SALESFORCE COM INC
Form 4
May 22, 2015

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL	
OMB Number:	3235-0287
Expires:	January 31, 2005
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(Print or Type Responses)

1. Name and Address of Reporting Person *
Conway Craig

(Last) (First) (Middle)

THE LANDMARK @ONE MARKET STREET, SUITE 300

(Street)

SAN FRANCISCO, CA 94105

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
SALESFORCE COM INC [CRM]

3. Date of Earliest Transaction (Month/Day/Year)
05/22/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	05/22/2015		A		1,862	A	$ 0 (1)	10,278	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Conway Craig THE LANDMARK @ONE MARKET STREET SUITE 300 SAN FRANCISCO, CA 94105	X			

Signatures

/s/ Scott Siamas, Attorney-in-Fact for Craig Conway	05/22/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares awarded from the Issuer's 2013 Equity Incentive Plan for board service.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. "8%" ALIGN="RIGHT">4Other 19 19 15 11

Liquid funds and financial debt by currencies

	Liquid funds % 2003	Liquid funds % 2002	Financial debt % 2003	Financial debt % 2002
USD	50	8	28	31
EUR	15	24	29	6
CHF	32	64	40	37

	Liquid funds % 2003	Liquid funds % 2002	Financial debt % 2003	Financial debt % 2002
JPY	1	1		20
Other	2	3	3	6

(1)
Restated to be comparable with 2003

On average in 2003, the US dollar was weaker against the Swiss franc, Japanese yen, Euro and British pound than in 2002. The total positive currency effect on sales growth was 8% and the total positive impact on operating income growth was 15%.

Market risk: Novartis is exposed to market risk, primarily related to foreign exchange, interest rates and the market value of the investments of liquid funds. Management actively monitors these exposures. To manage the volatility relating to these exposures, the Group enters into a variety of derivative financial instruments. The Group's objective is to reduce, where it deems appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates, foreign currency rates and market rates of investments of liquid funds. It is the Group's policy and practice to use derivative financial instruments to manage exposures and to enhance the yield on the investment of liquid funds. It does not enter any financial transactions containing a risk that cannot be quantified at the time the transaction is concluded. The Group only sells existing assets or enters into transactions and future transactions (in the case of anticipatory hedges) which it confidently expects it will have in the future, based on past experience. In the case of liquid funds, the Group writes call options on assets it has or it writes put options on positions it wants to acquire and has the liquidity to acquire. The Group expects that any loss in value for these instruments generally would be offset by increases in the value of the underlying transactions.

Foreign exchange rates: The Group uses the US dollar as its presentation currency and is therefore exposed to foreign exchange movements, primarily in European, Japanese and other Asian and Latin American currencies. Consequently, it enters into various contracts which change in value as foreign exchange rates change, to preserve the value of assets, commitments and anticipated transactions. It uses forward contracts and foreign currency option contracts to hedge certain anticipated net revenues in foreign currencies.

Net investments in foreign countries are long-term investments. Their fair value changes through movements of the currency exchange rates. In the very long term, however, the difference in the inflation rate should match the exchange rate movement, so that the market value of the real assets abroad will compensate for the change due to currency movements. For this reason, the Group only hedges the net investments in foreign subsidiaries in exceptional cases.

Commodities: The Group has only a very limited exposure to price risk related to anticipated purchases of certain commodities used as raw materials by its businesses. A change in those prices may alter the gross margin of a specific business, but generally by not more than 10% of the margin and thus below materiality levels. Accordingly, it does not enter into significant commodity futures, forward and option contracts to manage fluctuations in prices of anticipated purchases.

Interest rates: The Group manages its net exposure to interest rate risk through the proportion of fixed rate debt and variable rate debt in its total debt portfolio. To manage this mix, it may enter into interest rate swap agreements, in which it exchanges periodic payments based on a notional amount and agreed-upon fixed and variable interest rates.

Equity risk: The Group purchases equities as investments of its liquid funds. As a policy, it limits its holdings in an unrelated company to less than 5% of its liquid funds. Potential investments are thoroughly analyzed in respect to their past financial track record (mainly cash flow return on investment), their market potential, their management and their competitors. Call options are written on equities which the Group owns, and put options are written on equities which the Group wants to buy and for which cash has been reserved.

Management summary: Use of derivative financial instruments has not had a material impact on the Group's financial position at December 31, 2003 and 2002 or its results of operations for the years ended December 31, 2003 and 2002.

Value at risk: The Group uses a value at risk (VAR) computation to estimate the potential ten-day loss in the fair value of its interest rate sensitive financial instruments, the loss in pre-tax earnings of its foreign currency price-sensitive derivative financial instruments as well as the potential ten-day loss of its equity holdings. It uses a ten-day period because it is assumed that not all positions could be undone in a single day, given the size of the positions. The VAR computation includes the Group's debt, short-term and long-term investments, foreign currency forwards, swaps and options as well as anticipated transactions. Foreign currency trade payables and receivables as well as net investments in foreign subsidiaries are excluded from the computation.

The VAR estimates are made assuming normal market conditions, using a 95% confidence interval. The Group uses a "Delta Normal" model to determine the observed inter-relationships between movements in interest rates, stock markets and various currencies. These inter-relationships are determined by observing interest rate, stock market movements and forward currency rate movements over a 60-day period for the calculation of VAR amounts.

The estimated potential ten-day loss in fair value of the Group's interest rate sensitive instruments, primarily debt and investments of liquid funds under normal market conditions, the estimated potential ten-day loss in pre-tax earnings from foreign currency instruments under normal market conditions, and the estimated potential ten-day loss on its equity holdings, as calculated in the VAR model, follow:

	December 31, 2003 USD millions	**December 31, 2002 USD millions**
Instruments sensitive to foreign currency rates	244	128
Instruments sensitive to equity market movements	67	421
Instruments sensitive to interest rates	112	94
All instruments	356	509

The average, high, and low VAR amounts for 2003 are as follows:

	Average USD millions	**High USD millions**	**Low USD millions**
Instruments sensitive to foreign currency rates	184	307	74
Instruments sensitive to equity market movements	228	440	67
Instruments sensitive to interest rates	100	118	83
All instruments	404	489	302

The VAR computation is a risk analysis tool designed to statistically estimate the maximum probable ten-day loss from adverse movements in interest rates, foreign currency rates and equity prices under normal market conditions. The computation does not purport to represent actual losses in fair value on earnings to be incurred by the Group, nor does it consider the effect of favorable changes in market rates. The Group cannot predict actual future movements in such market rates and it does not claim that these VAR results are indicative of future movements in such market rates or to be representative of any actual impact that future changes in market rates may have on the Group's future results of operations or financial position.

In addition to these VAR analyses, the Group uses stress testing techniques which are aimed at reflecting a worst case scenario. For these calculations, the Group uses the worst movements during a period of six months over the past 20 years in each category. For 2003 and 2002, the worst case loss scenario was configured as follows:

	December 31, 2003 USD millions	**December 31, 2002 USD millions**

	December 31, 2003 USD millions	December 31, 2002 USD millions
Bond portfolio	200	831
Money market and linked financial instruments	118	105
Equities	287	767
Foreign exchange risks	232	339
Total	**837**	**2 042**

In the Group's risk analysis, it considered this worst case scenario acceptable inasmuch as it could reduce the income, but would not endanger the solvency and/or the investment grade credit standing of the Group. While it is highly unlikely that all worst case fluctuations would happen simultaneously, as shown in the model, the actual market can of course produce bigger movements in the future than it has historically. Additionally, in such a worst case environment, management actions could further mitigate the Group's exposure.

The major financial risks facing the Group are managed centrally by Group Treasury. Only residual risks and some currency risks are managed in the subsidiaries. The collective amount of the residual risks is however below 10% of the global risks.

Novartis has a written Treasury Policy, has implemented a strict segregation of front office and back office controls and the Group does regular reconciliations of its positions with its counterparties. In addition, internal and external audits of the Treasury function are performed at regular intervals.

Summary of Quarterly Financial Data for 2003 and 2002

USD millions unless indicated otherwise	Q1	Q2	Q3	Q4	2003	Q1	Q2	Q3	Q4	2002
Income Statement										
Total sales	**5 721**	**6 203**	**6 210**	**6 730**	**24 864**	**4 742**	**5 193**	**5 373**	**5 569**	**20 877**
Cost of Goods Sold	-1 363	-1 423	-1 500	-1 608	-5 894	-1 199	-1 229	-1 306	-1 260	-4 994
Gross profit	**4 358**	**4 780**	**4 710**	**5 122**	**18 970**	**3 543**	**3 964**	**4 067**	**4 309**	**15 883**
Marketing & Sales	-1 833	-1 995	-1 850	-2 176	-7 854	-1 529	-1 755	-1 696	-1 757	-6 737
Research & Development	-843	-943	-878	-1 092	-3 756	-631	-672	-730	-810	-2 843
General & Administration	-331	-379	-513	-248	-1 471	-297	-205	-321	-388	-1 211
Operating income	**1 351**	**1 463**	**1 469**	**1 606**	**5 889**	**1 086**	**1 332**	**1 320**	**1 354**	**5 092**
Result from associated companies	-246	9	25	12	-200	-9	15	11	-24	-7
Financial income, net	180	119	96	-16	379	225	190	112	86	613
Income before taxes and minority interests	**1 285**	**1 591**	**1 590**	**1 602**	**6 068**	**1 302**	**1 537**	**1 443**	**1 416**	**5 698**
Taxes	-219	-270	-271	-248	-1 008	-237	-246	-245	-231	-959
Minority interests	-3	-5	-42	6	-44	-1	-5	-10	2	-14
Net income	**1 063**	**1 316**	**1 277**	**1 360**	**5 016**	**1 064**	**1 286**	**1 188**	**1 187**	**4 725**
EPS (USD)	0.43	0.53	0.52	0.55	2.03	0.42	0.50	0.48	0.48	1.88
Sales by Business Unit										
Pharmaceuticals	**3 609**	**3 991**	**4 041**	**4 379**	**16 020**	**3 068**	**3 377**	**3 451**	**3 632**	**13 528**
Sandoz	761	702	675	768	2 906	385	399	496	537	1 817
OTC	401	429	443	499	1 772	340	372	396	413	1 521
Animal Health	157	182	163	180	682	150	163	157	153	623

USD millions unless indicated otherwise	Q1	Q2	Q3	Q4	2003	Q1	Q2	Q3	Q4	2002
Medical Nutrition	190	211	206	208	815	163	189	185	174	711
Infant & Baby	307	357	349	348	1 361	323	345	335	330	1 333
CIBA Vision	296	331	333	348	1 308	255	295	297	288	1 135
Consumer Health (ongoing)	**2 112**	**2 212**	**2 169**	**2 351**	**8 844**	**1 616**	**1 763**	**1 866**	**1 895**	**7 140**
Divested Health & Functional Food activities						58	53	56	42	209
Total sales	**5 721**	**6 203**	**6 210**	**6 730**	**24 864**	**4 742**	**5 193**	**5 373**	**5 569**	**20 877**
Operating Income by Business Unit										
Pharmaceuticals	**1 100**	**1 012**	**1 137**	**1 174**	**4 423**	**861**	**1 003**	**986**	**1 041**	**3 891**
Sandoz	112	145	94	122	473	55	58	75	77	265
OTC	52	82	82	93	309	32	45	84	79	240
Animal Health	23	17	21	27	88	25	29	23	15	92
Medical Nutrition	20	16	18	28	82	6	10	3	(15)	4
Infant & Baby	45	73	70	66	254	59	61	63	44	227
CIBA Vision	29	60	48	16	153	23	39	37	19	118
Divisional Management costs	-4	-6	-7	-22	-39					
Consumer Health (ongoing)	**277**	**387**	**326**	**330**	**1 320**	**200**	**242**	**285**	**219**	**946**
Divested Health & Functional Food activities						8	8	8	116	140
Corporate income/expense, net	-26	64	6	102	146	17	79	41	-22	115
Total operating income	**1 351**	**1 463**	**1 469**	**1 606**	**5 889**	**1 086**	**1 332**	**1 320**	**1 354**	**5 092**

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Summary of Financial Data 1997 2002 (since formation of Novartis)

USD millions unless indicated otherwise		2003	2002	2001	2000	1999	1998	1997
Novartis Group sales		**24 864**	**20 877**	**18 762**	**20 997**	**21 496**	**21 863**	**21 503**
Change relative to preceding year	%	19.1	11.3	-10.6	-2.3	-1.7	1.7	
Pharmaceuticals Division sales		16 020	13 528	11 965	10 744	10 157	10 000	9 732
Change relative to preceding year	%	18.4	13.1	11.4	5.8	1.6	2.8	
Consumer Health Division sales		8 844	7 349	6 797	6 242	6 621	6 706	6 644
Change relative to preceding year	%	20.3	8.1	8.9	-5.7	-1.3	0.9	
Novartis Group sales continuing activities		**24 864**	**20 877**	**18 762**	**16 986**	**16 778**	**16 706**	**16 376**
Change relative to preceding year	%	19.1	11.3	10.5	1.2	0.4	2.0	
Discontinued Agribusiness Division sales					4 011	4 718	5 157	5 127
Operating income		**5 889**	**5 092**	**4 325**	**4 684**	**4 868**	**4 772**	**4 612**
Change relative to preceding year	%	15.6	17.7	-7.7	-3.8	2.0	3.5	
As a % of sales	%	23.7	24.4	23.1	22.3	22.6	21.8	21.4
As a % of average equity	%	20.1	19.1	18.2	20.4	21.1	23.2	23.7
As a % of average net operating assets	%	26.4	26.4	28.1	32.1	31.8	33.5	31.0

USD millions unless indicated otherwise		2003	2002	2001	2000	1999	1998	1997
Operating income (excluding discontinued Agribusiness Division)		**5 889**	**5 092**	**4 325**	**4 000**	**4 437**	**4 036**	**3 688**
Change relative to preceding year	%	15.7	17.7	8.1	-9.8	9.9	9.4	
As a % of sales excluding discontinued Agribusiness Division	%	23.7	24.4	23.1	23.5	26.4	24.2	22.5
Net income (including discontinued Agribusiness Division)		**5 016**	**4 725**	**3 836**	**3 822**	**4 401**	**4 145**	**3 592**
Change relative to preceding year	%	6.2	23.2	0.4	-13.2	6.2	15.4	
As a % of sales	%	20.2	22.6	20.4	18.2	20.5	19.0	16.7
As a % of average equity	%	17.1	17.7	16.1	16.7	19.1	20.2	18.5
Dividends of Novartis AG[(1)]		**1 974**	**1 724**	**1 367**	**1 268**	**1 259**	**1 215**	**1 130**
Cash flow from operating activities		**6 652**	**5 229**	**4 358**	**4 538**	**4 597**	**4 037**	**3 148**
Change relative to preceding year	%	27.2	20.0	-4.0	-1.3	13.9	28.2	
As a % of sales	%	26.8	25.0	23.2	21.6	21.4	18.5	14.6
Free cash flow		**3 628**	**2 958**	**2 453**	**2 678**	**2 350**	**1 809**	**844**
Change relative to preceding year	%	22.7	20.6	-8.4	13.9	29.9	114.3	
As a % of sales	%	14.6	14.2	13.1	12.8	10.9	8.3	3.9
Investment in tangible fixed assets		**1 329**	**1 068**	**801**	**803**	**914**	**1 143**	**1 074**
Change relative to preceding year	%	24.4	33.3	-0.2	-12.1	-20.1	6.4	
As a % of sales	%	5.3	5.1	4.3	3.8	4.2	5.2	5.0
Depreciation of tangible fixed assets		**737**	**592**	**557**	**706**	**842**	**801**	**786**
As a % of sales	%	3.0	2.8	3.0	3.4	3.9	3.7	3.7
Research & development expenditure		**3 756**	**2 843**	**2 528**	**2 764**	**2 829**	**2 694**	**2 579**
As a % of sales	%	15.1	13.6	13.5	13.2	13.2	12.3	12.0
Pharmaceuticals research & development expenditure		**3 079**	**2 355**	**2 088**	**1 963**	**1 895**	**1 799**	**1 813**
As a % of Pharmaceuticals Division total sales	%	19.1	17.3	17.3	18.0	18.7	18.0	18.6
Total assets		**49 317**	**45 025**	**39 763**	**35 507**	**41 134**	**40 743**	**36 747**
Liquidity		13 259	12 542	13 194	12 659	14 187	14 259	12 662
Equity		30 429	28 269	25 161	22 492	23 363	22 751	18 357
Debt/equity ratio		0.20:1	0.20:1	0.21:1	0.16:1	0.27:1	0.28:1	0.41:1
Current ratio		2.4:1	2.5:1	2.4:1	2.8:1	2.0:1	2.0:1	2.0:1
Net operating assets		**23 230**	**21 363**	**17 197**	**13 634**	**15 543**	**15 091**	**13 375**
Change relative to preceding year	%	8.7	24.2	26.1	-12.3	3.0	12.8	
As a % of sales	%	93.4	102.3	91.7	64.9	72.3	69.0	62.2
Personnel costs		**6 252**	**5 128**	**4 362**	**4 635**	**4 789**	**4 892**	**5 033**
As a % of sales	%	25.1	24.6	23.2	22.1	22.3	22.4	23.4
Number of employees at year end	number	**78 541**	**72 877**	**71 116**	**67 653**	**81 854**	**82 449**	**87 239**
Sales per employee (average)	USD	318 041	282 041	266 809	252 879	260 684	254 715	242 003

(1) 2003: Proposal to the shareholder's meeting. Discloses in all years amounts paid to third party shareholders.

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Novartis Group Consolidated Financial Statements

Consolidated Income Statements

for the years ended December 31, 2003 and 2002

	Notes	2003 USD millions	2002 USD millions
Sales	3/4	**24 864**	**20 877**
Cost of Goods Sold		-5 894	-4 994
Gross profit		**18 970**	**15 883**
Marketing & Sales		-7 854	-6 737
Research & Development		3 756	-2 843
General & Administration		-1 471	-1 211
Operating income	3/4	**5 889**	**5 092**
Result from associated companies	10	-200	-7
Financial income, net	5	379	613
Income before taxes and minority interests		**6 068**	**5 698**
Taxes	6	-1 008	-959
Income before minority interests		**5 060**	**4 739**
Minority interests		-44	-14
Net income		**5 016**	**4 725**
Earnings per share (USD	7	2.03	1.88
Diluted earnings per share (USD	7	2.00	1.84

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated Balance Sheets

at December 31, 2003 and 2002

	Notes	2003 USD millions	2002 USD millions
Assets			
Long-term assets			
Tangible fixed assets	8	7 597	6 321
Intangible assets	9	4 708	4 395
Investments in associated companies	10	6 848	6 483
Deferred taxes	11	2 401	2 178
Financial and other assets	12	5 490	4 833

	Notes	2003 USD millions	2002 USD millions
Total long-term assets		**27 044**	**24 210**
Current assets			
Inventories	13	3 346	2 963
Trade accounts receivable	14	4 376	3 697
Other current assets	15	1 292	1 613
Marketable securities & financial derivatives	16	7 613	6 744
Cash and cash equivalents		5 646	5 798
Total current assets		**22 273**	**20 815**
Total assets		**49 317**	**45 025**
Equity and liabilities			
Equity			
Share capital	17	1 017	1 025
Treasury shares	17	-121	-127
Reserves		29 533	27 371
Total equity		**30 429**	**28 269**
Minority interests		**90**	**66**
Liabilities			
Long-term liabilities			
Financial debts	18	3 191	2 729
Deferred taxes	11	3 138	2 821
Provisions and other long-term liabilities	19	3 149	2 868
Total long-term liabilities		**9 478**	**8 418**
Short-term liabilities			
Trade accounts payable		1 665	1 266
Financial debts	20	2 779	2 841
Other short-term liabilities	21	4 876	4 165
Total short-term liabilities		**9 320**	**8 272**
Total liabilities		**18 798**	**16 690**
Total equity, minority interests and liabilities		**49 317**	**45 025**

The accompanying notes form an integral part of the consolidated financial statements.

