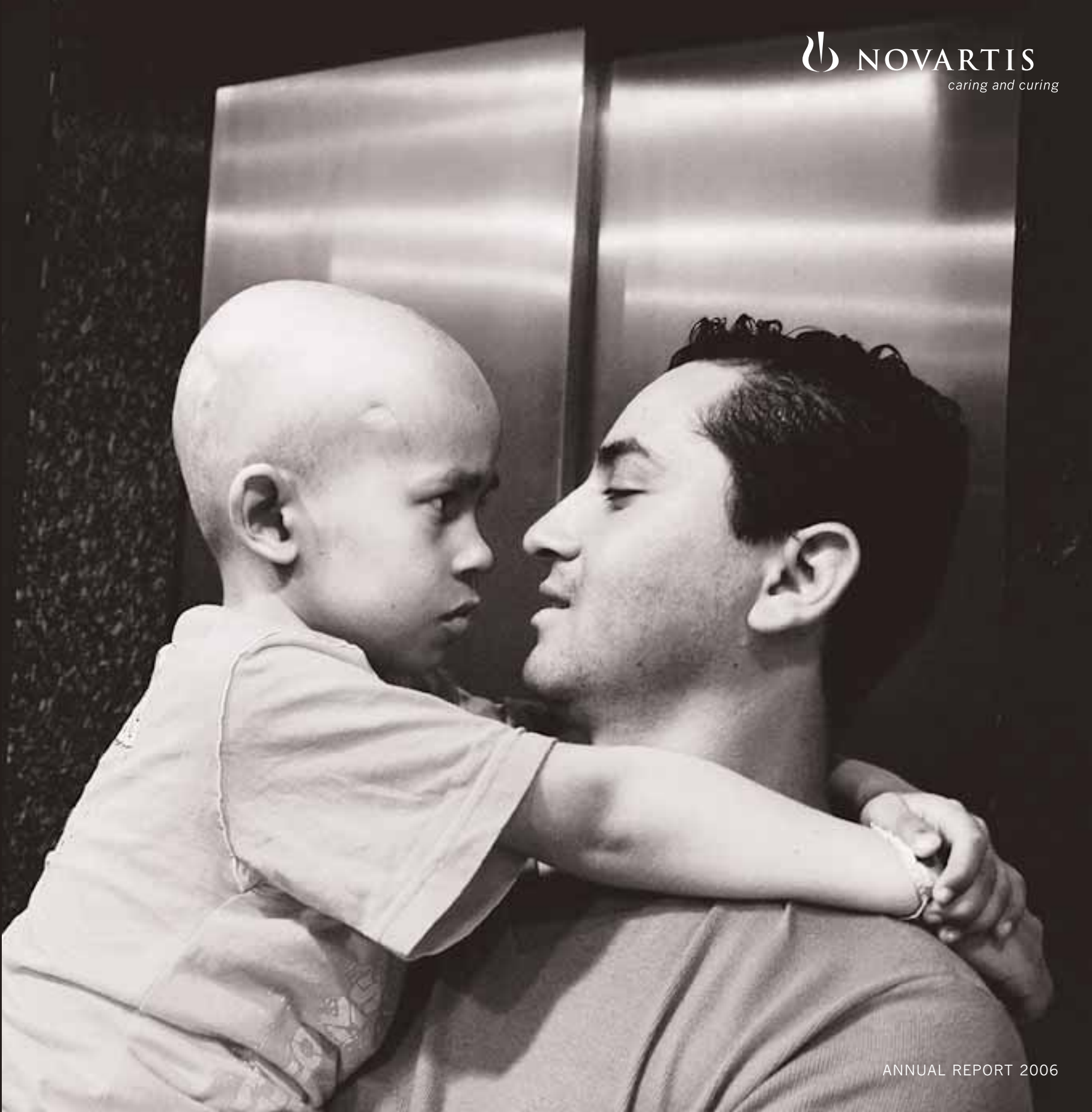


NOVARTIS

caring and curing

ANNUAL REPORT 2006

OUR MISSION

We want to discover, develop and successfully market innovative products to prevent and cure diseases, to ease suffering and to enhance the quality of life.

We also want to provide a shareholder return that reflects outstanding performance and to adequately reward those who invest ideas and work in our company.

CONTENTS

INSIDE FRONT COVER: KAMEDA MEDICAL CENTER; KAMOGAWA CITY, CHIBA, JAPAN
FRONT COVER: GRUPO DE APOIO AO ADOLESCENTE E À CRIANÇA COM CÂNCER; SÃO PAULO, BRAZIL

GROUP

Novartis is a world leader in providing medicines to protect health, prevent and treat disease, and to improve well-being.

Novartis is the only company with leadership positions in patented and generic pharmaceuticals, vaccines and over-the-counter medicines.

In 2006, Novartis continued to strengthen these strategic growth platforms to meet the needs of patients and society in a dynamically changing healthcare environment.

FINANCIAL HIGHLIGHTS

KEY FIGURES – GROUP[1]

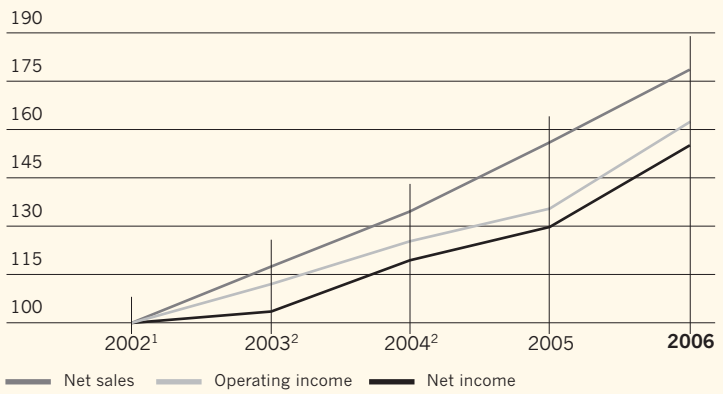
(In USD millions unless indicated otherwise)

	2006	2005
Group net sales	**37 020**	32 212
Group operating income	**8 174**	6 905
Return on sales (%)	**22.1**	21.4
Group net income	**7 202**	6 141
Research and development	**5 364**	4 846
Research and development as % of Group net sales	**14.5**	15.0
Free cash flow	**4 340**	4 673
Number of associates at year-end	**100 735**	90 924

[1] Including discontinuing operations

GROUP NET SALES, OPERATING INCOME AND NET INCOME

(Index: 2002 = 100%)



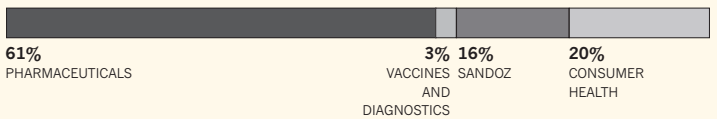
[1] Not adjusted for new IFRS accounting rules [2] Pro forma adjusted for new IFRS accounting rules

SHARE INFORMATION

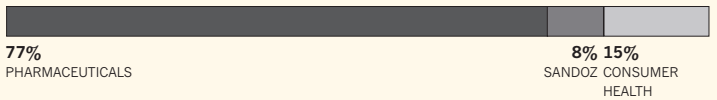
	2006	2005
Return on average equity (%)	**19.3**	19.0
Earnings per share (USD)[1]	**3.06**	2.63
Operating cash flow per share (USD)	**3.76**	3.46
ADS price at year-end (USD)	**57.44**	52.48
Share price at year-end (CHF)	**70.25**	69.05
Pay-out ratio based on outstanding shares (%)	**36**	33

[1] Average number of shares outstanding in 2006: 2 345 232 126 (2005: 2 332 848 144)

2006 GROUP NET SALES BY DIVISION



2006 OPERATING INCOME BY DIVISION[1]



[1] Vaccines and Diagnostics had less than 1% impact on Divisional total operating income

NEWS IN 2006

GROUP	Dynamic 2006 performance from all divisions thanks to a mixture of organic growth and contributions from recent acquisitions. Group net sales up 15% (+14% in local currencies) to USD 37.0 billion, led by Pharmaceuticals. Operating income advances 18% as strong organic growth more than offsets acquisition-related costs.
PHARMACEUTICALS	Market share gains and double-digit growth in Cardiovascular and Oncology franchises drive 11% (+11% lc) net sales increase to USD 22.6 billion. Operating income improvement of 11% despite one-time acquisition costs; up 17% excluding these charges.
VACCINES AND DIAGNOSTICS	New strategic growth platform created following Chiron acquisition, making Novartis the world's second-largest supplier of influenza vaccines in the US. Double-digit net sales growth following April 2006 acquisition.
SANDOZ	Sandoz integration of Hexal and Eon Labs largely completed, performing well as sales up 27% (+25% lc) on good underlying retail generics growth. Operating income rises sharply on operational improvements.
CONSUMER HEALTH	OTC and Animal Health climb in global rankings thanks to strategic brands, targeted acquisitions and product innovations. Medical Nutrition, with 2006 sales of approximately USD 1.0 billion, to be divested during 2007. Net sales, excluding Medical Nutrition, rise 8% (+8% lc) while operating income advances 12%.
PIPELINE	One of the industry's strongest pipelines, with 138 projects in development, focusing on areas of high unmet need. Key R&D areas are cardiovascular/metabolic conditions, oncology and neuroscience as well as respiratory and infectious diseases.
RESEARCH	New discovery approaches and focus on biotechnology compounds at Novartis Institutes for BioMedical Research lead to increase in number of early-stage projects.
CORPORATE CITIZENSHIP	Novartis access-to-medicine programs for those in need reach 33.6 million patients in 2006 through contributions valued at USD 755 million.
DIVIDEND	Proposal to shareholders for 2006 of CHF 1.35 per share, an increase of 17% and representing the tenth consecutive year of paying a higher dividend.

RHEUMATOLOGY SCIENTIFIC RESEARCH INSTITUTE; MOSCOW, RUSSIA

DANIEL VASELLA, M.D.

DEAR SHAREHOLDERS:

It gives me great pleasure in our eleventh business year to report another set of record results.

- Group net sales rose 15% (+14% in local currencies) to USD 37 billion
- Operating income advanced 18% to USD 8.2 billion
- Net income grew 17% to USD 7.2 billion
- Earnings per share (EPS) were up 16%
- Free cash flow reached USD 4.3 billion

This outstanding performance reflects our continuous focus on innovation and building a broad portfolio around growth areas of the healthcare sector. Ultimately, the skills and commitment of our associates are the key factors for our success, and I would like to thank them for their contributions.

The pharmaceutical industry is confronted with conflicting trends. Demand is continually rising for healthcare services, medicines, vaccines and diagnostics, which is generating higher costs that in many countries are increasingly the focal point of political and social debate. Studies have repeatedly proven that appropriate use of medicines generally reduces treatment costs and also that the majority of healthcare cost increases are generated in hospitals. However, the pharmaceutical industry remains the primary target in the cost debate even though medicines account for only 10% to 20% of overall costs, depending on the country.

Still, the healthcare sector will remain a dynamic growth area in the future driven by the following trends:

- The aging of the world's population continues unabated, generating steadily increasing demand for medicines due to the rising incidence of degenerative diseases and cancer as people grow older. The approaching wave of retirements in the post-war "baby boomer" generation will further stimulate demand in our most important markets.
- The strong economic expansion in populous countries such as China, India and Russia is translating into over-proportional growth in demand for healthcare services. Accompanying this economic growth has been the increasing adoption of lifestyles typical of affluent, industrial countries. That, in turn, has led to a higher incidence of obesity, chronic cardiovascular disease, diabetes, cancer and lung diseases.
- Finally, new technologies are enabling the discovery and development of innovative medicines for patients suffering from otherwise untreatable diseases.

At the same time, our industry faces challenges ranging from government price controls and intensified competition to increasingly stringent regulatory controls that are escalating the costs of Research & Development. Product liability risks, which can be very costly, are another important factor that is attracting a great deal of attention and fueling fundamental distrust of the industry.

The most far-reaching cost reduction measures taken by various governments include promoting greater use of generic pharmaceuticals, sales of which are likely to experience double-digit growth in the coming years as opposed to the anticipated single-digit growth forecast for patent-protected medicines.

In these industry conditions, "business as usual" is no longer a viable long-term option. Identifying and addressing the needs of patients remains at the forefront of all that we do. This includes taking a serious look at the economic and political realities in which patients live because this plays a major role in determining how products are made available to them. This is why our business portfolio systematically reflects the dynamically changing healthcare market: growing demand for inno-

vative medicines (Pharmaceuticals), the rising support for greater use of cheaper generics (Sandoz), the increasingly prominent role of vaccines (Vaccines and Diagnostics) and greater empowerment of patients (Consumer Health).

We have the best portfolio to optimally leverage growth opportunities in healthcare in the interest of both our customers and shareholders while also reducing risks.

Novartis has defined the following strategic initiatives:

- Invest vigorously in R&D to continue bringing new and innovative products to the market
- Strengthen the Sandoz generics business, which provides affordable treatment options following the expiry of patents
- Expand businesses with synergy potential, such as between Pharmaceuticals, OTC and Animal Health
- Further build our new growth platform in Vaccines and Diagnostics by focusing on preventive medicine

We sharpened our focus on these **priorities** in 2006, which resulted in the healthcare businesses now accounting for 96% of total net sales compared to just 45% in 1995.

Pharmaceuticals is our most important division, again growing faster than the market. Strong demand for our top cardiovascular and oncology drugs led the performance. Sales growth in the US and in emerging markets such as China and Russia were particularly dynamic, with the performance in Europe less robust. The extraordinary success of our antihypertensive medicine ***Diovan*** is poised to continue its dynamic growth. Our cancer therapy ***Gleevec/Glivec*** generated sales of over USD 2.5 billion in only its fifth year. Two other cancer medicines, ***Zometa*** and ***Femara***, have also developed well.

Vaccines and Diagnostics enjoyed impressive growth, with the integration of the newly acquired Chiron business proceeding smoothly and the successful resolution of quality problems in influenza vaccine production. Our new cell culture production technology for influenza vaccines could save lives in the event of a pandemic flu outbreak due to the shorter lead times. A new seasonal influenza vaccine based on this technology was submitted for European approval in 2006. New diseases, such as avian flu and SARS as well as resistant bacterial and fungal infections, will continue to generate strong demand in the future for new vaccines and medicines.

Sandoz expanded its retail generics business, particularly in the US, Eastern and Southern Europe, Russia, Switzerland, Canada, and Australia. In Germany, the impact of severe price pressure was felt. Our recombinant growth hormone ***Omnitrope*** became the first follow-on version of an approved biotechnology drug to be granted US and European approvals. Given the large number of biotechnology drugs already without or set to lose patent protection in the coming years, these so-called "biosimilars" are expected to play an increasingly important role by providing patients with affordable, safe and effective alternatives to the original treatments.

The **Consumer Health** Division performed very well as the OTC and Animal Health businesses each posted double-digit net sales growth. In line with our continued focus on healthcare, we signed a definitive agreement to divest the Medical Nutrition business. I am convinced this transaction is an ideal solution for Medical Nutrition, one that offers the management and associates of this business the best future prospects. Proceeds from the transaction will further strengthen our financial position and provide greater strategic flexibility.

Of course, the successes of our businesses depends not only on strategic objectives but also in executing them successfully, particularly in R&D.

