3.C Reasons for the offer and use of proceeds

Not applicable.

3.D Risk Factors

Our business faces significant risks. You should carefully consider all of the information set forth in this Form 20-F and in our other filings with the SEC, including the following risk factors which we face and which are faced by our industry. 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 due to the risks we face as described below and elsewhere. See "Forward-Looking Statements" on page 1.

Risks Faced By Our Pharmaceuticals Division

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. Alternately, in the case of generic competition, they may be equally safe and effective products which are sold at a substantially lower price than our products. As a result, if we fail to maintain our competitive position, this could have a material adverse effect on our business, financial condition or results of operations.

Our research and development efforts may not succeed.

Like other major pharmaceutical companies, 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 through various collaborations with third parties. Our ongoing investments in new product launches, new technologies 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 encounter serious obstacles or will not achieve our goals and accordingly we may abandon a product in which we have invested substantial amounts of time and money. If we are unable to maintain a continuous flow of successful new products and successful new indications or brand extensions for existing products sufficient to cover our substantial research and development costs and to replace sales that are lost as older products approach the end of their commercial life cycles or are displaced by competing products or therapies, this could have a material adverse effect on our business, financial condition or results of operations.

Our dependence on research and development makes it highly important that we recruit and retain high quality researchers and development specialists. In addition, our dependence on collaborations with third parties for a portion of our research and development leaves us at risk should those third parties fail to perform their obligations. We commit substantial efforts and funds to these purposes. Should we fail in our efforts, this could have a material adverse effect on our business, financial condition or results of operations.

We face intense competition from lower-cost generic products.

Our Pharmaceuticals Division also faces increasing competition from lower-cost generic products. Our Pharmaceuticals Division's products are generally protected by patent rights which are expected to

provide us with exclusive marketing rights. However, those patent rights are of varying strengths and durations. In addition, in some countries, patent protection is significantly weaker than in the US or the EU. Even in the US and the EU, political pressures to reduce spending on health care has led to legislation which encourages the approval of generic products. As a result, although it is our policy to actively defend our patent rights, generic challenges to our products can arise at any time, and we may not be able to prevent the emergence of generic competition for our products.

Loss of patent protection for a product typically leads to a rapid loss of sales for that product and could affect our future results. In addition, proposals emerge from time to time in the US and other countries for legislation to further encourage the early and rapid approval of generic drugs. Any such proposal that is enacted into law could worsen this substantial negative effect on our sales.

Patent protection is at issue in major markets for the following of our Pharmaceuticals Division's products.

- *Diovan*. The active ingredient in *Diovan* is covered by a compound patent through 2012 in the US, and through 2011-13 in other markets. In the US additional patents covering the marketed formulation have been challenged, however, we have not filed a suit at this point in time.

- *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, Japan, Canada and elsewhere. Patent infringement actions are pending against manufacturers of some of these generic products. At present, there are no injunctions in place against any of the manufacturers that we have sued.

- *Sandostatin.* Basic patent protection for the active ingredient of *Sandostatin SC* has expired in the US, Japan, Germany, France and the UK, and it will expire in May 2007 in Italy. Generic versions of *Sandostatin SC* have been approved in the US and elsewhere. Patent protection for the *Sandostatin LAR* formulation extending to 2010 (and 2013 and beyond in the US) continues in major markets. *Sandostatin LAR* is a long-acting version of *Sandostatin* which represents a majority of our sales in this product family.

- *Lotrel/Cibacen/Lotensin/Cibadrex*. The basic benazepril substance patent protection for *Lotrel/Cibacen/Lotensin/Cibadrex* expires in June 2007 in France and in December 2008 in Italy and has expired elsewhere. *Lotrel,* which is a combination of benazepril and another anti-hypertensive, also is protected by an additional patent in the US until 2017. Teva and Dr. Reddy's Laboratories have challenged this patent. Dr. Reddy's is seeking marketing approval for a slightly different benazepril combination product. Because of this difference, the Dr. Reddy's product, if brought to market, would not be automatically substitutable in the US for *Lotrel*. However, Teva is seeking marketing approval for the same benazepril combination as *Lotrel*, and is thus seeking to bring a fully substitutable product to the US market. We have sued Teva and Dr. Reddy's in the US for patent infringement. The Dr. Reddy's case is currently stayed.

