction.

Risks regarding the development of new products. Our research and development activities are heavily regulated. If we fail to comply fully with applicable regulations, then there could be a delay in the submission or approval of potential new products for marketing approval. In addition, 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 when a product has already 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. This registration process increases the cost to us of developing new products and increases the risk that we will not succeed in selling them successfully.

Risks regarding the manufacture of our products. The manufacture of our products is heavily regulated by governmental authorities around the world, including the US FDA. If we or our third party suppliers fail to comply fully with such regulations then there could be a government-enforced shutdown of production facilities, which in turn could lead to product shortages. A failure to comply fully with such regulations could also lead to a delay in the approval of new products.

Risks regarding the marketing of our products. The marketing of our products is also heavily regulated by governments throughout the world. In many countries, particularly those in Europe, we are prohibited from marketing our products directly to consumers. In the United States, some direct-to-consumer

marketing practices are permitted, but the scope of allowable marketing practices is still significantly limited. Most countries also place restrictions on the manner and scope of permissible marketing to physicians and other health professionals. The effect of such regulations may be to limit the amount of revenue which we may be able to derive from a particular product. In addition, if we fail to comply fully with such regulations then civil or criminal actions could be brought against us.

Risks regarding the pricing of our products. 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.

- *United States.* In the United States, ongoing political debates over prescription drug pricing and Medicare reform could increase pricing pressures. In particular, 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. This could effectively create price controls on prescription drugs.

- *Europe.* 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.

- *Japan*. In Japan, where we also operate, the government generally introduces price cut rounds every other year, during which the government mandates price decreases for specific products.

- *Regulations favoring generics*. In response to rising healthcare costs, many governments and private medical care providers, such as Health Maintenance Organizations (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 branded drug.

As a result, we expect that pressures on pricing and operating results will continue and may increase.

Risks regarding the safety and efficacy of our products. Regulatory agencies may at any time reassess the safety and efficacy of our products based on new scientific knowledge or other factors. Such reassessments could result in the amendment or withdrawal of existing approvals to market our product, which in turn would result in a loss of revenue, and could serve as an inducement to bring lawsuits against us.

Other regulatory risks. Changes in worldwide intellectual property protections and remedies, trade regulations and procedures, as well as unstable governments and legal systems, intergovernmental disputes and possible nationalization could also materially adversely affect our business or results of operations.

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 areas.

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. Such insurance is becoming more difficult to obtain and more expensive when it is available. 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.

Patent claims could adversely affect our Generics Business Unit and results of its operations.

We take all reasonable steps to ensure that our products, including the products manufactured and sold by our Generics Business Unit, do not infringe valid third-party intellectual property rights. Nevertheless, originating companies commonly assert patent and other intellectual property rights, in order to delay or prevent generic competition. As a result, we can become involved in extensive litigation regarding our generic products. If we are unsuccessful in defending against these suits, we could be subject to injunctions preventing us from selling our generic products, or to damages, which may be substantial. Either event could have a material adverse effect on our consolidated financial position, results of operations or liquidity. See "Item 4. Information on the Company—4.B. Business Overview—Generics—Intellectual Property."

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

In our product development programs and manufacturing processes, it is sometimes necessary for us to use hazardous materials, chemicals, viruses and toxic compounds. These programs and processes expose us to risks of accidental contamination, events of noncompliance with environmental laws and regulatory enforcement, personal injury, property damage and claims resulting from these events. If an accident occurred, or if we 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—including our assumptions regarding the portion of the waste at a site for which we are responsible—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.

The manufacture of our products is technically highly complex, and a supply interruption or delay could adversely affect our business and results of operation.

The products we market, distribute and sell are either manufactured at our own dedicated manufacturing facilities, or through toll manufacturing arrangements or supply agreements with third parties. Since many of our products are the result of technically complex manufacturing processes, and are sometimes dependent on highly specialized raw materials, we can provide no assurances that supply sources will not be interrupted from time to time. In addition, for these same reasons, the volume of