We are planning to launch several innovative medicines during the next two years and will keep investing vigorously in R&D. We will also further complement our own R&D programs through alliances and collaborations for development compounds and cutting-edge technologies.

Novartis has **138 projects in clinical development**. Among these are 50 new molecular entities (NMEs) and 88 life-cycle management projects with new indications or formulations. In 2006, over 20 new projects were added to the pipeline. Key areas of R&D are cardiovascular/metabolic diseases, cancer and neurological conditions as well as respiratory and infectious diseases.

Shortly before the end of 2006, we received approval from the US Food and Drug Administration (FDA) for ***Exforge*** (valsartan and amlodipine), a single-tablet combination of the two most prescribed antihypertensives in their respective classes, and expect European approval to follow during the course of this year. We also anticipate regulatory decisions in 2007 for two other important medicines: ***Tekturna/Rasilez*** (aliskiren), a renin inhibitor for the treatment of hypertension, and ***Galvus*** (vildagliptin), a once-daily oral treatment for patients with type 2 diabetes. The US regulatory agency extended its review after recently available data for both *Tekturna/Rasilez* and *Galvus* were submitted to clarify open questions. Delays are unfortunately part of our industry and inherent in the R&D process.

For two other development compounds, the submissions for US and European regulatory approvals were accelerated and completed earlier than planned in 2006. ***Tasigna*** (nilo-

tinib) is a new treatment option for patients with certain forms of chronic myeloid leukemia who have resistance and/or intolerance to treatment with our *Gleevec/Glivec*, while ***Aclasta/Reclast*** (zoledronic acid) is a convenient once-yearly infusion lasting only 15 minutes as a treatment for women with postmenopausal osteoporosis.

Among the many innovative compounds in late-stage development at Novartis, I would like to particularly highlight FTY720 and RAD001.

FTY720 (fingolimod) is seeking to become the first oral once-daily therapy for patients with relapsing multiple sclerosis, a condition estimated to affect more than 2.5 million patients worldwide and women at twice the rate as men. This compound is now in the final stage of development after an earlier Phase II trial showed positive results during two years of treatment in helping patients with this potentially debilitating neurological condition. Submission is on track for 2009.

RAD001 (everolimus) is a novel oral compound in development to inhibit a cell signaling pathway called mTOR considered to be an important therapeutic target in oncology. At effective and well-tolerated doses, RAD001 has demonstrated broad clinical activity in patients with various tumor types. This compound acts by directly inhibiting both the growth of tumor cells as well as the formation of new blood vessels (angiogenesis). If positive results are achieved in clinical trials with difficult-to-treat forms of cancer, the first regulatory submissions could be submitted as early as 2008.

The Novartis Institutes for BioMedical Research (NIBR), created four years ago to strengthen the company's long tradition in drug discovery, is bolstering the pipeline through new discovery approaches and an increasing focus on biotechnology compounds. We are expanding our existing development activities in China by establishing an integrated R&D institute in Shanghai that will focus on diseases particular to the region, such as liver cancer. This is not a "typical" China investment focused on cost savings but one aimed at gaining access to the country's vast talent pool and scientific promise. The choice of Shanghai reflects the vitality and economic potential of this city and the changing global economy; it is imperative to have a strong local presence in this fast-growing environment.

Novartis has been rapidly advancing its pipeline by complementing internal efforts with collaborations and targeted acquisitions. Last year, we acquired the UK biopharmaceuticals company NeuTec and added two compounds – *Mycograb* for fungal infections and *Aurograb* for bacterial infections – that will further strengthen our presence in the fast-growing hospital infections segment.

Let me close by offering some perspectives on the challenges facing the pharmaceutical industry and how we are addressing the significant social and political changes underway:

Innovation is our core activity. We must not allow the challenging political environment to distract us from our ultimate goal: discovering, developing and quickly bringing to the market new drugs with real therapeutic benefits to both individual patients and to society. The pharmaceutical industry is not without criticism, but thanks to the important contributions of medicines and vaccines, many infectious diseases can now be prevented or effectively treated. Survival rates for children suffering from cancer have doubled in the last 25 years, while the incidence of strokes and heart attacks have been significantly reduced. Novartis medicines – from *Gleevec/Glivec* and *Neoral* to *Coartem* and *Clozaril/Leponex* – have positively changed the lives of thousands, if not millions, of patients around the world. These patients have benefited enormously from the success of our industry and also Novartis.

Intellectual property rights are central to the economy. Without them, many of the breathtaking technological developments since the Industrial Revolution would not have occurred. Protecting innovation is the best protection for patients, laying the foundation for the massive investments made by the pharmaceuticals industry in R&D that are vital to medical progress. Novartis will continue to resist the pressure to soften its position on the need to vigorously protect intellectual property in favor of short-term political gain.

Reputation is valuable capital in the form of trust, but a resource that cannot be stockpiled. It must be earned daily. Novartis enjoys an excellent international reputation. However, we must better explain to the public the positive impact of our industry, how it functions, the benefits of our products for society and the relationship between risk, reward and innovation. Our industry has failed to communicate effectively on the substantial role medicines play in reducing overall healthcare costs. It would be a serious setback if the demand for innovative medicines continues but without an understanding that innovation requires enormous investments and risks – in other words, that innovation has its price.

Corporate citizenship is taken seriously at Novartis and is an integral component of our business strategy. Our access-to-medicine programs in 2006 reached over 33 million patients worldwide, with contributions totaling USD 755 million. This represented some 2% of our total Group net sales donated to disadvantaged patients.

The Novartis Institute for Tropical Diseases in Singapore has expanded its research activities to include malaria along with tuberculosis and dengue fever, diseases that are still troubling and common in developing countries. We decided in 2006 to sharply reduce the average treatment price of *Coartem*, the most effective

anti-malaria drug, to USD 1.00 – a loss-making activity for us. More than 60 million treatments were delivered to endemic countries last year, a dramatic increase from only four million in 2004 due to our expanded production capacity.

We are doing what we believe is right: helping patients in need while also strengthening our position as a reliable partner in the health sector. At the same time, corporate citizenship also calls for a strong sense of reality, and this means rejecting overblown expectations of some stakeholders. We cannot assume the responsibilities of governments. Well-functioning access-to-medicine programs require governments to create the appropriate infrastructure and distribution networks, provide legal certainty and a safe environment – all of which we cannot provide. This can only be achieved through the collaboration of all involved stakeholders. It is imperative that pharmaceutical companies, governments, international organizations and NGOs work together to ensure that patients in need receive proper care.

We must overcome a culture of blaming each other; the precarious situation in many developing countries is far too serious for symbolic posturing. We are seeking an open dialogue with all stakeholder groups, one based on mutual trust and tolerance with the aim of long-term success – not only in access-to-medicine initiatives but also in day-to-day business activities.

Strong values are critical during this time of rapid change. Now more than ever, strong values are important to hold a company together: to concentrate energies, guide decisions and place greater focus on performance objectives. Our success during the last 10 years has been based on such values – a consistent focus on performance and results, an open culture and acting responsibly for patients and societies. The values of a company become particularly evident during a takeover situation, where there is often a temptation to simply absorb the acquired company. I personally see acquisitions – such as those during the last two years involving Hexal, Eon Labs and Chiron – as learning opportunities and assurance that monotony, complacency and self-satisfaction have no chance of taking hold in our organization.

Balancing global aspirations and local identities is a constant task. The process of globalization is not a one-way street; to think so would be a dangerous illusion. We must respect local and national customs, whether they involve languages, cultural aspects or the law. At the same time, we have established and are implementing standards throughout Novartis – particularly our Code of Conduct and our Corporate Citizenship Policy and guidelines. For example, Novartis has initiated a “living wage” program to set minimum pay standards around the world for its associates. We expect similar conduct from our business partners. We have also set strict global environmental and safety standards, ones that are the same at our Basel headquarters as in developing countries.

As a shareholder, you naturally have an interest in the performance of your company. Our innovative and risk-diversified portfolio has delivered strong returns when looking at share price gains, dividends and spin-offs. Indeed, the value of an investment in Novartis more than tripled from January 1, 1996, to December 31, 2006, exceeding the total shareholder return of most of our competitors. I am confident that Novartis will continue to be successful. **Since the creation of Novartis in 1996, our company has been a leader of change and progress, not a passive observer.** This remains the case today thanks to our forward-looking strategy, our considerable powers of innovation, operational excellence and solid basic values – Novartis has what it takes to identify future opportunities and to translate them into commercial success.

Dr. Marc Moret, a talented leader who served as Chairman of the Board of Directors of Sandoz until the merger with Ciba-Geigy in 1996, passed away on March 17, 2006. One of his most impressive achievements was certainly the creation of Novartis. With a strategic foresight still admired today, he realized much earlier than others how such strong, global organizations could succeed in an increasingly competitive environment.

The skills, dedication, and integrity of our associates have enabled us to secure our place among the world's most respected and successful pharmaceutical companies. When it comes to setting the strategic direction, appointing the best talent to key positions and ensuring effective control, our Board of Directors plays a vital role. Dr. h.c. Birgit Breuel will leave the Board at the end of her term at the Annual General Meeting in March 2007. We would like to thank Dr. Breuel for her efficient and valuable contribution to the work of the Boards of both Ciba-Geigy AG and Novartis AG.

I would also like to again thank our associates, whose excellent performance during 2006 enabled Novartis to achieve both another year of record results and improve the lives of countless patients worldwide.

My thanks also to you, our shareholders, for the trust you continue to place in Novartis.

Sincerely,

Daniel Vasella, M.D.
Chairman and Chief Executive Officer

TEMBISA HOSPITAL; JOHANNESBURG, SOUTH AFRICA

CORPORATE CITIZENSHIP

Corporate Citizenship at Novartis rests on four pillars: Commitments to Patients; to Our People; to Health, Safety and Environment (HSE); and to Ethical Business Conduct.

Treatments worth USD 755 million were contributed through access-to-medicine programs in 2006, reaching 33.6 million patients in need.

Novartis reduces average treatment price of *Coartem* to one US dollar, subsidizing access to this leading antimalarial medicine. Deliveries quintupled in 2006 to 62 million treatment courses.

Novartis named the healthcare sector leader in the Dow Jones Sustainability Index (DJSI), which tracks the performance of companies in terms of corporate sustainability.

Novartis included in the FTSE4Good index and also rated a top sustainability performer, with a triple-A score, in the 2006 Global Pharmaceutical Sector Report by Innovest.

Business Week magazine rates Novartis one of the 50 most valuable brands worldwide and across all industries.

Novartis named by Barron’s magazine as one of the 25 most respected companies worldwide, while Fortune magazine lists Novartis among the world's 50 most admired companies.

KEY PERFORMANCE INDICATORS

Indicator[1]	2006	2005	2004	2003	2002
Economic					
Group net sales in USD billions	**37.0**	32.2	28.2	24.9	20.9
Group net income in USD billions (% of Group net sales)	**7.2 (19)**	6.1 (19)	5.6 (20)	4.9 (20)	4.7 (23)
Research & Development in USD billions (% of Group net sales)	**5.4 (15)**	4.8 (15)	4.1 (14)	3.7 (15)	2.8 (14)
Purchased goods and services[2] in USD billions (% of Group net sales)	**17.9 (48)**	15.7 (49)	13.0 (46)	11.0 (44)	9.1 (44)
Net value added (NVA) in USD billions (% of Group net sales)	**18.1 (49)**	15.7 (49)	14.9 (53)	13.7 (55)	12.5 (60)
– to associates in USD billions (% of NVA)	**9.1 (51)**	7.9 (51)	7.0 (47)	6.3 (45)	5.1 (41)
– retained for future growth in USD billions (% of NVA)	**5.2 (29)**	4.1 (26)	4.3 (29)	4.3 (31)	3.3 (26)
– to authorities in USD billions (% of NVA)	**1.5 (8)**	1.3 (8)	1.3 (9)	1.2 (9)	1.1 (9)
– to financial institutions in USD billions (% of NVA)	**0.3 (1)**	0.3 (2)	0.3 (2)	0.2 (2)	1.6 (13)
– to shareholders/dividends in USD billions (% of NVA)	**2.0 (11)**	2.1 (13)	2.0 (13)	1.7 (13)	1.4 (11)
Social					
Number of associates (headcount)	**100 735**	90 924	81 392	78 541	72 877
Resignations, separations, hiring (% of associates)	**8, 4, 19**	8, 4, 16	7, 3, 15	-	-
Number of associates trained on Code of Conduct (e-learning courses)[3]	**14 574**	33 000	-	-	-
Cases of misconduct reported	**651**	442[4]	410[5]	-	-
Cases of misconduct substantiated	**228**	142[4]	204[5]	-	-
Dismissals/resignations (related to misconduct)	**130**	78[4]	107[5]	-	-
Access to Medicine[6]: value in USD millions	**755**	696	570	371	255
Access to Medicine[6]: patients reached in millions	**33.6**	6.5	4.25	2.76	-
Number of suppliers informed (turnover more than USD 10 000)	**42 200**	39 000	30 000	-	-
Number of suppliers to confirm key standards (self-declaration)	**8 600**	5500	4600	-	-
Number of suppliers audited (including labor standards)	**92**	55	5	-	-
Health, Safety & Environment[7]					
Lost time accident rate [accidents per 200 000 hours worked]	**0.40**[8]	0.44[9]	0.48	0.7	0.71
Resources					
Water use [million m^3]	**90.1**	91.5	86.4	92.6	89.9
Energy [million GJ]	**18.0**	16.9	16.3	16.0	15.7
Emissions					
Emission CO_2/GHG, Scope 1: Combustion and processes [1000 t]	**488**	458	470	477	471
Emission into Air: hal- and nonhalogenated VOCs [t]	**1 769**	1 407	1 317	1 676	1 736
Total Operational Waste [1000 t]	**303**	288	228	224	251

[1] Data reported in the "Economic" and "Social" sections above (except "Number of suppliers" items) include the entire Group;
Data reported in "Number of suppliers" items and "Health, Safety and Environment" section (except "Lost time accident rate") exclude the new Vaccines and Diagnostics Division
[2] Element of indirect economic contributions
[3] Other mandatory courses: Human Rights, E-compliance and Records Management
[4] From April to December 2005
[5] From October 2003 to September 2004
[6] See table page 69
[7] Details see: www.novartis.com/hse
[8] Excludes Hexal/Eon Labs and Vaccines and Diagnostics
[9] Excludes Hexal/Eon Labs

Novartis places a strong emphasis on Corporate Citizenship because it is the right thing to do. But sustainable Corporate Citizenship initiatives are also good for business, increasing trust in the communities where we are located and with governments that regulate our operations.

Novartis has a longstanding commitment to active engagement in society, reflected in our Policy on Corporate Citizenship and its implementation through management processes across the Group. We pledge to recognize the interests of stakeholders, and the public at large, in our social behavior and the health, safety and environmental impacts of our business.

We seek to engage in an active dialogue with diverse stakeholder groups through community panels, focus groups and collaborations with patient advocacy organizations.

While remaining externally focused, we are building a reputation as an exciting place to work, where people can realize their professional ambitions. We strive for a motivating environment where creativity and effectiveness are encouraged and where cutting-edge technologies are applied.

