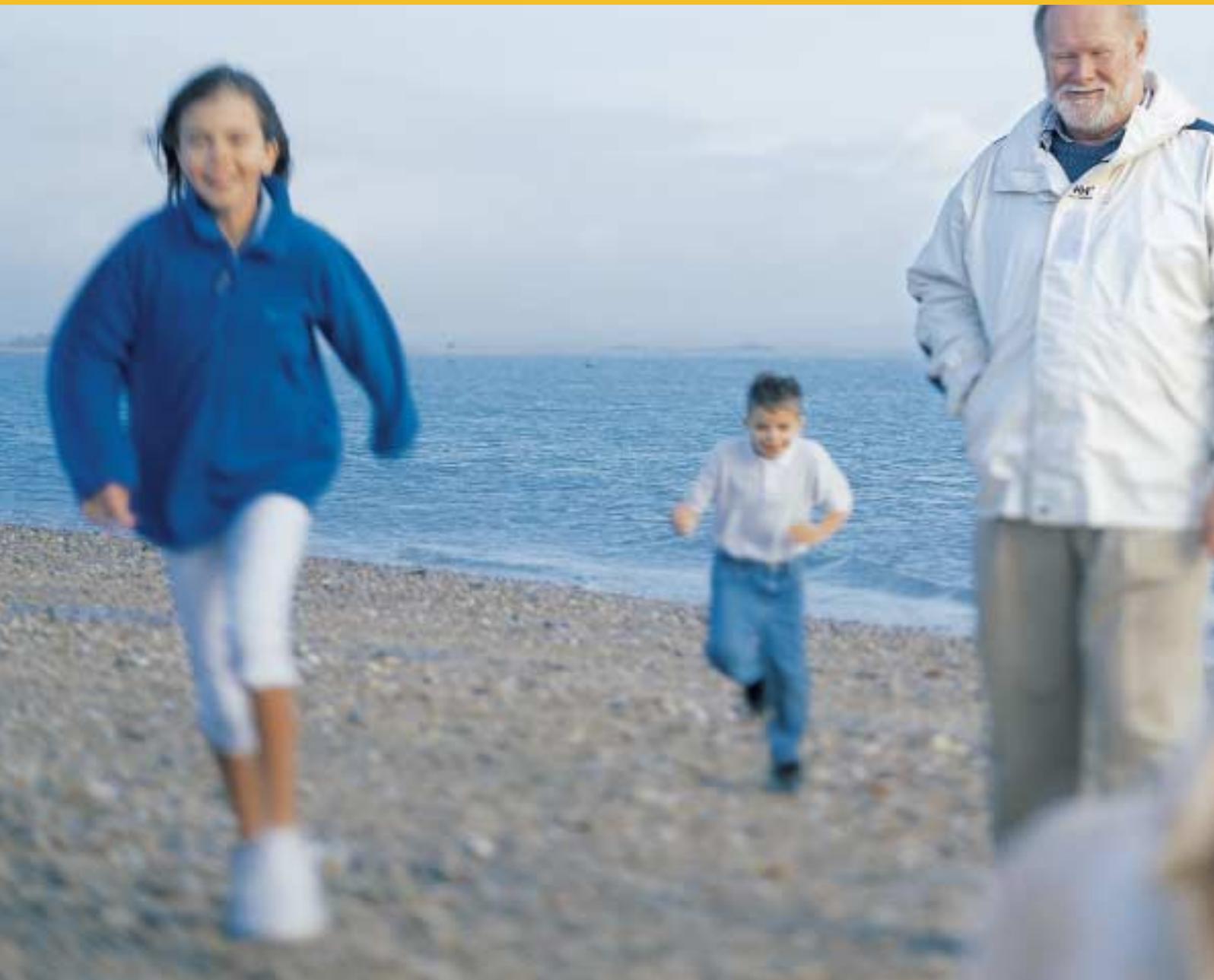


# Innovative medicines – improved lives



Healthcare is our business, with Pharmaceuticals at its core. All other Novartis sectors must provide synergies and excel in their business areas. Clear focus allows us to deploy our resources optimally.