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Consolidated Cash Flow Statements

for the years ended December 31, 2003 and 2002

	Notes	2003 USD millions	2002 USD millions
Net income		**5 016**	**4 725**
Reversal of non-cash items			
Minority interests		44	14
Taxes		1 008	959
Depreciation, amortization and impairments on			
Tangible fixed assets		768	622
Intangible assets		515	673
Financial assets		103	41
Result from associated companies		200	7
Divestment gains			-133
Gains on disposal of tangible and intangible assets		-325	-260
Net financial income		379	613
Dividends received		12	14
Interest and other financial receipts		501	435
Interest and other financial payments		-240	-174
Receipts from associated companies		62	44
Taxes paid		-842	-769
Cash flow before working capital and provision changes		**6 443**	**5 585**
Restructuring payments and other cash payments out of provisions		-248	-204
Change in net current assets and other operating cash flow items	22	457	-152
Cash flow from operating activities		**6 652**	**5 229**
Investment in tangible fixed assets		-1 329	-1 068
Proceeds from disposals of tangible fixed assets		92	183
Purchase of intangible assets		-214	-90
Proceeds from disposals of intangible assets		335	214
Purchase of financial assets		-816	-725
Proceeds from disposals of financial assets		632	582
Acquisition of additional interests in associated companies		-120	-1 846
Acquisition/divestment of subsidiaries	23	-272	-542
Acquisition of minorities		-10	-2
Proceeds from disposals of marketable securities		10 511	7 086
Payments for acquiring marketable securities		-10 107	-6 657
Cash flow used for investing activities		**-1 298**	**-2 865**
Acquisition of treasury shares		-273	-3 228
Increase in long-term financial debts		18	999
Repayment of long-term financial debts		-31	-18
Repayment of put and call options on Novartis shares		-3 458	
Change in short-term financial debts		-296	-427
Dividends paid		-1 724	-1 367
Cash flow used for financing activities		**-5 764**	**-4 041**
Net effect of currency translation on cash and cash equivalents		258	836
Net change in cash and cash equivalents		**-152**	**-841**
Cash and cash equivalents at the beginning of the year		**5 798**	**6 639**

	Notes	2003 USD millions	2002 USD millions
Cash and cash equivalents at end of the year		**5 646**	**5 798**

The accompanying notes form an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Equity

for the years ended December 31, 2003 and 2002

	Notes	Share premium USD millions	Retained earnings USD millions	Fair value adjustments on marketable securities not recorded in net income USD millions	Fair value of deferred cash flow hedges not recorded in net income USD millions	Cumulative translation differences not recorded in net income USD millions	Total reserves USD millions	Share capital USD millions	Treasury shares USD millions	Total equity USD millions
January 1, 2002		**2 565**	**25 642**	**656**	**-10**	**-4 617**	**24 236**	**1 047**	**-122**	**25 161**
Fair value adjustments on financial instruments	24a		98	-955	123		-734			-734
Associated companies' equity movements	24b		-74			-30	-104			-104
Recycled goodwill	24c		25				25			25
Translation effects						3 791	3 791			3 791
Net income			4 725				4 725			4 725
Total of components of comprehensive income			**4 774**	**-955**	**123**	**3 761**	**7 703**			**7 703**
Dividends	24d		-1 367				-1 367			-1 367
Acquisition of treasury shares	24e		-3 201				-3 201		-27	-3 228
Reduction in share capital	24f							-22	22	
Total of other equity movements			**-4 568**				**-4 568**	**-22**	**-5**	**-4 595**
December 31, 2002		**2 565**	**25 848**	**-299**	**113**	**-856**	**27 371**	**1 025**	**-127**	**28 269**
Fair value adjustments on financial instruments	24a			332	-106		226			226
Associated companies' equity movements	24b		-31	41			10			10
Translation effects						2 363	2 363			2 363
Net income			5 016				5 016			5 016
Total of components of			4 985	373	-106	2 363	7 615			7 615

	Notes	Share premium USD millions	Retained earnings USD millions	Fair value adjustments on marketable securities not recorded in net income USD millions	Fair value of deferred cash flow hedges not recorded in net income USD millions	Cumulative translation differences not recorded in net income USD millions	Total reserves USD millions	Share capital USD millions	Treasury shares USD millions	Total equity USD millions
comprehensive income										
Dividends	24d		-1 724				-1 724			-1 724
Acquisition of treasury shares	24e		-271				-271		-2	-273
Redemption of call options on Novartis shares	24g	-1 848	92			-435	-2 191			-2 191
Redemption of put options on Novartis shares	24h	-541	-603			-123	-1 267			-1 267
Reduction in share capital	24f							-8	8	
Total of other equity movements		**-2 389**	**-2 506**			**-558**	**-5 453**	**-8**	**6**	**-5 455**
December 31, 2003		**176**	**28 327**	**74**	**7**	**949**	**29 533**	**1 017**	**-121**	**30 429**

The accompanying notes form an integral part of the consolidated financial statements.

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Notes to the Novartis Group Consolidated Financial Statements

1. Accounting policies

The Novartis Group (Group or Novartis) consolidated financial statements are prepared in accordance with the historical cost convention except for the revaluation to market value of certain financial assets and liabilities and comply with the International Financial Reporting Standards (IFRS) formulated by the International Accounting Standards Board (IASB) and with International Accounting Standards (IAS) and interpretations formulated by its predecessor organization the International Accounting Standards Committee (IASC), as well as with the following significant accounting policies.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from those estimates.

Scope of consolidation: The financial statements include all companies which Novartis AG, Basel, directly or indirectly controls (generally over 50% of voting interest).

Special purpose entities, irrespective of their legal structure, are consolidated in instances where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. As permitted by IFRS, equity compensation and post-employment plans are not consolidated.

Investments in associated companies (defined generally as investments of between 20% and 50% in a company's voting shares) and joint ventures are accounted for by using the equity method with the Group recording its share of the associated company's net income and equity.

Principles of consolidation: The annual closing date of the individual financial statements is December 31. The financial statements of consolidated companies operating in highly inflationary economies are adjusted to eliminate the impact of high inflation.

The purchase method of accounting is used for acquired businesses. Companies acquired or disposed of during the year are included in the consolidated financial statements from the date of acquisition or up to the date of disposal.

The Group was formed on December 20, 1996 when all assets and liabilities of Sandoz AG and Ciba-Geigy AG were transferred by universal succession to Novartis AG. The uniting of interests method was used for this transaction. The merger was consummated before the effective date of Interpretation 9 of the Standing Interpretations Committee on accounting for business combinations; if it were undertaken today, the merger might require a different accounting treatment.

Intercompany income and expenses, including unrealized gross profits from internal Novartis transactions and intercompany receivables and payables have been eliminated.

Reclassification: Certain prior year balances have been reclassified to conform with the current year presentation.

Revenue and expense recognition: Sales are recognized when the significant risks and rewards of ownership of the assets have been transferred to a third party and are reported net of sales taxes and rebates. Provisions for rebates to customers are recognized in the same period that the related sales are recorded, based on the contract terms and historical experience. Expenses for research and service contracts in progress are recognized based on their percentage of completion.

Foreign currencies: The consolidated financial statements of Novartis are expressed in US dollars ("USD"). The Novartis Group began presenting its results in US dollars with effect from January 1, 2003 and has restated its 2002 results in US dollars for comparison purposes. With effect from July 1, 2003, the measurement currency of certain Swiss and foreign finance companies used for preparing the financial statements has been changed to US dollars from the respective local currency. This reflects changes in these entities' cash flows and transactions now being primarily denominated in US dollars. Generally, the local currency is used as the measurement currency for other entities.

In the respective entity financial statements, monetary assets and liabilities denominated in foreign currencies are translated at the rate prevailing at the balance sheet date. Transactions are recorded using the approximate exchange rate at the time of the transaction. All resulting foreign exchange transaction gains and losses are recognized in the subsidiary's income statement.

Income, expense and cash flows of the consolidated companies have been translated into US dollars using average exchange rates. The balance sheets are translated using the year end exchange rates. Translation differences arising from movements in the exchange rates used to translate equity and long-term intercompany financing transactions and net income are allocated to reserves.

Derivative financial instruments and hedging: Derivative financial instruments are initially recognized in the balance sheet at cost and subsequently remeasured to their fair value. The method of recognizing the resulting gain or loss is dependent on whether the derivative contract is designed to hedge a specific risk and qualifies for hedge accounting. On the date a derivative contract is entered into, the Group designates derivatives which qualify as hedges for accounting purposes as either a) a hedge of the fair value of a recognized asset or liability (fair value hedge), or b) a hedge of a forecasted transaction or firm commitment (cash flow hedge) or c) a hedge of a net investment in a foreign entity.

Changes in the fair value of derivatives which are fair value hedges and that are highly effective are recognized in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk. Changes in the fair value of derivatives in cash flow hedges are recognized in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or liability, the gains and losses previously included in equity are included in the initial measurement of the asset or liability. Otherwise, amounts recorded in equity are transferred to the income statement and classified as revenue or expense in the same period in which the forecasted transaction affects the income statement.

Hedges of net investments in foreign entities are accounted for similarly to cash flow hedges. The Group hedges certain net investments in foreign entities with foreign currency borrowings. All foreign exchange gains or losses arising on translation are recognized in equity and included in cumulative translation differences.

Certain derivative instruments, while providing effective economic hedges under the Group's policies, do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for cash flow hedge accounting are recognized immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized in the income statement, when the committed or forecasted transaction is ultimately recognized in the income statement. However, if a forecasted or committed transaction is no longer expected to occur, the cumulative gain or loss that was recognized in equity is immediately transferred to the income statement.

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The purpose of hedge accounting is to match the impact of the hedged item and the hedging instrument in the income statement. To qualify for hedge accounting, the hedging relationship must meet several strict conditions with respect to documentation, probability of occurrence, hedge effectiveness and reliability of measurement. At the inception of the transaction the Group documents the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecasted transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, as to whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Tangible fixed assets: Tangible fixed assets have been valued at cost of acquisition or production cost and are depreciated on a straight-line basis to the income statement, over the following estimated useful lives:

Buildings	20 to 40 years
Machinery and equipment	10 to 20 years
Furniture and vehicles	5 to 10 years
Computer hardware	3 to 7 years

Land is valued at acquisition cost except if held under long-term lease arrangements, when it is amortized over the life of the lease. Land held under long-term lease agreements relates to upfront payments to lease land on which certain of the Group's buildings are located. Additional costs which extend the useful life of tangible fixed assets are capitalized. Financing costs associated with the construction of tangible fixed assets are not capitalized. Tangible fixed assets which are financed by leases giving Novartis substantially all the risks and rewards of ownership are capitalized at the lower of the fair value of leased property and the present value of minimum lease payments at the inception of the lease, and depreciated in the same manner as other tangible fixed assets over the shorter of the lease term or their useful life.

Intangible assets: Intangible assets are valued at cost and reviewed periodically for any diminution in value. Any resulting impairment loss is recorded in the income statement in General & Administration expenses. In the case of business combinations, the excess of the purchase price over the fair value of net identifiable assets acquired is recorded as goodwill in the balance sheet. Goodwill, which is denominated in the local currency of the related acquisition, is amortized to income through General & Administration expenses on a straight-line basis over the asset's useful life. The amortization period is determined at the time of the acquisition, based upon the particular circumstances, and ranges from 5 to 20 years. Goodwill relating to acquisitions arising prior to January 1, 1995 has been fully written off against retained earnings.

Management determines the estimated useful life of goodwill arising from an acquisition based on its evaluation of the respective company at the time of the acquisition, considering factors such as existing market share, potential sales growth and other factors inherent in the acquired company.

Other acquired intangible assets are written off on a straight-line basis over the following periods:

Trademarks	10 to 15 years
Product and marketing rights	5 to 20 years
Software	3 years
Others	3 to 5 years

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Trademarks are amortized on a straight-line basis over their estimated economic or legal life, whichever is shorter, while the practice of the Group has been to amortize product rights over estimated useful lives of 5 to 20 years. The useful lives assigned to acquired product rights are based on the maturity of the products and the estimated economic benefit that such product rights can provide. Marketing rights are amortized over their useful lives commencing in the year in which the rights first generate sales.

Long-lived tangible fixed assets and identifiable intangibles are reviewed for impairment whenever events or changes in circumstance indicate that the balance sheet carrying amount of the asset may not be recoverable. Goodwill is reviewed for impairment annually. When events or changes in circumstance indicate the asset may not be recoverable, the Group estimates its value in use based on the future cash flows expected to result from the use of the asset and its eventual disposition. If the balance sheet carrying amount of the asset is more than the higher of its value in use to Novartis or its anticipated net selling price, an impairment loss for the difference is recognized. For purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Considerable management judgment is necessary to estimate discounted future cash flows. Accordingly, actual outcomes could vary significantly from such estimates.

Financial assets: Minority investments other than associated companies and joint ventures are initially recorded at cost and subsequently carried at fair value and debt securities are carried at amortized cost. Exchange rate gains and losses on loans are recorded in the income statement. Originated loans are carried at amortized cost, less any allowances for uncollectable amounts. All other changes in the fair value of financial assets are deferred as a fair value adjustment to equity and recycled to the income statement when the asset is sold. Adjustments are made for other than temporary impairments in value.

Inventories: Purchased products are valued at acquisition cost while own-manufactured products are valued at manufacturing cost including related production expenses. In the balance sheet, inventory is primarily valued at standard cost, which approximates to historical cost determined on a first-in first-out basis, and this value is used for the cost of goods sold in the income statement. Provisions are made for inventories with a lower market value or which are slow-moving. Unsaleable inventory is fully written off.

Trade accounts receivable: The reported values represent the invoiced amounts, less adjustments for doubtful receivables.

Cash and cash equivalents: Cash and cash equivalents include highly liquid investments with original maturities of three months or less. This position is readily convertible to known amounts of cash.

Marketable securities: Marketable securities consist of equity and debt securities which are traded in liquid markets. The Group has classified all its marketable securities as available-for-sale, as they are not acquired to generate profit from short-term fluctuations in price. All purchases and sales of marketable securities are recognized on the trade date, which is the date that the Group commits to purchase or sell the asset. Marketable securities are initially recorded at cost and subsequently carried at fair value. Exchange rate gains and losses on bonds are recorded in the income statement. All other changes in the fair value of unhedged securities are deferred as a fair value adjustment in equity and recycled to the income statement when the asset is sold or impaired. The change in fair value of effectively hedged securities is recorded in the income statement where it offsets the gains or losses of the hedging derivative.

Unrealized losses on marketable securities are included in Financial income, net in the income statement when there is objective evidence that the marketable securities are impaired. The Group's policy is to recognize impairments on available-for-sale securities when their fair value is 50% less than cost for a sustained period of 6 months.

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Repurchase agreements: The underlying securities are included within marketable securities. The repurchase agreements for the securities sold and agreed to be repurchased under the agreement are recognized gross and included in short-term financial debts. Income and expenses are recorded in interest income and expense, respectively.

Taxes: Taxes on income are accrued in the same periods as the revenues and expenses to which they relate. Deferred taxes have been calculated using the comprehensive liability method. They are calculated on the temporary differences that arise between the tax base of an asset or liability and its carrying value in the balance sheet of Group companies prepared for consolidation purposes, except for those temporary differences related to investments in subsidiaries and associated companies, where the timing of their reversal can be controlled and it is probable that the difference will not reverse in the foreseeable future. Furthermore, withholding or other taxes on eventual distribution of retained earnings of Group companies are only taken into account where a dividend has been planned since generally the retained earnings are reinvested. Deferred tax assets or liabilities, calculated using applicable subsidiary tax rates, are included in the consolidated balance sheet as either a long-term asset or liability, with changes in the year recorded in the income statement. Deferred tax assets are fully recognized and reduced by a valuation allowance only if it is probable that a benefit will not be realized in the future.

Pension plans, post-employment benefits, other long-term employee benefits and employee share participation plans:

a) Defined benefit pension plans

The liability in respect to defined benefit pension plans is in all material cases the defined benefit obligation calculated annually by independent actuaries using the projected unit credit method. The defined benefit obligation is measured at the present value of the estimated future cash flows. The charge for such pension plans, representing the net periodic pension cost less employee contributions, is included in the personnel expenses of the various functions where the employees are located. Plan assets are recorded at their fair values. Significant gains or losses arising from experience adjustments, changes in actuarial assumptions, and amendments to pension plans are charged or credited to income over the service lives of the related employees. Any pension asset recognized in 2002 and 2003 does not exceed the present value of any future economic benefits available in the form of refunds from the plan and/or expected reductions in future contributions to the plan from this asset.

b) Post-employment benefits other than pensions

Certain subsidiaries provide healthcare and insurance benefits for a portion of their retired employees and their eligible dependents. The cost of these benefits is actuarially determined and included in the related function expenses over the employees' working lives. The related liability is included in long-term liabilities.

c) Other long-term employee benefits

Other long-term employee benefits represent amounts due to employees under deferred compensation arrangements mandated by certain jurisdictions in which the Group conducts its operations. Benefits cost is recognized on an accrual basis in the personnel expenses of the various functions where the employees are located. The related obligation is accrued in other long-term liabilities.

d) Employee share participation plan

No compensation cost is recognized in these financial statements for options or shares granted to employees from employee share participation plans.

Research and development: Research and development expenses are fully charged to the income statement. The Group considers that regulatory and other uncertainties inherent in the development of its key new products preclude it from capitalizing development costs. Acquired projects which have achieved technical feasibility, usually signified by US Food & Drug Administration or comparable regulatory body approval, are capitalized because it is probable that the costs will give rise to future economic benefits. Laboratory buildings and equipment included in tangible fixed assets are depreciated over their estimated useful lives.

Government grants: Government grants are deferred and recognized in the income statement over the period necessary to match them with the related costs which they are intended to compensate for.

Restructuring charges: Restructuring charges are accrued against operating income in the period in which management has committed to a plan and it is probable a liability has been incurred and the amount can be reasonably estimated. Restructuring charges or releases are included in General & Administration expenses. Releases of accrued amounts are recognized in the period in which it is decided that the amounts will not be required.

Environmental liabilities: Novartis is exposed to environmental liabilities relating to its past operations, principally in respect to remediation costs. Provisions for non-recurring remediation costs are made when expenditure on remedial work is probable and the cost can be estimated. Cost of future expenditures do not reflect any claims or recoveries. The Group records recoveries at such time the amount is reasonably estimable and collection is probable. With regard to recurring remediation costs, the discounted amount of such annual costs for the next 30 years are calculated and recorded in long-term liabilities.

Dividends: Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

Treasury shares: Treasury shares are deducted from equity at their nominal value of CHF 0.50 per share. Differences between this amount and the amount paid for acquiring, or received for disposing of, treasury shares are recorded in retained earnings.

2. Changes in the scope of consolidation

The following significant changes were made during 2003 and 2002:

Acquisitions 2003

Pharmaceuticals: On May 8, 2003 51% of the capital stock of Idenix Pharmaceuticals Inc., Cambridge, Massachusetts was acquired for an initial payment of USD 255 million in cash to its existing shareholders. As part of the acquisition, Novartis agreed to pay additional amounts to the shareholders of Idenix Pharmaceuticals Inc. based on the achievement of clinical and regulatory milestones, marketing approvals and sales targets. The total additional value of these milestone payments is up to USD 357 million. Novartis cannot estimate when or if these additional milestone payments will be made. In total the Group owns 54% of the capital stock of this company. This company, which expands the Group's presence in the infectious disease therapeutic area, is included in the consolidated financial statements from May 2003. Since net liabilities were also assumed, total goodwill amounted to USD 297 million on this transaction which is being amortized over 15 years.

Corporate: In 2003 the Group increased its investment in Roche Holding AG to 33.3% at December 31, 2003 from 32.7% at December 31, 2002 by acquiring further voting shares for USD 120 million. At December 31, 2003 the Group's holding represents approximately 6.3% of Roche Holding AG's total shares and equity instruments.

Acquisitions 2002

Sandoz: On November 29, 2002 the Business Unit acquired 99% of Lek d.d., Ljubljana, Slovenia for USD 0.9 billion in cash. The acquisition was accounted for under the purchase method of accounting. A provisional balance sheet at December 31, 2002 was consolidated, however due to its immateriality, no post-acquisition income statement or cash flow was consolidated in 2002. During 2003 all the outstanding minority interests were acquired. In 2003, the initial assessment of goodwill resulting from the 2002 acquisition of Lek d.d., was finalized upon completion of a third-party valuation. As a result, the total goodwill initially recorded in 2002 of USD 535 million was reduced by USD 425 million through an allocation to the identifiable net assets acquired. The remaining goodwill balance of USD 110 million is being amortized on a straight-line basis over 20 years.

Animal Health: In January 2002, the Business Unit completed the acquisition of two US farm animal vaccine companies, Grand Laboratories Inc., Iowa and ImmTech Biologies Inc., Kansas. The combined purchase price is a minimum of USD 99 million of which USD 78 million was settled in Novartis American Depositary Shares. The final price may increase depending on whether certain future sales and other targets are met. The acquisition was accounted for under the purchase method of accounting and the related goodwill was USD 83 million which is being amortized on a straight-line basis over 15 years.

Corporate: During 2002 the Group increased its investment in Roche Holding AG by USD 1.8 billion by acquiring a further 11.4% of this company's voting shares. In total 32.7% of the Roche Holding AG voting shares were held at December 31, 2002 which represented approximately 6.2% of Roche Holding AG's total shares and equity securities.

Divestments 2002

Consumer Health Division: On November 29, 2002 the Division divested its Food & Beverage (F&B) business to Associated British Foods plc (ABF), London, Great Britain, for a total of USD 270 million in cash. ABF acquired the F&B business and brand ownership worldwide (including the brands Ovaltine/Ovomaltine, Caotina and Lacovo) with the exception of the USA and Puerto Rico. The 2002 sales and operating income recorded by Novartis up to the November 29, 2002 divestment date amounted to USD 209 million and USD 8 million, respectively. This transaction produced a divestment gain of USD 132 million which was recorded as a reduction to General & Administration expenses.

3. Division and Business Unit breakdown of key figures 2003 and 2002

Operating Divisions: Novartis is divided operationally on a worldwide basis into two Divisions, Pharmaceuticals and Consumer Health. These Divisions, which are based on internal management structures, are best described as follows:

The Pharmaceuticals Division researches, develops, manufactures, distributes, and sells branded pharmaceuticals in the following therapeutic areas: cardiovascular, oncology and hematology; metabolism and endocrinology; central nervous system; dermatology; ophthalmics; respiratory; rheumatology; bone and hormone replacement therapy, transplantation and infectious diseases. The Pharmaceuticals Division is organized into five Business Units: Primary Care, Oncology, Transplantation, Mature Products and Ophthalmics, which due to the fact that they have common long-term economic perspectives, customers, research, development, production, distribution and regulatory environments are not required to be separately disclosed as segments.