Novartis places such a strong emphasis on Corporate Citizenship because it's the right thing to do. But sustainable Corporate Citizenship initiatives are also good for business. For a company to be successful, relationships with the communities it serves must be based on trust and good will. By doing the right thing, we are trusted by communities, and by the governments that give us an opportunitiy to operate, to innovate and to grow.

A strong Corporate Citizenship program reduces business risks and provides a competitive advantage by enhancing access to markets and customers for Novartis products and associates. Efficient use of energy and other natural resources saves money and at the same time mitigates environmental risks. Neighboring communities also benefit from sound stewardship of the environment.

Our Corporate Citizenship approach is based on our values and reflects our commitment to the United Nations Global Compact. The Global Compact asks companies to embrace, support and enact a set of core values in the areas of human rights, labor standards, the environment and efforts to combat corruption.

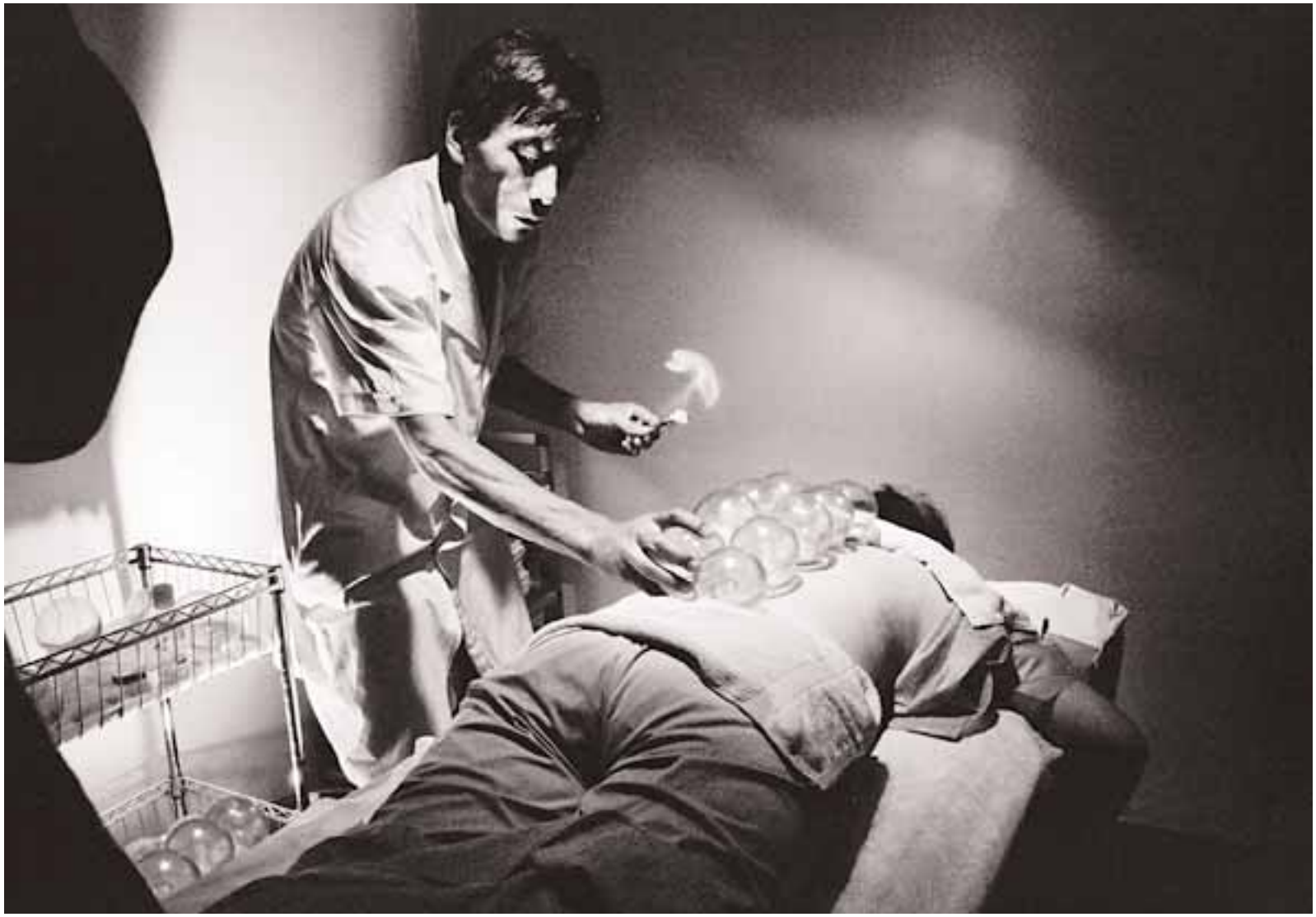
Our Corporate Citizenship Policy is supported by specific guidelines, covering material areas such as working conditions, business ethics, human rights and third-party management. Novartis fosters a culture where associates are expected to behave not only lawfully, but ethically. Besides complying with laws and regulations that govern our operations in more than 140 countries around the world, Novartis associates uphold the ideals and values defined in our Code of Conduct and Corporate Citizenship Policy, and in related policies and guidelines.

Corporate Citizenship at Novartis is firmly anchored at the Board level. The Audit and Compliance committee is responsible for auditing Corporate Citizenship implementation and compliance. The Executive Committee of Novartis is responsible for implementation and has established a steering committee which has overall responsibility for Corporate Citizenship Policy and guidelines.

The operating units within each of our Divisions establish appropriate structures, and allocate sufficient resources to reasonably meet the expectations of our Corporate Citizenship Policy. Through management reviews, as well as internal and external audits and assurances, we measure progress and verify compliance with the Policy, related guidelines and regulatory requirements.

Senior managers within Novartis are responsible for implementing these guidelines and performance is measured. Progress against our objectives is presented each year in our annual report and in an online report in accordance with the guidelines of the Global Reporting Initiative.

BYL NAIR CHARITABLE HOSPITAL & TOPIWALA NATIONAL MEDICAL COLLEGE; MUMBAI, INDIA



TRADITIONAL CHINESE MEDICINE; BEIJING, CHINA

COMMITMENT TO PATIENTS

Through its uniquely broad portfolio of medicine-based businesses, Novartis has pioneered an array of models to enhance both affordability and access to treatment. We recognize that access to our medicines usually favors people who live in affluent, developed societies – but we strive to be leaders and partners in finding solutions to help close the access gap.

Novartis endorses the right to health. We believe that each sphere of society – government, medical professionals, individuals and business – has a role to play in support of the right to health.

Our most important contribution to society and to the fulfillment of the right to health is to discover, develop, produce and distribute high-quality healthcare products, targeting unmet medical need. Our commitment to patients leads us to maintain one of the highest levels of research investment among top-tier pharmaceutical companies. Our drug development program has been one of the most productive in the global pharmaceutical industry in recent years.

We recognize, however, that access to our medicines clearly favors people who live in affluent, developed societies. We want to be leaders and partners in finding, and implementing, solutions to help close the access gap.

Thanks to our business results, we are able to help where there is immediate need with products, funds and other supportive measures, on a case-by-case basis. Last year, we were able to contribute products valued USD 755 million and reach more than 33 million patients in need through access-to-medicine projects around the world.

The Novartis Institute for Tropical Diseases – based in Singapore – is bringing the ongoing revolution in biomedical science and technology to bear on diseases of the developing world, initially tuberculosis and dengue fever, but now also malaria.

We provide medicines at no profit – or sometimes free – to patients in the developing world afflicted by diseases such as leprosy, malaria and tuberculosis. We also offer discounts and support programs to patients without medical insurance or other financial resources in industrialized countries.

For more than 25 years, the Novartis Foundation for Sustainable Development (NFSD) has made significant contributions to the health of people in need in the developing world. The NFSD supports patient-education programs against malaria, and is developing new patient-centered daily-observed-treatment systems for tuberculosis.

Inner Compass

Some nongovernmental organizations argue that drug prices and patents are the principal obstacles to access to medicine in the developing world. Yet the problem is much more complex – involving virtually all aspects of poverty.

Novartis and other healthcare organizations strongly assert that medicines alone cannot solve the underlying problems of poverty, inadequate public health services or the lack of healthcare personnel and infrastructure that beset all developing countries. Moreover, weakening intellectual property rights would jeopardize, rather than expand, long-term access to medicines by removing incentives for innovation.

At the Group's biennial research conference last year, Daniel Vasella, M.D., Chairman

and Chief Executive Officer of Novartis, addressed the major trends influencing healthcare today. He acknowledged the challenges Novartis faces in dealing with a diverse array of stakeholders – but also described the distinctive strategy Novartis has adopted to enhance both access and affordability through a broad portfolio of medicine-based businesses.

"If we look at the outside world with which Novartis is dealing, it's an increasingly complex map of stakeholders," Dr. Vasella said. "And expectations of these stakeholders are often contradictory, so we have to make a decision about how we are going to navigate. I think it's extremely important to follow the direction shown by our own inner compass."

Aging of populations, changing lifestyles, rapid economic growth in some emerging markets and the emergence of new infectious diseases – potentially including pandemic influenza – will create opportunities for future growth but at the same time impose intense cost pressures on healthcare systems.

"The core of our business in the healthcare arena is the Pharmaceuticals Division – highly innovative medicines to address still unmet medical needs," he added. "Sandoz provides high-quality, low-cost medicines to reduce the financial burden for healthcare systems and other payors. Vaccines make sure people don't get sick in the first place, and Diagnostics prevents contamination of blood supply. Rounding out the picture is Consumer Health – people taking responsibility for self-medication is important to us."

Pricing: "An investment, not just a cost…"

Pharmaceutical manufacturers do not unilaterally determine the price of drugs. In most European countries, prices must be negotiated with national agencies which set the price based on the cost of existing therapies, overall healthcare impact and benchmarks in other countries. Moreover, price levels for pharmaceuticals, like other goods, depend on the economic ability and willingness of different countries and patients to pay.

Once a prescription medicine leaves the factory, there are markups at each link of the distribution chain, from wholesalers through retail pharmacies – resulting in an average markup in the European Union of 30%. As a consequence, pharmacy prices, which are the ones most visible to consumers, vary much more than the ex-factory prices charged by manufacturers.

Novartis believes that healthcare spending is an investment, not simply a cost. Health Technology Assessment (HTA) represents an important tool for governments and other payors to develop mechanisms for evaluating the clinical and cost-effectiveness of medicines and other healthcare technologies. At the same time, however, HTA should not be used as a means to delay or exclude new medicines from reaching patients. To that end, Novartis urges that governments and other healthcare payors conduct HTAs guided by a clear transparent set of key principles.

Novartis is committed to providing timely, accurate and detailed information to governments and other health payors. Indeed, the Group works with external advisors to measure the impact of new therapies using HTA. By taking into account the perspective of payors and patients, Novartis is better able to highlight added value of its products.

Above all, the price of a medicine must always be viewed in relation to the value provided to patients and payors. A study presented at the World Aging & Generations Congress in St. Gallen, Switzerland last year showed that treatment of people with high blood pressure in the US reduced deaths from cardiovascular disease by two thirds between 1950 and 1994.

Without antihypertensive therapy, the study found, an estimated 86 000 excess premature deaths from cardiovascular disease and more than 800 000 hospitalizations for stroke and heart attacks would have occurred.

Treatment of hypertension was highly cost effective, creating USD 10 in value for each dollar spent for American women, and a payback of USD 6 per dollar spent for treatment of American men with high blood pressure.

To demonstrate the value of its medicines, Novartis conducts and supports extensive health economic research. The analysis is often based on large clinical trials but increasingly also "real-world" outcomes.

A study involving *Diovan*, for example, analyzed claims data from a US pharmacy benefit manager showing treatment outcomes for more than 140 000 patients with hypertension. The study found that patients who received *Diovan* "in a usual care setting" had better compliance with therapy than people who received either amlodipine or lisinopril, two other antihypertensive medicines. According to the authors, the findings suggest that choice of *Diovan* for chronic drug management of hypertension "has the potential to affect patient drug-taking behavior and perhaps longer-term outcomes in a typical real-world setting."

Moreover, in one of the clearest examples yet of the value of a pioneering medicine, Novartis broke new ground with *Gleevec/Glivec*, an innovative treatment for people with chronic myeloid leukemia who were in an advanced stage of the disease, blast crisis or intolerant to interferon. After being designated an orphan drug, *Glivec* was

approved in record time on the basis of uncontrolled trials demonstrating improvements on surrogate outcomes: clearance of cancer cells from the bloodstream and the bone marrow.

Novartis managed to link these outcomes to long-term survival, and demonstrate the cost-effectiveness of *Glivec*. Sir Michael Rawlins, Chairman of the UK's National Institute for Health and Clinical Excellence (NICE), has used *Glivec* as an example for good health-economic analyses, and proof that NICE, a prototype agency for HTA, recognizes the full value of therapies and societal judgment in its appraisals.

For the past 50 years, the research-based pharmaceutical industry has been the only viable model to discover and develop effective treatments for many diseases. The industry – and Novartis – have contributed novel medicines to improve both mortality and morbidity rates in cardiovascular disease, cancer, diabetes, organ transplantation, gastrointestinal disease and many other disorders. Without such innovations, medicine would not be as effective as it is today, and many patients would suffer and die.

The challenge before the pharmaceutical industry is a difficult one. Companies like Novartis must balance an increased commitment to Corporate Citizenship in developing countries and elsewhere against the demands of investors and financial markets to generate sufficient financial returns on extensive investments in innovation.

Special pricing arrangements that allow prices for individual products to be adapted to the specific need of developing countries offer a solution by providing incentives for research, while at the same time preserving a wider distribution of medicines at an appropriate rate of return. These arrangements, however, must be supported by important safeguards, including provisions to ensure that artificially low prices for medicines offered to developing countries are not used subsequently as the basis for reference prices for drug reimbursement in developed countries. In addition, effective trade controls must prevent re-exportation of such low-priced medicines to affluent markets.

Unique Portfolio

With a unique position among world leaders in innovative medicines as well as generics, Novartis has pioneered a broad array of programs to enhance affordability of treatment.

The generic business highlights another dimension of value. Generic products account for more than half of all prescription drugs consumed in the US and fierce competition among manufacturers shrinks prices to a fraction of what the originator medicine fetched before loss of patent protection.

However, many European nations continue to forgo huge potential savings that competition could deliver. A study by the US Dept. of Commerce three years ago examined drug-price regulatory systems in 11 OECD countries that rely on some form of price controls to limit spending on pharmaceuticals. For patented drugs that were best sellers in the US, prices in other OECD countries were 18% to 67% less than US prices, representing a total of USD 27 billion in reduced sales.

Paradoxically, these same 11 OECD countries also employ regulatory practices that limit competition in generic pharmaceuticals. Higher utilization of generic drugs at lower prices could save up to USD 30 billion annually, according to the Commerce Dept. "This range of potential savings suggests that if prices of on-patent drugs were to rise to competitive market levels, then the additional cost to OECD countries could be significantly or fully offset by a more competitive generic market," the study said.