- *Lamisil*. The active ingredient in *Lamisil* is covered by a compound patent family which expires in the US in December 2006, in August 2007 in France and has expired elsewhere. The US patent had been challenged by Dr. Reddy's Laboratories in the US. Dr. Reddy's has since withdrawn its suit and conceded that this patent is valid and enforceable.

- *Miacalcin/Miacalcic*. The specific Novartis formulation of this product is covered by patents which will expire in the US in 2015. However, patents on the Novartis formulation have expired in a number of major countries and will expire in Italy in December 2006. Apotex has applied to the FDA for the right to sell a generic version of *Miacalcin* using the Novartis formulation. We have sued Apotex for patent infringement. Two other companies have applied to the FDA for the right to sell a generic version of *Miacalcin* based on a different formulation. We have not sued these

companies. Unigene's recombinant salmon calcitonin product is approved in the US, but would not be automatically substitutable in the US for *Miacalcin*.

- *Exelon.* The active ingredient in *Exelon* is covered by a compound patent (granted to Proterra AG), which in the US presently expires in August 2007, and has been determined by the FDA to qualify for patent term extension until 2012, and which expires in 2011-13 in the major markets. In addition, we hold an isomer patent on *Exelon* which expires in 2012-14. Dr. Reddy's, Sun Pharmaceuticals and Watson Pharmaceuticals have filed applications to market a generic version of *Exelon* in the US. Together with Proterra, we have sued all three parties for patent infringement.

- *Focalin.* The drug dosage form of *Focalin* and its use in attention deficit hyper-activity disorders are covered by patents (granted to Celgene Corporation and licensed to us) through 2015 in the US and 2018 in other markets. Teva has challenged these patents and has filed an application for a generic version of *Focalin* in the US. Together with Celgene, we have sued Teva for patent infringement under a use patent.

- *Trileptal*. Patent protection for *Trileptal*'s active ingredient has expired in major countries. In the US, New Chemical Entity data exclusivity under the Hatch-Waxman Act of 1984 has expired in 2005. We have also pending patent filings relating to our marketed formulations of *Trileptal*, which, if granted, would expire in 2018 in major countries, including the US. In Europe this formulation patent is being challenged by three generic companies.

- *Starlix*. The active ingredient in *Starlix* is covered by Ajinomoto patents. The basic US patent will expire in 2009. Several parties have informed us that they have filed an ANDA application to market a generic version of *Starlix* in the US upon expiration of the basic patent in 2009. In Europe basic compound protection exists in Germany, France, the UK and Switzerland and will expire in 2011.

- *Foradil*. Patent protection for *Foradil*'s active ingredient has expired in major countries. In the US, Hatch-Waxman data exclusivity is currently scheduled to expire in February 2006.

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

- *Famvir*. The active ingredient in *Famvir* is covered by a compound patent which expires in 2010 in the US, in 2008 in Europe and 2006 in Canada. Other method of use patents expire in 2014 and 2015. Teva has challenged these patents in the US and has filed an application for a generic version of *Famvir* in the US. We have sued Teva in the US for infringement of the compound patent.

- *Zaditor/Zaditen*. Apotex has filed for approval for a generic version of *Zaditor* in the US. The *Zaditor* formulation is covered by a patent in the US. We sued Apotex for patent infringement. However, we subsequently withdrew our suit and there is now no lawsuit pending.

Price controls and other pressures may prevent us from setting prices for our products at levels high enough to earn an adequate return on our investments in them.

In addition to normal price competition in the marketplace, the prices of our Pharmaceuticals Division's products are restricted by price controls and other pricing pressures 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 and other pricing pressures can limit the revenues we earn from our products and may have an adverse effect on our business, financial condition or results of operations.