The Consumer Health Division consists of the following six Business Units:

The Sandoz Business Unit manufactures, distributes and sells generic pharmaceutical products and substances no longer subject to patent protection.

The Over-The-Counter (OTC) Business Unit manufactures, distributes and sells a variety of over-the-counter self medications.

The Animal Health Business Unit manufactures, distributes and sells veterinary products for farm and companion animals.

The Medical Nutrition Business Unit manufactures, distributes and sells health and medical nutrition products.

The Infant & Baby Business Unit manufactures, distributes and sells foods and other products and services designed to serve the particular needs of infants and babies.

The CIBA Vision Business Unit manufactures, distributes and sells contact lenses, lens care products, and ophthalmic surgical products.

Corporate: Income and expenses relating to Corporate include the costs of the Group headquarters and those of corporate coordination functions in major countries. In addition, Corporate includes certain items of income and expense which are not directly attributable to specific Divisions. Usually, no allocation of Corporate items is made to the Divisions although there are charges made by Corporate for share and share option programs and certain pension plans.

The Group's Divisions are businesses that offer different products. These Divisions are managed separately because they manufacture, distribute, and sell distinct products which require differing technologies and marketing strategies.

Revenues on inter-Divisional and inter-Business Unit sales are determined on an arm's length basis. The accounting policies of the Divisions and Business Units described above are the same as those described in the summary of accounting policies except that they receive a Corporate charge for share and share option programs which have no net cost in the Group's IFRS consolidated financial statements. The Group principally evaluates Divisional and Business Unit performance and allocates resources based on operating income.

Division and Business Unit net operating assets consist primarily of tangible fixed assets, intangible assets, inventories and receivables less operating liabilities. Corporate assets and liabilities principally consist of net liquidity (cash, cash equivalents, marketable securities less financial debts), investments in associated companies and deferred and current taxes.

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Division and Business Unit breakdown of key figures 2003 and 2002

					Consumer Health Division Business Units							
	Pharmaceuticals Division		Consumer Health Division		Sandoz		OTC		Animal Health		Medical Nutrition	
(in USD millions except employees)	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**
Sales to third parties	**16 020**	**13 528**	**8 844**	**7 349**	**2 906**	**1 817**	**1 772**	**1 521**	**682**	**623**	**815**	**711**
Sales to other Divisions/Business Units	133	111	98	104	139	130	14	12			1	8
Sales of Divisions/Business Units	**16 153**	**13 639**	**8 942**	**7 453**	**3 045**	**1 947**	**1 786**	**1 533**	**682**	**623**	**816**	**719**
Cost of Goods Sold	-2 360	-2 017	-3 768	-3 200								
Gross profit	13 793	11 622	5 174	4 253								
Marketing & Sales	-5 322	-4 574	-2 532	-2 163								
Research & Development	-3 079	-2 355	-529	-378								

					Consumer Health Division Business Units							
General & Administration	-969	-802	-793	-626								
Operating income	**4 423**	**3 891**	**1 320**	**1 086**	**473**	**265**	**309**	**240**	**88**	**92**	**82**	**4**
Result from associated companies	136	109	3	1	3	1						
Financial income, net												
Income before taxes and minority interests												
Taxes												
Income before minority interests												
Minority interests												
Net income												
Included in operating income are:												
Depreciation of tangible fixed assets	-424	-351	-285	-222	-143	-83	-23	-21	-10	-9	-12	-20
Amortization of intangible assets	-187	-184	-220	-165	-99	-51	-18	-12	-19	-16	-6	-5
Impairment charges on tangible and intangible assets	-38	-279	-98	-63	-72	-14					-4	
Restructuring charges				-58				-10				-28
Divestment gain on selling subsidiaries		1		132								
Royalties												
income	58	60	8	5	1	1	4	1				
expense	-256	-197	-20	-14	-8	-1	-6	-3	-1	-1		
Total assets	**13 836**	**11 942**	**9 689**	**8 419**	**4 321**	**3 329**	**1 032**	**902**	**660**	**603**	**468**	**385**
Liabilities	-4 867	-3 901	-2 962	-2 625	-950	-781	-434	-331	-154	-139	-211	-243
Total equity and minority interests	**8 969**	**8 041**	**6 727**	**5 794**	**3 371**	**2 548**	**598**	**571**	**506**	**464**	**257**	**142**
Less net liquidity												
Net operating assets	**8 969**	**8 041**	**6 727**	**5 794**	**3 371**	**2 548**	**598**	**571**	**506**	**464**	**257**	**142**
Included in total assets are:												
Total tangible fixed assets	4 828	3 984	2 434	1 877	1 532	990	161	169	79	71	98	93
Additions to tangible fixed assets	771	505	530	361	388	214	20	24	13	10	11	29
Additions to intangible assets	359	2	186	684	82	558	19	25	2	96	33	
Total investments in associated companies	1 120	1 000	23	18	23	18						
Employees at year end (unaudited)	**44 640**	**44 110**	**32 464**	**27 552**	**12 918**	**7 932**	**3 920**	**3 797**	**2 193**	**2 218**	**2 849**	**2 701**

Division and Business Unit breakdown of key figures 2003 and 2002

	Consumer Health Division Business Units											
	Infant & Baby		**CIBA Vision**		**Divested Health & Functional Food activities**	**Divisional Management**	**Division eliminations**		**Corporate**		**TOTAL**	
(in USD millions except employees)	**2003**	**2002**	**2003**	**2002**	**2002**	**2003**	**2003**	**2002**	**2003**	**2002**	**2003**	**2002**

Consumer Health Division Business Units

Sales to third parties	**1 361**	**1 333**	**1 308**	**1 135**		**209**							**24 864**	**20 877**
Sales to other Divisions/Business Units			8	8					-64	-54	-231	-215		
Sales of Divisions/Business Units	**1 361**	**1 333**	**1 316**	**1 143**		**209**			**-64**	**-54**	**-231**	**-215**	**24 864**	**20 877**
Cost of Goods Sold									54	54	234	223	-5 894	-4 994
Gross profit									**-10**		**3**	**8**	**18 970**	**15 883**
Marketing & Sales													-7 854	-6 737
Research & Development											-148	-110	-3 756	-2 843
General & Administration											291	217	-1 471	-1 211
Operating income	**254**	**227**	**153**	**118**		**140**		**-29**	**-10**		**146**	**115**	**5 889**	**5 092**
Result from associated companies											-339	-117	-200	-7
Financial income, net													379	613
Income before taxes and minority interests													**6 068**	**5 698**
Taxes													-1 008	-959
Income before minority interests													**5 060**	**4 739**
Minority interests													-44	-14
Net income													**5 016**	**4 725**
Included in operating income are:														
Depreciation of tangible fixed assets	-30	-24	-67	-65							-28	-19	-737	-592
Amortization of intangible assets	-23	-25	-55	-56							-3	-6	-410	-355
Impairment charges on tangible and intangible assets		-27	-22	-4		-18						-6	-136	-348
Restructuring charges						-20								-58
Divestment gain on selling subsidiaries						132								133
Royalties														
income			3	3									66	65
expense			-5	-9									-276	-211
Total assets	**1 684**	**1 620**	**1 573**	**1 626**					**-49**	**-46**	**25 792**	**24 664**	**49 317**	**45 025**
Liabilities	-880	-871	-340	-306				-32	39	46	-10 969	-10 164	-18 798	-16 690
Total equity and minority interests	**804**	**749**	**1 233**	**1 320**				**-32**	**-10**		**14 823**	**14 500**	**30 519**	**28 335**
Less net liquidity											-7 289	-6 972	-7 289	-6 972
Net operating assets	**804**	**749**	**1 233**	**1 320**				**-32**	**-10**		**7 534**	**7 528**	**23 230**	**21 363**
Included in total assets are:														
Total tangible fixed assets	242	233	322	321							335	460	7 597	6 321
Additions to tangible fixed assets	29	44	69	40							28	202	1 329	1 068
Additions to intangible assets	39	11	5									18	545	704
Total investments in associated companies											5 705	5 465	6 848	6 483
Employees at year end (unaudited)	**4 829**	**4 901**	**5 717**	**6 003**				**38**			**1 437**	**1 215**	**78 541**	**72 877**

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4. Regional breakdown of key figures 2003 and 2002

(in USD millions except employees)	Europe	The Americas	Asia/Africa Australia	Total
2003				
Sales[1]	**8 788**	**12 036**	**4 040**	**24 864**
Operating income[2]	**4 505**	**897**	**487**	**5 889**
Depreciation of tangible fixed assets included in operating income	480	220	37	737
Net operating assets[3]	**16 271**	**5 984**	**975**	**23 230**
Additions to tangible fixed assets included in net operating assets	846	427	56	1 329
Additions to intangible assets	120	424	1	545
Personnel costs	3 002	2 759	491	6 252
Employees at year end[4]	**37 510**	**28 608**	**12 423**	**78 541**

	Europe	The Americas	Asia/Africa Australia	Total
2002				
Sales[1]	**6 832**	**10 558**	**3 487**	**20 877**
Operating income[2]	**3 825**	**958**	**309**	**5 092**
Depreciation of tangible fixed assets included in operating income	355	198	39	592
Net operating assets[3]	**14 086**	**6 312**	**965**	**21 363**
Additions to tangible fixed assets included in net operating assets	498	537	33	1 068
Additions to intangible assets	565	126	13	704
Personnel costs	2 279	2 408	441	5 128
Employees at year end[4]	**32 595**	**28 328**	**11 954**	**72 877**

The following countries accounted for more than 5% of at least one of the respective Group totals as at, or for the years ended, December 31, 2003 and 2002:

	Sales[1]				Investment in tangible fixed assets				Net operating assets[3]			
Country	**2003**	**%**	**2002**	**%**	**2003**	**%**	**2002**	**%**	**2003**	**%**	**2002**	**%**

	Sales[1]				Investment in tangible fixed assets				Net operating assets[3]			
Switzerland	319	1	317	2	177	13	124	12	10 631	46	9 238	43
USA	10 280	41	8 907	43	388	29	511	48	6 149	26	6 056	28
Japan	2 065	8	1 701	8	14	1	5		857	4	617	3
Germany	1 479	6	1 226	6	39	3	45	4	30		173	1
France	1 423	6	1 100	5	17	1	18	2	690	3	644	3
UK	789	3	680	3	194	15	79	7	1 008	4	863	4
Austria	252	1	212	1	170	13	131	12	946	4	613	3
Other	8 257	34	6 734	32	330	25	155	15	2 919	13	3 159	15
Total Group	**24 864**	**100**	**20 877**	**100**	**1 329**	**100**	**1 068**	**100**	**23 230**	**100**	**21 363**	**100**

(1) Sales by location of third party customer.

(2) Operating income as recorded in the legal entities in the respective region.

(3) Long-term and current assets (excluding marketable securities, cash and time deposits) less non-interest bearing liabilities.

(4) Unaudited.

No single customer accounts for 10% or more of the Group's total sales.

5. Financial income, net

	2003 USD millions	2002 USD millions
Interest income	323	416
Dividend income	17	68
Capital gains	11	
Income on options and forward contracts	1 113	1 659
Other financial income	9	3
Financial income	**1 473**	**2 146**
Interest expense	-243	-194
Capital losses		-79
Impairment of marketable securities	-66	
Expenses on options and forward contracts	-809	-1 261
Other financial expense	-40	-68
Financial expense	**-1 158**	**-1 602**
Currency result, net	**64**	**69**
Total financial income, net	**379**	**613**

2003 interest income includes a total of USD 9 million (2002: USD 19 million) received from the foundations referred to in note 27, at commercial interest rates on the outstanding short-term debt.

6. Taxes

Income before taxes and minority interests:

	2003 USD millions	2002 USD millions
Switzerland	2 809	2 491
Foreign	3 259	3 207
Total income before taxes and minority interests	**6 068**	**5 698**

Current and deferred income tax expense:

	2003 USD millions	2002 USD millions
Switzerland	-330	-273
Foreign	-765	-476
Total current income tax expense	**-1 095**	**-749**
Switzerland	-9	-46
Foreign	177	-152
Total deferred tax income/expense	**168**	**-198**
Share of tax of associated companies	**-81**	**-12**
Total income tax expense	**-1 008**	**-959**

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The gross value of unused tax loss carryforwards which have, or have not, been capitalized as deferred tax assets, with their expiry dates is as follows:

	not capitalized USD millions	capitalized USD millions	2003 USD millions
One year	8	17	25
Two years	4	20	24
Three years	9	42	51
Four years	73	29	102
Five years	45	7	52
More than five years	881	109	990
Total	**1 020**	**224**	**1 244**

	not capitalized USD millions	capitalized USD millions	2002 USD millions
One year	15	16	31
Two years	2	6	8
Three years	6	6	12
Four years	11	3	14
Five years	149	49	198
More than five years	660	226	886
Total	**843**	**306**	**1 149**

Tax losses are capitalized if it is probable that future taxable profits will arise to utilize the losses.

USD 33 million of unused operating tax loss carryforwards expired during 2003 (2002: USD 2 million).

Analysis of tax rate: The main elements contributing to the difference between the Group's overall expected tax rate (the weighted average tax rate based on the income before tax of each subsidiary) and the effective tax rate are:

	2003 %	2002 %
Expected tax rate	14.8	15.3
Effect of taxes of associated companies	1.9	0.3
Effect of disallowed expenditures	2.3	2.4
Effect of utilization of tax losses brought forward from prior periods	-0.6	-0.5
Effect of income taxed at reduced rates	-2.0	-1.3
Effect of tax credits and allowances	-1.4	-1.0
Effect of write-off of deferred tax assets	0.5	0.6
Prior year and other items	1.1	1.0
Effective tax rate	**16.6**	**16.8**

The utilization of tax loss carryforwards lowered the tax charge by USD 34 million and USD 26 million in 2003 and 2002, respectively.

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7. Earnings per share (EPS)

Basic earnings per share is calculated by dividing the net income attributable to shareholders by the weighted average number of shares outstanding during the year, excluding from the issued shares the average number of shares purchased by the Group and held as treasury shares.

	2003	2002
Net income (USD millions)	5 016	4 725
Weighted average number of shares outstanding	2 473 522 565	2 515 311 685
Basic earnings per share (USD)	**2.03**	**1.88**

	2003	2002

For the diluted earnings per share the weighted average number of shares outstanding is adjusted to assume conversion of all potential dilutive shares. Until it matured in 2002, the Group's convertible debt represented a potential dilution in the earnings per share to the extent that it was not covered by a hedge with non-consolidated employee share participation and employee benefit foundations to deliver the required number of shares on conversion.

The diluted EPS calculation takes into account all potential dilutions to the earnings per share arising from the convertible debt and options on Novartis shares. Net income is adjusted to eliminate the applicable convertible debt interest expense less the tax effect. Share equivalents of 16.4 million (2002: 16.2 million) were excluded from the calculation of diluted earnings per share as they were anti-dilutive.

	2003	2002
Net income (USD millions)	5 016	4 725
Elimination of interest expense on convertible debt (net of tax effect)		2
Net income used to determine diluted earnings per share	5 016	4 727
Weighted average number of shares outstanding	2 473 522 565	2 515 311 685
Call options on Novartis shares	27 446 092	54 891 036
Adjustment for dilutive share options	4 346 940	2 264 236
Weighted average number of shares for diluted earnings per share	2 505 315 597	2 572 466 957
Diluted earnings per share (USD)	**2.00**	**1.84**

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8. Tangible fixed asset movements

	Land USD millions	Buildings USD millions	Machinery USD millions	Plant under construction and other equipment USD millions	2003 USD millions	2002 USD millions
Cost						
January 1	**305**	**4 564**	**6 970**	**831**	**12 670**	**10 643**
Consolidation changes						342
Reclassifications(1)	16	-23	-232	2	-237	
Additions	26	285	617	401	1 329	1 068
Disposals	-12	-65	-200	-7	-284	-520
Translation effects	32	486	754	143	1 415	1 137
December 31	**367**	**5 247**	**7 909**	**1 370**	**14 893**	**12 670**
Accumulated depreciation						
January 1	**-1**	**-2 178**	**-4 170**		**-6 349**	**-5 247**
Consolidation changes						-237
Reclassifications(1)		54	280		334	
Depreciation charge		-172	-565		-737	-592
		11	177		188	381

	Land USD millions	Buildings USD millions	Machinery USD millions	Plant under construction and other equipment USD millions	2003 USD millions	2002 USD millions
Depreciation on disposals						
Impairment charge		-13	-18		-31	-30
Translation effects		-246	-455		-701	-624
December 31	**-1**	**-2 544**	**-4 751**		**-7 296**	**-6 349**
Net book value December 31	**366**	**2 703**	**3 158**	**1 370**	**7 597**	**6 321**
Insured value December 31					**17 439**	**15 337**
Net book value of tangible fixed assets under finance lease contracts					**135**	**151**

(1) Reclassifications between various asset categories as a result of recording final acquisition balance sheets.

At December 31, 2003 commitments for purchases of tangible fixed assets totaled USD 123 million (2002: USD 69 million).

9. Intangible asset movements

	Goodwill USD millions	Product and marketing rights USD millions	Trademarks USD millions	Software USD millions	Other intangibles USD millions	2003 USD millions	2002 USD millions
Cost							
January 1	**2 327**	**2 806**	**367**	**88**	**556**	**6 144**	**4 759**
Consolidation changes							354
Reclassifications(1)	-425	400		7	-3	-21	
Additions	303	75	67	25	75	545	704
Disposals	-254	-13	-1	-6	-42	-316	-28
Translation effects	146	310	8	8	29	501	355
December 31	**2 097**	**3 578**	**441**	**122**	**615**	**6 853**	**6 144**
Accumulated amortization							
January 1	**-623**	**-684**	**-115**	**-78**	**-249**	**-1 749**	**-859**
Consolidation changes							-139
Reclassifications(1)	2		-4	-6	6	-2	
Amortization charge	-102	-223	-31	-11	-43	-410	-355
Disposals	236	7		5	23	271	28
Impairment charge	-85	-3			-17	-105	-318
Translation effects	-48	-78	-3	-6	-15	-150	-106
December 31	**-620**	**-981**	**-153**	**-96**	**-295**	**-2 145**	**-1 749**

	Goodwill USD millions	Product and marketing rights USD millions	Trademarks USD millions	Software USD millions	Other intangibles USD millions	2003 USD millions	2002 USD millions
Net book value December 31	**1 477**	**2 597**	**288**	**26**	**320**	**4 708**	**4 395**

(1) Reclassifications between various asset categories as a result of recording final acquisition balance sheets.

In 2003 impairment charges of USD 105 million were recorded, principally relating to the over valuation on an economic basis of the Sandoz activities in Germany; the divestment of Genetic Therapy Inc., US, a Pharmaceuticals Division research activity, to Cell Genesys Inc., US, and adjustments to CIBA Vision Business Unit intangibles.

In 2002, impairment charges were recorded of USD 318 million, of which USD 238 million was for goodwill mainly relating to the Pharmaceutical Division research and biotechnology activities of Genetic Therapy Inc., Systemix Inc., Imutran Ltd., due to changes in the research and development strategy and also relating to the Medical Nutrition and OTC Business Units. There was also an impairment charge of USD 52 million on the pitavastatin rights and USD 28 million of other impairments.

10. Investments in associated companies

Novartis has the following significant investments in associated companies which are accounted for by using the equity method:

	Balance sheet value		Pre-tax income statement effect	
	2003 USD millions	**2002 USD millions**	**2003 USD millions**	**2002 USD millions**
Roche Holding AG, Switzerland	5 662	5 462	-354	-116
Chiron Corporation, USA	1 118	996	134	107
Others	68	25	20	2
Total	**6 848**	**6 483**	**-200**	**-7**

The accounting standards of the Group's associated companies are adjusted to IFRS in cases where IFRS is not already used.

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Due to the various estimates that have been made in applying the equity method accounting treatment for Roche Holding AG ("Roche") and Chiron Corporation ("Chiron"), adjustments may be necessary in succeeding years as more financial and other information becomes publicly available.

Roche Holding AG: The Group's holding in Roche voting shares has been increased during 2003 from 32.7% at December 31, 2002 to 33.3% at December 31, 2003. This investment represents 6.3% of the total outstanding voting and non-voting equity instruments. In order to apply the equity method of accounting, independent appraisers have been used to estimate the fair value of Roche so as to determine the Novartis share of tangible and intangible assets and the amount of the residual goodwill at the time of acquisition. The purchase price allocations were made on publicly available information at the time of acquisition of the shares.

The purchase price allocation is as follows:

USD millions

	USD millions
Identified intangible assets	3 776
Other net assets	58
Residual goodwill	2 733
Total purchase price	**6 567**
Net income effect 2003	-398
Other accumulated equity adjustments	-507
December 31, balance sheet value	**5 662**

The purchase price allocated to inventory has been expensed, based on its expected usage. The identified intangible assets principally relate to the value of currently marketed products and are being amortized straight-line over their estimated average useful life of 20 years. The residual goodwill is also being amortized on a straight-line basis over 20 years.