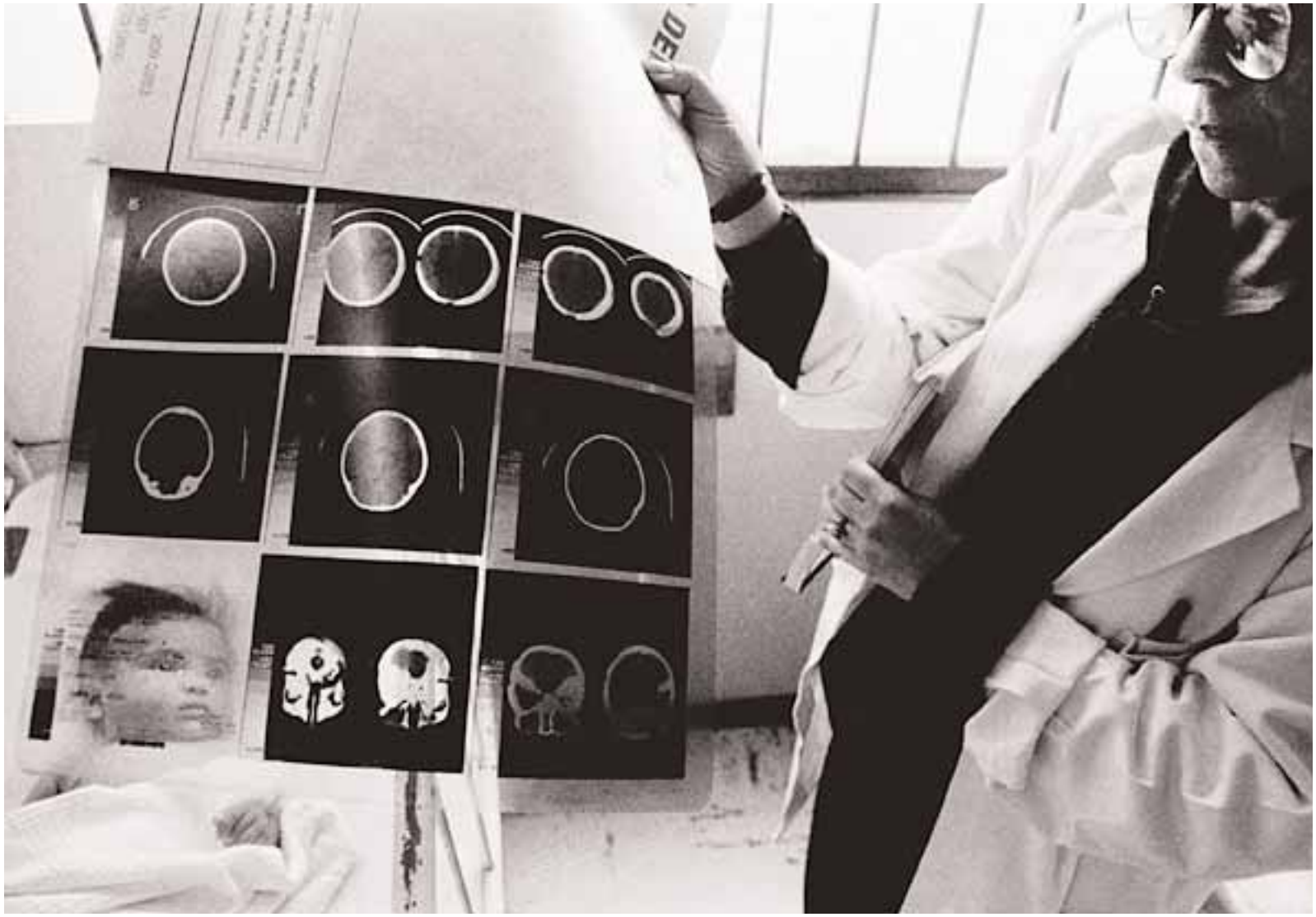
Vaccines are widely regarded as among the most cost-effective interventions in healthcare – but they remain underutilized throughout the world. The new Vaccines and Diagnostics Division at Novartis has a broad research program, focusing on major diseases such as pandemic influenza, meningococcal disease and HIV/AIDS. But even lesser-known diseases can result in acute unmet medical need.

Last year Novartis Vaccines announced the successful conclusion of a two-year vaccination campaign in New Zealand, the biggest in the country's history, using a meningococcal B vaccine tailor-made for the small Pacific-island nation.

The MeNZB vaccine, developed jointly by Novartis, the New Zealand government and drawing upon earlier work by Norway's Institute of Public Health, halted a 14-year epidemic that struck thousands of New Zealanders, killing more than 200 people and leaving more than a thousand people permanently disabled. The epidemic was caused by a strain of Neisseria meningitidis serogroup B (MenB) found only in New Zealand.

The vaccination campaign ran from July 2004 through June 2006. More than a million people were vaccinated, ranging from infants to adolescents up to 20 years of age. Since the launch of the vaccine, the incidence of MenB disease in New Zealand has fallen by more than 80%.

"We set out to end an epidemic by undertaking the largest mass immunization program in New Zealand's history," says Minister of Health Pete Hodgson. "We are now seeing dramatic declines in meningococcal B cases. And the rapid decline has given us the



HOSPITAL DE LA MISERICORDIA; BOGOTÁ, COLOMBIA

confidence to push ahead with an extension of the campaign."

Still, the limited commercial potential for a vaccine tailor-made for a small country like New Zealand was a major hurdle to the MeNZB project. "People questioned the decision to develop this vaccine many times, arguing that there was no money in it. And they were right. We more or less managed to cover our costs," says Rino Rappuoli, Ph.D., Head of Research at Novartis Vaccines.

"So this was a philanthropic project – but one that also added to our knowledge and helped the field to progress," he adds. "We started from scratch and in four years we were eliminating the disease. A program like this normally takes closer to a decade. And we did it without compromising safety. It shows that when public-private partnerships are done the right way, with goodwill and close cooperation, things happen very quickly."

Public-Private Partnerships

In recent years, Novartis has forged a succession of public-private partnerships and not-for-profit initiatives with partners ranging from the World Health Organization (WHO) and the Economic Development Board of Singapore (EDB) to the Medicines for Malaria Venture and the Wellcome Trust. The initiatives target "neglected diseases" such as leprosy, malaria, dengue fever and tuberculosis. Since the year 2000, for example, Novartis has provided free treatment for all leprosy patients worldwide in a pioneering collaboration with the WHO. More than 4 million people with leprosy have been treated through use of effective multi-drug therapy (MDT) supplied by Novartis.

But the framework for support from Novartis is dynamic and increasingly, these initiatives are evolving as a result of recognition by payors of the value of a therapy, as well as countries' rising ability to pay. The clearest example of this evolution to date is patient access initiatives for *Glivec*, the breakthrough, targeted anticancer medicine from Novartis.

When *Glivec* was launched, Novartis also introduced one of the most comprehensive and far-reaching patient assistance programs ever implemented on a global scale to help people who otherwise would not be able to afford treatment. The program has proved successful and in 2006 more than 15 000 people with certain forms of chronic myeloid leukemia (CML) or gastrointestinal stromal tumors (GIST) received treatment under the *Glivec* International Patient Assistance Program (GIPAP). A separate Patient Assistance Program in the US provided treatment for 3 500 patients last year.

GIPAP provides *Glivec* at no cost to eligible patients in developing countries with minimal reimbursement capabilities, and no available generic versions of *Glivec*. Access is provided to patients who are properly diagnosed, not covered by local reimbursement or insurance, and have no other financial resources.

Unlike traditional donation programs, GIPAP is based on a "patient-direct" model – facilitating delivery of *Glivec* to patients by their treating physician. Indeed, local physicians are the cornerstone of the program, selected to participate because of their expertise and willingness to take time from busy schedules to bring treatment to people in need. GIPAP also provides information and referral assistance to patients, their family members and caregivers.

The flexible structure of the access programs makes it possible to maximize effectiveness in different countries. Because GIPAP does not supplement government obligation or insurance, access programs are able to adapt to changing healthcare policies – reflecting local conditions, while supporting sustainability over the long term.

In a number of countries, local *Glivec* assistance programs have evolved toward a new "shared contribution" model. The traditional donation model – GIPAP – is increasingly being reserved for countries that can't afford to pay.

"When we set up GIPAP, we didn't distinguish between very poor countries, which lack sufficient reimbursement capabilities, and emerging economies that have begun to develop reimbursement capacity in pace with rapid economic development," says Stephanie Lassarat, Head Global Patient Access at the Novartis Oncology Business Unit. "Our commitment to shared contribution shows that Novartis believes in these emerging countries. We are helping them to bridge the gap, and make innovative therapies broadly available to patients through creative and sustainable public-private collaborations that enhance access to treatment."

Details vary from country to country but shared contribution means that local payors – from national healthcare systems to insurers and charities – assume a share of the cost of treatment with *Glivec*. Countries supporting expanded access to *Glivec* through a shared contribution model include Hong Kong, Colombia, Tunisia, Ukraine, Cuba and some provinces in China. In Russia, Novartis also continues to support treatment with *Glivec* for some patients in need during a transition period for the country's healthcare system.

"Joining forces and dividing up the cost is an important step toward sustainable patient access," Ms. Lassarat adds. "And once countries start paying part of the cost, they feel a bigger stake in the success of treatment. This, in turn, is leading to

enhanced interaction between Novartis and healthcare systems in many countries. And we believe shared contribution models can be a trigger for these emerging countries to ultimately broaden reimbursement of very innovative treatments like *Glivec* which are highly cost-effective."

In another major advance, regulatory authorities in Europe and the US approved *Gleevec/Glivec* to help patients afflicted with rare but potentially life-threatening disorders with limited treatment options. The action represented the first time that a regulatory authority has ever simultaneously approved one targeted medicine for so many disorders.

"We continue to work on improving access at multiple levels," says David Epstein, Head of Novartis Oncology. "You start by bringing a drug to market – even though sometimes the therapy can be perceived as having small value in typical Western markets. But access in developed markets can also be hindered by having a restricted label," he adds.

"So even if all these additional approvals for rare indications for *Gleevec/Glivec* won't make us all that much money, it means that patients in many countries, particularly in Europe, who previously haven't been able to get treatment through public health systems, will now have improved access."

Changing the Face of Malaria

In collaboration with the WHO and the United Nations Children's Fund (UNICEF), Novartis is changing the face of malaria by providing the pioneering antimalarial medicine *Coartem* on a non-profit basis for public sector use in developing countries where the disease is endemic. In the meantime, with the volume of deliveries still climbing rapidly, Novartis is moving to broaden distribution channels to include recognized international procurement agencies, from the UN's Development Program and Mission Pharma to Crown Agents and the International Dispensary Association, a not-for-profit foundation founded by pharmacists in the Netherlands during the 1970s to supply medicines to developing countries.

In September 2006, Novartis announced a significant reduction in the average price of *Coartem* for public sector use. "The dramatic increase achieved in our production capacity – plus the compelling need for an inexpensive and highly effective malaria treatment in low-income countries – prompted our decision to provide *Coartem* below our costs," Dr. Vasella says. "I am very pleased that the WHO and other organizations such as UNICEF and Médecins Sans Frontières can now become even more effective in rolling back malaria."

This price reduction is expected to have the greatest impact on children, who suffer disproportionately from malaria. Nearly 75% of all malaria patients taking *Coartem* are children and adolescents.

In another recent initiative, the Novartis Institute for Tropical Diseases (NITD), the Wellcome Trust, the Economic Development Board of Singapore (EDB) and Medicines for Malaria Venture (MMV) agreed to jointly support research aiming to discover and develop the next generation of drugs to treat malaria. The Wellcome Trust, EDB and MMV – a non-profit foundation dedicated to developing affordable new antimalarials – will provide funding of approximately USD 20 million for the new research partnership. NITD will manage the program and conduct research jointly with several institutions including the Genomics Institute of the Novartis Research Foundation and the Swiss Tropical Institute.

More than 60 countries – 28 in Africa alone – have rewritten their national malaria control guidelines in recent years, scrapping older, ineffective medicines and adopting artemisinin-based combination therapy (ACT), the class of medicines spearheaded by *Coartem*. In 2006 Novartis delivered more than 60 million treatments of *Coartem*, a 15-fold rise from the 4 million treatments delivered in 2004. Production capacity for *Coartem* is even higher – 100 million treatments – and could be utilized if demand exceeds current projections.

"The scale-up of production capacity for *Coartem* has been the most rapid increase for any drug I know – but especially remarkable for a product provided on a not-for-profit basis," Dr. Vasella says. "Effective drugs are available now, but solving the problem of malaria is much more than just a question of drug availability. Malaria-endemic countries are facing a lack of physicians and nurses; the lack of an efficient distribution system and other preventive steps, such as treated bednets against unnecessary infection. Governments, health ministries, international organizations and industry all have roles to play in addressing and resolving this challenge," he adds.

Novartis also is pushing ahead with initiatives such as joint development of a new pediatric formulation of *Coartem* with MMV. Malaria takes a daunting toll among infants and young children in Africa, where a child is estimated to die of malaria every 30 seconds.

At the moment, parents crush adult *Coartem* tablets for young children but because *Coartem* has a bitter taste, infants and young children tend to spit out the medicine. A more palatable pediatric form could improve adherence to therapy and Novartis and MMV are developing a new *Coartem* formulation as a dispersible tablet.

The price cut announced by Novartis in September 2006 reduced the average price per *Coartem* treatment course to USD 1.00, from USD 1.57 previously. The move reflected cost reductions as well as benefits from economy of scale – and underscored the Group's commitment to remove price as a barrier to access to *Coartem*. Nevertheless, the price remains below cost, a potentially significant financial risk for Novartis because costs are dependent on both production volume and the volatile price of raw materials.

There is growing concern about the financial risks manufacturers have incurred to scale-up capacity, and to pay upfront the costs of raw material procurement, without any guarantee that the end product will actually find a market. In Saving Lives, Buying Time, a recent report on the economics of malaria drugs, the Institute of Medicine (IOM), a branch of the US National Academies, describes a "chicken-and-egg dilemma surrounding ACT supply and demand. Without an assured market, potential manufacturers will not commit to adequate ACT production, nor will farmers expand the cultivation of Artemisia annua, the source plant." To jump start production, the IOM said, "The global community must provide sufficient funds to encourage investments by manufacturers, guarantee purchases of ACTs and generally stimulate a robust world market."

Novartis and its partners, for example, invested more than USD 50 million during 2005 to expand plant and equipment – plus an even larger dollar amount to secure raw material supplies. "We need something that removes the risk of write-offs from companies – so that when we embark on a 14-month production cycle we can be confident of at least covering our costs through binding forecasts or advance purchase commitments," says Silvio Gabriel, Executive Vice President Malaria Initiatives at Novartis. "That risk can't be transferred to countries – they obviously can't afford it."

Various models are under active discussion – from binding multi-year forecasts by the Global Fund, to other forms of market guarantees to put the supply chain on a more predictable basis.

Distribution through the private sector is one of the biggest remaining challenges for the *Coartem* program. The private sector remains the primary source of care for a large proportion of Africa's working poor, particularly in remote rural areas or in countries where the public health system is underdeveloped.

A potential partner for Novartis in private sector distribution is Population Services International, the world's largest social marketing organization, which has expressed an interest in *Coartem* as part of integrated malaria control programs. Other pilot projects are under discussion where subsidies provided by Western donors would enable Novartis to offer *Coartem* at deeply discounted prices.

Tanzania is piloting an innovative private sector distribution system, aiming to strengthen delivery of healthcare products via shopkeepers certified by the government. Staff receive training and are allowed to dispense essential medicines under the status of Accredited Drug Dispensing Outlets.