Today, people live longer and pursue more active lifestyles. This elderly age group places additional demands on healthcare systems, increasing the need for innovative, cost-effective therapies from the pharmaceutical industry.



Homecare has become an attractive option for keeping down hospitalization costs. This trend goes hand in hand with greater individual responsibility on the part of patients for their health and well-being.



In the context of changing industry dynamics, demographic trends and customer needs, Novartis is focusing on its strengths and the most profitable business areas with the highest growth potential. We have moved to further center our activities on healthcare, with Pharmaceuticals as the core business. All other businesses must be complementary to our healthcare focus and have a strong position in their business segment.

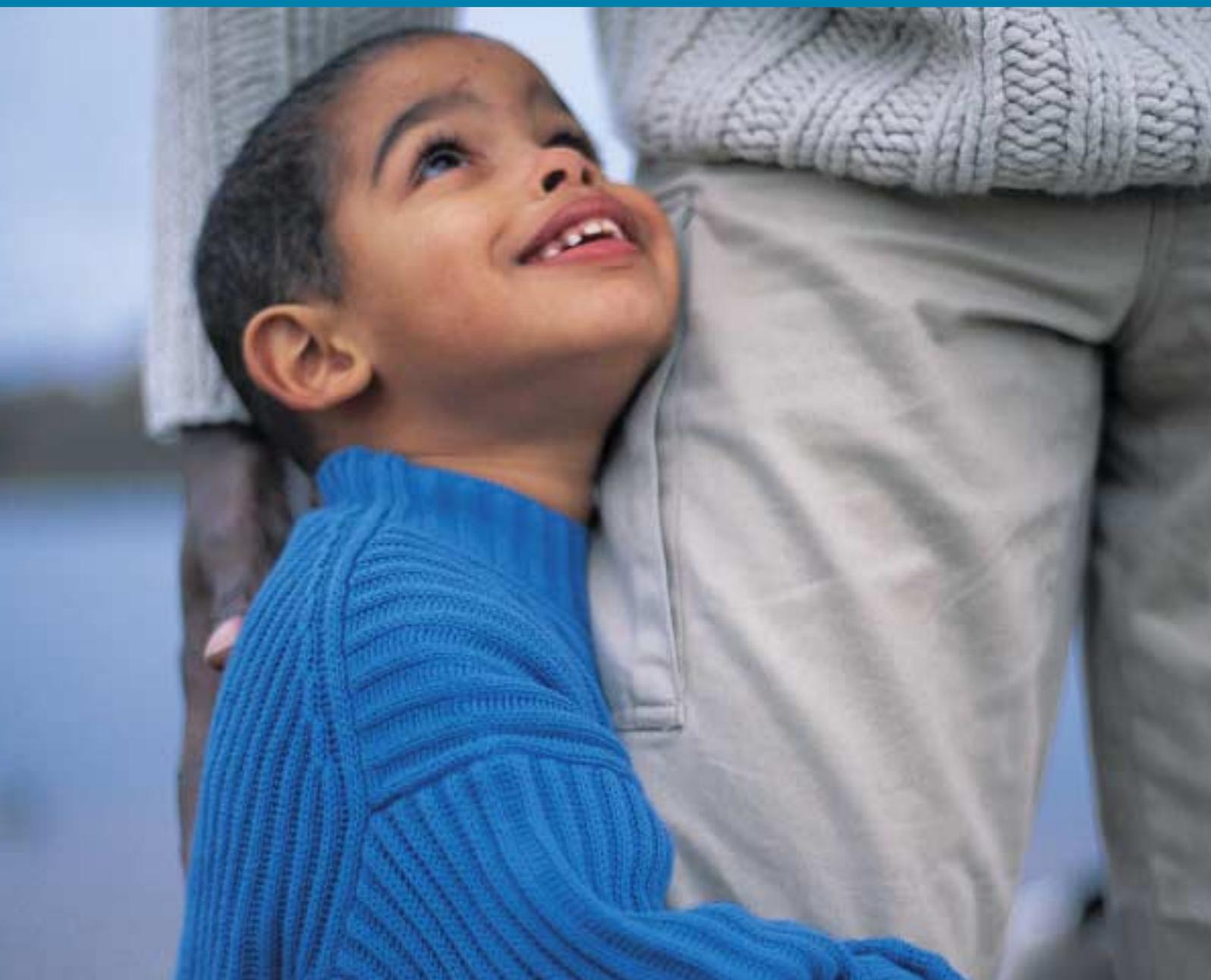
As the synergies between Pharmaceuticals and Agribusiness proved marginal, we determined that the potential benefits of a life science business do not outweigh its complexities. We therefore spun off our Crop Protection and Seeds activities and merged them with the Agrochemicals business of AstraZeneca to form Syngenta, the world's leading Agribusiness company, enhancing shareholder value with the benefits of focus, cost synergies and industry leadership gains.