The income statement effect for 2003 and 2002 is as follows:

	2003 USD millions	2002 USD millions
Depreciation and amortization of fair value adjustments to		
tangible and intangible assets	-143	-129
goodwill	-127	-91
Prior year adjustment	-269	-17
Novartis share of estimated Roche current year consolidated pre-tax income	185	121
Pre-tax income statement effect	**-354**	**-116**
Deferred tax	-44	23
Net income effect	**-398**	**-93**

The prior year adjustment in 2003 relates to the Novartis share of an unexpected Roche loss in 2002, announced by Roche after the publication of the Novartis 2002 Annual Report.

The market value of the Novartis interest in Roche at December 31, 2003 was USD 7.3 billion (Reuters symbol: RO.S).

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Chiron Corporation: The recording of the results of the strategic interest in Chiron is based on the estimated Chiron equity at December 31 of each year. The amounts for Chiron incorporated into the Novartis consolidated financial statements take into account the effects stemming from differences in accounting policies between Novartis and Chiron (primarily Novartis' amortization over 10 years of in-process research and development arising on Chiron's acquisitions which are written off by Chiron in the year of acquisition). The effective shareholding of Novartis in Chiron was 42.3% at December 31, 2003 and had a market value of USD 4.5 billion (NASDAQ symbol: CHIR).

11. Deferred taxes

		2003 USD millions	2002 USD millions
Assets associated with	employee benefit liabilities	481	281

		2003 USD millions	2002 USD millions
	net operating loss carryforwards	222	216
	inventories	957	920
	intangible assets	60	57
	other provisions and accruals	867	849
Less: valuation allowance		-186	-145
Deferred tax assets less valuation allowance		**2 401**	**2 178**
Liabilities associated with	tangible fixed asset depreciation	644	567
	prepaid pensions	983	899
	other provisions and accruals	1 306	1 150
	inventories	205	205
Total liabilities		**3 138**	**2 821**
Net deferred tax liability		**737**	**643**

A reversal of the valuation allowance could occur when circumstances make the realization of deferred tax assets probable. This would result in a decrease in the Group's effective tax rate.

At December 31, 2003 unremitted earnings of USD 27 billion (2002: USD 25 billion) have been retained by subsidiary companies for reinvestment. No provision is made for income taxes that would be payable upon the distribution of such earnings. If the earnings were remitted, an income tax charge could result based on the tax statutes currently in effect.

	2003 USD millions	2002 USD millions
Temporary differences on which no deferred tax has been provided as they are permanent in nature:		
write-down of investments in subsidiaries	775	1 437
goodwill from acquisitions	995	1 422

12. Financial and other assets

	2003 USD millions	2002 USD millions
Other investments and long-term loans	1 514	1 306
Prepaid pension	3 976	3 527
Total	**5 490**	**4 833**

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Other investments are valued at market value.

During 2003, USD 80 million (2002: USD 64 million) of unrealized losses on investments were considered to be other than temporary and were charged to the income statement.

13. Inventories

	2003 USD millions	2002 USD millions
Raw material, consumables	531	498
Finished products	2 815	2 465
Total inventories	**3 346**	**2 963**

At December 31, 2003 and 2002, inventory write-downs of USD 238 million and USD 252 million respectively were deducted in arriving at the inventory values.

14. Trade accounts receivable

	2003 USD millions	2002 USD millions
Total	4 603	3 915
Provision for doubtful receivables	-227	-218
Total trade accounts receivable, net	**4 376**	**3 697**

15. Other current assets

		2003 USD millions	2002 USD millions
Withholding tax recoverable		257	150
Gerber Life insurance receivables		149	207
Prepaid expenses	third parties	183	327
	associated companies	5	1
Other receivables	third party	688	921
	associated companies	10	7
Total other current assets		**1 292**	**1 613**

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16. Marketable securities and derivative financial instruments

Market risk

The Group is exposed to market risk, primarily related to foreign exchange, interest rates and market value of the investment of liquid funds. Management actively monitors these exposures. To manage the volatility relating to these exposures the Group enters into a variety of derivative financial instruments. The Group's objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates, foreign currency rates and market rates of investment of liquid funds and of the currency exposure of certain net investments in foreign subsidiaries. It is the Group's policy and practice to use derivative financial instruments to manage exposures and to enhance the yield on the investment of liquid funds. The Group does not enter any financial transaction containing a risk that cannot be quantified at the time the transaction is concluded; i.e. it does not sell short assets it does not have, or does not know it will have, in the future. The Group only sells existing assets or hedges transactions and future transactions (in the case of anticipatory hedges) it knows it will have in the future based on past experience. In the case of liquid funds it writes options on assets it has, or on positions it wants to acquire, and for which it has the required liquidity. The Group therefore expects that any loss in value for these instruments generally would be offset by increases in the value of the hedged transactions.

a) Foreign exchange rates: The Group uses the US dollar as its reporting currency and is therefore exposed to foreign exchange movements, primarily in European, Japanese, other Asian and Latin American currencies. Consequently, it enters into various contracts which change in value as foreign exchange rates change, to preserve the value of assets, commitments and anticipated transactions. The Group uses forward contracts and foreign currency option contracts to hedge certain anticipated foreign currency revenues and the net investment in certain foreign subsidiaries.

b) Commodities: The Group has only a very limited exposure to price risk related to anticipated purchases of certain commodities used as raw materials by the Group's businesses. A change in those prices may alter the gross margin of a specific business, but generally by not more than 10% of that margin and is thus within the Group's risk management tolerance level. Accordingly, the Group does not enter into commodity future, forward and option contracts to manage fluctuations in prices of anticipated purchases.

c) Interest rates: The Group manages its exposure to interest rate risk by changing the proportion of fixed rate debt and variable rate debt in its total debt portfolio. To manage this mix the Group may enter into interest rate swap agreements, in which it exchanges the periodic payments, based on a notional amount and agreed upon fixed and variable interest rates. Use of the above-mentioned derivative financial instruments has not had a material impact on the Group's financial position at December 31, 2003 and 2002 or the Group's results of operations for the years ended December 31, 2003 and 2002.

Counterparty risk

Counterparty risk encompasses issuer risk on marketable securities, settlement risk on derivative and money market contracts and credit risk on cash and time deposits. Issuer risk is minimized by only buying securities which are at least AA rated. Settlement and credit risk is reduced by the policy of entering into transactions with counterparties that are usually at least AA rated banks or financial institutions. Exposure to these risks is closely monitored and kept within predetermined parameters.

The Group does not expect any losses from non-performance by these counterparties and does not have any significant grouping of exposures to financial sector or country risk.

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Derivative financial instruments

The following tables show the contract or underlying principal amounts and fair values of derivative financial instruments analyzed by type of contract at December 31, 2003 and 2002. Contract or underlying principal amounts indicate the volume of business outstanding at the balance sheet date and do not represent amounts at risk. The fair values are determined by the markets or standard pricing models at December 31, 2003 and 2002.

	Contract or underlying principal amount		Positive fair values		Negative fair values	
	2003 USD millions	2002 USD millions	2003 USD millions	2002 USD millions	2003 USD millions	2002 USD millions
Currency related instruments						
Forward foreign exchange rate contracts	5 470	6 184	360	217	-398	-171
Over the counter currency options	4 016	6 561	34	28	-29	-130
Cross currency swaps	1 123	1 973	223	30		

	Contract or underlying principal amount		Positive fair values		Negative fair values	
Total of currency related instruments	**10 609**	**14 718**	**617**	**275**	**-427**	**-301**
Interest rate related instruments						
Interest rate swaps	3 826	2 986	12	50	-10	-1
Forward rate agreements	6 194	2 743	2		-3	-7
Interest rate options	520	677		1	-1	-5
Total of interest rate related instruments	**10 540**	**6 406**	**14**	**51**	**-14**	**-13**
Options on equity securities	**1 242**	**2 084**	**68**	**106**	**-58**	**-96**
Total derivative financial instruments included in marketable securities and in short-term financial debt	**22 391**	**23 208**	**699**	**432**	**-499**	**-410**
Currency related instruments included in other current assets and liabilities						
Forward foreign exchange rate contracts	1 946	2 399	23	141	-34	
Over the counter currency options	2	1 192		7		-1
Total currency related instruments included in other current assets and liabilities	**1 948**	**3 591**	**23**	**148**	**-34**	**-1**
Total derivative financial instruments	**24 339**	**26 799**	**722**	**580**	**-533**	**-411**

The contract or underlying principal amount of derivative financial instruments at December 31, 2003 and 2002 are set forth by currency in the table below.

	CHF USD millions	EUR USD millions	USD USD millions	JPY USD millions	Other currencies USD millions	Total 2003 USD millions	Total 2002 USD millions
Currency related instruments							
Forward foreign exchange rate contracts	41	3 207	2 885	930	353	7 416	8 583
Over the counter currency options		1 871	1 335	280	532	4 018	7 753
Cross currency swaps		1 123				1 123	1 973
Currency related derivatives	**41**	**6 201**	**4 220**	**1 210**	**885**	**12 557**	**18 309**
Interest rate related instruments							

	CHF USD millions	EUR USD millions	USD USD millions	JPY USD millions	Other currencies USD millions	Total 2003 USD millions	Total 2002 USD millions
Interest rate swaps	1 080	1 746	1 000			3 826	2 986
Forward rate agreements		2 994	3 200			6 194	2 743
Interest rate options	120		400			520	677
Interest rate related derivatives	**1 200**	**4 740**	**4 600**			**10 540**	**6 406**
Options on equity securities		**411**	**639**	**144**	**48**	**1 242**	**2 084**
Total derivative financial instruments	**1 241**	**11 352**	**9 459**	**1 354**	**933**	**24 339**	**26 799**

Derivative financial instruments effective for hedge accounting purposes

	Contract or underlying principal amount		Fair values	
	2003 USD millions	2002 USD millions	2003 USD millions	2002 USD millions
Anticipated transaction cash flow hedges				
Forward foreign exchange rate contracts	3 167	2 982	25	159
Over the counter currency options	2	1 193		7
Total of derivative financial instruments effective for hedge accounting purposes	**3 169**	**4 175**	**25**	**166**

All of the hedging instruments used for anticipated transactions mature within twelve months and were contracted with the intention of hedging anticipated transactions which are expected to occur in 2004.

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Marketable securities, time deposits and derivative financial instruments

	2003 USD millions	2002 USD millions
Available-for-sale marketable securities		
Equity securities	1 277	1 256
Debt securities	4 857	4 240
Total available-for-sale marketable securities	**6 134**	**5 496**
Time deposits longer than 90 days	651	767
Derivative financial instruments	699	353
Accrued interest on derivative financial instruments	42	38

	2003 USD millions	2002 USD millions
Accrued interest on debt securities	87	90
Total marketable securities, time deposits and derivative financial instruments	**7 613**	**6 744**

During 2003, unrealized losses of USD 66 million on available-for-sale marketable securities were considered to be other than temporary and charged to the income statement (2002: nil).

17. Details of shares and share capital movements

	Number of outstanding shares[1]				
	December 31, 2001	**Movement in year**	**December 31, 2002**	**Movement in year**	**December 31, 2003**
Total Novartis shares	**2 885 204 680**	**-61 054 680**	**2 824 150 000**	**-22 680 000**	**2 801 470 000**
Treasury shares					
Shares reserved for convertible bonds	4 503 754	-4 503 754			
Shares reserved for call options	54 901 962		54 901 962	-54 901 962	
Unreserved treasury shares	277 618 704	16 658 715	294 277 419	39 423 921	333 701 340
Total treasury shares	**337 024 420**	**12 154 961**	**349 179 381**	**-15 478 041**	**333 701 340**
Total outstanding shares	**2 548 180 260**	**-73 209 641**	**2 474 970 619**	**-7 201 959**	**2 467 768 660**

	USD millions	USD millions	USD millions	USD millions	USD millions
Share capital	1 047	-22	1 025	-8	1 017
Treasury shares	-122	-5	-127	6	-121
Outstanding share capital	**925**	**-27**	**898**	**-2**	**896**

(1) All shares are registered, authorized, issued and fully paid. All are voting shares and, except for 274 764 019 treasury shares, are dividend bearing.

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18. Long-term financial debts

	2003 USD millions	2002 USD millions
Straight bonds	2 972	2 577
Liabilities to banks and other financial institutions[1]	142	119
Finance lease obligations	122	144
Total (including current portion of long-term debt)	**3 236**	**2 840**

Explanation of Responses:

	2003 USD millions	2002 USD millions
Less current portion of long-term debt	-45	-111
Total long-term debts	**3 191**	**2 729**

Straight bonds			
USD	6.625% Euro Medium Term Note 1995/2005 of Novartis Corporation, Florham Park, New Jersey, US	300	300
USD	6.625% Euro Medium Term Note 1995/2005 of Novartis Corporation, Florham Park, New Jersey, US	250	250
USD	9.0% bonds 2006 of Gerber Products Company, Fremont, Michigan, US	35	36
EUR	EUR 900 million 4.0% bond 2001/2006 of Novartis Securities Investment Ltd., Hamilton, Bermuda(2)	1 127	939
EUR	EUR 1 billion 3.75% bond 2002/2007 of Novartis Securities Investment Ltd., Hamilton, Bermuda	1 260	1 052
Total straight bonds		**2 972**	**2 577**

(1) Average interest rate 3.4%. (2002: 3.4%).

(2) Swapped into Japanese yen on inception and transformed into Swiss francs in 2002.

		2003 USD millions	2002 USD millions
Breakdown by maturity	2003		111
	2004	45	35
	2005	677	615
	2006	1 178	986
	2007	1 274	1 061
	2008	23	
	Thereafter	39	32
Total		**3 236**	**2 840**
Breakdown by currency	USD	719	743
	EUR	1 382	97
	JPY		1 052
	CHF	1 127	939
	Others	8	9
Total		**3 236**	**2 840**

Fair value comparison	2003 Balance sheet USD millions	2003 Fair values USD millions	2002 Balance sheet USD millions	2002 Fair values USD millions
Straight bonds	2 972	3 057	2 577	2 672
Others	264	264	263	263
Total	**3 236**	**3 321**	**2 840**	**2 935**

Collateralized long-term debts and pledged assets	2003 USD millions	2002 USD millions
Total amount of collateralized long-term financial debts	50	67
Total net book value of tangible fixed assets pledged as collateral for long-term financial debts	101	118

The percentage of fixed rate debt to total financial debt was 51% and 46% at December 31, 2003 and 2002, respectively.

The financial debts, including short-term financial debts, contain only general default covenants. The Group is in compliance with these covenants.

19. Provisions and other long-term liabilities

	2003 USD millions	2002 USD millions
Employee benefits		
unfunded defined benefit plans	930	741
other long-term employee benefits and deferred compensation	183	180
Other post-employment benefits	460	421
Liabilities for insurance activities	766	646
Environmental provisions	177	161
Provision for legal and product liability settlements	335	254
Deferred purchase consideration	4	9
Restructuring provision		3
Other provisions	294	453
Total	**3 149**	**2 868**

a) Environmental matters:

Novartis has provisions in respect of environmental remediation costs in accordance with the accounting policy described in Note 1. The accrual recorded at December 31, 2003 consists of USD 84 million (2002: USD 82 million) provided for remediation at third party sites and USD 95 million (2002: USD 81 million) for remediation of owned facilities. In the US, Novartis has been named under federal legislation (the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended) as a potentially responsible party ("PRP") in respect to certain sites. Novartis actively participates in, or monitors, the clean-up activities at the sites in which it is a PRP. The estimated reserve takes into consideration the number of other PRPs at each site and the identity and financial position of such parties in light of the joint and several nature of the liability.

The requirement in the future for Novartis ultimately to take action to correct the effects on the environment of prior disposal or release of chemical substances by Novartis or other parties, and its costs, pursuant to environmental laws and regulations, is inherently difficult to estimate. The material components of the environmental provisions consist of costs to fully clean and refurbish contaminated sites and to treat and contain contamination at sites where the environmental exposure is less severe. The Novartis future remediation expenses are affected by a number of uncertainties which include, but are not limited to, the method and extent of remediation, the percentage of material attributable to Novartis at the remediation sites relative to that attributable to other parties, and the financial capabilities of the other potentially responsible parties.

In connection with the 1997 spin-off of CIBA Specialty Chemicals AG ("CSC") from Novartis AG, a Novartis affiliate has agreed to reimburse CSC 50% of the costs: (i) associated with environmental liabilities arising in the US from the operations of the specialty chemicals business of the US affiliates of the former Ciba-Geigy AG, and (ii) which exceed reserves agreed between that affiliate and CSC. The reimbursement obligations are not subject to any time or amount limits but could terminate for certain liabilities in the US upon the occurrence of certain contingencies which include the merger of CSC or the sale of its assets.

Novartis believes that its total reserves for environmental matters are adequate based upon currently available information, however, given the inherent difficulties in estimating liabilities in this area, it cannot be guaranteed that additional costs will not be incurred beyond the amounts accrued. The effect of resolution of environmental matters on results of operations cannot be predicted due to uncertainty concerning both the amount and the timing of future expenditures and the results of future operations. Management believes that such additional amounts, if any, would not be material to the Group's financial condition but could be material to the results of operations in a given period.

The following table shows the movements in the environmental liability provisions during 2003 and 2002:

	2003 USD millions	**2002 USD millions**
January 1	**163**	**136**
Cash payments	-4	-2
Releases	-18	-8
Additions	25	16
Translation effect, net	13	21
December 31	**179**	**163**
Less short-term liability	-2	-2
Long-term liability at December 31	**177**	**161**

b) Legal and product liabilities:

A number of Group companies are the subject of litigation arising out of the normal conduct of their business, as a result of which claims could be made against them which, in whole or in part, might not be covered by insurance. In the opinion of Group management, however, the outcome of the actions if any, would not be material to the Novartis financial condition but could be material to the Novartis results of operations in a given period.

Augmentin® (amoxicillin/potassium clavulanate): A series of lawsuits by GlaxoSmithKline (GSK) against affiliates of Novartis regarding amoxicillin/potassium clavulanate, Novartis' generic version of GSK's Augmentin®, have been resolved in the Group's favor. The Group launched the first generic version of this GSK product in the US in July 2002, following favorable decisions by the United States District Court for the Eastern District of Virginia invalidating seven patents alleged by GSK to cover its Augmentin® product. GSK's appeal of the district court's decision was unsuccessful. Novartis has also resolved actions which GSK initiated against several of the Group's affiliates in state courts and before the US International Trade Commission alleging that the potassium clavulanate used in manufacturing the Group's product is produced using GSK trade secrets. In July 2003, an agreement was reached on this issue with GSK. Under the terms of the agreement, GSK will receive single-digit percentage royalties on US sales of generic versions of Augmentin® sold by Novartis or its affiliate companies for the four year period from July 2002 through June 2006.

Average Wholesale Price Litigation: Claims have been brought against various US pharmaceutical companies, including Novartis affiliates alleging that they have fraudulently overstated the Average Wholesale Price (AWP) and "best price", which is used by the US government to calculate Medicare and Medicaid reimbursements. Novartis affiliates have been named in a number of these cases. Novartis affiliates have also voluntarily participated in an ongoing Congressional inquiry on the subject of AWP and pharmaceutical pricing. Discovery is in process against certain defendants in these cases, but not yet against Group affiliates.

Pharmaceutical Antitrust Litigation: A Novartis affiliate along with numerous other prescription drug manufacturers, is a co-defendant in various actions brought by certain US retail pharmacies, alleging antitrust and pricing violations. Pretrial motion practice is underway. A trial is scheduled in one of these actions to commence in late 2004.

PPA: Novartis affiliates are parties to over 400 lawsuits in the US brought by people claiming to have been injured by products containing phenylpropanolamine (PPA) sold by certain of those affiliates. These cases are in various stages of litigation with Novartis having achieved victories in the first three claims to have gone to trial. However, other trials are currently ongoing, and more will follow. There can be no guarantee that the affiliates' initial successes will be repeated or sustained in the event of an appeal.

SMON (Subacute Myelo Optico Neuropathy): In 1996 an affiliate of Ciba-Geigy, one of the predecessor companies of Novartis, together with two other pharmaceutical companies, settled certain product liability issues related to sales of its product Clioquinol in Japan. Under the settlement, a Novartis affiliate is required to pay certain future health care costs of the claimants.

Terazosin: A Sandoz affiliate is a defendant in a number of lawsuits in the US claiming injuries and damages allegedly arising out of violation of antitrust laws in the settlement, by the affiliate and Abbott Pharmaceuticals, of a contentious patent litigation involving Abbott's Hytrin® and the Sandoz generic equivalent product. The affiliate has a judgment sharing agreement with Abbott that caps its liability. In addition, in one of the proceedings, the affiliate was successful in overturning on appeal a trial court decision that the settlement of the litigation was *per se* unlawful, and certifying a plaintiff's class. The case has been remanded to the trial court for further proceedings.

Novartis believes that its affiliates have meritorious defenses in these cases, and they are vigorously defending each of them.

From time to time, the Group's affiliates may be the subject of government investigations arising out of the normal conduct of their business. Consistent with the Novartis Code of Conduct and policies regarding compliance with law, it is the Group's policy to cooperate with such investigations.

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US enteral pump market: A Novartis Medical Nutrition affiliate in the US is a subject of an investigation by the US Department of Justice regarding marketing and pricing practices in the US enteral pump market, including whether certain federal criminal statutes have been violated. Novartis is cooperating with that investigation.