Novartis remains confident that new partners will help *Coartem* become even more successful. "The biggest hurdles in access-to-medicine programs in the developing world usually are funding – and finding someone willing to take a financial risk in providing the drugs," Mr. Gabriel says. In the case of *Coartem*, he adds, both funding and the drug are already available so the missing links are sustainable procurement practices and improved processes for transfer of donor funds. "Now we are talking about operational things, where countries can help themselves by going fast, using money and medicines effectively and showing positive results."

The mission of the Novartis Foundation for Sustainable Development is to ease conditions of life for the poorest of the poor. Contributions, while focused on health, extend far beyond medical care to shaping new healthcare models.

For more than 25 years, the Novartis Foundation for Sustainable Development (NFSD) has made significant contributions to ease life for the poorest of the poor in the developing world.

NFSD concentrates its efforts on health problems. But its definition of health goes beyond medical care – the absence of disease or infirmity – to encompass physical, mental and social well-being.

Since the year 2000, Novartis has provided free treatment for all leprosy patients worldwide in a pioneering collaboration with the World Health Organization (WHO). More than 4 million people with leprosy have been treated through the use of effective multidrug therapy supplied by Novartis. In addition to providing free drugs, however, NFSD has improved access to treatment by helping to change the traditional stigma surrounding the disease, integrate effective diagnosis into public health services and sponsor comprehensive rehabilitation programs in both India and Sri Lanka.

"Our focus has always been on doing things differently," says Professor Klaus Leisinger, President of NFSD. "We try to find best practice, design pilot programs, and if they succeed we help to expand that model within a country, and in other countries."

Ongoing programs range from support for AIDS orphans in sub-Saharan Africa, and community-based health insurance in Mali, to developing new training technologies for health personnel in the area of Integrated Management of Childhood Illnesses. NFSD also conducts think-tank activities in fields including corporate social responsibility, and human rights and business.

While NFSD is a related party of Novartis, it manages development-related and humanitarian activities independently. Close links with the Group are reflected in the private sector perspective that the foundation often brings to public debate. Access to professional skills within Novartis is another benefit.

In one current example, the Human Resources function at Novartis will assist with an upgrade of operations and management processes planned by the Regional Psychosocial Support Initiative for Children Affected by AIDS, Poverty and Conflict (REPSSI) to expand support for AIDS orphans beyond Tanzania, to a dozen additional countries in southern Africa.

Psychosocial Support for AIDS Orphans

As a consequence of the epidemic of HIV / AIDS sweeping sub-Saharan Africa, more than 12 million children under the age of 18 have lost their father, mother or both parents. The number of orphaned children is expected to rise steadily, reaching 16 million by the year 2010.

Humuliza, a pilot project for AIDS orphans which NFSD has helped to develop in northwest Tanzania, provides a lifeline for more than 2 000 youths. The program aims to help empower the children by providing opportunities for education as well as training in agriculture and other types of employment.

As a result of the successful pilot phase, the project is being scaled up across southern Africa. NFSD and more than 140 nongovernmental organizations sponsoring REPSSI will roll out the Humuliza model in new countries ranging from the Republic of South Africa and Angola to Mozambique and Zambia. REPSSI is also consulting with governments in the region about broader introduction of psychosocial support programs.

Community-based Health Insurance

One of the latest examples of the support NFSD is providing at the local level in developing countries is a pilot program introducing health insurance in 72 remote villages in Mali. Launched by the rural commune of Cinzana in 2003, the insurance program seemed a risky initiative. Previous insurance schemes in the region had collapsed, leaving villagers who had paid premiums without care when they needed it most.

Over the past three years, however, more than 2 000 members have joined the Cinzana insurance program – roughly 12% of all residents in the catchment area. The annual premium – less than USD 3 – covers 60% of the cost of basic healthcare at a local clinic, and a higher 75% of costs when obstetric complications require more sophisticated care at a regional health facility.

A co-founder of the Cinzana program, NFSD provides its local partners with funding, as well as managerial support ranging from planning and financial controlling to marketing. Along with basic health services, the program is stepping up efforts in preventive care – including distribution of insecticide-treated bed nets to members.

Cinzana's program has become the biggest single health insurer in Ségou, a region of Mali with two million residents. From 2007, core elements of the Cinzana model will be scaled up and introduced throughout the Segou region, an important step toward creating bigger risk pools capable of financing more costly health interventions that are urgently needed.

NOVARTIS ACCESS-TO-MEDICINE PROJECTS 2006

Project	Objective	Target region	Value (USD millions)	Patients reached
Malaria/WHO[1]	Provide *Coartem* at cost for public sector use	Africa, Asia, Latin America	179	33 000 000
Leprosy/WHO[2]	Eliminate leprosy by providing free medications to all patients worldwide, with WHO, through 2010	Global	4	226 000
Tuberculosis[2]	Donation of fixed-dose combinations	Tanzania, Sri Lanka	3	134 000
Novartis Institute for Tropical Diseases (NITD)[3]	Discover novel treatments and prevention methods for major tropical diseases; NITD discoveries to be available in poor endemic countries without profit	Developing countries	11	-
Novartis Foundation for Sustainable Development[3]	Work at policy and field level to improve access to healthcare for the world's poorest people	Developing countries	7	95 000
Patient Assistance Programs (PAP)[2]; excl. *Gleevec/Glivec*	Assistance to patients experiencing financial hardship, without third-party insurance coverage for their medicines	US	129	155 000
Gleevec US PAP[2]	Within capability of Novartis, continue to ensure access for patients in the US who cannot afford the drug	US	55	3 500
Glivec Global PAP[2]	Within capability of Novartis, continue to ensure access for patients outside the US who cannot afford the drug	Global (excluding US)	362	15 000
Together Rx Access	Discount program for the uninsured	US	1	15 000
Emergency Relief[2]	Support major humanitarian organizations	Global	4	-
		Total	**755**	**33.6 million**

[1] During 2006, Novartis shipped 62 million *Coartem* treatments for public sector use. Of these shipments, an estimated 33 million treatments actually reached patients by year-end, based on preliminary analysis of local distribution. Value of the *Coartem* program in 2006 was calculated using the number of treatments shipped and the ex-factory price of *Coartem* to private-sector purchasers in malaria-endemic developing countries, minus payments to Novartis to cover costs under terms of the public-private partnership with WHO. These payments were received through WHO, UNICEF and other procurement agencies, acting on behalf of governments and other public sector institutions in developing countries eligible to receive *Coartem* at the "not-for-profit" price.
[2] Ex-factory price to private market
[3] Operating costs

BARCELONA, SPAIN

COMMITMENT TO OUR PEOPLE

The employer value proposition at Novartis offers an achievement-based culture, intense focus on innovation and the opportunity to work with extraordinary people in a truly global organization. Rapid expansion of operations in China exemplifies how those commitments are being translated into concrete career advancement and development for local managers.

At Novartis, a high-performance, results-driven culture, combined with a steadfast focus on innovation and breakthrough medicines addressing unmet medical need, has been critical to success.

World-class performance is based on three priorities: offering the best products for patients and customers; promoting a fierce competitive spirit among associates; and developing skilled and cohesive teams. Looking ahead, Novartis will continue to concentrate on its medicine-based portfolio – protecting health, preventing and treating disease, and improving well-being.

Last year, the Group turned to associates in an attempt to distill the qualities that make Novartis attractive, perhaps even unique, as an employer. Workshops with more than 4 000 associates identified six attributes as the core of an Employer Value Proposition (EVP). The Group's most distinctive features, associates said, ranged from the achievement-based culture, intense focus on innovation, and dynamic growth, to the opportunity to work with extraordinary people in a truly global organization, and to do work that really matters to the health and well-being of humanity.

"Novartis is an attractive employer first of all because we are successful," says Juergen Brokatzky-Geiger, Ph.D., Head of Human Resources and member of the Executive Committee of Novartis. "Our product pipeline is seen as one of the most promising in the pharmaceutical industry and our growth speaks for itself. But development of associates is a cornerstone of our culture. If you are willing to perform, you have a promising future with Novartis," Dr. Brokatzky-Geiger adds.

"The great diversity of nationalities, educational backgrounds, cultures and interests across the Group is an enriching experience that opens up personal as well as professional horizons."

Following up the EVP project, Novartis launched the first, uniform Group-wide climate survey during 2006. In an initial stage, 50 000 associates from the Pharmaceuticals Division worldwide will have a chance to respond via a detailed questionnaire, offered in about 20 languages. Other Divisions are expected to complete the survey by the end of 2007.

China

One example of this commitment to people at Novartis is the China Leadership Development Center introduced three years ago.

Nurturing leaders is a perennial challenge for major international companies but it has assumed added urgency for Novartis in China amid rapid growth in recent years. Ambitious expansion plans include both a new research and development center in Shanghai, and a development and production plant in Changshu, which will begin operations this year.

"We aren't just a local player any longer – we are an international player in a strategic market," says James Deng, Head Country

Pharma Organization in China. "Everyone is watching China and we have to upgrade our talent standard across the board."

It won't be easy. China's explosive economic growth has translated into accelerating management turnover rates, particularly at international companies. According to estimates, annual average turnover is approaching 20% and is even higher for sales executives.

The limited supply of local talent with appropriate skills isn't expected to improve significantly anytime soon. While China produces more than 3 million university graduates per annum, less than 10% have the skills required by an international group like Novartis. At the current rate of economic growth, China will need an estimated 75 000 managers able to assume managerial positions with international firms within five years. But only 5 000 executives with that training and background are available today.

At Novartis operations in China, the annual rate of management turnover is currently running below 15%, reflecting at least in part the rich array of career development programs now available. One key pillar of leadership development is the Beijing International MBA program (BiMBA), a popular MBA program at Peking University tailor-made for Novartis middle managers in collaboration with the China Center for Economic Research.

Another key leadership initiative is the "Trailblazer" rotation program, enabling senior Novartis sales executives in China to spend 12–18 months in the US, absorbing best practice from American peers. "It's a major commitment. These are our best-performing sales managers and it disturbs our business to remove them from their normal jobs for such a long time," Mr. Deng says. "But we're building for the future and the exposure these managers are getting in the US will enable them to develop in new directions and perform at an even higher level when they return home."

The first two Novartis cohorts in the BiMBA program comprise almost 200 middle managers, out of the Group's total workforce in China of roughly 2 000 associates. The cohort beginning the BiMBA program in 2007 will be significantly larger than in previous years.

Selection of participants in both the BiMBA and Trailblazer programs is closely coordinated with the global Organization and Talent Review at Novartis. The transparency of that process is an attractive feature of the program to top performers, says Jennifer Jin, Head of Human Resources for the Novartis Pharmaceuticals Division in China.

"In China, people traditionally look first at seniority and expect managers who have been with the company longest to get these opportunities," Ms. Jin says. "We say this is an opportunity you earn based on performance and high potential – and that sends the right message through the organization."

Moreover, by targeting middle managers, the BiMBA program aims to shore up leadership – and motivation of managers and associates at levels of the organization that haven't received significant attention in the past. "As BiMBA participants improve their management skills and become more mature, they can play a critical role in reducing turnover within their teams," Ms. Jin says.

Because the Novartis BiMBA program is closed to outsiders, course material can be based on actual operations. "We all come from some Novartis entity so our discussions are closely focused on daily issues and practices – and Group policy," says Steele Zhang, Staffing Manager and Human Resource Manager at headquarters in China – and a member of the initial BiMBA cohort. "It's very useful and we can begin applying what we have learned immediately when we return to work."

Guang Yang, Brand Manager for Mature Products and another member of the initial BiMBA cohort, says he already is applying skills and techniques he learned during the course. "As a manager you try to make decisions that are correct and fact-based," he says. "But leading is different than managing. As a leader, you need to go further and make sure everybody understands the objectives of the team, and strives to achieve that broader goal."

STAFF FLUCTUATIONS 2006

Associates as of January 1, 2006	**90 924**	**100%**
Separations	-3 908	-4%
Retirements	-751	-1%
Resignations	-7 420	-8%
External hirings	16 982	19%
Acquisition changes	4 908	5%
Associates as of December 31, 2006	**100 735**	**111%**

(Figures represent headcount)

Mixing managers from different divisions and functions also pays dividends, says Lucy Huang, a finance manager at the Novartis Animal Health Business Unit based in Shanghai. "There is limited communication between Novartis Business Units in China and the BiMBA course gives us an opportunity to find out more about what's going on at the Corporate level and in the Pharmaceuticals Division," Ms. Huang says. "Because we're all middle level managers and share the same background, it's easy to benefit from experience of other managers, how they handle problems, issues and pressures.

"This course is very important for my personal development and I hope other talents growing up at Novartis here in China have the same chance to improve themselves," she adds.

Parallel with the BiMBA program, some Novartis executive learning programs previously held at elite business schools in the US or Europe have been shifted to China – giving Novartis managers around the world an opportunity to see and understand the transformation of China and its economy first-hand. "China used to be a country where companies like Novartis only focused on manufacturing or selling a small slice of their product range," says John Yang, Ph.D., Professor of Management at Peking University and a key figure in the Novartis BiMBA program.

"Today China is a strategic country globally. And it is exciting for Novartis executives from around the world to come here," Dr. Yang says. "They discuss why local culture, organization and management practice is so different in China from their own country. That's easier to understand while they are here in China and this actually is helping Novartis very much in terms of strategic implementation."

Diversity and Inclusion

Fostering Diversity and Inclusion at Novartis isn't just the right thing to do – the program underscores a key business imperative for the organization around the world.

As our customer base grows increasingly diverse, a diverse talent pool becomes a critical bridge between the workplace and the marketplace. For example, more women and people from minority groups are entering the medical field than ever before. And today women and minorities account for the vast majority of households' healthcare buying decisions worldwide.

The Novartis talent pool must evolve to mirror the market. Diversity of our workforce enhances customer insight and our ability to meet the needs of patients and other stakeholders.

In the US, Novartis associates have formed a dozen Employee Resource Groups (ERGs) – internal support systems and peer networks linking dozens or hundreds of people with shared interests. The ERGs range from gender and ethnic groups, to ones comprising working parents, veterans of the armed forces, or associates who are living with cancer, or have loved ones afflicted with the disease.

Each ERG is sponsored by a member of the US Pharmaceuticals Division's executive committee who helps the group set annual, business-relevant objectives. The African American leaders group served as an in-house focus group during launch preparations by the *Exjade* brand team last year and is now working closely in a similar capacity with the *Galvus* brand team. Meanwhile, the Women in Leadership group partnered with the Cardiovascular Business Franchise and the American Heart Association in developing programs helping physicians promote good cardiovascular health in women.

ASSOCIATES BY REGION AND DIVISION AS OF DECEMBER 31, 2006

	US	Canada and Latin America	Europe	Africa/Asia/ Australia	Total
Pharmaceuticals	15 331	4 930	24 096	9 957	54 314
Vaccines and Diagnostics	791		2 986	158	3 935
Sandoz	1 286	2 088	14 125	3 618	21 117
Consumer Health	7 475	3 378	5 796	2 956	19 605
Corporate	677	32	902	153	1 764
Total	**25 560**	**10 428**	**47 905**	**16 842**	**100 735**

(Figures represent headcount)

Last year, more than 250 female managers from more than 30 countries gathered in Basel for the second Novartis Female Leadership Forum. Michelle Gadsden-Williams, Head of Diversity and Inclusion, said that in addition to attracting and fostering female managers, Novartis culture needs to accommodate many different management styles to retain that talent.