- *Direct efforts to control prices.*

  - *United States*. In the US, ongoing political debates over prescription drug pricing and recent Medicare reform legislation will increase pricing pressures. In particular, recent Medicare

reform legislation has resulted in the creation of a new voluntary drug benefit for patients who are eligible for Medicare. It is too soon to predict the full impact of this new legislation with certainty. While it is possible that this legislation, which went into effect in January 2006, will increase the volume of our sales, we expect that this increase will be all or partially offset by the requirement that we extend price discounts to additional patients. In addition, unless this newly-enacted drug benefit is deemed to be a success, we expect there to be continuing political pressure to amend this legislation to enable the US government to use its enormous purchasing power to demand additional discounts from pharmaceutical companies.

- *Europe*. In Europe, our operations are subject to significant price and marketing regulations. Many governments are introducing health care reforms in a further attempt to curb increasing health care costs. In the EU, governments influence the price of pharmaceutical products through their control of national health care systems that fund a large part of the cost of such products to consumers. The downward pressure on health care costs in general in the EU, particularly with regard to prescription drugs, has become very intense. As a result, increasingly high barriers are being erected against the entry of new products.

- *Japan*. In Japan, the government generally introduces price cut rounds every other year, during which the government mandates price decreases for specific products. In 2005, the National Health Insurance price calculation method for new products and price revision rule for existing products were reviewed, and the resulting new drug tariffs are effective beginning April 2006. The Japanese government is currently undertaking a health care reform initiative with a goal of curbing national medical expenditures, and is continuing its review of the pricing methods used.

- *Regulations favoring generics*. In response to rising health care 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 US, 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. We expect that the pressure for generic substitution will increase as a result of the implementation of the Medicare prescription drug benefit in 2006.

- *Cross-Border Sales.* Price controls in one country can also have an impact in other countries as a result of cross-border sales. In the EU, products which we have sold to customers in countries with stringent price controls can legally be re-sold to customers in other EU countries with less stringent price controls, at a lower price than the price at which the product is otherwise available in the importing country. This risk could increase due to the addition of 10 nations to the EU in 2004. In North America, products which we have sold to customers in Canada, which has relatively stringent price controls, are sometimes re-sold into the US, again at a lower price than the price at which the product is otherwise sold in the US. Such imports from Canada and other developed countries into the US are currently illegal. However, there are ongoing political efforts at the federal, state and local levels to change the legal status of such imports, and we expect those pressures to continue in 2006.

We expect that pressures on pricing will continue and may increase. Because of these pressures, there can be no certainty that in every instance we will be able to charge prices for a product that, in a particular country or in the aggregate, enable us to earn an adequate return on our investment in that product.

Public pressure on the pharmaceuticals industry could affect our business, financial condition or results of operations.

There is considerable public sentiment against the pharmaceuticals industry, and the industry is under the close scrutiny of the public and the media. In addition there is significant pressure on our

industry from certain less developed nations to make our products available to their people at drastically lower costs. Any increase in such negative public sentiment or increase in public scrutiny or pressure from such less developed nations could lead, among other things, to changes in legislation, to changes in the demand for our products, additional pricing pressures with respect to our products, or increased efforts to undercut intellectual property protections. Such changes could affect our business, financial condition or results of operations.

Risks Faced By Our Sandoz (Generics) Division

The success of Sandoz depends on our ability to successfully develop and commercialize additional generic pharmaceutical products.

To a significant degree, the future results of Sandoz, our generics Division, depend upon our ability to successfully commercialize additional generic pharmaceutical products. We must develop new generic products, and prove that they are the bio-equivalent of the originator products. Once developed, we must successfully manufacture and bring these new products to market. The development and commercialization process is both lengthy and costly and involves a high degree of risk. Our products currently under development may not be approved by regulatory authorities, or may not be approved as quickly as expected. In addition, we may not be able to successfully and profitably produce and market such products. Delays in any part of the process or our inability to obtain regulatory approval of our products could adversely affect our operating results by restricting or delaying our introduction of new products. The timely and continuous introduction of new generic products is critical to our business.

Our revenues and profits from any particular generic pharmaceutical products decline as our competitors introduce their own generic equivalents.

Selling prices of generic drugs typically decline, sometimes dramatically, as additional companies receive approvals for a given product and competition for that product intensifies. To the extent that we succeed in being the first to bring to market a generic version of a significant product, our sales and our profits can be substantially increased in the period following the introduction of such product and prior to a competitor's introduction of an equivalent product. Our ability to sustain our sales and profitability on any product over time is dependent on both the number of new competitors for such product and the timing of their approvals. The overall profitability of Sandoz depends, among other things, on our ability to be the first to bring significant new products to market. There can be no guarantee that we will achieve this goal in the future.

