(4) 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 January 27, 2004, as found on Reuters Market System, was CHF 1.26 = $1.00.

Year ended December 31,	Period End	Average(1)	High	Low
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
2003	1.25	1.34	1.42	1.24
Month end,				
August 2003			1.42	1.34
September 2003			1.42	1.32
October 2003			1.34	1.31
November 2003			1.38	1.30
December 2003			1.30	1.24
January 2004(2)			1.27	1.22

(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 January 27, 2004.

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" on page 1.

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 new products, or successful new indications or brand extensions for existing 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.

Our Pharmaceuticals Division also faces 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, Japan 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.

- *Sandostatin.* Basic patent protection for *Sandostatin SC* has expired in the US, Japan, Germany and the UK, and it will expire in 2006 in France and 2007 in Italy. However, patent protection extending to 2010 (and 2013 and beyond

in the US) continues in major markets for *Sandostatin LAR*, which represents a significant and growing proportion of our octreotide sales.

- *Lotrel/Cibacen/Lotensin/Cibadrex*. The basic benazepril substance patent protection for *Cibacen/Lotensin/Cibadrex* expired in Japan in 2002 and will expire in the US in February 2004, and in 2004-08 in major markets in the EU. However, *Lotrel,* which is a combination of benazepril and amlodipine besylate, is patented in the US until 2017. Dr. Reddy's Laboratories has challenged this patent, as well as other patents related to *Lotrel,* in a lawsuit filed in December 2003. Dr. Reddy's is seeking marketing approval for a different benazepril combination, using amlodipine maleate, rather than amlodipine besylate. Because of this difference, the Dr. Reddy's product, if brought to market, would not be automatically substitutable in the US for *Lotrel*. Nonetheless, we will take all appropriate measures to enforce our patent rights.

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

- *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 expired in a number of other major countries in 2003, and will expire in Italy in 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 infringement. Another company has applied to the FDA for the right to sell a generic version of *Miacalcin* based on a different formulation. We have not sued this company.

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

Government regulation may adversely affect our business.

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.

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 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 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 US, ongoing political debates over prescription drug pricing and recent Medicare reform legislation could increase pricing pressures. In particular, recent Medicare reform legislation could ultimately enable the US government to use its enormous purchasing power to demand discounts from pharmaceutical companies. It is not yet possible to predict with certainty the extent to which this recently-enacted legislation will affect our business and results of operations.

- *Europe*. In Europe, our operations are subject to significant price and marketing regulations. Many governments are introducing healthcare reforms in a further attempt to curb increasing healthcare costs.

- *Japan*. In Japan, 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 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.

- *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 in 2004, when 10 additional nations join the EU. 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 to the US are currently illegal.

However, there are ongoing political efforts to change the legal status of such imports.

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 products, 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.

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. 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. Product liability 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 either be covered by insurance, or will otherwise be in amounts which will not have a material adverse effect on our consolidated financial condition, but could be material to our results of operations in a given period.

Patent claims by third parties could adversely affect our business and results of operations.

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. This risk is particularly strong with respect to Sandoz, our generics Business Unit. Companies which originate branded pharmaceutical products commonly assert patent and other intellectual property rights against competitors. 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. Regarding our Sandoz Business Unit, see "Item 4. Information on the Company—4.B. Business Overview—Sandoz—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 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 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 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 and operating results.