For the sixth consecutive year, Novartis and the University of Basel offered a mentoring program called Women into Industry that encourages promising female academics to consider careers in business and industry. Participants in the program meet monthly with professional managers from Novartis, and also assist in planning and networking.

Diversity and Inclusion is anchored on the pillars of Novartis Values and Leadership Standards, and complemented by the commitment to the Global Compact and Corporate Citizenship Policy and guidelines. We are committed to inclusive leadership behaviors that create and sustain dignity and respect. We strive to value differences that are reflected in society. We recognize that our customer base is growing more diverse in our existing markets as well as emerging growth markets. By understanding the needs and aspirations of our diverse customer base, we will be better able to provide tailored services resulting in increased loyalty and market share.

Living Wage

Novartis is one of the first international companies to develop and implement a voluntary commitment to pay a "living wage" to all its employees around the world.

As an initial step, Novartis commissioned the consulting firm Business for Social Responsibility (BSR) to establish a methodology to calculate living wage levels. Using those BSR calculations as a starting point, Novartis rolled out the living wage program, working in close consultation with local management in countries with divergent economic systems and standards of living. By early 2006, the Group had aligned the pay of more than 90 000 employees worldwide with living wage levels.

Novartis and BSR continue to work on further improvements, such as periodic adjustments of the initial living wage calculations for key factors such as inflation. For countries with a negative inflation, Novartis recommends that wages be kept at their current levels and not reduced.

Novartis believes that paying a living wage locally is a key benchmark of its commitment to the United Nations Global Compact – as well as the Group's longstanding pledge to be a good corporate neighbor in communities where it operates. A key lesson in taking the living wage from idea to implementation is that active participation of local management in the decision-making process is critical to success. Local management bears the ultimate responsibility for the living wage to become accepted as a core principle of a company's operations and culture.

A living wage reflects the cost of a certain basket of goods and services that is required to cover certain basic goods, taking into account the social circumstances and requirements of the environment. A living wage generally is higher than the minimum wage in the same country, an hourly amount defined by law which employers must pay workers. While minimum wages apply only to discrete geographies, an increasing number of countries across the developed world has passed minimum wage laws over the past century. Many developing countries haven't yet enacted minimum wage laws, however.

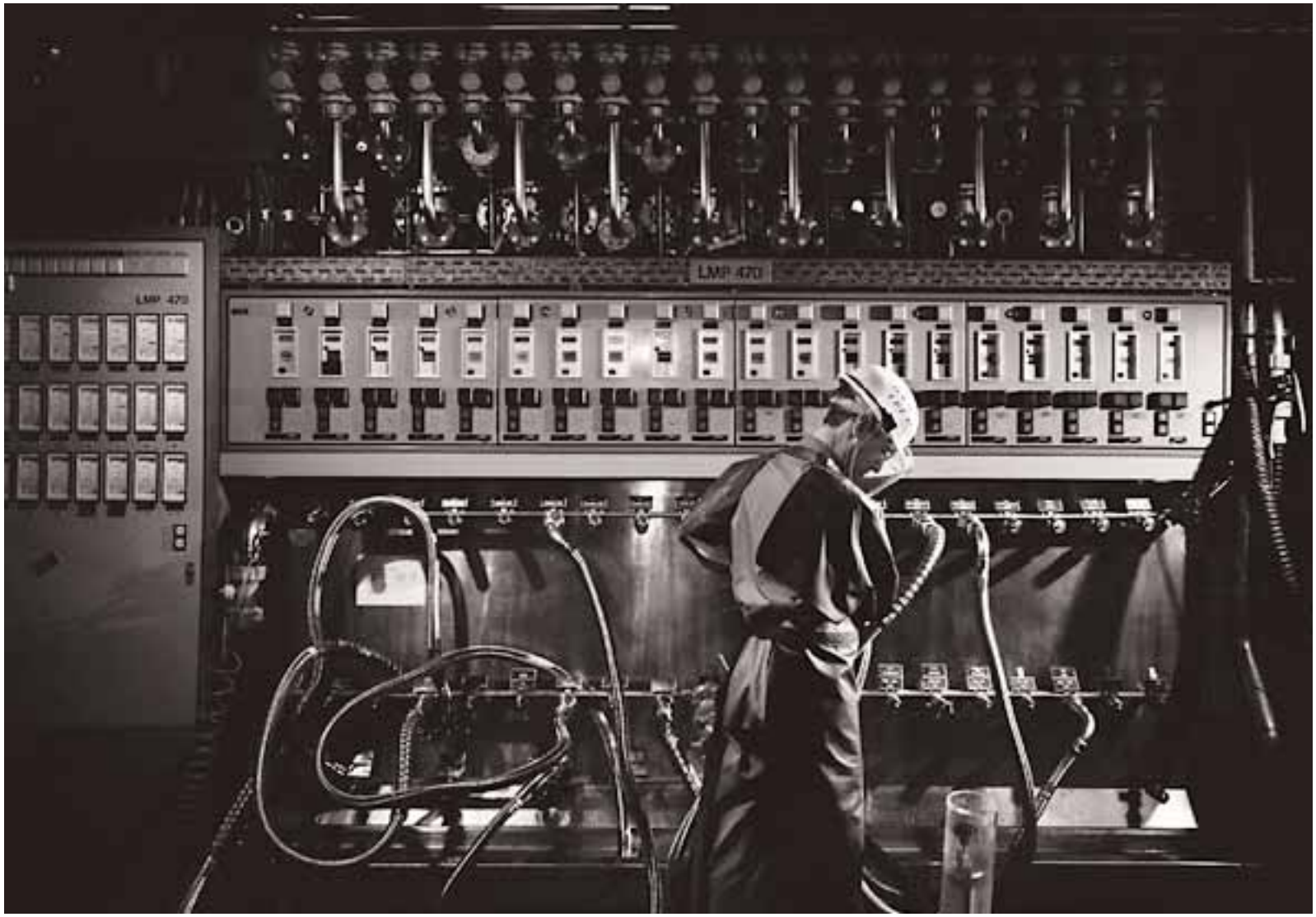
Minimum wages often increase slowly over time and sometimes do not correspond to increases in the cost of goods. A minimum wage, for example, may be the result of a political process or a union negotiation, and not directly based on what that wage will be able to purchase, or if those purchases will provide for a family's basic needs or ensure an adequate standard of living.

Novartis considers the living wage initiative an opportunity to contribute to the improvement of labor standards, and have a positive impact on communities where the Group operates. Such concerns have become increasingly important as Novartis and other pharmaceutical companies have stepped up activities in developing countries, where legal protections for workers aren't as advanced as in industrialized nations.

The guideline on fair working conditions set the stage for the living wage initiative. Much of that guideline is rooted in the language of the third principle of the Global Compact principle addressing collective bargaining and freedom of association. Novartis chose to implement the living wage commitment within a framework of wage standards that extended beyond the boundary established by the Global Compact.

Following the conclusion of a 2005 round of consultations with affiliates, a review by Novartis HR found that 93 employees – out of a total workforce of more than 90 000 – were being paid less than the living wage level in their country of employment. Wages of those employees were increased – bringing the entire global workforce in line with living wage levels.

SANDOZ; KALWE, INDIA



NOVARTIS PHARMACEUTICALS; BASEL, SWITZERLAND

COMMITMENT TO HEALTH, SAFETY AND ENVIRONMENT

Novartis believes that careful stewardship of natural resources, particularly tight control of greenhouse gas emissions and energy efficiency, is not only important for the Group but critical for global society and future generations. Social and environmental sustainability is an integral part of our strategy and a key reason for the success of Novartis.

Novartis continuously seeks innovative, sustainable strategies and systems to strengthen its commitment to Health, Safety and Environment (HSE) and Business Continuity Management.

Rigorous technical standards, reinforced with engineering solutions to ensure that the workplace is safe for associates, remain the foundation of HSE performance. At the same time, the Occupational Medicine organization offers proactive programs to maintain health, reduce absenteeism and enhance motivation to return to work after illness or injury.

In recent years 50 Novartis sites, out of 208 reporting units worldwide, have remained accident-free for more than a million consecutive working hours. Such stellar safety records owe as much to the prudent behavior of well-trained associates as to elaborately engineered systems.

Indeed, behavior-based programs are increasingly seen as the key to continued improvement of occupational health and safety, and HSE performance, in coming years.

In many countries, accidents related to work are less common than lost time due to injuries sustained by associates off the job. And helping associates modify personal behaviors to reduce the risk of cardiovascular disease, cancer and other forms of illness has become a core element of modern occupational health programs.

At Novartis, these support systems are the shared responsibility of line management and individual associates. Participation by associates, however, remains strictly voluntary.

Training is an indispensable element of the Group's commitment to HSE excellence. Annual workshops are held in all regions of the world, allowing specialists from HSE to share examples of best practice, and support local implementation of sustainability measures.

Energy and Climate

Similar behavior-based approaches are also being used to foster more efficient use of energy and other resources. The energy-efficiency program at Novartis reflects a balance of incentives and targets to build pride in achieving challenging objectives, and to maintain vigilance of associates at a continually high level.

A unit at the Sandoz site in Kundl, Austria that produces final dosage forms of antibiotics such as penicillins and cephalosporins has reduced energy consumption per production unit by 30% over the past three years. Energy-saving measures ranged from a heat recovery project, water-saving valves and reduced pressure in pumps, to turning down air conditioning and warm-water boiler temperature.

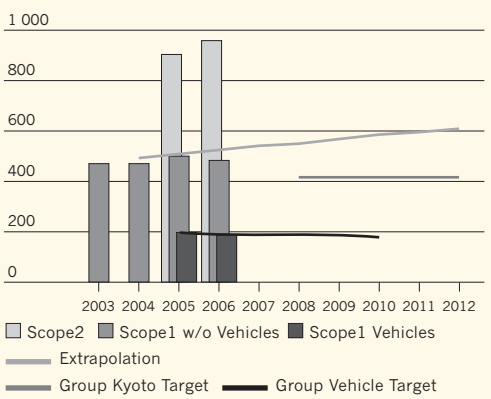
Novartis believes that careful stewardship of natural resources, particularly tight control of greenhouse gas (GHG) emissions and energy efficiency, is not only important for the Group but critical for global society and future generations in combating climate change.

In 2005, as a first step, Novartis made a voluntary commitment to reduce its GHG

emissions from global operations for the period 2008–2012 to a similar level as that prescribed in the Kyoto Protocol, i.e. 5% below the corresponding 1990 level.

Good progress has been made toward achieving this long-term GHG target. Scope 1 – GHG emissions from internal operational processes and the Novartis vehicle fleet – was stable in 2006, compared to 2005. Scope 2 – GHG emissions from purchased energy – increased by 6.2% last year. Both areas are receiving increased attention through the Group's energy efficiency target and programs.

GHG EMISSIONS 2003–2006 VERSUS TARGET PATH TO 2012



Including Hexal/Eon Labs, excluding former Chiron

Still, fulfilling this voluntary target promises to be challenging in view of the rapid growth of the Group's operations. Novartis currently projects a gap in reduction of GHG emissions for the 2008–12 period, despite actual and forecast internal energy efficiency improvements. Consequently, the Group plans to make use of the Kyoto Flexible Mechanisms, compensating a potential increase in emissions with emission reduction and sequestration projects in developing countries.

Major initiatives include an overhaul of the Group's vehicle fleet – with the goal of reducing CO_2 emissions by 10% by 2010. Vehicle emissions were measured and incorporated in Scope 1 for the first time in 2005. The target for vehicle emissions was established last year.

Currently, Novartis associates make use of over 24 000 cars worldwide which collectively emit about 200 000 tons of CO_2 annually. The environmental impact of the vehicle fleet can be substantially lowered through the introduction of hybrid gasoline-electric cars, and increased use of diesel engines fitted with particulate filters as well as other emission-reduction options such as liquid natural gas and bio-fuels. Taking a regional approach, and progressing at a pace determined partly by available supply of hybrid vehicles, these technologies will be phased-in over the replacement cycle of the car fleet.

To support its energy and climate strategy, Novartis applies a proactive policy for capital investments associated with energy conservation. As an exception to normal project requirements, energy projects are allowed to pay back the initial investment over the lifetime of the asset.

At the same time, energy-efficiency and renewable-energy challenges have become mandatory elements of the capital appropriation procedures for all major projects worldwide. Strong leadership and commitment by senior Group management to improved energy efficiency in Divisions is supported by organizational measures and intensified promotional activities.

The initial wave of energy-related investments has delivered significant financial benefits in every Division and Business

Unit. "This campaign has environmental value but also real economic value," says Keith Saveal, Head Corporate Health, Safety and Environment. "We are seeing much faster payback times than had been expected initially for these energy efficiency projects."

Energy consumption is increasing at a considerably slower rate than sales. Since 2003, Group-wide energy use (including businesses acquired) has increased 12%, compared to a 49% rise in sales during the same period.

Energy intensity – or energy use in relation to several normalizing factors such as sales, number of associates and production – is closely followed and managed by all Divisions and Business Units. Energy efficiency has also improved significantly since 2003, and the original three-year energy efficiency target of 6% for 2006, set in 2003, has been substantially exceeded.

A new energy efficiency target has been set – aiming for a further 10% improvement of energy efficiency by 2010, based on the 2006 performance.

Increasingly, divisions and business units are appointing energy managers and energy advisors for all their operations worldwide. Management tools and dedicated training programs are applied systematically, together with continuous monitoring of targets and performance.

Enhanced energy efficiency by itself will not enable Novartis to achieve the greenhouse gas target and the Group is focusing increasingly on energy systems with reduced carbon intensity. Novartis has almost completed the switch of fossil fuels from oil or coal to natural gas. The current challenge is to reduce carbon intensity further by fostering combined heat and power systems and renewable energy sources such as fuel from waste, bio-fuels or solar, wind and geothermal energy.

Bagasse, a locally available bio-fuel from sugar cane, together with corn and wastes from renewable sources available at sites, are being used as fuels for on-site energy systems wherever possible. A Sandoz plant near Frankfurt, Germany has begun using by-products from fermentation to generate biogas for electricity.

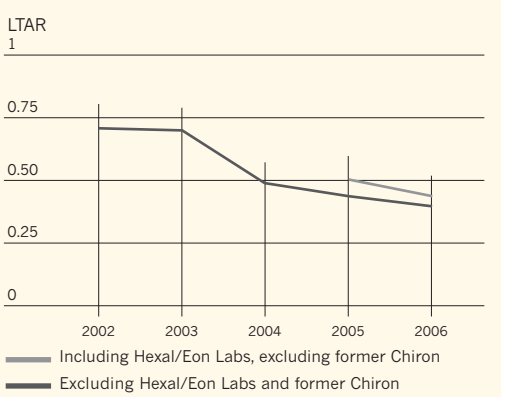
Last year, the Novartis site in East Hanover, New Jersey installed a 130-kilowatt array of solar panels. The array comprises more than 400 solar panels and produces an estimated 500 gigajoules of power a year, roughly 10% of electricity consumed in the building where it is located.

Employee Health

Lost Time Accident Rate (LTAR) is a benchmark indicator that allows direct comparison between the performance of Novartis units and country organizations.

LTAR for continuing operations at Novartis was further reduced, to 0.40 per 200 000 hrs worked in 2006 from 0.44 the previous year.