Our generic pharmaceutical products face intense competition from brand-name pharmaceutical companies that sell or license their own generic products or successfully extend their market exclusivity period.

Competition in the generic pharmaceutical market continues to intensify as the pharmaceutical industry adjusts to increased pressures to contain health care costs. Brand-name pharmaceutical companies have taken aggressive steps to counter the growth of the generics industry. In particular, certain brand-name pharmaceutical companies continue to sell their products to the generic market directly by acquiring or forming strategic alliances with generic pharmaceutical companies. No significant regulatory approvals are required for a brand-name pharmaceutical manufacturer to sell directly or through a third party to the generic market. In addition, certain brand-name companies continually seek new ways to protect their market franchise and to decrease the impact of generic competition. These efforts by the brand-name pharmaceutical industry have had, and likely will continue to have, a negative effect on the results of operations of Sandoz.

Recent changes in the US regulatory environment may prevent us from utilizing the exclusivity periods that are important to the success of our generic products.

Under US law, the FDA awards 180 days of market exclusivity to the first generic manufacturer who challenges the patent of a branded product. However, amendments to the Hatch-Waxman Act will affect

the future availability of this market exclusivity in many cases. These amendments now require generic applicants to launch their products within certain time frames or risk losing the marketing exclusivity that they had gained through being a first-to-file applicant.

Sandoz's success may depend on its ability to successfully challenge patent rights held by branded pharmaceutical companies or others.

At times we seek approval to market generic products before the expiration of patents held by others for those products, based upon our belief that such patents are invalid, unenforceable, or would not be infringed by our products. As a result, we often face significant patent litigation. If we are unsuccessful in such litigation, then our ability to launch new products will be substantially limited. In addition, depending upon a complex analysis of a variety of legal and commercial factors, we may, in certain circumstances, elect to market a generic product even though litigation is still pending. This could be before any court decision or while an appeal of a lower court decision is pending. Should we elect to proceed in this manner, we could face substantial damages if the final court decision is adverse to us.

We may fail to successfully integrate Hexal and Eon Labs into our business.

In 2005, we significantly expanded the scope of our Sandoz Division through the acquisition of Hexal AG and Eon Labs, Inc., and we began our efforts to integrate them with our own operations. Should we ultimately fail to successfully integrate Hexal and Eon with the existing operations of Sandoz, or should the achievement of a successful integration significantly divert management's attention away from the operation of our business, then our business, financial condition or results of operations could be materially adversely affected.

Risks Faced By The Entire Novartis Group

Government regulation may adversely affect our business, financial condition or results of operations.

Like our competitors, we are subject to strict government controls on the development, manufacture, marketing, labeling, distribution and pricing of our products. We must obtain and maintain regulatory approval for our pharmaceutical and many of our 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 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. In addition, because our products are intended to promote the health of patients, any supply interruption could lead to allegations that the public health has been endangered, and could subject us to lawsuits.

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 many of our products directly to consumers. In the US, 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 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 products, which in turn would result in a loss of revenue, and could serve as an inducement to bring lawsuits against us.

Risks arising from the decreasing risk tolerance of the public and of governmental agencies. In recent years, the public and various governments appear to have become less tolerant than in the past of the risks posed by products of the type sold by companies such as ours. This apparent trend could in the future result in more stringent regulatory requirements, including more difficult approval processes for products of the type we sell. This in turn could increase our costs of developing new products, limit our ability to promote and sell our existing products, or lead to market withdrawals of existing products.

Other regulatory and legal risks. Changes in worldwide intellectual property protections and remedies, trade regulations and procedures, product counterfeiting, unstable governments and legal systems, intergovernmental disputes and possible nationalizations could also materially adversely affect our business, financial condition 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.

Lawsuits, investigations and other liabilities could adversely affect our business, financial condition or results of operations.

Like our competitors, we are subject to a variety of lawsuits, governmental investigations and other potential liabilities arising out of the normal conduct of our business.