Novartis maintains general liability insurance, including product liability insurance, covering claims on a worldwide basis. While claims could be made against the Group's affiliates which, in whole or in part, might not be covered by insurance, the Group believes that its insurance coverage limits and retention amounts are reasonable and prudent in light of its businesses and the risks to which the Group is subject.

The following table shows the movements in the legal and product liability provisions during 2003 and 2002:

	2003 USD millions	**2002 USD millions**
January 1	**420**	**316**
Consolidation changes	26	
Cash payments	-152	-60
Releases	-158	-19
Additions	317	160
Translation effect, net	18	23
December 31	**471**	**420**
Less short-term liability	-136	-166

	2003 USD millions	2002 USD millions
Long-term liability at December 31	**335**	**254**

20. Short-term financial debts

	2003 USD millions	2002 USD millions
Interest bearing employee accounts	926	816
Other bank and financial debt	660	634
Commercial paper	649	949
Current portion of long-term financial debt	45	111
Fair value of derivative financial instruments	499	331
Total	**2 779**	**2 841**

The balance sheet values of short-term financial debt, other than the current portion of long-term financial debts, approximates to the estimated fair value due to the short-term nature of these instruments.

The weighted average interest rate on the bank and other financial debt including employee accounts was 3.1% and 3.5% in 2003 and 2002, respectively.

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21. Other short-term liabilities

	2003 USD millions	2002 USD millions
Income and other taxes	872	546
Restructuring liabilities	43	98
Accrued expenses	2 912	2 366
Potential claims from insurance activities	149	206
Social security/pension funds	80	70
Environmental liabilities	2	2
Deferred income relating to government grants	14	14
Goods returned and commission liabilities	15	9
Legal and product liability settlements	136	166
Other payables	653	688
Total	**4 876**	**4 165**

Restructuring charges: In October 2002, charges of USD 20 million were incurred in conjunction with the divestment of the Food & Beverage business to Associated British Foods plc (ABF). The charges comprised employee termination costs of USD 8 million and other third party costs of USD 12 million. 45 employees not transferred to ABF were identified in the original plan, all but 4 of whom have now left the Group. These 4 associates are fulfilling an interim service level agreement with the new owners and are expected to leave in 2005. All other significant actions associated with the restructuring plan are expected to be completed during 2004.

In December 2002, provision was made for charges of USD 28 million in conjunction with the plan to re-organize the Health Food and Slimming as well as Sports Nutrition businesses into a stand-alone unit called Nutrition & Santé. The charges comprised employee termination costs of USD 17 million and other third party costs of USD 11 million. 120 associates were identified in the original plan, of whom 25 remained employed by the Group as at December 31, 2003, but all of whom are expected to leave in 2004. All other actions of this plan will be completed in 2004.

In December 2002 charges of USD 10 million were incurred in conjunction with a plan to restructure the OTC business. The charges comprised employee termination costs of USD 9 million and other third party costs of USD 1 million. 90 associates were impacted by the restructuring, of whom 5 remain employed by the Group as at December 31, 2003, but all of whom are expected to leave in 2004. All other actions of this plan will also be completed in 2004.

In 2003 there were no significant restructuring charges.

The releases to income in 2003 and 2002 of USD 12 million and USD 23 million respectively, were mainly due to settlement of liabilities at lower amounts than originally anticipated.

Tangible fixed asset impairments are determined based on the review of the carrying values of tangible fixed assets. Write-downs are recorded for tangible fixed assets impaired or related to activities to be restructured, divested or abandoned. The provision is transferred to accumulated depreciation as the tangible fixed assets are restructured, divested or abandoned.

Other third party costs are mainly associated with lease and other obligations due to the abandonment of certain facilities.

	Employee termination costs USD millions	Tangible fixed asset impairments USD millions	Other third party costs USD millions	Total USD millions
Balance at January 1, 2002	**36**	**31**	**74**	**141**
Cash payments	-21		-58	-79
Releases	-6	-12	-5	-23
Additions	34		24	58
Non-income tangible fixed asset write-offs		-4		-4
Translation effect, net	3		2	5
Balance at December 31, 2002	**46**	**15**	**37**	**98**
Cash payments	-27		-16	-43
Releases	-1	-2	-9	-12
Balance at December 31, 2003	**18**	**13**	**12**	**43**

22. Cash flows arising from changes in net current assets and other operating cash flow items

	2003 USD millions	2002 USD millions
Change in inventories	-78	-275
Change in trade accounts receivable and other net current assets	297	49

	2003 USD millions	2002 USD millions
Change in trade accounts payable	238	74
Total	**457**	**-152**

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23. Cash flows arising from major acquisitions and divestments of subsidiaries

The following is a summary of the cash flow impact of the major divestments and acquisitions of subsidiaries:

	2003 Acquisitions USD millions	2002 Acquisitions USD millions	2002 Divestments USD millions
Tangible fixed assets	-1	-165	61
Other identifiable long-term assets	-24	-28	5
Inventories	-1	-125	19
Trade accounts receivable and other current assets	-1	-106	33
Marketable securities, cash and short-term deposits		-103	20
Long-term and short-term debt to third parties		5	-21
Trade accounts payable and other liabilities	36	133	21
Net identifiable assets acquired/divested	**9**	**-389**	**138**
Less acquired/divested liquidity	18	103	-20
Sub-total	**27**	**-286**	**118**
Goodwill	-303	-618	
Divestment gains			133
Amount settled in treasury shares		78	
Translation effects	4	33	
Net Cash Flow	**-272**	**-793**	**251**

The significant changes in the companies that have been consolidated are described in note 2. All acquisitions were for cash, except in 2002 an amount equivalent to USD 78 million which was settled in Novartis ADSs.

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24. Changes in consolidated equity

a) The 2003 and 2002 changes in the fair value of financial instruments not recorded in the income statement and transfers to the income statement consist of the following:

	Fair value adjustments to marketable securities USD millions	Fair value of deferred cash flow hedges USD millions	Total USD millions

	Fair value adjustments to marketable securities USD millions	Fair value of deferred cash flow hedges USD millions	Total USD millions
Fair value adjustments at January 1, 2002	**656**	**-10**	**646**
Changes in fair value:			
available-for-sale marketable securities	-494		-494
cash flow hedges		144	144
other financial assets	-344		-344
Realized gains or losses transferred to the income statement:			
marketable securities sold	-174		-174
derivative financial instruments		-88	-88
other financial assets sold	-8		-8
Impaired other financial assets	64		64
Reclassification in equity(1)	-98	79	-19
Deferred tax on above	99	-12	87
Fair value adjustments at December 31, 2002	**-299**	**113**	**-186**
Changes in fair value:			
available-for-sale marketable securities	146		146
cash flow hedges		26	26
other financial assets	21		21
associated companies' equity movements	41		41
Realized gains or losses transferred to the income statement:			
marketable securities sold	92		92
derivative financial instruments		-165	-165
other financial assets sold	1		1
Impaired marketable securities and other financial assets	146		146
Deferred tax on above	-74	33	-41
Fair value adjustments at December 31, 2003	**74**	**7**	**81**

(1) Transfer of USD 98 million of unrealized gains to retained earnings due to fair value adjustments on Syngenta AG shares retained by the Group after the 2000 Novartis Agribusiness spin-off and transfer of USD 79 million of translation losses in connection with hedges of the translation of net investments in foreign subsidiaries.

b) The Group has investments in associated companies, principally Roche Holding AG and Chiron Corporation. The Group's share in associated companies' currency translation adjustments, unrealized fair value adjustments on marketable securities and hedging transactions are allocated directly to the appropriate component of the Group's consolidated statement of changes in equity.

c) Goodwill previously written-off against retained earnings, in accordance with IFRS in effect prior to 1995, has been transferred to the income statement as a reduction of a gain following the renegotiation in 2002 of the final purchase price of this 1994 transaction.

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d) The Board of Directors proposes a dividend of CHF 1.00 per share for 2003 (2002: CHF 0.95 per share amounting to USD 1.7 billion which was paid in 2003) totaling USD 2.0 billion for all dividend bearing shares. The amount available for dividend distribution is based on the available distributable retained earnings of Novartis AG determined in accordance with the legal provisions of the Swiss Code of Obligations.

e) USD 939 million of shares were acquired during 2003 under the Group's third share buy-back program on the second trading line and USD 666 million of shares, net were sold on the first trading line. This resulted in a net reduction in Group consolidated equity of USD 273 million (2002: USD 3.2 billion).

f) Pursuant to a resolution approved at the March 22, 2003 Annual General Meeting, 22.7 million shares with a nominal value of USD 8 million were cancelled representing shares acquired in 2002 on the second trading line buy-back program (2002: 61.1 million shares were cancelled with a nominal value of USD 22 million).

g) During December 2001, Novartis sold a total of 55 million ten-year call options (Low Exercise Price Options "LEPOs") on Novartis shares, with an exercise price of CHF 0.01, to a third party. The Group received EUR 2.2 billion in proceeds (EUR 40 per LEPO). The Group accounted for the LEPOs as an increase in share premium at fair value less related issuance costs. Following changes in US GAAP and expected changes in IFRS rules, Novartis redeemed, in advance, these equity instruments on June 26, 2003.

h) During December 2001, Novartis sold a total of 55 million nine and ten-year put options on Novartis shares to a third party with an exercise price of EUR 51, the Group received EUR 0.6 billion in proceeds (EUR 11 per put option). The Group accounted for the option premium associated with the put options as an increase in share premium less related issuance costs. Following changes in US GAAP and expected changes in IFRS, Novartis redeemed, in advance, these equity instruments on June 26, 2003.

25. Employee benefits

a) Defined benefit plans: The Group has, apart from the legally required social security schemes, numerous independent pension plans. For certain Group companies, however, no independent assets exist for the pension and other long-term employee benefit obligations. In these cases the related liability is included in the balance sheet.

Defined benefit pension plans cover the majority of the Group's employees. The defined benefit obligations and related assets of all major plans are reappraised annually by independent actuaries. Plan assets are recorded at fair values. The following is a summary of the status of the main defined benefit plans at December 31, 2003 and 2002:

	2003 USD millions	**2002 USD millions**
Funded assets of independent defined benefit	16 128	14 365
Defined benefit obligations of active and retired employees of funded plans	-13 112	-11 320
Funded Status	**3 016**	**3 045**
Defined benefit obligations of active and retired employees of unfunded plans	-753	-525
Unrecognized past service costs	6	
Unrecognized actuarial losses, net of gains	777	266
Net asset in balance sheet	**3 046**	**2 786**

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The net asset in the balance sheet consists of:

	2003 USD millions	**2002 USD millions**
Prepaid pension expense included in financial and other assets	3 976	3 527
Accrued pension costs included in other long-term liabilities	-930	-741
Total net asset	**3 046**	**2 786**

The following are the principal actuarial assumptions, used for calculating the 2003 and 2002 income statement amounts and the above-stated December 31, 2003 and 2002 funded status of the main defined benefit plans:

	Income statement	**Funded status**

Weighted average %	Income statement 2003 %	Income statement 2002 %	Funded status 2003 %	Funded status 2002 %
Discount	4.6	4.5	4.3	4.5
Payroll indexation	2.8	2.8	2.8	2.8
Return on assets	5.6	6.1	5.6	6.1

In some Group companies employees are covered by defined contribution plans and other long-term employee benefits. The liability of the Group for these benefits is reported in other long-term employee benefits and deferred compensation and at December 31, 2003 amounts to USD 183 million (2002: USD 180 million). In 2003 contributions charged to the consolidated income statement for the defined contribution plans were USD 84 million (2002: USD 85 million).

The number of Novartis AG shares held by pension and similar benefit funds at December 31, 2003 was 31.5 million shares with a market value of USD 1.3 billion (2002: 31.5 million shares with a market value of USD 1.1 billion). These funds did not dispose of any Novartis AG shares during the year ended December 31, 2003 (2002: 2.5 million shares). The amount of dividends received on Novartis AG shares held as plan assets by these funds were USD 22 million for the year ended December 31, 2003 (2002: USD 22 million).

b) Defined benefit plan and other post-employment benefit scheme balance sheet and income statement details:

The Group's post-employment healthcare, insurance and other related post-employment benefits are not funded. The following is a summary of the balance sheet movements in relation to defined benefit plans and other post-employment benefits:

	Defined benefit pension plans 2003 USD millions	Defined benefit pension plans 2002 USD millions	Other post-employment benefits 2003 USD millions	Other post-employment benefits 2002 USD millions
Asset/(liability) at January 1	**2 786**	**2 227**	**-421**	**-416**
Increase in prepaid pensions	449	643		
Increase in accrued liabilities	-189	-84	-39	-5
Asset/(liability) at December 31	**3 046**	**2 786**	**-460**	**-421**

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The amounts recognized in the income statement are as follows:

	Defined benefit pension plans 2003 USD millions	Defined benefit pension plans 2002 USD millions	Other post-employment benefits 2003 USD millions	Other post-employment benefits 2002 USD millions
Expected return on plan assets	796	970		
Employee contributions	39	7		
Current service cost	-285	-277	-19	-14
Interest cost	-559	-552	-40	-36
Past service costs	27		4	
Amortization of actuarial gains and losses	-72	-9	-8	-4
Income/(expense)	**-54**	**139**	**-63**	**-54**

The actual return on plan assets for 2003 taking into account realized and unrealized capital gains and losses was a gain of USD 916 million (2002: USD 1 173 million loss).

The following are the principal actuarial assumptions used for calculating the other post-employment benefits:

	2003 Weighted average %	2002 Weighted average %
Discount rate	6.3	6.8
Healthcare cost trend (initial)	9.0	10.0
Healthcare cost trend (ultimate)	4.8	4.8

26. Employee share participation plans

Employee and management share participation plans exist as follows:

a) Novartis Share Option Plan: Under the current plan, share options are granted annually as part of the remuneration of executives and other employees, as selected by the Board's Compensation Committee. These options are exercisable after two years and expire after nine years. Each option entitles the holder to acquire one Novartis AG share at a predetermined exercise price. In May 2001, the Novartis AG shares were split 40 to 1. Options granted prior to that date entitled the holder to acquire 40 Novartis AG shares per option. The figures in the tables below have been restated for grants before 2002 to reflect this change. The number of options granted depends on the performance of the individuals and the Business Unit in which they work. In order to further align the Novartis Share Option Plan and the US ADS Incentive Plan, as of 2004 the vesting period for the Novartis Share Option Plan has been increased to three years.

	2003		2002	
	Options (millions)	Weighted average exercise price (USD)	Options (millions)	Weighted average exercise price (USD)
Options outstanding at January 1	**11.5**	**43.6**	**7.2**	**35.4**
Granted	9.8	39.0	5.6	44.3
Exercised	-0.1	43.3	-1.0	40.1
Cancelled	-0.2	43.3	-0.3	43.9
Outstanding at December 31	**21.0**	**44.3**	**11.5**	**43.6**
Exercisable at December 31	**6.0**	**47.8**	**3.8**	**38.4**
Weighted average fair value of options granted during the year (USD)		15		8

All options were granted at an exercise price which was greater than the market price of the Group's shares at the grant date.

The following table summarizes information about share options outstanding at December 31, 2003:

	Options outstanding			Options exercisable	
Range of exercise prices (USD)	**Number outstanding**	**Average remaining**	**Weighted average**	**Number exercisable**	**Weighted average**

	Options outstanding			Options exercisable	
	(millions)	contractual life (years)	exercise price (USD)	(millions)	exercise price (USD)
30-34	0.8	3.2	34.0	0.8	34.0
35-39	9.8	8.0	39.1	0.1	38.8
40-44	1.8	5.1	41.1	1.8	41.1
45-49	5.3	7.1	49.6		
50-54	0.9	4.2	54.7	0.9	54.7
55-59	2.4	6.1	56.0	2.4	56.0
Total	**21.0**	**7.0**	**44.3**	**6.0**	**47.8**

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b) Novartis US ADS Incentive Plan: The US ADS Incentive Plan was introduced in 2001 and supplements the previous US Management ADS Appreciation Cash Plan. Under the US ADS Incentive Plan, options are granted annually on Novartis ADSs at a pre-determined exercise price as part of the remuneration of US-based executives and other selected employees. The number of options granted depends on the performance of the individuals and of the Division/Business Unit in which they work. Options are exercisable after three years and terminate after ten years. Under the previous US Management ADS Appreciation Cash Plan, Novartis US-based employees in the USA were entitled to cash compensation equivalent to the increase in the value of Novartis ADSs compared to the market price of the ADSs at the grant date.

	2003		2002	
	ADS options (millions)	Weighted average exercise price (USD)	ADS options (millions)	Weighted average exercise price (USD)
Options outstanding at January 1	**23.2**	**39.3**	**8.5**	**42.1**
Granted	20.0	36.4	15.8	37.3
Exercised	-0.1	41.8		
Cancelled	-2.5	38.0	-1.1	39.5
Outstanding at December 31	**40.6**	**37.7**	**23.2**	**38.8**
Exercisable at December 31	**1.2**	**38.8**	**0.7**	**39.3**
Weighted average fair value of options granted during the year (USD)		17		11

All ADS options were granted at an exercise price which was equal to, or greater than, the market price of the ADS at the grant date.

The following table summarizes information about ADS options outstanding at December 31, 2003:

	ADS options outstanding			ADS options exercisable	
Range of exercise prices (USD)	Number outstanding (millions)	Average remaining contractual life (years)	Weighted average exercise price (USD)	Number exercisable (millions)	Weighted average exercise price (USD)

	ADS options outstanding			ADS options exercisable	
31-35	0.1	6.5	34.0		
36-40	33.3	8.2	36.7	0.8	37.1
41-45	7.2	7.3	42.0	0.4	42.2
	40.6	**8.0**	**37.7**	**1.2**	**38.8**

c) Long-Term Performance Plan: This plan is offered to selected executives. Under the Long-Term Performance Plan, participants are awarded the right to earn Novartis AG shares. Actual payouts, if any, are dependent on achievements of long-term targets such as economic value added relative to pre-determined strategic plan targets over a three-year period. Additional functional objectives may be considered in the evaluation of performance. If performance is below the threshold level of the pre-determined targets, no shares will be earned. To accommodate the starting phase of the Plan, "bridging periods" of one year duration were introduced for the payouts in 2001, 2002 and 2003. During 2003 a total of 507 507 shares (2002: 232 548 shares) were granted to executives.

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d) Leveraged Share Savings Plan: Participants under this plan can make an election to receive all or part of their annual incentive award in Novartis AG shares. Shares received under the plan are blocked for a five year period after the grant date. At the end of the blocking period, Novartis will match the respective shares on a one-for-one basis. During 2003, 279 619 shares (2002: 245 838 shares) were granted to participants.

e) New Swiss Employee Share Ownership Plan: A new Swiss Employee Share Ownership Plan (ESOP) was introduced as of January 1, 2002 to encourage employees in Switzerland to invest in Novartis. The new ESOP provides for the annual variable incentive to be delivered wholly in the form of Novartis AG shares at a fixed date at a fair market value at that date. Employees are free to sell 50% or 100% of these shares immediately. Shares received under the plan have a three year blocking period and are matched with one share for every two shares held at the end of the blocking period. In 2003 the Swiss employees received 3 942 687 shares for the first time under this scheme.

f) Old Swiss Employee Share Ownership Plan: In 1998, a Swiss Employee Share Ownership Plan was introduced for all employees of Swiss subsidiaries. This Plan entitled employees after one year of service to acquire 120 shares in Novartis AG every year at a price determined by the Board's Compensation Committee, which was CHF 12.50 per share in 2002. In 2002, 406 448 shares were distributed under this Plan. 2002 was the last year in which employees could purchase shares under this scheme. Employees who joined Novartis after January 1, 2002 only participate in the new ESOP.

g) Restricted Share Plan: Under the Restricted Share Plan, employees may be granted restricted share awards either as a result of a general grant or as a result of an award based on having met certain performance criteria. Shares granted under this Plan generally have a five-year vesting period. During 2003 a total of 233 510 shares (2002: 117 902 shares) were granted to executives and selected employees.

Movements in Novartis AG shares held by the Novartis Foundation for Employee Participation were as follows:

	2003 Number of shares (000)	**2002 Number of shares (000)**
January 1	**95 072**	**101 312**
Shares bought/sold	1 163	-5 238
Shares distributed to employees	-2 935	-1 002
December 31	**93 300**	**95 072**

The market value of the Novartis AG shares held by the Foundation at December 31, 2003 was USD 4.2 billion (2002: USD 3.4 billion).

27. Related parties

The Novartis Group has formed certain foundations with the purposes of advancing employee welfare, employee share participation, research and charitable contributions. The charitable foundations foster health care and social development in rural countries. Each of these foundations is autonomous and its board is responsible for its respective administration in accordance with the foundation's purpose and applicable law.

The Novartis Foundation for Employee Participation has not been included in the consolidated financial statements prepared under IFRS as Interpretation No. 12 of the Standing Interpretations Committee exempts post-employment and equity compensation plans from its scope. The total assets of this Foundation as of December 31, 2003 included 93.3 million shares of Novartis AG with a market value of USD 4.2 billion. As of December 31, 2002, the assets included 95.1 million Novartis shares with a market value of USD 3.4 billion. This Foundation is consolidated under US GAAP and is included as a reconciling item in the US GAAP reconciliation.