For Novartis, the concentration of our business on healthcare facilitates our setting clear strategic priorities. Innovation will remain the lifeblood of our company. We will continue to invest in key technologies such as functional genomics, seek to recruit the best professional and creative talent in the industry, and encourage innovative thinking and actions throughout our business operations. Our rich R&D pipeline provides the basis for rejuvenating our product

portfolio and lays the foundation for profitable and sustained growth. We will strengthen our leadership in our core therapeutic areas by maximizing the potential of existing products and building strong global brands. Resources will be invested in expanding our marketing and sales organization, especially in the United States, and in globalizing all our businesses.

In an industry marked by consolidation, our strategy provides us with the financial strength and critical mass to take advantage of all strategic opportunities, leaving the door open to potential acquisitions and mergers while fostering strong internal growth.

We innovate for the benefit of our customers. Every year, Novartis invests billions of Swiss francs in research and development. We place a premium on translating the power of innovation into tangible results for our customers – which means more effective, more convenient and safer products.





Technology has given modern medicine invaluable tools to diagnose and treat the symptoms of disease. In the future, research will focus on finding therapies that address the cause and prevention of disease.



To keep up with the ever-increasing pace of innovation, Novartis recruits the best scientific minds and complements their talents with a global network of research partners in the pharmaceutical and biotechnology industries.

At its annual “R&D Day” in December, Novartis Pharmaceuticals gave a preview of innovative therapies in the pipeline, including 24 late-stage projects in phase 3 and registration. Three of the most advanced products are currently undergoing regulatory review:

- *Zelmac*, to treat irritable bowel syndrome
- *Starlix*, for the treatment of type-2 diabetes
- *Xolair*, to treat asthma and allergic rhinitis.

The next wave in the R&D pipeline comprises new drugs that are already at an advanced stage in clinical development:

- *Elidel*, a nonsteroidal cream for atopic dermatitis
- *Certican*, for combination therapy with *Neoral* in transplantation
- *Zomaril*, a new schizophrenia therapy
- COX189, a nonsteroidal anti-inflammatory/analgesic belonging to the COX-2 inhibitor class.

Looking further ahead, Novartis has 14 phase 2 projects representing each of the company’s main therapeutic areas.

Robotics, supercomputers, ultrahigh-throughput nanoscreening, proteomics, genomics – these are just a few of the technologies and branches of science that are rapidly changing the way we work at Novartis Pharmaceuticals. Instead of only searching for new ways to treat the symptoms of diseases, we focus on discovering their causes and on ways of prevention. With the human genome now mapped, our scientists have thousands of new drug targets to explore. The Genomics Institute of the Novartis Foundation in La Jolla, California, is at the forefront of applying these advances to help us diagnose potential risks for certain diseases much earlier, uncover new ways to prevent and treat diseases, as well as find treatments tailored to individual groups of patients dependent on their genetic make-up.