Risks regarding product liability claims. Product liability claims are potentially a significant commercial risk for us. Substantial damage awards have been made in some jurisdictions against companies such as ours 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. See "Item 8. Financial Information—8.A Consolidated Statements and Other Financial Information—8.A.7 Legal Proceedings." We maintain product liability insurance policies with third parties, covering claims on a worldwide basis. However, changes in the product liability insurance market for originator pharmaceutical products have made the purchase of such policies uneconomic for such products. For certain pharmaceutical substances, coverage cannot be obtained at all. To cope with this change, we have established provisions for these product liability risks up to certain limits. From January 1, 2006, these provisions provide our sole means for affirmatively managing the product liability risks of our Pharmaceuticals Division. Product liability insurance coverage for all other Divisions will continue to be acquired from third parties. We believe that our insurance coverage and provisions are reasonable and prudent in light of our business and the risks to which we are subject. However, events may occur which in whole or in part, might not be covered by insurance or the provisions that we have put in place. While no such losses are presently expected, there can be no guarantee that we will not also face a loss which far exceeds available insurance and provisions.

Risks regarding other lawsuits and investigations. A number of our affiliates are the subject of litigation and investigations arising out of the normal conduct of their business. As a result, claims could be made against them which, in whole or in part, might not be covered by insurance. While, in our opinion, the outcome of these actions will not materially affect our financial condition, the outcome of these actions could be material to our results of operations in a given period. See "Item 8. Financial Information—8.A Consolidated Statements and Other Financial Information—8.A.7 Legal Proceedings."

Risks regarding patent claims by third parties. We take all reasonable steps to ensure that our products do not infringe valid third-party intellectual property rights. Nevertheless, third parties may assert claims against us for infringement. As a result, we can become involved in extensive litigation regarding our products. If we are unsuccessful in defending ourselves against these suits, we could be subject to injunctions preventing us from selling our 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.

Risks regarding environmental liabilities. In our product development programs and manufacturing processes, it is sometimes necessary for us to use hazardous materials, chemicals, biologics, 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 clean-up obligations, damages or fines, which could have an adverse effect on our business, financial condition or 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 acquire, 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 financial provisions for these obligations may be insufficient if the assumptions underlying the provisions—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, financial condition or operating results.

The manufacture of our products is technically highly complex, and sometimes sole-sourced, and a supply interruption or delay could adversely affect our business, financial condition or results of operations.

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. Many of our products are the result of technically complex manufacturing processes, and are sometimes dependent on highly specialized raw materials. In addition, for certain of our products, and certain key raw materials, we have only a single source of supply. As a result, we can provide no assurances that supply sources will not be interrupted from time to time. For these same reasons, the volume of production of any product cannot be rapidly altered. As a result, if we should fail to accurately predict market demand for any of our products then we may not be able to produce enough of the product to meet that demand, or may produce too much of the product, either of which could affect our business, financial condition or results of operations. In addition, because our products are intended to promote the

health of patients, any supply interruption could lead to allegations that the public health has been endangered, and could subject us to lawsuits.

An inability to attract and retain personnel could adversely affect our business, financial condition or results of operations.

We highly depend upon our key personnel at all levels of our organization. The loss of the service of any of the key members of our organization—particularly members of our senior management and scientific teams—may delay or prevent the achievement of major business objectives. Our ability to attract and retain qualified personnel, consultants and advisors is critical to our success. We face intense competition for qualified individuals from numerous pharmaceutical and biotechnology companies, universities, governmental entities and other research institutions. We may be unable to attract and retain these individuals, and our failure to do so would have an adverse effect on our business, financial condition or results of operations.

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

A significant portion of our earnings and expenditures are in currencies other than US dollars, our reporting currency. In 2005, 42% of our sales were made in US dollars, 27% in Euro, 8% in Japanese yen, 2% in Swiss francs and 21% in other currencies. In 2005, 34% of our costs were generated in US dollars, 26% in Euro, 16% in Swiss francs, 5% in Japanese yen and 19% in other currencies. Changes in exchange rates between the US dollar and other currencies can result in increases or decreases in our costs and earnings. Fluctuations in exchange rates between the US dollar and other currencies may also affect the reported value of our assets measured in US dollars and the components of shareholders' equity. We seek to minimize our currency exposure by engaging in hedging transactions where we deem it appropriate. To mitigate some of these risks, we may hedge certain foreign currency positions for 2006. We cannot predict, however, all changes in currency and interest rates, inflation or other factors, which could affect our international businesses.