In 2003, the Group granted short-term loans totaling USD 651 million to the above mentioned foundations and received short-term loans totaling USD 8 million from them. In 2002, the Group granted short-term loans totaling USD 623 million to the foundations, received short-term loans totaling USD 2 million from them.

In addition, there are approximately twenty other foundations that were established for charitable purposes that have not been consolidated as the Group does not receive a benefit therefrom. As of December 31, 2003 these foundations held approximately 6.1 million shares of Novartis, with a cost of approximately USD 32 million.

See notes 5, 25 and 26 to the consolidated financial statements for disclosure of other related party transactions and balances.

28. Commitments and contingencies

Spin-off of Novartis Agribusiness: All remaining significant matters in connection with the 1999 Master Agreement between Novartis AG and AstraZeneca Plc for the spin-off and merger of their respective agrochemical businesses into Syngenta AG have been completed during 2003.

Chiron Corporation: In connection with its original investment in Chiron, Novartis has agreed to:

purchase up to USD 500 million of new Chiron equity at fair value, at Chiron's request. To date, Chiron has made no such request.

guarantee up to USD 703 million of Chiron debt. Utilization of the guarantee in excess of USD 403 million reduces the equity put amount mentioned above. Novartis' obligation under the guarantee is only effective if Chiron defaults on the debt.

The outstanding equity put and guarantee expire no later than 2011.

Leasing commitments:		**2003 USD millions**
Commitments arising from fixed-term operational leases in effect at December 31 are as follows:		
	2004	211
	2005	172
	2006	119
	2007	87
	2008	69
	Thereafter	270
Total		**928**
Expense of current year		**232**

Leasing commitments:	2003 USD millions

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Research & Development commitments: The Group has entered into long-term research agreements with various institutions, including USD 729 million of potential milestone payments. As of December 31, 2003 they are as follows:

	2003 USD millions
2004	524
2005	337
2006	243
2007	101
2008	154
Thereafter	181
Total	**1 540**

Contingencies: Group companies have to observe the laws, government orders and regulations of the country in which they operate. A number of them are currently involved in administrative proceedings arising out of the normal conduct of their business. In the opinion of Group management, however, the outcome of these actions will not materially affect the Group's financial position, result of operations or cash flow.

The material components of the Group's potential environmental liability consist of a risk assessment based on investigation of the various sites identified by the Group as at risk for environmental exposure. The Group's future remediation expenses are affected by a number of uncertainties. These uncertainties include, but are not limited to, the method and extent of remediation, the percentage of material attributable to the Group at the remediation sites relative to that attributable to other parties, and the financial capabilities of the other potentially responsible parties. The Group does not expect the resolution of such uncertainties to have a material effect on the consolidated financial statements.

29. Principal currency translation rates

			2003 USD	2002 USD
Year end rates used for the consolidated balance sheets:				
	1	CHF	0.800	0.712
	1	EUR	1.247	1.038
	1	GBP	1.774	1.601
	100	JPY	0.935	0.834
Average rates of the year used for the consolidated income and cash flow statements:				
	1	CHF	0.745	0.643
	1	EUR	1.131	0.946
	1	GBP	1.636	1.503
	100	JPY	0.867	0.802

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30. Events subsequent to the December 31, 2003 balance sheet date

On December 16, 2003, the Medical Nutrition business unit announced its intention to acquire the brands, trademarks, patents and intellectual property assets of Mead Johnson & Company's global adult medical nutrition business in a USD 385 million cash transaction. Mead Johnson & Company, a subsidiary of Bristol-Myers Squibb Company, is a leader in sales and marketing of adult medical nutrition products. Completion of this transaction is pending subject to finalization of regulatory review.

A US subsidiary, Idenix Inc., has filed with the US Securities & Exchange Commission (SEC) for an initial public offering of its shares on a US stock exchange. The exact timing and terms of the offering have still to be decided.

The 2003 consolidated financial statements of the Novartis Group were approved by the Novartis AG Board of Directors on January 20, 2004.

31. Group subsidiaries and associated companies

As at December 31, 2003

	Share/paid-in in capital[1]	Equity interest %	Activities		
Argentina					
Novartis Argentina S.A., Buenos Aires	ARS 230.6 m	100		Δ	
Australia					
Novartis Australia Pty Ltd., North Ryde, NSW	AUD 11.0 m	100	/*/		
Novartis Pharmaceuticals Australia Pty Ltd., North Ryde, NSW	AUD 3.8 m	100			/*\
Novartis Consumer Health Australasia Pty Ltd., Mulgrave, Victoria	AUD 7.6 m	100		Δ	
Novartis Animal Health Australasia Pty Ltd., North Ryde, NSW	AUD 3.0 m	100			/*\
Austria					
Novartis Pharma GmbH, Vienna	EUR 1.1 m	100			
Novartis Forschungsinstitut GmbH, Vienna	EUR 10.9 m	100			/*\
Sandoz GmbH, Vienna	EUR 100 000	100	/*/		
Sandoz GmbH, Kundl	EUR 32.7 m	100	/*/	Δ	/*\
Novartis Animal Health GmbH, Kundl	EUR 37 000	100			
Bangladesh					
Novartis (Bangladesh) Limited, Dhaka	BDT 162.5m	60		Δ	
Belgium					
N.V. Novartis Management Services S.A., Vilvoorde	EUR 7.5 m	100	/*/		
N.V. Novartis Pharma S.A., Vilvoorde	EUR 7.1 m	100			
N.V. Novartis Consumer Health S.A., Bruxelles	EUR 4.8 m	100			
N.V. CIBA Vision Benelux S.A., Mechelen	EUR 62 000	100			
Bermuda					
Triangle International Reinsurance Ltd., Hamilton	CHF 1.0 m	100	/*/		
Novartis Securities Investment Ltd., Hamilton	CHF 30 000	100	/*/		
Novartis International Pharmaceutical Ltd., Hamilton	CHF 10.0 m	100	/*/		
Brazil					
Novartis Biociências S.A., São Paulo	BRL 158.1 m	100		Δ	
Novartis Saúde Animal Ltda., São Paulo	BRL 19.9 m	100		Δ	
Canada					

	Share/paid-in in capital[1]	Equity interest %	Activities		
Novartis Pharmaceuticals Canada Inc., Dorval/Montreal	CAD 1.3 m	100			/*\
Novartis Consumer Health Canada Inc., Mississauga, Ontario	CAD 2	100			
CIBA Vision Canada Inc., Mississauga, Ontario	CAD 1	100		Δ	
Chile					
Novartis Chile S.A., Santiago de Chile	CLP 2.0 bn	100			

	Share/paid-in in capital[1]	Equity interest %	Activities		
China					
Beijing Novartis Pharma Ltd., Beijing	CNY 111.3 m	78		Δ	
Novartis Pharmaceuticals (HK) Limited, Hong Kong	HKD 200	100			
Colombia					
Novartis de Colombia S.A., Santafé de Bogotá	COP 20.9 bn	100		Δ	
Croatia					
Lek Zagreb d.o.o., Zagreb	HRK 25.6 m	100		Δ	
Czech Republic					
Novartis s.r.o., Prague	CZK 51.5 m	100			
Denmark					
Novartis Healthcare A/S, Copenhagen	DKK 8.0 m	100			
Ecuador					
Novartis Ecuador S.A., Quito	USD 209 193	100			
Egypt					
Novartis Pharma S.A.E., Cairo	EGP 33.8 m	99		Δ	
Novartis Egypt (Healthcare) S.A.E., Cairo	EGP 250 000	95			
Finland					
Novartis Finland Oy, Espoo	EUR 459 000	100			
France					
Novartis Groupe France S.A., Rueil-Malmaison	EUR 263.0 m	100	/*/		
Novartis France S.A.S., Rueil-Malmaison	EUR 1.4 m	100	/*/		
Novartis Pharma S.A.S., Rueil-Malmaison	EUR 43.4 m	100		Δ	/*\
Sandoz S.A.S., Levallois-Perret	EUR 2.6 m	100			
Novartis Santé Familiale S.A.S., Rueil-Malmaison	EUR 21.9 m	100		Δ	
Novartis Santé Animale S.A.S., Rueil-Malmaison	EUR 900 000	100		Δ	
Novartis Nutrition S.A.S., Revel	EUR 300 000	100		Δ	
Nutrition et Santé S.A.S., Revel	EUR 30.2 m	100	/*/	Δ	/*\
CIBA Vision S.A.S., Blagnac	EUR 1.8 m	100			
Germany					
Novartis Deutschland GmbH, Wehr	EUR 35.8 m	100	/*/		

	Share/paid-in in capital(1)	Equity interest %	Activities		
Novartis Pharma GmbH, Nuremberg	EUR 25.6 m	100		Δ	/*\
Sandoz Pharmaceuticals GmbH, Ismaning	EUR 5.1 m	100		Δ	
Sandoz Industrial Products GmbH, Frankfurt a.M.	EUR 2.6 m	100		Δ	
Novartis Consumer Health GmbH, Munich	EUR 14.6 m	100		Δ	/*\
Novartis Nutrition GmbH, Munich	EUR 23.5 m	100		Δ	/*\
CIBA Vision Vertriebs GmbH, Grossostheim	EUR 2.6 m	100			
CIBA Vision GmbH, Grosswallstadt	EUR 15.4 m	100		Δ	/*\
Gibraltar					
Novista Insurance Limited, Gibraltar	CHF 130.0 m	100	/*/		

	Share/paid-in in capital(1)	Equity interest %	Activities		
Great Britain					
Novartis UK Ltd., Farnborough	GBP 25.5 m	100	/*/		
Novartis Pharmaceuticals UK Ltd., Frimley/Camberley	GBP 5.4 m	100		Δ	/*\
Novartis Grimsby Ltd., Farnborough	GBP 228.9 m	100		Δ	
Sandoz Ltd., Bordon	GBP 2.0 m	100			
Novartis Consumer Health UK Ltd., Horsham	GBP 25 000	100		Δ	
Novartis Animal Health UK Ltd., Royston	GBP 100 000	100			/*\
Vericore Ltd., Royston	GBP 2	100		Δ	
CIBA Vision (UK) Ltd., Southampton	GBP 550 000	100			
Greece					
Novartis (Hellas) S.A.C.I., Athens	EUR 14.6 m	100			
Hungary					
Novartis Hungary Healthcare Limited Liability Company, Budapest	HUF 545.6 m	100			
India					
Novartis India Limited, Mumbai	INR 159.8 m	51		Δ	
Sandoz Private Limited, Mumbai	INR 32.0 m	100		Δ	
Indonesia					
PT Novartis Biochemie, Jakarta	IDR 7.7 bn	69		Δ	
PT CIBA Vision Batam, Batam	IDR 11.9 bn	100		Δ	
Ireland					
Novartis Ireland Limited, Dublin	EUR 25 000	100			
Novartis Ringaskiddy Limited, Ringaskiddy, County Cork	EUR 2.0 m	100		Δ	
Italy					
Novartis Farma S.p.A., Origgio	EUR 18.2 m	100	/*/	Δ	/*\
Sandoz Industrial Products S.p.A., Rovereto	EUR 2.6 m	100		Δ	
Novartis Consumer Health S.p.A., Origgio	EUR 2.9 m	100			
CIBA Vision S.r.l., Marcon	EUR 2.4 m	100			
Japan					
Novartis Pharma K.K., Tokyo	JPY 6.0 bn	100			/*\

	Share/paid-in in capital(1)	Equity interest %	Activities	
Ciba-Geigy Japan Limited, Tokyo	JPY 8.5 bn	100		Δ
CIBA Vision K.K., Tokyo	JPY 495.0 m	100		
Luxembourg				
Novartis Investments S.à r.l., Luxembourg	USD 2.6 bn	100	/*/	
Malaysia				
Novartis Corporation (Malaysia) Sdn. Bhd., Kuala Lumpur	MYR 3.3 m	70		
Mexico				
Novartis de México, S.A. de C.V., Mexico City	MXN 205.0 m	100	/*/	
Novartis Farmacéutica, S.A. de C.V., Mexico City	MXN 80.7 m	100		Δ
Novartis Nutrition, S.A. de C.V., Mexico City	MXN 2.0 m	100		
Productos Gerber, S.A. de C.V., Mexico City	MXN 12.5 m	100		Δ

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	Share/paid-in in capital(1)	Equity interest %	Activities	
Netherlands				
Novartis Netherlands B.V., Arnhem	EUR 1.4 m	100	/*/	
Novartis Pharma B.V., Arnhem	EUR 4.5 m	100		
Sandoz B.V., Weesp	EUR 907 570	100		Δ
Novartis Consumer Health B.V., Breda	EUR 23 830	100		Δ
Netherlands Antilles				
Sandoz N.V., Curação	USD 6 000	100	/*/	
Norway				
Novartis Norge AS, Oslo	NOK 1.5 m	100		
Pakistan				
Novartis Pharma (Pakistan) Limited, Karachi	PKR 24.8 m	98		Δ
Panama				
Novartis Pharma (Logistics), Inc., Panama	USD 10 000	100		
Philippines				
Novartis Healthcare Philippines, Inc., Makati/Manila	PHP 298.8 m	100		
Poland				
Novartis Poland Sp. z o.o., Warsaw	PLN 44.2 m	100		
Lek Polska Sp. z o.o., Pruszkow	PLN 25.6 m	100		
Alima-Gerber S.A., Warsaw	PLN 45.4 m	100		Δ
Portugal				
Novartis Portugal SGPS Lda., Sintra	EUR 500 000	100	/*/	
Novartis Farma Produtos Farmacêuticos S.A., Sintra	EUR 2.4 m	100		
Novartis Consumer Health Produtos Farmacêuticos e Nutrição Lda., Lisbon	EUR 100 000	100		

	Share/paid-in in capital[1]	Equity interest %	Activities		
Puerto Rico					
Gerber Products Company of Puerto Rico, Inc., Carolina	USD 1.0 m	100		Δ	
CIBAVision Puerto Rico, Inc., Cidra	USD 14.0 m	100		Δ	
Russian Federation					
Novartis Pharma ZAO, Moscow	RUR 17.5 m	100			
Singapore					
Novartis Institute for Tropical Diseases Pte Ltd., Singapore	SGD 2 004	100			/*\
Slovenia					
Lek Pharmaceuticals d.d., Ljubljana	SIT 11.6 m	100	/*/	Δ	/*\
South Africa					
Novartis South Africa (Pty) Ltd., Spartan/Johannesburg	ZAR 86.4 m	100		Δ	
South Korea					
Novartis Korea Ltd., Seoul	KRW 24.5 bn	99		Δ	

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	Share/paid-in in capital[1]	Equity interest %	Activities		
Spain					
Novartis Farmacéutica, S.A., Barcelona	EUR 64.5 m	100	/*/	Δ	
Sandoz Farmacéutica, S.A., Barcelona	EUR 270 450	100		Δ	/*\
Sandoz Industrial Products, S.A., Les Franqueses del Vallés/Barcelona	EUR 9.3 m	100		Δ	/*\
Novartis Consumer Health, S.A., Barcelona	EUR 876 919	100		Δ	
CIBA Vision, S.A., Barcelona	EUR 1.4 m	100		Δ	/*\
Sweden					
Novartis SverigeParticipations AB,Täby/Stockholm	SEK 51.0 m	100	/*/		
Novartis Sverige AB, Täby/Stockholm	SEK 5.0 m	100			
CIBA Vision Nordic AB, Askim/Göteborg	SEK 2.5 m	100			
Switzerland					
Novartis International AG, Basel	CHF 10.0 m	100	/*/		
Novartis Holding AG, Basel	CHF 100.2 m	100	/*/		
Novartis Securities AG, Basel	CHF 50.0 m	100	/*/		
Novartis Research Foundation, Basel	CHF 29.3 m	100			/*\
Novartis Foundation for Management Dev., Basel	CHF 100 000	100	/*/		
Roche Holding AG, Basel	CHF 160.0	33	/*/	Δ	/*\
Novartis Pharma AG, Basel	CHF 350.0 m	100	/*/	Δ	/*\
Novartis Pharma Services AG, Basel	CHF 50 000	100			
Novartis Pharma Schweizerhalle AG, Schweizerhalle	CHF 18.9 m	100		Δ	
Novartis Pharma Stein AG, Stein	CHF 251 000	100		Δ	/*\
Novartis Pharma Schweiz AG, Bern	CHF 5.0 m	100			
Novartis Ophthalmics AG, Hettlingen	CHF 200 000	100	/*/	Δ	/*\
Novartis Consumer Health S.A., Nyon	CHF 30.0 m	100	/*/	Δ	/*\

	Share/paid-in in capital(1)	Equity interest %	Activities		
Novartis Consumer Health Schweiz AG, Bern	CHF 250 000	100			
Novartis Animal Health AG, Basel	CHF 101 000	100	/*/	Δ	/*\
Novartis Centre de Recherche Santé Animale S.A., St.Aubin	CHF 250 000	100			/*\
Novartis Nutrition AG, Bern	CHF 40.0 m	100	/*/		
CIBA Vision AG, Embrach	CHF 300 000	100	/*/		
Taiwan					
Novartis (Taiwan) Co., Ltd., Taipei	TWD 170.0 m	100		Δ	
Thailand					
Novartis (Thailand) Limited, Bangkok	THB 230.0 m	100			
Turkey					
Novartis Saglik, Gida ve Tarim Ürünleri Sanayi ve Ticaret A.S., Istanbul	TRL 49.1 tr	100		Δ	

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	Share/paid-in in capital(1)	Equity interest %	Activities		
USA					
Novartis Corporation, Florham Park, NJ	USD 1.2 bn	100	/*/		
Novartis Finance Corporation, New York, NY	USD 5.0 bn	100	/*/		
Novartis Pharmaceuticals Corporation, East Hanover, NJ	USD 5.2 m	100		Δ	/*\
Novartis Ophthalmics, Inc., Duluth, GA	USD 350.0 m	100		Δ	
Novartis Institutes for BioMedical Research, Inc., Cambridge, MA	USD 35.0 m	100			/*\
Novartis Institute for Functional Genomics, Inc., San Diego, CA	USD 175.4 m	100			/*\
Chiron Corporation, Emeryville, CA	USD 2.5 bn	42	/*/	Δ	/*\
Idenix Pharmaceuticals, Inc., Cambridge, MA	USD 191.3 m	54			/*\
Sandoz Inc., Princeton, NJ	USD 35.5 m	100		Δ	/*\
Biochemie U.S., Inc., Broomfield, CO	USD 20.0 m	100			
Lek Pharmaceuticals, Inc., Wilmington, NC	USD 200 000	100			
Novartis Consumer Health, Inc., Parsippany, NJ	USD 465.9 m	100		Δ	/*\
Novartis Animal Health US, Inc., Greensboro, NC	USD 25.0 m	100		Δ	/*\
Novartis Animal Vaccines, Inc., Overland Park, KS	USD 115.0 m	100		Δ	/*\
Novartis Nutrition Corporation, Minneapolis, MN	USD 68.8 m	10		Δ	/*\
Gerber Products Company, Fremont, MI	USD 614.9 m	100	/*/	Δ	/*\
Gerber Life Insurance Company, White Plains, NY	USD 28.2 m	100			
CIBA Vision Corporation, Duluth, GA	USD 368.4 m	100	/*/	Δ	/*\
Venezuela					
Novartis de Venezuela S.A., Caracas	VEB 1.4 bn	100			

In addition, the Group is represented by subsidiaries, associated companies or joint ventures in the following countries: Algeria, Costa Rica, Dominican Republic, Guatemala, the former Yugoslav Republic of Macedonia, Morocco, New Zealand, Nigeria, Peru, Romania, Serbia and Montenegro and Uruguay.

The following describe the various types of entities within the Group:

/*/

Holding/Finance: This entity is a holding company and/or performs finance functions for the Group.

Sales: This entity performs sales and marketing activities for the Group.

Δ

Production: This entity performs manufacturing and/or production activities for the Group.

/*\

Research: This entity performs research and development activities for the Group.