Novartis allocates almost one-third of its research budget to collaborations with an international network of research partners, one of the highest rates in the industry. This allows us to tap into the knowledge of the external scientific community to complement our own internal expertise.

The results of our research activities are a steady stream of new products that improve, extend and save lives. *Glivec* may become a breakthrough for people afflicted with chronic myeloid leukemia. *Elidel* could fill an important therapeutic gap for atopic dermatitis. Because it is very well

tolerated, this treatment could be suited for long-term use, even in babies. *Visudyne* is a revolutionary, light-activated drug to treat macular degeneration, the leading cause of blindness in people over 50.

We continuously refine our existing products; even small improvements can bring substantial benefits to patients. *Sandostatin*, a treatment for the growth disorder acromegaly and certain tumors, is now available in a long-acting release formula. Instead of three injections a day, patients need only one per month – which means less pain, more convenience and better compliance. For its asthma medicine *Foradil*, Novartis listened to feedback from patients and responded by developing an easier-to-use inhaler. Good products often have benefits beyond their original medical indications. *Diovan*, a safe, effective treatment for high blood pressure, has been shown in the recently published Val-HeFT study to also decrease the likelihood of heart attacks and to reduce the severity of chronic heart failure. A large phase 3 clinical trial has shown that *Femara*, for advanced breast cancer, is superior to the current first-line treatment, tamoxifen.

At Novartis, we harness the power of innovation with one clear goal in mind – improving and restoring health.

We focus on strong brands. Our global brands capture the essence of our products. They tell a succinct story in words, colors and symbols about what our products do and how they bring unique benefits to our customers.





Strong brands give us a strategic edge in the marketplace. Building these brands depends on the expertise and skills of people who know the advantages of our products and how they benefit the consumer.



The name Novartis serves as a seal of quality. It reflects the reputation of our products and the dedication of our associates to excellence in every phase of the production process.



The globalization of the world economy has transformed the healthcare industry. New products are no longer launched individually in each country, but rolled out simultaneously around the world. That makes it all the more important for Novartis and its products to have the same “look and feel” in each market. Global branding helps us create and sustain a clear, consistent perception of our products in the minds of consumers. It helps us focus our resources on those brands in which we have a leadership position and room to grow while maximizing the impact of a consistent approach to local marketing campaigns.

Direct-to-consumer pharmaceutical advertising in the United States and widespread use of the Internet are exposing consumers to more information about products that improve health and well-being. When they go to their doctor or pharmacy, consumers often know what to ask for. We want them to ask for Novartis products, because we are convinced that our products meet market needs and deliver what they promise. Our brands help us do that. They speak directly to each consumer, creating an easy-to-remember image that sets us apart from the competition. Our brands tell the world what makes each Novartis product unique.

Strong brands are based on quality products. Examples of our strong brands with differentiated product benefits include the prescription drugs *Diovan* with its proven benefits for patients with hypertension, *Lamisil* for the treatment of fungal infections of the skin and nails and the novel light-activated drug *Visudyne* for the treatment of the wet form of age-related macular degeneration, which can cause blindness. Other well-known Novartis products include consumer brands such as the *Ovaltine/Ovomaltine* name and the trusted *Gerber* line of baby food and infant care products. Each brand conveys a promise of quality and effectiveness that generates customer loyalty and strengthens the leadership position of Novartis.

We believe in our people. Our people are the key to who we are today and what we aspire to be tomorrow. By investing in our people, we create an environment in which our associates grow as individuals and develop the confidence to take on new challenges.

Our employees go the extra mile: whether in their jobs, putting forth extraordinary efforts to develop new medicines such as *Glivec*, or in their communities, participating in the second annual Novartis Community Partnership Day.





Learning on the job is the essence of our wide-ranging apprenticeship program, which builds the qualifications and employability of young people, giving them a fast start in their professional lives.