LOST TIME ACCIDENT RATE 2002 – 2006
(accidents per 200 000 hours worked)



We extend our condolences to the families of the two associates who died in a motorcycle accident during 2006.

Despite significant progress, the Group's long-term LTAR target hasn't yet been achieved at businesses acquired during the past two years. Programs to reduce LTAR and reach parity with the rest of Novartis have been introduced at units acquired by Sandoz, as well as at the new Vaccines and Diagnostics Division. The ultimate goal for both established and new businesses is to strive for zero accidents.

Risk Management

Novartis manages risks proactively by implementing appropriate preventive and contingency measures. This risk management process is designed to identify potential hazards and take action to reduce the risk of an event – the likelihood of occurrence and severity of consequences – to an acceptable minimum level.

Each year, Novartis sites update their risk portfolios, which are consolidated at Group level and reviewed by senior management. Action plans are developed for these HSE and business risks, ensuring reduction of the risks and a planned professional response to any incident. During 2006, measures were taken to reduce the priority risks included in the corporate risk portfolio of 2005, and implementation of action plans is ongoing.

In addition to a controlling function, regular HSE audits provide direct support and guidance to the Novartis sites being audited. Audits are conducted by both corporate and divisional specialists. Following audits, sites develop action programs. Implementation of measures to correct deficiencies is closely controlled by the

Divisions and also reviewed at the corporate level.

As a further element of our risk management strategy, Novartis has established an Emergency Management (NEM) system to safeguard employees, the public and the environment in case of an incident. Members of NEM Teams worldwide attend regular training programs. NEM is a compulsory, uniform system with defined roles and responsibilities, emergency reporting procedures and clear decision-making structures throughout the Group.

Anticipating incidents that could affect mission-critical functions and processes – as well as adopting preventive and contingency measures – are key requirements for Business Continuity Management. Novartis prepares response plans defining the actions that are necessary, and the resources that are needed to enable the organization to manage any interruption.

Minor violations, however, do occur from time to time. During 2006, Novartis paid a total of USD 27 568 in fines for minor HSE violations at a number of sites.

Minimizing Environmental Impacts

We strive to make efficient use of natural resources and to minimize the environmental impact of our activities, and our products over their life cycle. We assess HSE implications to ensure that the benefits of new products, processes and technologies outweigh remaining risks. We periodically review such assessments in light of new concerns or evidence.

Historical Landfills and Old Industrial Sites

Novartis strives to minimize all environmental impacts and some of the biggest challenges are inherited as a result of operations and practices in past years. Responsibility for historical landfills and brownfields inherited by Novartis from predecessor companies remains a relevant environmental issue today.

Novartis shares a number of confirmed or potential liabilities on the surveillance and remediation of old industrial premises and historical landfills with other companies.

In order to responsibly manage these cases and related environmental risks, Novartis, as a principle, takes a cautious science-based approach, in full cooperation with the respective local authorities and governmental agencies. Where and whenever potential risks are identified, investigations and assessments are carried out in a systematic manner and remediation actions taken when necessary. Novartis has set aside the financial reserves to manage these liabilities worldwide.

Air Emissions and Hazardous Waste to Landfills

One current environmental impact target is a voluntary reduction of emissions of halogenated volatile organic compounds (VOCs) by more then 90% from the 2005 level. In 2006, halogenated VOC emissions declined to 179 metric tons from 372 metric tons the previous year – achieving the intermediate target.

The objective of lowering emissions of non-halogenated VOCs to below 800 tons in 2006 was not achieved because of additional solvent losses associated with increased production at manufacturing facilities. In these cases VOC abatement projects are under preparation.

The amount of hazardous waste disposed in landfills has been effectively minimized from 1 127 metric tons in 2005 to 467 metric tons in 2006. We are well on our way to reaching our voluntary target of disposing less than 100 tons of the remaining hazardous waste that cannot be incinerated in landfills by 2008.

Pharmaceuticals in the Environment

Novartis is committed to minimizing the environmental impact of our products. Pharmaceuticals entering the aquatic environment are an inevitable consequence of science-based healthcare and our business activity. Yet as scientific knowledge evolves in this field, we regularly benchmark our activities, and in addition actively support academia, regulators and other stakeholders in developing more efficient risk-management practices.

The levels of active pharmaceutical ingredients found in the environment are below doses approved as safe by medicinal regulatory agencies, according to current knowledge, and Novartis believes those levels do not present a health risk for humans.

We strive to minimize, to the extent practical, discharges of active pharmaceutical ingredients in our wastewater, and avoid landfilling of our pharmaceutical waste. That waste is incinerated in approved, state-of-the-art facilities. We work with third parties to ensure that they are guided by this policy in their waste minimization activities.

Novartis has also supported research by a group of German wastewater engineers by making available a selection of in-market medicines, as well as innovative compounds still in development. The aim of this pioneering effort is to demonstrate that affordable, reliable wastewater technology works in practice – and helps remove existing, as well as new, pharmaceuticals from wastewater before they reach the environment.

Performance Management

Performance of operating units against key HSE indicators is monitored on a monthly basis at Novartis. Last year, a tailor-made HSE Data Management System was developed and introduced worldwide to facilitate data collection, in line with more stringent reporting standards. This new system for monitoring HSE performance provides all management levels throughout the Group with information needed to take early action if deviations against targets occur.

Novartis sets HSE targets covering periods of at least three years to allow better analysis, planning and implementation of programs. Progress towards targets is reviewed annually with each division and business unit, that are also involved in target setting based on recommendations by functional experts. (See table below for 2007 targets.)

Group HSE Targets

Target	Change	Date
VOC halogenated[1]	decrease 90%	by 2008
VOC nonhalogenated[1]	decrease 30%	by 2008
Hazardous waste to landfill	below 100 tons	by 2008
Energy efficiency improvement[2]	10%	by 2010
Contact water efficiency improvement[2]	10%	by 2010
CO_2 from vehicles[1]	decrease 10%	by 2010
Scope 1 GHG emissions from operations	5 % below 1990 level	by 2008 – 2012
Lost Time Accident Rate	down to 0.2	by 2010

[1] Baseline level 2005
[2] Change of 10% from 2006

HSE Reporting Principles

Global Reporting Initiative

Since 2004, Novartis has reported its HSE performance following the 2002 Guidelines for Sustainability Reporting of the Global Reporting Initiative (GRI). The Novartis GRI Report Index – along with a more detailed overview of our HSE performance – is available at: www.novartis.com

Reporting Entity

HSE performance data for 2006 was collected from 208 sites around the world, owned and managed by Novartis Group companies. This covers all sites with relevant HSE impacts, including all production, formulation, research and development sites as well as major headquarter offices. Hexal and Eon Labs, which were acquired in 2005, are now included in all performance management. Chiron, which was consolidated by Novartis for only part of 2006, is reported separately.

Reporting Scope

Novartis believes the performance data presented in this Annual Report and on the adjacent Novartis website represent a fair and balanced picture of the Novartis HSE performance. Performance Indicators follow GRI requirements for core environmental and social indicators.

NOVARTIS HEALTH, SAFETY AND ENVIRONMENT DATA 2006

	Novartis Group*		Pharmaceuticals		Novartis Research		Sandoz*		Consumer Health		Hexal*/Eon Labs		Former Chiron *
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006
Associates													
HSE Personnel [number of associates working at least 50% for HSE]	**495**	523	**210**	214	**24**	23	**128**	159	**132**	125	**34**	29	**29**
Health/safety													
Lost time accident rate [accidents per 200 000 hours worked]	**0.40**	0.44	**0.43**	0.46	**0.18**	0.15	**0.54**	0.64	**0.32**	0.35	**0.93**	1.51	**0.78**
Production													
Total production [1000 t = metric tons]	**608**	655	**23**	24	**0**	0	**86**	92	**499**	505	**11**	10	**0.8**
Resources													
Water use [million m^3]	**89.4**	91.5	**19.6**	18.9	**1.2**	1.1	**60.2**	64	**8.3**	7.4	**0.7**	0.7	**0.8**
Energy use [million GJ]	**17.1**	17	**5.4**	5.2	**1.0**	1.1	**6.7**	6.8	**4.0**	3.8	**0.9**	0.9	**1.2**
Emissions into water													
Effluent discharge [million m^3]	**18.6**	19.2	**3.7**	3.8	**0.5**	0.5	**7.9**	8.7	**6.4**	6.1	**0.5**	0.5	**0.3**
Chemical oxygen demand COD [1000 t]	**3.77**	3.73	**0.62**	0.36	**0**	0	**2.64**	2.79	**0.50**	0.50	**0.05**	0.05	**0**
Emissions into air													
Sulfur dioxide, SO_2 [t]	**141**	131	**9**	22	**0**	0	**126**	105	**6**	5	**0**	2	**0**
Nitrogen oxide NO_2 [t]	**372**	343	**140**	136	**8**	10	**110**	93	**114**	101	**24**	22	**19**
Volatile organic compounds (VOC) halogenated [t]	**152**	289	**7**	10	**0**	0	**145**	280	**0**	0	**27**	83	**0**
Volatile organic compounds (VOC) nonhalogenated [t]	**1231**	1 117	**434**	217	**0**	0	**742**	837	**55**	63	**359**	416	**10**
Emissions CO_2 / GHG													
Scope 1, Combustion and process [1000 t]	**454**	458	**144**	158	**11**	17	**156**	153	**144**	127	**34**	32	**35**
Scope 1, Vehicles [1000 t]	**190**	192	**143**	146	**0**	0	**17**	14	**25**	25	**10**	9	**1**
Scope 2, From purchased energy [1000 t]	**907**	858	**214**	197	**66**	61	**340**	334	**287**	262	**47**	41	**48**
Waste													
Nonhazardous operational waste [1000 t]	**179**	185	**19.8**	28.1	**2.3**	2.7	**13.1**	14.8	**144**	134	**3.8**	2.7	**2.5**
Hazardous operational waste [1000 t]	**115**	102	**71**	75.8	**0.8**	0.6	**40.8**	23.7	**2.1**	2.3	**4.8**	4.5	**0.6**
Debris, nonhazardous [1000 t]	**121**	349	**100**	347	**1.3**	0.1	**18.7**	0.9	**0.4**	0.8	**1.1**	0.2	**4.5**
Debris, hazardous [1000 t]	**13.0**	113	**12.9**	113	**0**	0.08	**0.15**	0.01	**0**	0.01	**0**	0	**0.12**
Hazardous operational waste landfilled [1000 t]	**0.46**	1.12	**0**	0.23	**0**	0	**0.45**	0.89	**0**	0.01	**0.01**	0	**0.07**

*HSE figures for Novartis Group exclude Hexal and Eon Labs and the former Chiron sites. Hexal and Eon Labs were consolidated by Novartis for only part of 2005, and are not included in the Sandoz data. The former Chiron sites were consolidated by Novartis for only part of 2006. Full-year data for the former Chiron sites are provided in a separate column in the table; comparable figures for 2005 are not available.

The Reporting Process

The HSE Data Management System and data-collection process are key elements of Corporate Citizenship Management at Novartis. In gathering this data, we take into account impacts originating from our own operations (Scope 1) – as well as major material flows across boundaries and CO_2 emissions from purchased energy (Scope 2). We currently do not monitor impacts for the manufacture and delivery of purchased goods, nor use of energy and related CO_2 emissions for activities outside company boundaries (Scope 3), such as transportation by third parties.

HSE data is collected and reviewed on a quarterly basis. The 2006 environmental and resource data published in the Annual Report and on our website are actual data for the period from January through September and best estimates for the period October through December, which will be updated with actual data in the first quarter of 2007. Significant deviations will be reported on our website and restated in next year's Annual Report. The Employees and Health/Safety data are actual from January through December 2006.

Restatement of 2005 data

The emission and resource data published in the 2005 Annual Report included estimates for the October through December period that in several areas required subsequent adjustments. Inaccuracies identified in data from previous years were also corrected. The Data Table in the 2006 Annual Report includes full-year actual values for 2005.

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Even as senior management focuses more than ever on high standards of ethical behavior, and training programs are intensified, compliance can't be imposed from the top. Appropriate conduct is the responsibility of every manager and associate. It can't be delegated – or separated from other aspects of doing business.

Today, a major international company like Novartis is judged by the quality of its products and financial performance, but also by the way it does business.

"Our customers want good products and they like a company with a desire to win in the marketplace. But we need to behave with integrity to keep our license to operate," says Daniel Vasella, M.D., Chairman and Chief Executive Officer of Novartis. "If we don't have a set of values – and live by them – the Group won't be successful."

Yet even as senior management focuses more than ever before on high standards of ethical behavior, compliance can't be imposed from the top. "Compliance is the responsibility of every single manager and every single employee. It can't be delegated – or separated from other aspects of doing business," says Thomas Wellauer, Ph.D., Head Corporate Services at Novartis.

"The role of the Compliance organization at Novartis is to make sure the Group has a common set of rules and guidelines that not only is complete, but simple enough for people to understand and follow. Our compliance officers support managers throughout the Group with training and other tools," Dr. Wellauer adds. "And we also need effective controls in place to find the occasional outlier because there always will be people who don't follow the rules."

Intensified Training

As part of the commitment to high standards of ethical business conduct, Novartis

has intensified training programs for associates. During 2006, e-learning courses were launched in 14 languages, covering topics from human rights and data protection to compliance with sales and marketing codes. Courses on the Code of Conduct, as well as Corporate Citizenship and Conflict of Interest policies, are mandatory for all associates worldwide. Novartis associates worldwide completed more than 218 000 online courses, investing more than 155 000 hours in ethics compliance training.

Implementation of the Ethics Compliance Program is monitored at country level. In 2006, self-assessments were received from 124 organizational units in 52 countries. The Group's Internal Audit function completed audits related to adherence to the Code of Conduct and marketing codes in 28 country organizations last year.

As in previous years, as part of a formal certification process, more than 23 000 Novartis managers and "insiders" were required to confirm their adherence to Group policies and standards during 2006.

Updated Code

Under Dr. Vasella's leadership as president of the International Federation of Pharmaceutical Manufacturers & Associations (IFPMA), Novartis coordinated adoption of a new, updated version of IFPMA's Code of Marketing and Promotional Practices. The code sets out standards for ethical promotion of pharmaceutical products and member companies' interactions with healthcare professionals. The updated IFPMA code, which clarifies guidelines for events, sponsorships and other types of promotion, is consistent with the marketing code implemented by the Novartis Pharmaceuticals Division in 2003.

Last year, the Pharmaceuticals Division launched a program to streamline the function of "clearance committees" which review promotional materials and other business activities to ensure compliance with local regulations, as well as internal and external marketing codes. The new clearance procedures were piloted in the US and certain European countries during 2006 and will be introduced into additional markets this year.

"Novartis really is on the leading edge here," Dr. Wellauer says. "We are convinced that high ethical standards will help us sustain the success of our business long-term. But at the same time, we recognize that our associates face competition day after day from companies that don't observe equally strict internal codes. We appreciate the fact that our associates live our values and do the right thing."

Business Practices Office

In 2006, the Novartis Business Practices Office (BPO) continued expansion of "Integrity Telephone Lines" that enable associates to report actual or suspected cases of internal misconduct, in a manner guaranteeing confidentiality and nonretaliation for "whistleblowers." Integrity Telephone Lines are now available in 51 languages.