Equity interest % above 50% and up to 100% of the voting rights fully consolidated
above 20% and up to 50% of the voting rights investment in associated company equity method accounting

(1)

Share/paid-in capital may not reflect the taxable share/paid-in capital amount.

m

= million; bn = billion; tr = trillion

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Reconciliation to US GAAP

32. Significant Differences Between IFRS and United States Generally Accepted Accounting Principles (US GAAP)

The Group's consolidated financial statements have been prepared in accordance with IFRS, which as applied by the Group, differs in certain significant respects from US GAAP. The effects of the application of US GAAP to net income and equity are set out in the tables below:

	Notes	2003 USD millions	2002 USD millions
Net income under IFRS		**5 016**	**4 725**
US GAAP adjustments:			
Purchase accounting: Ciba-Geigy	a	-339	-294
Purchase accounting: other acquisitions	b	-175	-298
Purchase accounting: IFRS goodwill amortization	c	172	140
Available-for-sale securities and derivative financial instruments	d	-240	-273
Pension provisions	e	-18	27
Share-based compensation	f	-273	-120
Consolidation of share-based employee compensation foundation	g	-3	-20
Deferred taxes	h	-63	-93
In-process research and development	i	-260	-11
Other	j	-20	-95
Deferred tax effect on US GAAP adjustments		-9	141
Net income under US GAAP		**3 788**	**3 829**
Basic earnings per share under US GAAP (USD)		1.59	1.58

	Notes	2003 USD millions	2002 USD millions
Diluted earnings per share under US GAAP (USD)		1.57	1.55

	Notes	December 31, 2003 USD millions	December 31, 2002 USD millions
Equity under IFRS		**30 429**	**28 269**
US GAAP adjustments:			
Purchase accounting: Ciba-Geigy	a	3 131	3 113
Purchase accounting: other acquisitions	b	2 808	3 011
Purchase accounting: IFRS goodwill amortization	c	327	155
Pension provisions	e	1 209	1 072
Share-based compensation	f	-96	-156
Consolidation of share-based employee compensation foundation	g	-728	-489
Deferred taxes	h	-609	-547
In-process research and development	i	-1 338	-984
Other	j	-93	-34
Deferred tax effect on US GAAP adjustments		-162	-185
Equity under US GAAP		**34 878**	**33 225**

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Components of equity in accordance with US GAAP

	December 31, 2003 USD millions	December 31, 2002 USD millions
Share capital	1 017	1 025
Treasury shares, at nominal value	-151	-158
Share premium	743	2 759
Retained earnings	31 069	29 976
Accumulated other comprehensive income:		
Currency translation adjustment	1 940	-237
Unrealized market value adjustment on available-for-sale securities, net of taxes of USD -62 million (2002: USD -6 million)	275	-253
Unrealized market value adjustment on cash-flow hedges, net of taxes of USD 7 million (2002: USD 30 million)	7	113
Minimum pension liability, net of taxes of USD 15 million	-22	
December 31	**34 878**	**33 225**

Changes in US GAAP equity

	2003 USD millions	2002 USD millions

	2003 USD millions	2002 USD millions
January 1	**33 225**	**30 208**
Net unrealized market value adjustment	381	-502
Increase in share premium related to share-based compensation	373	17
Minimum pension liability	-22	
Associated companies' equity movement	10	-104
Foreign currency translation adjustment	2 735	4 158
Net income for the year under US GAAP	3 788	3 829
Dividends paid	-1 654	-1 305
Acquisition of treasury shares	-500	-3 076
Redemption of call and put options on Novartis shares	-3 458	
December 31	**34 878**	**33 225**

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Notes to the US GAAP Reconciliation

a) Purchase accounting: Ciba-Geigy: The accounting treatment for the 1996 merger of Sandoz and Ciba-Geigy under IFRS is different from the accounting treatment under US GAAP. For IFRS purposes the merger was accounted under the uniting of interests method, however, for US GAAP the merger did not meet all of the required conditions of Accounting Principles Board Opinion No. 16 for a pooling of interests and therefore is accounted for as a purchase under US GAAP. Under US GAAP, Sandoz would be deemed to be the acquirer with the assets and liabilities of Ciba-Geigy being recorded at their estimated fair values and the results of Ciba-Geigy being included from December 20, 1996. Under US GAAP, the cost of Ciba-Geigy to Sandoz was approximately USD 28.5 billion. All of the purchase price was allocated to identified tangible and intangible assets with a definite useful life. There was therefore no residual goodwill arising from accounting for this transaction.

The components of the equity and income statement adjustments related to the US GAAP purchase accounting adjustment for 2003 and 2002 are as follows:

	2003 Components to reconcile		
	Net income USD millions	Foreign currency translation adjustment USD millions	Equity USD millions
Intangible assets related to marketed products	-478	472	4 121
Tangible fixed assets	51	-81	-714
Inventory		62	569
Other identifiable intangibles	-25	9	73
Investments		15	135
Deferred taxes	113	-120	-1 053
Total adjustment	**-339**	**357**	**3 131**

	2002 Components to reconcile		
	Net income USD millions	Foreign currency translation adjustment USD millions	Equity USD millions

	2002 Components to reconcile		
Intangible assets related to marketed products	-414	708	4 127
Tangible fixed assets	44	-115	-684
Inventory		83	507
Other identifiable intangibles	-20	16	89
Investments		20	120
Deferred taxes	96	-179	-1 046
Total adjustment	**-294**	**533**	**3 113**

The intangible assets related to marketed products and other identifiable intangibles are being amortized over 15 and 10 years, respectively.

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b) Purchase accounting: other acquisitions: Prior to January 1, 1995, the Group wrote off all goodwill, being the difference between the purchase price and the aggregate fair value of tangible and intangible assets and liabilities acquired in a business combination, directly to equity, in accordance with IFRS existing at that time. The adoption of IAS 22 (revised 1993) required that goodwill is capitalized and amortized, however, did not require prior period restatement. The material component of goodwill recorded directly to equity, under IFRS prior to January 1, 1995, related to the acquisition of Gerber Products in 1994. The net book value of goodwill under US GAAP attributable to Gerber Products was USD 2 870 million as of December 31, 2003 and 2002.

In accordance with IAS 22, the difference between the purchase price and the aggregate fair value of tangible and intangible assets and liabilities acquired in a business combination is capitalized as goodwill and amortized over its useful life, not to exceed 20 years. Under US GAAP, the difference between the purchase price and fair value of net assets acquired as part of a pre-1995 business combination is also capitalized as goodwill. Effective January 1, 2002, the Group adopted Statement of Financial Accounting Standards No. 142 (SFAS 142), *Goodwill and other Intangible Assets*. SFAS 142 requires that all goodwill and other intangible assets existing on implementation on January 1, 2002 are tested for impairment and thereafter are assessed for impairment on an annual basis. From January 1, 2002 goodwill and intangible assets deemed to have an indefinite useful life are no longer amortized on a regular basis. For the purpose of the reconciliation to US GAAP, goodwill was generally amortized through the income statement over an estimated useful life of 20 years up to December 31, 2001. Therefore, there is no amortization charge in 2003 and 2002 under US GAAP.

In 2003, as a result of adverse changes in the operating environment of certain businesses, or of the decision to divest certain products, in accordance with SFAS 142, non-cash charges of USD 119 million were recorded (2002: USD 229 million) for impairments of goodwill and divestments. Gerber goodwill was also reviewed for potential impairments in 2003 however, this did not result in the Group needing to record a charge. The process of evaluating goodwill involves making judgments and estimates relating to the projection and discounting of future cash flows. This evaluation is sensitive to changes in the discount rate. An increase to discount rates is likely to result in a significant impairment charge under US GAAP.

Also included are US GAAP adjustments to the equity method accounting results of Roche and Chiron totaling USD 56 million (2002: USD 69 million). The impact of the additional impairment charges and the Roche and Chiron adjustments resulted in a USD 175 million charge in 2003 (2002: USD 298 million).

Note k (xi) provides further disclosure regarding impairment under US GAAP.

c) Purchase accounting: IFRS goodwill amortization: As described above, as of January 1, 2002, goodwill is no longer amortized but only subject to impairment testing under US GAAP. The corresponding reversal of the regular goodwill amortization under IFRS resulted in an additional income in the US GAAP reconciliation of USD 172 million (2002: USD 140 million).

d) Available-for-sale marketable securities and derivative financial instruments: Under IFRS, fair value changes which relate to the underlying movement in exchange rates on available-for-sale debt securities have to be recognized in the income statement. Under US GAAP, SFAS 133 requires the entire movement in the fair value of the securities to be recognized in equity, including any part that relates to foreign exchange movements. This resulted in US GAAP income being reduced by USD 228 million (2002: USD 53 million income).

Prior to the adoption of IAS 39 from January 1, 2001 in the IFRS consolidated financial statements, investments were stated at the lower of cost or market value on an individual basis. This results in a different amount of unrealized gains or losses being recorded in the separate component of equity under US GAAP compared to IFRS and an additional expense under US GAAP on disposal of available-for-sale securities during 2003 and 2002. This resulted in an additional expense of USD 12 million (2002: USD 326 million).

The above differences result in an additional US GAAP expense of USD 240 million in 2003 (2002: USD 273 million).

e) Pension provisions: Under IFRS, pension costs and similar obligations are accounted for in accordance with IAS 19, *Employee Benefits.* For purposes of US GAAP, pension costs for defined benefit plans are accounted for in accordance with SFAS 87 *Employers' Accounting for Pensions* and the disclosure is presented in accordance with SFAS 132 *Employers' Disclosures about Pensions and Other Post-retirement Benefits.* The version of IAS 19 in force up to December 31, 1998 required that the discount rate used in the calculation of benefit plan obligations was of an average long-term nature, whereas US GAAP required that the discount rate is based on a rate, at which the obligations could be currently settled. From January 1, 1999, IFRS and US GAAP accounting rules in this area are essentially the same, however, adjustments arise when reconciling from IFRS to US GAAP due to the pre-1999 accounting rule differences.

The following is a reconciliation of the balance sheet and income statement amounts recognized for IFRS and US GAAP for both pension and post-employment benefit plans:

	2003 USD millions	**2002 USD millions**
Pension benefits:		
Net asset recognized for IFRS	3 046	2 786
Difference in unrecognized amounts	1 314	1 196
Net asset recognized for US GAAP	**4 360**	**3 982**
Net periodic (expense)/income recognized for IFRS	-54	139
Difference in amortization of actuarial amounts	-35	19
Net periodic pension benefit (expense)/income recognized for US GAAP	**-89**	**158**
Other post-employment benefits:		
Liability recognized for IFRS	-460	-421
Difference in unrecognized amounts	-105	-124
Liability recognized for US GAAP	**-565**	**-545**
Net periodic benefit expense recognized for IFRS	-63	-54
Difference in amortization of actuarial amounts	17	8
Net periodic post-employment benefit costs recognized for US GAAP	**-46**	**-46**
Total US GAAP income statement difference on pensions and other post-employment benefits	**-18**	**27**

f) Share-based compensation: The Group does not account for share-based compensation, as it is not required under IFRS. Under US GAAP, the Group applies Accounting Principles Board Opinion No. 25 (APB 25) *Accounting for Stock Issued to Employees* and related interpretations in accounting for its plans. As described in Note 26, the Group has several plans that are subject to measurement under APB 25. These include the Long-Term Performance Plan, the Leveraged Share Savings Plan, the old and new Swiss Employee Share Ownership Plans, the Restricted Share Plan and the US Management ADS Appreciation Cash Plan.

Compensation expense recognized under the Long-Term Performance Plan was USD 29 million for the year ended December 31, 2003 (2002: USD 14 million).

The Leveraged Share Savings Plan is considered to be compensatory based on the fair value of the allocated Novartis AG shares. The shares are blocked for a five year period, at which time the bonus taken in shares are matched on a one-for-one basis. Compensation expense recognized under this plan was USD 16 million for 2003 (2002: USD 11 million).

The new Swiss Employee Share Ownership Plan (ESOP) is considered to be compensatory based on the fair value of Novartis AG shares at a fixed date. Compensation expense recognized under this plan was USD 176 million for the year ended December 31, 2003 (2002: USD 80 million).

The old Swiss ESOP was considered to be compensatory based on the amount of the discount allowed for employee share purchases. Compensation expense was recorded at the grant date and was calculated as the spread between the share price and the strike price on that date. During 2002, the Group sold 406 448 shares to employees, which has resulted in a compensation expense of USD 13 million. The discount to the Group's share price was recorded in share premium. The percentage discount to the Group's share price under this plan was 75% in 2002, which was the last year, in which employees could purchase shares under this scheme.

The Restricted Share Plan is considered to be compensatory based on the strike price for the underlying instruments, which is zero at the date of grant. Compensation expense is recorded at the grant date and is calculated as the number of instruments granted, multiplied by the share price on that date. Compensation expense recognized under this Plan was USD 5 million for the year ended December 31, 2003 (2002: USD 4 million).

The US Management ADS Appreciation Cash Plan is considered to be variable because the final benefit to employees depends on the Group's share price at the exercise date. Compensation expense is recorded at each balance sheet date by estimating the number of rights outstanding multiplied by the spread between the share price on the balance sheet date and the strike price. Compensation expense for this plan was USD 47 million for 2003 (2002: USD 2 million income). This plan was supplemented in 2001 by the US ADS Incentive Plan which grants options on Novartis ADSs. Disclosures relating to this Plan is included in note k (vii).

The total US GAAP expense of the above items is as follows:

	2003 USD millions	**2002 USD millions**
Long-Term Performance Plan	29	14
Leveraged Share Savings Plan	16	11
New Swiss ESOP Plan	176	80
Old Swiss ESOP Plan		13
Restricted Share Plan	5	4
ADS Appreciation Cash Plan	47	-2
Total US GAAP additional compensation expense	**273**	**120**

g) Consolidation of share-based compensation foundation: The Group has an employee share participation foundation that settles the obligations of the Group's share-based compensation plans that is not required to be consolidated for IFRS. However, this foundation is consolidated under US GAAP.

The consolidation of this foundation reduces net income by USD 3 million (2002: USD 20 million) and US GAAP equity by USD 728 million (2002: USD 489 million).

h) Deferred taxes: Under IAS 12 (revised) and US GAAP, unrealized profits resulting from intercompany transactions are eliminated from the carrying amount of assets, such as inventory. In accordance with IAS 12 (revised) the Group calculates the tax effect with reference to the local tax rate of the company that holds the inventory (the buyer) at period-end. However, US GAAP requires that the tax effect is calculated with reference to the local tax rate in the seller's or manufacturer's jurisdiction.

i) In-process research and development (IPR&D): Under US GAAP, IPR&D is considered to be a separate asset that needs to be written-off immediately following the acquisition as the feasibility of the acquired research and development has not been fully tested and the technology has no alternative future use. IFRS does not consider that IPR&D is an intangible asset that can be separately recognized, accordingly it is recognized in goodwill.

During 2003, IPR&D has been identified for US GAAP purposes in connection with acquisitions, principally the acquisition of 51% of the shares of Idenix. All projects of Idenix are under research or development, therefore the full goodwill recorded under IFRS amounting to USD 297 million was considered as IPR&D under US GAAP.

IPR&D recognized on other acquisitions amounted to USD 39 million in 2003. During 2002, IPR&D arose on the acquisitions of a further 11.4% of the voting shares of Roche (USD 123 million), of 99% of the shares of Lek (USD 84 million), and of others (USD 17 million).

The income booked for the reversal of the amortization of IPR&D recorded under IFRS as a component of goodwill amortization amounted to USD 76 million (2002: USD 213 million). The total net IPR&D expense for 2003 was USD 260 million (2002: USD 11 million).

The impact of IPR&D reduced US GAAP equity by USD 1 338 million (2002: USD 984 million).

j) Other: There are also differences between IFRS and US GAAP in relation to (1) capitalized interest and capitalized software, (2) accretion on convertible debentures, (3) LIFO inventory and (4) minimum pension liability. None of these differences are individually significant and they are therefore shown as a combined total.

k) Additional US GAAP disclosures:

i) Financial assets and liabilities

Apart from the following exceptions, the US GAAP carrying value of financial assets and liabilities is equal to the IFRS carrying values.

ii) Cash, cash equivalents and time deposits

	2003 USD millions	**2002 USD millions**
Carrying value of cash and cash equivalents under IFRS	5 646	5 798
Carrying values of time deposits under IFRS (note 16)	651	767
Change due to consolidation of share-based compensation foundation under US GAAP	-650	-622
Total under US GAAP	**5 647**	**5 943**

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iii) Marketable securities

	2003 USD millions	2002 USD millions
Carrying values of marketable securities under IFRS (note 16)	6 134	5 496
Carrying values of other investments under IFRS	1 076	896
Marketable securities in share-based compensation foundation consolidated under US GAAP	16	129
Total under US GAAP	**7 226**	**6 521**

The components of available-for-sale marketable securities under US GAAP at December 31, 2003 and 2002 are the following:

	Cost USD millions	Gross unrealized gains USD millions	Gross unrealized losses USD millions	Carrying value and estimated fair value USD millions
As at December 31, 2003				
Available-for sale-securities:				
Equity securities	1 744	209	-293	1 660
Debt securities	5 299	270	-3	5 566
Total	**7 043**	**479**	**-296**	**7 226**
As at December 31, 2002				
Available-for-sale securities:				
Equity securities	2 022	212	-571	1 663
Debt securities	4 797	91	-30	4 858
Total	**6 819**	**303**	**-601**	**6 521**

Proceeds from sales of available-for-sale securities were USD 6 293 million and USD 6 086 million in 2003 and 2002 respectively. Gross realized gains were USD 199 million and USD 266 million on those sales in 2003 and 2002 respectively. Gross realized losses were USD 115 million and USD 648 million on those sales in 2003 and 2002 respectively. The cost used to determine the gain or loss on these sales was calculated using the weighted average method. As at December 31, 2003 USD 258 million of gross unrealized losses of equity securities existed for more than 12 months.

The maturities of the available-for-sale debt securities included above at December 31, 2003 are as follows:

	2003 USD millions
Within one year	34
Over one year through five years	4 447
Over five years through ten years	629
Over ten years	456
Total	**5 566**

iv) Derivative financial instruments: In 2003 there were no gains and losses recognized in accordance with US GAAP on options settled in Novartis shares that require a net cash settlement (2002: USD 123 million of gains).

v) Non-derivative financial instruments: The US GAAP carrying values are equivalent to the IFRS carrying values for all non-derivative financial assets and liabilities. Non-derivative financial assets consist of cash and cash equivalents, time deposits, and marketable securities. Non-derivative liabilities consist of commercial paper, bank or other short-term financial debts, and long-term debt.

The carrying amount of cash and cash equivalents, time deposits, commercial paper, and bank and other short-term financial debts approximates their estimated fair values due to the short-term nature of these instruments. The fair values of marketable securities are estimated based on listed market prices or broker or dealer price quotes. The fair value of long-term debt is estimated based on the current quoted market rates available for debt with similar terms and maturities.

The estimated fair values of the long and short-term financial debt are provided in notes 18 and 20 to the IFRS consolidated financial statements.

vi) Earnings per share: As discussed in item (g) above, in the past, the Group established the Novartis Foundation for Employee Participation to assist the Group in meeting its obligations under various employee benefit plans and programs. This Foundation supports existing, previously approved employee benefit plans.

For US GAAP purposes, the Group consolidates this Foundation. The cost of Novartis AG shares held by the Foundation is shown as a reduction of shareholders' equity in the Group's US GAAP balance sheet.

Any dividend transactions between the Group and the Foundation are eliminated, and the difference between the fair value of the shares on the date of contribution to the Foundation and the fair values of the shares at December 31, is included in consolidated retained earnings. Shares held in the Foundation are not considered outstanding in the computation of US GAAP earnings per share. The consolidation of this entity had the following impact on basic and diluted earnings per share:

Basic earnings per share	**2003**	**2002**
Net income under US GAAP (USD millions)	**3 788**	**3 829**
Weighted average number of shares in issue under IFRS	2 473 522 565	2 515 311 685
Weighted average number of treasury shares due to consolidation of the employee share participation foundation under US GAAP	-93 430 809	-97 164 490
Weighted average number of shares in issue under US GAAP	**2 380 091 756**	**2 418 147 195**
Basic earnings per share under US GAAP (USD)	**1.59**	**1.58**

Diluted earnings per share	**2003**	**2002**
Net income under USGAAP (USD millions)	3 788	3 829
Elimination of interest expense on convertible debt (net of tax effect)		3
Net income used to determine diluted earnings per share	**3 788**	**3 832**
Weighted average number of shares in issue under IFRS	2 473 522 565	2 515 311 685
Call options on Novartis shares	27 446 092	54 891 036
Adjustment for other dilutive share options	4 346 940	2 264 236
Weighted average number of treasury shares due to consolidation of the employee share participation foundation under US GAAP	-93 430 809	-97 164 490
Weighted average number of shares for diluted earnings per share under US GAAP	**2 411 884 788**	**2 475 302 467**

Diluted earnings per share	2003	2002
Diluted earnings per share under US GAAP (USD)	**1.57**	**1.55**

vii) Pro forma earnings per share: Statement of Financial Accounting Standards No. 123 (SFAS 123) *Accounting for Stock-Based Compensation* established accounting and disclosure requirements using a fair-value based method of accounting for share-based employee compensation. Had the Group accounted for share options in accordance with SFAS 123, net income and earnings per share would have been the pro forma amounts indicated below:

	2003	2002
Net income under US GAAP (USD millions):		
As reported	3 788	3 829
Stock-based employee compensation cost included in the determination of net income	273	120
Stock-based employeee compensation cost that would have been included in the determination of net income if the fair value based method had been applied to all awards	-459	-210
Pro forma	3 602	3 739
Earnings per share (USD):		
As reported:		
Basic	1.59	1.58
Diluted	1.57	1.55
Pro forma:		
Basic	1.51	1.55
Diluted	1.49	1.51

The weighted average assumptions used in determining the fair value of option grants were as follows:

	2003	2002
Dividend yield	1.8%	1.8%
Expected volatility	24.0%	24.0%
Risk-free interest rate	4.0%	4.0%
Expected life	9 yrs	9 yrs

These pro forma effects may not be representative of future amounts since the estimated fair value of share options on the date of grant is amortized to expense over the vesting period and additional options may be granted in future years.

viii) Deferred tax: The deferred tax asset less valuation allowance at December 31, 2003 and 2002 comprises USD 1 590 million and USD 1 074 million of current assets and USD 987 million and USD 630 million of non-current assets respectively. The deferred tax liability at December 31, 2003 and 2002 comprises USD 1 202 million and USD 954 million of current liabilities and USD 3 935 million and USD 3 208 million of non-current liabilities respectively.