Taking into account the perspective of those closest to the operational details is helping us improve the way we work at Novartis. Involving associates at all levels of the company is a dynamic force for change.

Novartis is a truly global company: we operate in 140 countries, and employees representing 68 countries work at our headquarters in Switzerland. We attract the best international talent to build our global business. And we retain those individuals by recognizing and rewarding excellence. We also encourage international job rotation within Novartis to sharpen the multicultural skills needed in the world economy of the 21st century.

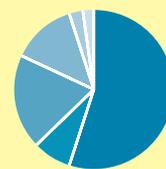
We believe that our people determine the success of Novartis. That's why we invest heavily in creating an environment conducive to personal growth. Through e-learning, our associates can improve their abilities in time management, motivation, working in a virtual team and other areas that increase job effectiveness and help them realize their true potential. Another example is our customized executive course for top managers at the Harvard Business School.

Team spirit helps us stretch the limits of the possible. A case in point is one of our development projects, *Glivec*, a breakthrough in treating leukemia. Over 100 people in a multinational, cross-functional team are racing to develop this promising compound in record time. The initial clinical trials on volunteers were so favorable that Novartis received permission from regulatory authorities to treat additional patients prior to full

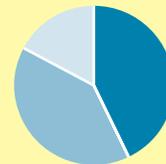
approval. To meet this unexpected demand, the production team worked three shifts per day, seven days per week – saving dozens of lives in the process.

Involvement and decision-making at all levels of our company help us improve the way we work. Using a cutting-edge concept we call “Fast Action for Results” (FAR), associates from different departments and functions analyze stubborn problems in intensive, facilitated focus groups. Action plans are drawn up and, together with a management sponsor, on-the-spot decisions are made that must be implemented within 90 days. In only their second year, FAR groups have lightened the administrative load for sales reps, reduced time needed for regulatory submissions, eliminated logistical bottlenecks and improved customer service. By using this “bottom-up” approach to change, we can better tap into the insights and experience of our greatest resource – our people.

#### Employees by sector



#### Employees by region



We operate sustainably. Health, Safety and Environment (HSE) at Novartis is an expression of our commitment to act responsibly toward employees, customers, society as a whole and our planet's ecosystem.



At Novartis, we take a holistic view of our company's operations. Our commitment to sustainable development begins as initial concepts take form in the laboratory and the first experiments are performed. It continues as a potential product clears safety, clinical and regulatory hurdles before going into the planning phase for full-scale production. Manufacturing is one of the most obvious areas where we can have an immediate impact on our environment by reducing emissions, recycling waste and using energy efficiently. But sustainability also covers broader areas such as Product Stewardship, which means that responsibility for our products does not end once they are sold. Why do we go to such great lengths? It comes from knowing that our planet's resources do not belong to us; we are merely caretakers for future generations.



As a global company, we recognize that development and economic success must be in harmony with society and the environment. At Novartis, management takes the lead in raising awareness about “sustainability” and in initiating improvements in our manufacturing operations, products and services. Each business sets HSE targets, aiming for superior performance in predefined leadership areas. Yearly assessments measure progress and form the basis for new targets.

One very concrete indication of a company’s commitment to the welfare of its people is its performance in preventing accidents on the job. At Novartis, the accident rate has been cut by 29% over the past three years. Training programs, active participation of employees in improving work processes and tough internal audits have helped us attain a level of only one accident for every 200 000 working hours.

We continued to reduce our overall impact on the environment in 2000, exemplified by a drop in direct emissions of carbon dioxide. The significant improvements we have achieved over the past decade make further reductions in carbon dioxide emissions a technical challenge – but a challenge we are eager to take on. It is part of how “eco-efficiency,” getting more from less for both ecological and economic reasons, works at Novartis.