The impairment of long-lived assets could adversely affect our business, financial condition or results of operations.

We regularly review our long-lived assets, including identifiable intangible assets and goodwill, for impairment. Goodwill, in-process research and development, 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. If the balance sheet carrying amount of the asset exceeds the higher of its value in use to Novartis or its anticipated fair value less the cost of sale, we will recognize an impairment loss for the difference. The impairment analysis is principally based on an estimate of discounted future cash flows.

In making such estimates, changes in the discount rates used could lead to impairments. Impairments could also result from lower-than-anticipated sales for acquired products; from lower-than-anticipated sales of products with capitalized patents or trademarks; from lower-than-anticipated future sales resulting from acquired research and development; or from the closing of facilities or changes in the planned use of buildings, machinery or equipment. Any significant impairments could adversely affect our results of operations.

Changes in tax laws could adversely affect our business, financial condition or results of operations.

Changes in the tax laws of Switzerland, the US, or other countries in which we do significant business, as well as changes in our effective tax rate for the fiscal year caused by other factors, including changes in the interpretation of tax law by local tax officials, could affect our net income. While certain changes were enacted to the tax laws of major countries during 2005, those changes are not expected to materially impact our net income. It is not possible to predict the impact on our results of any tax legislation which may be enacted in the future.

Earthquakes could adversely affect our business, financial condition or results of operations.

Our corporate headquarters, the headquarters of our Pharmaceuticals Division, and certain of our major Pharmaceuticals Division production facilities are located near major earthquake fault lines in Basel, Switzerland. In the event of a major earthquake, we could experience business interruptions, destruction of facilities and/or loss of life, all of which could materially adversely affect us.

Product counterfeiting or tampering could adversely affect our business, financial condition or results of operations.

There are increasing reports of the illegal counterfeiting of and tampering with health care products. Should such reports significantly impact our image or the confidence of our customers in our products, then our business, financial condition or results of operations could be materially adversely affected.

Public sentiment against our industry could adversely affect our business, financial condition or results of operations.

There is considerable public sentiment against the pharmaceuticals industry, and the industry is under the close scrutiny of the public, the media and other stakeholders. Rising expectations are especially noteworthy in the areas of improving access to our products for the underprivileged both in our established markets and in less developed nations; business conduct in our supply chain; fair marketing practices; bio-ethical challenges; working conditions and human rights. While we seek to manage these risks through various pro-active measures, there can be no assurance that in the future such risks will not cause our business, financial condition or results of operations to be materially affected.

Terrorism and related military activity could impact global economic conditions and thereby adversely affect our business, financial condition or results of operations.

In the recent past, major terrorist attacks have had an impact on global economic conditions. Any additional major terrorist attacks which may occur in the future, and any related military activity around the world, could have a similar impact, which could materially affect our business, financial condition or results of operations.

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

Our American Depositary Shares (ADSs) trade on the New York Stock Exchange in US dollars. Since the shares underlying the ADSs are listed in Switzerland on the SWX Swiss Exchange (SWX) and trade on the European trading platform virt-x in Swiss francs, the value of the ADSs may be affected by fluctuations in the US dollar/Swiss franc exchange rate. If the value of the Swiss franc decreases against the US dollar, the price at which our ADSs trade may decrease. In addition, since any 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 ADSs. If the value of the Swiss franc decreases against the US dollar, the value of the US dollar equivalent of any dividend will decrease accordingly.

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

Under Swiss law, shareholders have preemptive rights to subscribe for cash 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 SWX. US holders of ADSs may not be able to exercise the preemptive rights attached to the shares underlying their ADSs unless a registration statement under the US Securities Act of 1933, as amended, is effective with respect to such rights and the related shares, or an exemption from the registration requirements thereunder is available. We would evaluate at the time of any share offering the costs and potential liabilities associated