(ix) Employee benefit plans: The disclosures required by US GAAP are different from those provided under IFRS. The following provides a reconciliation of benefit obligations, plan assets and funded status of the plans.

	Pension benefits	Other post-employment benefits

	2003 USD millions	2002 USD millions	2003 USD millions	2002 USD millions
Plan assets at fair value January 1	**14 365**	**13 914**		
Actual return on plan assets	916	-1 173		
Foreign currency translation	1 506	2 283		
Employer contributions	92	83		
Employee contributions	39	6		
Plan amendments		11		
Benefit payments	-790	-759		
December 31	**16 128**	**14 365**		
Benefit obligation				
January 1	**11 845**	**11 087**	**645**	**504**
Service cost	285	277	19	14
Interest cost	559	552	40	36
Actuarial (gain) loss	695	-1 108	85	131
Plan amendments	15	12	-31	-2
Foreign currency translation	1 256	1 784	2	
Benefit payments	-790	-759	-40	-38
December 31	**13 865**	**11 845**	**720**	**645**
Funded status	**2 263**	**2 520**	**-720**	**-645**
Unrecognized actuarial (gain) loss	2 146	1 462	204	100
Unrecognised past service costs	-49		-49	
December 31 Prepaid (accrued) benefit costs	**4 360**	**3 982**	**-565**	**-545**
Prepaid benefit costs	5 333	4 704		
Accrued benefit liability	-973	-722	-565	-545
December 31 Net amount recognized in the balance sheet	**4 360**	**3 982**	**-565**	**-545**
Benefit expense				
Service cost	285	277	19	14
Interest cost	559	552	40	36
Past service costs	27		7	
Expected return on plan assets	-796	-970		
Employee contributions	-39	-7		
Amortization of actuarial (gain) loss	53	-10	-20	-4
Net periodic benefit (income)/expense	**89**	**-158**	**46**	**46**
Weighted-average assumptions as at December 31	**%**	**%**	**%**	**%**
Discount rate	4.6	4.5	6.3	6.8
Rate of payroll indexation	2.8	2.8		
Expected return on plan assets	5.6	6.1		

The assumed health care cost trend rate at December 31, 2003 was 9%, decreasing to 4.75% in 2012. The assumed health care cost trend rate at December 31, 2002 was 10%, decreasing to 4.75% in 2006 and thereafter. A one-percentage-point change in the assumed health care cost trend rates compared to those used for 2003 would have the following effects:

	1% point increase USD millions	**1% point decrease USD millions**
Effects on total of service and interest cost components	9	-7
Effect on post-employment benefit obligations	81	-68

On December 23, 2003, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Post-retirement Benefits, an amendment of FASB Statements No. 87, 88 and 106, and a revision of FASB Statement No. 132*. This requires the following additional information for the Swiss defined benefit plan:

Plan assets

Novartis Swiss defined benefit plan asset weighted-average allocations at December 31, 2003, and 2002 and 2004 target allocations by asset category are as follows:

Asset Category

		Percentage of Plan Assets	
	Target Allocation 2004 %	**2003 %**	**2002 %**
Equity securities	25	15	27
Debtsecurities	57	63	56
Real estate	10	10	10
Cash and cash equivalents	8	12	7
Total	**100**	**100**	**100**

Long-term policy targets are set by the Novartis Investment Committee. Based upon current market and economic environments, actual asset allocation may periodically deviate from policy targets as determined by the Investment Committee.

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Plan assets, benefit obligation and funded status of the Swiss defined benefit plan at December 31, 2003 and 2002

	2003 USD millions	**2002 USD millions**
Plan assets at fair value January 1	**11 771**	**11 164**
Actual return on plan assets	571	-986
Foreign currency translation	1 451	2 190
Employee contributions	29	2
Benefit payments	-604	-599
December 31	**13 218**	**11 771**

	2003 USD millions	2002 USD millions
Benefit obligation at January 1	**8 569**	**8 173**
Service cost	137	139
Interest cost	358	379
Actuarial (gain)/loss	240	-1 126
Foreign currency translation	1 093	1 603
Benefit payments	-604	-599
December 31	**9 793**	**8 569**
Funded Status	**3 425**	**3 202**
Unrecognized actuarial (gain)/loss	1 285	851
December 31 Prepaid benefit recognized in the balance sheet	**4 710**	**4 053**
Total accumulated benefit obligations	8 248	7 302

Cash Flows

Novartis does not expect to contribute to its Swiss defined benefit plan in 2004 (nil in 2003 and 2002).

Estimated future benefit payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year	USD millions
2004	600
2005	587
2006	575
2007	563
2008	558
2009 2013	2 738

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Assumptions

The following are the principal actuarial assumptions, used for calculating the 2003 and 2002 income statement amounts and the above stated December 31, 2003 and 2002 funded status of the Swiss defined benefit plans:

	Income statement		Funded status	
Weighted average %	**2003 %**	**2002 %**	**2003 %**	**2002 %**
Discount rate	4.00	4.00	3.75	4.00
Payroll indexation	2.50	2.50	2.50	2.50

	Income statement		Funded status	
Return on assets	5.00	5.50	5.00	5.50

The overall expected long-term return on plan assets was determined based on outside published and internal capital market forecasts for each asset class. The measurement date used to determine pension benefit measurements for the Swiss defined benefit plan was December 31, 2003.

(x) Foreign currency translation: The Group has accounted for operations in highly inflationary economies in accordance with IAS 21 (revised) and IAS 29. The accounting under IAS 21 (revised) and IAS 29 complies with Item 18 of Form 20-F and is different from that required by US GAAP.

(xi) Adoption of SFAS 142: On January 1, 2002, the Group adopted the provisions of SFAS 142, *Goodwill and Other Intangible Assets*. Under the provisions of SFAS 142, intangible assets with indefinite lives and goodwill are no longer amortized, but are subject to annual impairment tests. Separable intangible assets with definite lives continue to be amortized over their useful lives. Goodwill is the only intangible asset within the Group, which is not subject to amortization under US GAAP.

All goodwill components were tested for impairment during 2003. The fair values of the businesses were determined using the expected present values of future cash flows.

The Group estimates that the aggregate amortization expense for intangibles subject to amortization for each of the five succeeding financial years will not materially differ from the current aggregate amortization expense.

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The changes in the carrying amount of goodwill for the years ended December 31, 2003 and 2002 are as follows:

	Pharmaceuticals Division USD millions	Consumer Health Division USD millions	Corporate USD millions	Total USD millions
January 1, 2002	**404**	**3 809**	**6**	**4 219**
Additions		534		534
Impairment losses	-345	-30	-6	-381
Goodwill written off related to disposal of businesses		-40		-40
Consolidation changes	-10	54		44
Translation effects	18	72		90
December 31, 2002	**67**	**4 399**		**4 466**
Additions		7		7
Reclassification to separately identified intangible assets		-423		-423
Impairment losses	-12	-179		-191
Goodwill written off related to disposal of businesses	-35	-5		-40
Translation effects	2	116		118
December 31, 2003	**22**	**3 915**		**3 937**

(xii) Effect of New Accounting Pronouncements: International Financial Reporting Standards: In December 2003, the IASB released revised IAS 32, *Financial Instruments: Disclosure and Presentation* and IAS 39, *Financial Instruments: Recognition and Measurement*. These standards replace IAS 32 (revised 2000), and supersedes IAS 39 (revised 2000), and should be applied for annual periods beginning on or after January 1, 2005. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

In December 2003, as a part of the IASB's project to improve International Accounting Standards, the IASB released revisions to the following standards that supersede the previously released versions of those standards: IAS 1, *Presentation of Financial Statements*; IAS 2, *Inventories*; IAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*; IAS 10, *Events after Balance Sheet Date*; IAS 16, *Property, Plant and Equipment*; IAS 17, *Leases*; IAS 21, *The Effects of Changes in Foreign Exchange Rates*; IAS 24, *Related Party Disclosures*; IAS 27, *Consolidated and Separate Financial Statements*; IAS 28, *Investments in Associates*; IAS 31, *Interests in Joint Ventures*; IAS 33, *Earnings per Share* and IAS 40, *Investment Property*. The revised standards should be applied for annual periods beginning on or after January 1, 2005. The amendments are not expected to have a material impact on the Group's consolidated financial statements.

(xiii) Effect of New Accounting Pronouncements: US GAAP: In January 2003, the Emerging Issues Task Force (EITF) issued EITF 00-21, *Accounting for Reserve Arrangements with Multiple Deliverables*. EITF 00-21 addresses the issues of (1) how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and (2) how arrangement consideration should be measured and allocated to the separate units of accounting in the arrangement. EITF 00-21 does not change otherwise applicable revenue recognition criteria. EITF 00-21 is effective for revenue arrangements entered into in financial periods beginning after June 15, 2003. EITF 00-21 had no impact on the Group's consolidated financial position or results of operations.

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In April 2003, the FASB issued Statement of Financial Accounting Standards No. 149 (SFAS 149) *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments and for hedging activities under *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). The adoption of SFAS 149 did not have a material impact on the Group's consolidated results of operation or financial position.

In May 2003, the FASB issued SFAS 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The adoption of SFAS 150 did not have a material impact on the Group's consolidated results of operation or financial position.

In December 2003, the *Medicare Prescription Drug, Improvements and Modernization Act of 2003* (the Medicare Act) was approved in the United States. The Medicare Act provides for two new prescription drug benefit features under Medicare. The Group provides post-retirement benefits to its United States employees, the benefits provided are impacted by the Medicare Act. SFAS 106, *Employers' Accounting for Post-retirement Benefits Other Than Pensions*, requires that enacted changes in the law that take effect in future periods and that will affect the future level of benefit coverage be considered in the current period measurements for benefits expected to be provided in those future periods. In response to the Medicare Act and the requirements of SFAS 106, the Financial Accounting Standards Board (FASB) released FASB Staff Position No. 106-1 *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003* (FSP 106-1).

FSP 106-1 provides a one-time election to defer accounting for the effects of the Medicare Act until further guidance on the accounting for the new Medicare features is released. The Group has elected to defer the accounting for the effects of the Medicare Act. Accordingly, the Group's consolidated financial statements and the accompanying notes as of and for the year ended December 31, 2003 do not reflect the effects of the Medicare Act. Further guidance, when issued, could require the Group to change previously reported information.

FIN 46 *Consolidation of Variable Interest Entities* is effective for Novartis starting January 1, 2004. The Group is in the process of assessing what impact this pronouncement will have on its consolidated financial statements when adopted. Based on a preliminary analysis of the impact of FIN 46, the Group has concluded the impact on the consolidated financial statements is not expected to be material.

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Report of the Auditors on the Novartis Group Consolidated Financial Statements

To the General Meeting of Novartis AG, Basel

As auditors of the Group, we have audited the consolidated financial statements (balance sheet, income statement, cash flow statement, statement of changes in equity and notes) of the Novartis Group for the year ended December 31, 2003.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession and with International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

J. G. Kaiser D. Suter
Basel, January 20, 2004

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Financial Statements of Novartis AG

Income Statements

(for the years ended December 31, 2003 and 2002)

	2003 CHF millions	**2002 CHF millions**
Income		
Income from financial assets	3 038	5 779
Income from marketable securities, cash and short-term deposits	457	261
Gain from divestment of subsidiaries		103
Gain from disposal of intangible assets	256	215
License fees from subsidiaries	460	384
Other income	44	28
Total income	**4 255**	**6 770**
Expenses		

	2003 CHF millions	2002 CHF millions
Financial expenses	-132	-94
Administrative expenses	-11	-6
Changes to provisions and value of financial assets	-12	-14
Other expenses	-50	-16
Taxes	-110	-62
Total expenses	**-315**	**-192**
Net income	**3 940**	**6 578**

Proposal for the Appropriation of Available Earnings

	2003 CHF	2002 CHF
Available unappropriated earnings		
Balance brought forward		
Net income of the year	3 939 921 749	6 577 671 070
Total available earnings	**3 939 921 749**	**6 577 671 070**
Appropriation		
Payment of a dividend of CHF 1.00 (2002: CHF 0.95) gross on 2 526 705 981 (2002: 2 547 080 981) dividend bearing shares with a nominal value of CHF 0.50 each	-2 526 705 981	-2 419 726 932
Transfer to free reserves	-1 413 215 768	-4 157 944 138
Balance to be carried forward		

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Balance Sheets (prior to profit appropriation)

(at December 31, 2003 and 2002)

	Notes	2003 CHF millions	2002 CHF millions
Assets			
Financial assets	3	12 665	12 541
Total long-term assets		**12 665**	**12 541**
Current assets			
Receivables from			
subsidiaries		2 862	3 340
others		37	124
Marketable securities	4	1 977	2 269
Cash and short-term deposits		1 269	200

	Notes	2003 CHF millions	2002 CHF millions
Total current assets		**6 145**	**5 933**
Total assets		**18 810**	**18 474**
Equity and liabilities			
Equity			
Total share capital	5	**1 401**	**1 412**
Reserves			
Legal reserves	6		
General reserve		642	289
Reserve for treasury shares		9 483	9 321
Free reserves	7	2 603	34
Total reserves		**12 728**	**9 644**
Unappropriated earnings			
Net income of the year		3 940	6 578
Total unappropriated earnings		**3 940**	**6 578**
Total equity		**18 069**	**17 634**
Liabilities			
Provisions		572	709
Accounts payable and accrued liabilities			
subsidiaries		49	53
others		120	78
Total liabilities		**741**	**840**
Total equity and liabilities		**18 810**	**18 474**

The notes form an integral part of these unconsolidated financial statements

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Notes to the Financial Statements of Novartis AG

1. Introduction

The financial statements of Novartis AG comply with the requirements of the Swiss law for companies, the Code of Obligations (SCO).

2. Accounting policies

Exchange rate differences: Current assets denominated in foreign currencies are converted at year end exchange rates. Exchange differences arising from these as well as those from business transactions are recorded in the income statement.

Financial assets: These are valued at acquisition cost less adjustments for impairment of value.

Marketable securities: These are valued at the lower of cost and market value.

Provisions: Provisions are made to cover general business risks of the Group.

3. Financial assets

Included in financial assets are CHF 10 136 million (2002: CHF 10 009 million) of investments in subsidiaries and CHF 2 529 million (2002: CHF 2 532 million) of loans to subsidiaries and other related entities.

The principal direct and indirect subsidiaries and other holdings of Novartis AG are shown on pages 190 195.

4. Marketable securities

Included in marketable securities are treasury shares with a net book value of CHF 1 974 million (2002: CHF 2 230 million) (see 5 and 6 below).

5. Share capital

	Number of shares				
	December 31, 2001	Movement in year	December 31, 2002	Movement in year	December 31, 2003
Total Novartis AG shares	**2 885 204 680**	**-61 054 680**	**2 824 150 000**	**-22 680 000**	**2 801 470 000**
Treasury shares					
Treasury shares held by Novartis AG	190 982 300	-36 474 300	154 508 000	-9 220 000	145 288 000
Treasury shares held by subsidiaries	72 631 680	49 929 339	122 561 019	6 915 000	129 476 019
Total treasury shares	**263 613 980**	**13 455 039**	**277 069 019**	**-2 305 000**	**274 764 019**

The Novartis AG share capital consists of registered shares with a nominal value of CHF 0.50 each.

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The total share capital reduced from CHF 1 412.1 million at December 31, 2002 to CHF 1 400.7 million at December 31, 2003 due to a share capital reduction and subsequent cancellation of 22 680 000 shares with a nominal value of CHF 11 340 000 approved at the Annual General Meeting of March 4, 2003 which became effective on July 3, 2003. The total share capital reduced from CHF 1 442.6 million at December 31, 2001 to CHF 1 412.1 million at December 31, 2002 due to a share capital reduction and subsequent cancellation of 61 054 680 shares with a nominal value of CHF 30 527 340 approved at the Annual General Meeting of March 21, 2002 which became effective on July 8, 2002. Treasury share purchases totaled 31.2 million (2002: CHF 85.5 million) with an average purchase price per share of CHF 52 (2002: CHF 64) and treasury share sales totaled 10.8 million (2002: CHF 11.0 million) with an average sales price per share of CHF 53 (2002: CHF 54).

The number of treasury shares held by the Company and subsidiaries meet the definitions and requirements of Art. 659b SCO. The 274 764 019 treasury shares held at December 31, 2003 are non-dividend bearing.

Novartis Group's consolidated financial statements comply with IFRS SIC Interpretation No. 12. This requires consolidation of entities which do not qualify as subsidiaries in the sense of Article 659b SCO.

6. Legal reserve

General reserve

	2003 CHF millions	2002 CHF millions
January 1	**289**	**289**
Increase due to sale of treasury shares	353	
December 31	**642**	**289**

Reserve for treasury shares held by the Group

	2003 CHF millions	2002 CHF millions
January 1	**9 321**	**8 568**
Reduction due to cancellation of treasury shares (CHF 1 438 million, 2002: CHF 4 000 million, of repurchased shares less their nominal value of CHF 11 million, 2002: CHF 31 million)	-1 427	-3 969
Transfer from free reserves	1 589	4 722
December 31	**9 483**	**9 321**

The general reserve must be at least 20% of the share capital of Novartis AG as this is the minimum amount required by the SCO.

Novartis AG has met the legal requirements for legal reserves under Articles 659 et. seq. and 663b.10 SCO for treasury shares detailed in note 5.

7. Free reserves

	2003 CHF millions	2002 CHF millions
January 1	**34**	**3 122**
Transfer from unappropriated earnings	4 158	1 634
Transfer to reserve for treasury shares	-1 589	-4 722
December 31	**2 603**	**34**

8. Contingent liabilities

	Outstanding liabilities December 31, 2003 CHF millions	Outstanding liabilities December 31, 2002 CHF millions
Guarantees to cover capital and interest of bonds, commercial paper and the Euro medium-term note program total maximum amount CHF 7 602 million (2002: CHF 7 290 million)	4 474	4 889
Guarantees in connection with options on Novartis AG shares(1) total maximum amount in 2002: CHF 4 239 million		4 239
Guarantees in favor of group companies, associated companies and others total maximum amount CHF 502 million (2002: CHF 622 million)	298	331
Total	**4 772**	**9 459**

(1) Represents the amounts that Novartis AG guaranteed in respect of subsidiary obligations regarding the 55 million call options (Low Exercise Price Options LEPOs) and 55 million put options issued on its shares. The call and put options were redeemed on June 26, 2003.

9. Registration, voting restrictions and major shareholders

The Company's Articles of Incorporation state that no person or entity shall be registered with the right to vote for more than 2% of the share capital as set forth in the Commercial Register. In particular cases the Board of Directors may allow exemptions from the limitation for registration in the share register.

As far as can be ascertained from the information available, shareholders owning 2% or more of the Company's capital at December 31 are as follows:

	% holding of share capital December 31, 2003	% holding of share capital December 31, 2002
Novartis Foundation for Employee Participation, Basel	3.3	3.3
Emasan AG, Basel	3.1	3.1

Report of the Auditors on the Novartis AG Financial Statements

To the General Meeting of Novartis AG, Basel

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes) of Novartis AG, Basel, for the year ended December 31, 2003.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with auditing standards promulgated by the Swiss profession, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the Company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

J. G. Kaiser H. Plozza
Basel, January 20, 2004

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Key Dates for 2004

Anticipated key reporting dates

Annual General Meeting for the financial year 2003	February 24, 2004
First Quarter 2004 (sales and results)	April 22, 2004
First Half 2004 (year to date and second quarter sales and results)	July 20, 2004
Third Quarter 2004 (year to date and third quarter sales and results)	October 21, 2004
Full Year 2004 (year to date and fourth quarter sales and results)	January 2005

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Equally, we would like to thank everyone who contributed to this report by sharing personal experience and knowledge with us.

Forward-Looking Statement Disclaimer

This Annual Report contains certain "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934 of the United States. These forward looking statements relate to our business and the business segments in which we and our subsidiaries and interests operate. Many of these statements can be identified by the use of forward-looking terminology such as "believe", "expect", "may", "are expected to", "will", "will continue", "should", "would be", "seek" or "anticipate" or similar expressions, or by discussions of strategy, plans or intentions. These statements include descriptions of our investment and research and development programs, descriptions of new products we expect to introduce and anticipated customer demand for our products. The forward-looking statements made in this Annual Report reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause our actual results, performance or achievements to be materially different from any future results, performances or achievements that may be expressed or implied by these statements. Some of these factors include inability to discover and register new products, competition in general, loss of patent protection, price controls, product liability claims, exposure to environmental liabilities, interruption of supply and foreign exchange risks. For a more detailed description of the risks facing our Group, we encourage you to review the Form 20-F filed with the United States Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Annual Report as anticipated, believed, estimated or expected. We do not intend, and do not assume any obligation, to update any industry information or forward-looking statements set out in this Annual Report. All product names printed in italics in this Annual Report are trademarks of the Novartis Group.

® in combination with products in normal script indicate third party brands. The business policy of Novartis takes into account the OECD's Guidelines for Multinational Enterprises, with their recommendations on the disclosure of information.

Our Annual Report is originally published in English, with French and German versions available.

Published by Novartis International AG, Basel, Switzerland

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NOVARTIS AG

Date: February 6, 2004

By: /s/ MALCOLM B. CHEETHAM

Name: Malcolm B. Cheetham
Title: *Head Group Financial Reporting and Accounting*

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