Perhaps our most significant HSE accomplishment is a change in mindset. Concern for Health, Safety and Environment at Novartis has evolved to the point where it is now incorporated into the initial decision-making process, whether in evaluating manufacturing sites or in choosing a new product formulation. For us, HSE is an integral part of our commitment to be a responsible, accepted and valued member of society.

**Lost-time accident rate**  
Accidents per 200 000 hours worked

2000	0.96
1999	1.14
1998	1.33

**Total energy consumption Mio GJ**

2000	15.8
1999	15.9
1998	15.2

**Production 1 000 tons**

2000	701
1999	682
1998	638

**Carbon dioxide emissions Mio tons**

2000	0.63
1999	0.66
1998	0.71

**Solvent emissions tons**

2000	1 270
1999	1 240
1998	1 410

We embrace the idea of “Corporate Citizenship”. Today, concern for Health, Safety and Environment is no longer sufficient to achieve sustainable development for our planet. Novartis accepts the responsibility of taking a broader, holistic view of its role in society.

In the city-states of ancient Greece and in Rome, the title of “citizen” was a badge of honor. With this honor went certain responsibilities. Likewise, the concept of “Corporate Citizenship” means taking a greater share of responsibility for the welfare of our planet and matching words with deeds. Novartis is proud to take a significant role in this area, as evidenced by our commitment to the United Nations Global Compact ([www.unglobalcompact.org](http://www.unglobalcompact.org)). UN Secretary-General Kofi A. Annan has challenged corporations everywhere to “embrace and enact” the Global Compact, which focuses on equitable labor standards, respect for human rights and environmental protection.

#### **Product Stewardship takes on a greater role**

As companies have made significant progress in reducing pollution and waste over the past decades, attention has shifted from production to the products and services themselves and their impact on society and the environment.

“Product Stewardship” means that we take a safe and responsible approach for all our products throughout their life cycle. Stewardship begins with the initial concept and design of a new product and continues through manufacturing, distribution, sale, and disposal or recycling. The emphasis goes beyond preventing negative impacts to enhancing the

effectiveness and accessibility of products.

A good example at Novartis is *Leponex/Clozaril*. This breakthrough medicine, which has dramatically transformed the lives of many thousands of treatment-resistant schizophrenics, can cause a serious blood disorder in 1 to 2% of patients. To discover this potentially fatal side effect early on, Novartis has initiated a program to test patients’ blood before a prescription can be renewed.

#### **Innovation and accountability**

Corporate Citizenship comprises a view of Health, Safety and Environment (HSE) that goes beyond the traditional definition of reducing emissions and waste. The title of Novartis’ HSE Report, “Innovation and Accountability,” captures the company’s broader understanding of its role in society as well as the dynamic tension between benefits and risks.

Innovation means venturing into the unknown and, by definition, carries with it unknown risks. Society gives companies an unwritten “license to innovate” based on their trustworthiness and track record in dealing with these risks. It holds them accountable for their actions in the form of fines, legal restrictions and, ultimately, the behavior of consumers towards companies’ products in the marketplace.

#### **Promoting dialogue on technology**

A number of new technologies have the potential to change the face of modern medicine and to produce great advances in previously untreatable diseases. Functional genomics (which could lead to customized medicines for each individual on the basis of genetic profiles) is one of the technologies that belongs to this category. By giving doctors the tools to prescribe tailor-made therapies for each patient, genomics could significantly reduce unwanted side effects to individuals and generate enormous cost savings for society as a whole. As these technologies involve risks and raise valid ethical questions, they are the subject of heated debate.

Novartis understands Corporate Citizenship to include responsibility for engaging the public and promoting informed dialogue. Only with an open and frank discussion can emotions be addressed, rational arguments evaluated and possible risks weighed objectively against potential benefits. To this end, Novartis has sponsored public forums in local affiliates, e.g. in Germany, Japan and Italy.

