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.

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 and 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 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. 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 prescription drugs has led to legislation which encourages the approval of generic products. As a result, although it is our policy to actively protect 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 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, Canada and elsewhere. We have filed patent infringement actions against manufacturers of these generic products. However, except in one lawsuit in Canada, we have so far not succeeded in obtaining an injunction against any of the manufacturers we have sued.

- *Sandostatin.* Basic patent protection for the active ingredient in *Sandostatin SC* has expired in the US, Japan, Germany and the UK, and it will expire in 2006 in France and 2007 in Italy. Several parties have filed applications to market generic versions of *Sandostatin SC* in the US. We have not, so far, sued any for patent infringement. However, patent protection extending to 2010 (and 2013 and beyond in the US) continues in major markets for *Sandostatin LAR*, a long-acting version of *Sandostatin,* which represents a significant and growing proportion of our sales in this product family.

- *Lotrel/Cibacen/Lotensin/Cibadrex*. The basic benazepril substance patent protection for *Cibacen/Lotensin/Cibadrex* has expired in the US and Japan, and will expire in 2005-08 in major markets in the EU. However, *Lotrel,* which is a combination of benazepril and amlodipine besylate, is patented in the US until 2017. Teva and Dr. Reddy's Laboratories have challenged this patent. 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*. 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 generically, but not mentioned specifically, in a patent family which has expired. Another patent family specifically discloses and covers the active ingredient specifically and expires in the US in 2006, and 2005-07 in Japan and major EU countries. The specific US patent had been challenged by Dr. Reddy 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 other major countries, 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. 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.

- *Exelon*. The active ingredient in *Exelon* is covered by a compound patent (granted to Proterra, AG and licensed to us), which presently expires in 2007, and has been determined by the FDA to qualify for patent term extension until 2012. In addition, we hold an isomer patent on *Exelon* which expires in 2014. 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 active ingredient in *Focalin* is 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.

- *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 is currently scheduled to expire in January 2005. However, we have applied for a six-month extension of this exclusivity period under the Hatch-Waxman pediatric exclusivity provisions. At the same time, we have pending patent filings relating to our marketed formulations of *Trileptal*, which, if granted, would expire in 2018 in major countries, including the US.

- *Starlix*. The active ingredient in *Starlix* is covered by Ajinomoto patents. The basic US patent will expire in 2006, but a request to extend the term of the patent until 2009 has been filed. In late January 2005 a third party informed us that they have filed an ANDA application to market a generic version of *Starlix* in the US. We are assessing that information and will respond appropriately.

- *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.

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 Pharmaceutical 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 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 is expected to lead to the creation of a new voluntary drug benefit for patients who are eligible for Medicare, and may require us to extend price discounts to more patients when the benefit goes into effect in 2006. In addition, there is continuing political pressure to amend this legislation to 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 health care reforms in a further attempt to curb increasing health care 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. 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 to 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.

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 and 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 disadvantaged 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 disadvantaged 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 and results of operations.

Risks Faced By Sandoz (Generics)

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 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 continuous introduction of new generic products is critical to our business. (Sandoz has been a separate Division since January 1, 2005. Before that Sandoz was a Business Unit of our Consumer Health Division.)

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 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 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 companies have taken aggressive steps to counter the growth of the generics industry. In particular, brand-name 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 manufacturer to sell directly or through a third party to the generic market. In addition, brand-name companies continually seek new ways to delay generic introduction 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 must award 180 days of market exclusivity to the first generic manufacturer who challenges the patent of a branded product. However, recent changes in the Hatch-Waxman Act may affect the availability of this market exclusivity in the future. The new 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.

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 patent liability damages if the final court decision is adverse to us.

Risks Faced By The Entire Novartis Group

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 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.

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 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. 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, and 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, because other pharmaceutical companies have faced large product liability losses, third party product liability insurance coverage is becoming increasingly difficult to obtain. As a result, claims may occur which in whole or in part, might not be covered by third party 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.

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. 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.

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, 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 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 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 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. 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.

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 2004, 43% of our sales were made in US dollars, 26% in Euro, 8% in Japanese yen, 3% in Swiss francs and 20% in other currencies. In 2004, 37% of our costs were generated in US dollars,

23% in Euro, 15% in Swiss francs, 5% in Japanese yen and 20% 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 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 2005. We cannot predict, however, all changes in currency and interest rates, inflation or other factors, which could affect our international businesses.

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 with any such registration statement, as well as the indirect benefits of enabling the exercise by the holders of ADSs of the preemptive rights associated with the shares underlying their ADSs, and any other factors we would consider appropriate at the time, and then would make a decision as to whether to file such a registration statement. We cannot guarantee that any registration statement would be filed, or, if filed, that it would be declared effective. If preemptive rights could not be exercised by an ADS holder, JPMorgan Chase Bank, N.A., as depositary, would, if possible, sell such holder's preemptive rights and distribute the net proceeds of the sale to the holder. If the depositary determines, in its discretion, that such rights could not be sold, the depositary might allow such rights to lapse. In either case, the interest of ADS holders in Novartis would be diluted and, if the depositary allows rights to lapse, holders of ADSs would not realize any value from the granting of preemptive rights.

Decreases in financial income could affect our earnings.

In recent years, we have earned a level of net financial income that exceeds our benchmarks in a difficult investment environment. We have accomplished this primarily through effective currency management and investment strategies. Given the volatile nature of investment markets, there can be no guarantee that this performance will be repeated in the future, or that we can avoid suffering losses from our management of our financial assets.

Changes in accounting rules could affect our reported results.

The International Accounting Standards Board has and will continue to critically examine current International Financial Reporting Standards (IFRS) with a view toward increasing international