**Distinctions awarded to Novartis in 2000**

Distinguished Industry Leadership Award for success in developing <i>Glivec</i>	by G & P Foundations for Cancer Research, US
Appeal of Conscience Award to Daniel Vasella	by Appeal of Conscience Foundation, US
Best of What's New Award for <i>Visudyne</i>	by Popular Science magazine, US
Heroes of Chemistry Award to the Novartis <i>Sandostatin</i> research team	by American Chemical Society, US
2nd rank in accountability, transparency, citizenship and governance in the life sciences	benchmarking by SustainAbility, UK
Novartis selected One of the World's 100 Best-Managed Companies	by Industry Week, US

**Ongoing commitment to the developing world**

Three examples from the Novartis Foundation for Sustainable Development illustrate how the principles of Corporate Citizenship can be put into practice.

The Foundation is a member of the Global Alliance for Leprosy Elimination, which seeks to rid the world of the disease by 2005. Leprosy afflicts an estimated 2.5 million people today in the developing world. In cooperation with the Foundation, Novartis is donating a multidrug therapy, worth USD 30 million, that effectively stops disease transmission and cures leprosy in six months to one year. In addition, the Foundation has created a special fund to accelerate access to treatment in the high-priority countries of Brazil, India, Madagascar and Mozambique.

The Foundation often works hand in hand with competent and cost-effective local partners. A case in point is SEOP, an organization run by Franciscan monks in the slums of Brazil. With help from the Foundation, this organization constructs kindergartens, community centers and sturdy dwellings with solid roofs and provides a daily hot meal for children and clean drinking water.

In Sri Lanka, the Foundation collaborates with Sarvodaya Shramadana, a grass-roots movement that unifies developmental work with Buddhist ideals. In more than

10 000 villages, the Foundation supports leadership development training, preschool education and environmental protection. A community health service teaches people how to prevent communicable diseases and improve hygiene. In Sri Lanka and elsewhere, the Foundation emphasizes quality instead of quantity. Even modest resources, if channeled into focused, well-managed development projects, can have an immeasurable impact on human lives.

The Novartis Foundation for Sustainable Development in Brazil collaborates with a local charity to give children a daily hot meal, construct kindergartens and community centers, and provide sturdy dwellings and clean water.



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### Novartis on the Internet

<http://www.novartis.com>

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### Novartis Annual Report on the Internet

<http://www.novartis.com/annualreport2000>

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### Forward-looking statement disclaimer

This Annual Report, including management's discussion and analysis contains certain "forward-looking statements," relating to the Company's business, which can be identified by the use of forward-looking terminology such as "estimates," "believes," "expects," "may," "are expected to," "will," "will continue," "should," "would be," "seeks," "promising," "pending," or "anticipates" or similar expressions, or by discussions of strategy, plans or intentions. Such statements include descriptions of the Company's investment and research and development programs and anticipated expenditures in connection therewith, descriptions of new products expected to be introduced by the Company and anticipated customer demand for such products and products in the Company's existing portfolio. Such statements reflect the views of the Company as of the date of this Annual Report and with respect to future events and are subject to certain risks, uncertainties and assumptions. Many factors could cause the actual results, performances or achievements of the Company to be materially different from any future

results, performances or achievements that may be expressed or implied by such forward-looking statements. These factors can be found in the Company's Form 20-F filed with the US Securities & Exchange Commission and include, among other things, unexpected regulatory delays, uncertainties relating to clinical trials and product development, the introduction of competing products, increased government pricing pressures, unanticipated changes in the financial markets and foreign exchange markets, and the Company's ability to obtain or maintain patent and other proprietary intellectual property protection. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected.

All product names printed in italics in this Review are trademarks of the Novartis Group. 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 consists of two parts, the Operational Review and Financial Report. Both documents are originally published in English, with French and German versions available.

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Novartis has issued the following publications that are available on the Internet or as hard copies on request: The two-part Annual Report, consisting of the Operational Review and the Financial Report, the US Securities & Exchange Commission Form 20-F, the Health, Safety and Environment Report, and Facts & Figures, a short guide to information about Novartis.