During 2006, the BPO received reports of 651 alleged violations of our internal rules. Of these cases, 363 have been fully investigated and 228 fully or partly substantiated. Employment contracts of 130 associates were discontinued last year, and other relevant sanctions were taken against an additional 125 employees, as a result of misconduct.

As important as taking firm action against misbehavior is learning from these cases to prevent them from being repeated. During 2007, Novartis will initiate more active and systematic follow-up of BPO investigations by establishing a cross-functional group including representatives from the compliance organization.

"The group will meet regularly, analyze cases and disseminate recommendations about remedial steps," Dr. Wellauer says. "We want them to ask what the root causes are and what we have to do to stop similar cases from happening in the future."

Animal Welfare

Novartis supports the use of animal experiments in our medical and biological research where such experiments are scientifically necessary and alternative approaches are inappropriate.

We have an Animal Welfare Policy that defines key principles, requirements and responsibilities governing the use of animal experiments and we strictly adhere to international conventions (e.g. EC Directive 86/609 and the US Animal Welfare Act) and health authority regulations and guidelines in all of the countries where we operate. We demand the same of those organizations with which we partner for research involving animal experiments.

We acknowledge the importance of animal welfare and support development of alternative research methods. Novartis is a strong adherent of the "3R" concept – Reduction, Refinement and Replacement of Animal Experimentation. We exceed the minimal animal welfare requirements wherever possible and we fully comply with all required inspections.

Novartis condemns the use of violence and campaigns of willful destruction by animal rights activists as a substitute for meaningful, productive dialogue.

RESULTS OF CORPORATE CITIZENSHIP-RELATED PROJECTS IN 2006 AND TARGETS FOR 2007

	Targets 2006	Results 2006	Targets 2007
UN Global Compact	Publish case study on implementation of guideline for third-party suppliers.	Held workshop in South Africa for 200 suppliers. Active engagement in Global Compact Networks and Learning Forums. Professor Klaus Leisinger served as Special Advisor to United Nations Secretary-General.	Publish case study on implementation of living wage initiative, plus third-party supplier case study delayed from 2006. Continue active engagement in country networks. Start conceptual work on project: accountability of nongovernmental organizations.
Fair Marketing Practices	Develop e-training modules at Sandoz and Consumer Health divisions. Train more than 90% of Group sales and marketing staff. Harmonize details of divisions' Promotional Practices Policies at country level.	E-training modules developed. Training program launched by Novartis Consumer Health and completed by over 85% of division's associates. Sandoz to launch training program in first quarter of 2007. Completed harmonization of divisions' Promotional Practices Policies.	Complete training of sales force for Sandoz. Ensure consistency with new IFPMA code in relevant businesses. Launch new guidance on grants in Pharmaceuticals Division.
Third-Party Management*	Complete audit of 25% of Class 3 suppliers selected for on-site audit of HSE/labor practices. Expand training. Establish improvement program for third-party suppliers.	Completed on-site audits of about 10% of Class 3 suppliers – below target. Received self-assessments from 25% of Class 2 suppliers – below target of 90%.	Targets for Class 3 and Class 2 suppliers unchanged. Improve internal processes to increase percentage of audits/self-assessments completed. Implement corrective actions based on audit findings.
Working Conditions	Increase salaries of 93 associates to level of Living Wage. Establish guidance for third-party suppliers regarding application of living wage initiative to all contract employees working on Novartis sites. Establish Group Diversity & Inclusion initiative and appoint external Diversity & Inclusion Advisory Council.	Salaries increased to level of local living wages early in year. Pilot to expand living wage policy to on-site third parties in Switzerland identified many challenges. First Diversity & Inclusion Advisory Council meeting with external members held in November.	Salaries of 21 associates to be increased in early 2007 as adjustment to Living Wage level of respective locations. Provide systematic framework for Diversity & Inclusion; define priorities, goals and actions for each division.
Product Safety	Align Product Stewardship boards with overall Group risk management process.	Product Stewardship integrated into Enterprise Risk Management function. Product Stewardship Officer recruited.	Develop key performance indicators for implementation of Product Stewardship board decisions. Implement real-time tracking tool for implementation and reporting. Improve alignment between divisions.
Respect for Human Rights	Publish position statements on Novartis website. Develop and implement e-training module devoted specifically to Human Rights guideline.	Human Rights e-training module developed – 38 100 associates completed the course. Pilot Human Rights Compliance Assessment done in Turkey, in cooperation with the Danish Institute for Human Rights. Active participation in the Business Leaders Initiative on Human Rights.	Evaluate pilot Human Rights Compliance Assessment; carry out compliance assessment in one new country. Participate in debate on corporate content of the "Right to Health." Work closely with UN Representative on Business and Human Rights, as well as Special Rapporteur on the Right to Health.

* Novartis has about 183 000 active suppliers worldwide. Class 3 suppliers represent a sub-group of about 900 suppliers (contract manufacturing, waste management, etc.) deemed to have a significant influence on Novartis business activities. Class 3 suppliers are subject to on-site audits for HSE/labor practices. In addition, a second category of 8 600 Class 2 suppliers (chemical products, construction, etc.) are required to submit self-assessments covering their HSE/labor practices.

	Targets 2006	Results 2006	Targets 2007
Management Framework	Establish external Corporate Citizenship Advisory Council. Develop key performance indicators for priority Corporate Citizenship targets. Develop Group Privacy Policy.	Decision on advisory council postponed. Responsibilities assigned for management and monitoring of Corporate Citizenship challenges.	Revise Code of Conduct and policy framework for Corporate Citizenship. Integrate new Vaccines and Diagnostics Division into Corporate Citizenship management processes.
Involvement of Employees	Conduct worldwide employee survey on Corporate Citizenship and Code of Conduct. Improve interactions between management and employee representatives in Europe.	Survey conducted. Substantial progress achieved on distribution of information about Code of Conduct. Code of Conduct included as integral part of contracts for 98.7% of associates. E-training on Corporate Citizenship/Code of Conduct completed by over 90% of associates. Guideline established to ensure proper information/involvement of European employee representatives.	Design and conduct annual employee climate survey for Novartis associates in all divisions.
Code of Conduct	Develop eight new courses on additional elements of Code of Conduct.	Nine e-training courses developed and five launched. Each associate completed on average four online training courses.	Develop two new e-training courses. Improve face-to-face training program. Launch training for new managers.
Stakeholder Engagement	Three meetings of Health Equality Europe (HEE). Expand programs with patient advocacy groups and other key stakeholders.	Executive Committee of Novartis approved policy for interaction with patient advocacy groups. HEE meetings held in London and Brussels.	Increase transparency in collaborations with patient advocacy groups. Expand systematic stakeholder engagement process.
Financial Community	Improve benchmarking and transparency of information to Socially Responsible Investment community.	Online reporting in accordance with Global Reporting Initiative (GRI). Novartis Healthcare sector leader in Dow Jones Sustainability Index. Triple-A rating by Innovest. Novartis in FTSE4Good index.	Update online GRI reporting.
Government Relations / Lobbying	Publish position papers on issues related to healthcare to increase transparency.	Publication of position papers delayed to 2007. Novartis spent USD 25 million for lobbying. Corporate Citizenship "Ambassador" training held in Switzerland and in Latin America.	Establish integrated policy development across divisions. Improve professional public affairs skills through internal training.
Transparent Reporting	Update reporting on Corporate Citizenship on novartis.com/corporatecitizen.	Internet updates ongoing. GRI and UN Global Compact reporting structured for easy reference and benchmarking.	Achieve further progress in UN Global Compact reporting. Define structure and content of online Corporate Citizenship reporting. Publish Corporate Citizenship brochure.
Access to Medicine	Fully meet *Coartem* demand from WHO under public-private partnership.	Successfully managed expanded cultivation of Artemisia annua in China and Africa. Avarage treatment price for *Coartem* reduced to one US dollar per treatment, subsidizing access to this leading anti-malarial. Deliveries up five-fold to 62 million treatments; annual production capacity expanded to 100 million treatments.	Expand partnerships for *Coartem* distribution beyond World Health Organization. Establish research collaboration in malaria with Wellcome Trust.

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INDEPENDENT ASSURANCE REPORT ON THE NOVARTIS GROUP CORPORATE CITIZENSHIP REPORTING

To the Audit and Compliance Committee of Novartis AG, Basel: We have performed evidence-gathering procedures to provide limited assurance on the following aspects of Corporate Citizenship (CC) and Health, Safety and Environment (HSE) reporting of Novartis AG, Basel and its consolidated subsidiaries (the Group), all for the year ended December 31, 2006 (hereafter jointly referred to as the subject matter):

- The management and reporting processes for CC that are designed to ensure the implementation of the CC Policy, the Code of Conduct, the Business Practices Office (BPO) misconduct reporting, the Third Party Management (3PM) initiative and the marketing practices across the Group, and the related 2006 CC key performance indicators on page 57 of the Novartis Annual Report (the Report);
- The "Novartis access-to-medicine projects 2006" figures on page 69 of the Report;
- The management and reporting processes including the new HSE Data Management System, which are designed to collect and check HSE information;
- The HSE key figures "Novartis Health, Safety and Environment Data 2006" on page 82 of the Report.

We have evaluated the subject matter against the following criteria: the CC Policy including the CC Guidelines and the Code of Conduct prepared by the Group, the CC and the compliance reporting guidance and the principles summarized in the section "HSE Reporting Principles" on page 81 of the Report which define the scope of the reporting, the inherent limitations of accuracy and completeness for the HSE information, and the fact that the CC management process is in its fifth year of operation.

The Board of Directors of Novartis AG, Basel is responsible for both the subject matter and the evaluation criteria.

Our responsibility is to provide a conclusion on the subject matter based on our evidence-gathering procedures in accordance with the International Standard on Assurance Engagements (ISAE) 3000 "Assurance Engagements other than Audits or Reviews of Historical Information," approved December 2003 by the International Auditing and Assurance Standards Board (IAASB).

We planned and performed our evidence-gathering procedures to obtain a basis for our conclusions in accordance with an ISAE 3000 limited assurance engagement. The evidence gathering procedures are more limited than for a reasonable assurance engagement. We have not performed an audit according to International Standards on Auditing. Accordingly, we do not express such an audit opinion.

Our evidence-gathering procedures included the following work:

- Interviewing personnel responsible for CC management and reporting at Group level;
- Visiting the Pharma, Sandoz, Consumer Health and Gerber global headquarters, selected country and business unit headquarters and specific sites in Canada, Germany, Spain, Switzerland, and the United States;
- Interviewing the personnel responsible for CC management, including CC reporting and key figures, Code of Conduct training, the 3PM implementation, the Compliance reporting, and marketing practices in the different headquarters where our visits took place;
- Performing tests on a sample basis of evidence supporting selected HSE parameters (for lost time accident rate, hazardous wastes, water use, energy efficiency and greenhouse gas emission) with regard to the reported data aggregation from the selected sites to Group level; and
- Reading and performing tests on a sample basis of the relevant documentation including Group policies, management and reporting structures, documentation and systems in place to collect, analyze and aggregate key figures reported for CC, HSE and Access to Medicine.

Based on our work described and the criteria detailed in this Assurance Report, nothing has come to our attention that causes us to believe that management assertions on the subject matter defined above are materially misstated. Additionally, nothing has come to our attention that causes us to believe that the management and reporting processes as defined under subject matter above are not functioning as designed, in all material respects.

From our work, we have provided the following recommendations to the management, which have been agreed:

- Continue to improve processes to measure and report on performance with regard to CC related training activities including improved tracking of face-to-face training completion rates.
- Continue to improve the implementation of cross-checks at local level to ensure quality of HSE data entered in the system, and make better use of the existing functionalities and reports.

PricewaterhouseCoopers AG

Dr. Thomas Scheiwiller Thomas Frei
Basel, January 17, 2007

NOVARTIS VACCINES AND DIAGNOSTICS; LIVERPOOL, UK

RISK MANAGEMENT

Novartis takes a proactive approach toward risks that are an intrinsic part of doing business. The major focus during 2006 was pandemic preparedness – to ensure business continuity, maintain provision of life-saving medicines to patients, and protect employees, their families and the reputation of Novartis in the event of a pandemic influenza outbreak.

The Corporate Risk Management function coordinates risk management throughout the Novartis Group, promoting anticipatory management of threats and opportunities, and providing the Board of Directors and the Executive Committee of Novartis with information necessary to manage overall risk exposure.

Novartis takes a proactive approach toward risks that are an intrinsic part of doing business. By managing risks in an anticipatory, comprehensive and professional manner, Novartis strives to gain maximum value from opportunities that guarantee long-term business success. Attainment of Group objectives, however, requires that risks be adequately assessed and addressed.

Within the context of risk, our major focus during 2006 was pandemic preparedness – to ensure business continuity, maintain provision of life-saving medicines and services to patients, and protect associates and their immediate families, as well as the reputation of Novartis, in the event of an outbreak of pandemic influenza.

A Pandemic Preparedness Operational Plan was prepared to focus and define roles and responsibilities within Novartis in case of a pandemic influenza outbreak. The new plan complemented and reinforced the existing Novartis Emergency Management and Business Continuity Management programs.

"The probability of a pandemic is relatively low, but the potential impact would be extremely severe," says Keith Saveal, Head Corporate Health, Safety and Environment. "We have to take the risk seriously. No one would forgive us if, given the time we have to prepare, we didn't take adequate steps to provide for our patients and customers, as well as make plans to maintain our business at a satisfactory level."

A pandemic is a simultaneous outbreak of an infectious disease worldwide. It requires the emergence of a disease new to the population, caused by an agent that causes serious illness, and spreads easily and sustainably among humans. Three human influenza pandemics occurred in the 20th century, each resulting in illness in approximately 30% of the world population.

Current concern for a pandemic arises from an unprecedented outbreak of H5N1 influenza in birds that began in 1997 and has spread across bird populations in Asia, Europe and northern Africa. The H5N1 strain might ultimately adapt into a strain that is contagious among humans and potentially be as serious as the pandemic of 1918.

In the US National Strategy for Pandemic Influenza, the Homeland Security Council warns that a pandemic "would have significant implications for the economy, for national security and for basic functioning of society." Similar sentiments have been expressed by other governments around the world.

Business-critical processes for divisions and functions were evaluated to be certain Novartis can maintain the ability to bring its medicines to the patients who need them. Furthermore, management implemented business continuity plans that would maintain the business at a satisfactory level even during the most severe phase of a pandemic. Where appropriate, this includes contingency inventories in strategic locations, to ensure we are able to meet the needs of patients.

Business-critical roles necessary to maintain the required level of business were identified and associates holding such positions were notified directly by line management. Masks and gloves, plus other appropriate protection, will be distributed to associates to ensure business continuity.

In the event of a pandemic, transportation likely would be severely affected, with commercial flights grounded in the first wave, cross-border travel restricted and cargo transport restricted to land and sea. To ensure continued supply of life-saving medicines and services to patients, Novartis has built stocks of these medications to guarantee uninterrupted supply during a pandemic.

Early last year, the Group prepared and distributed a brochure explaining necessary individual precaution and preparation measures. In addition, further information on what precautions to take during an epidemic are being prepared and will be distributed to all associates.

BEIJING VISTA CLINIC; BEIJING, CHINA

CONTENTS

Novartis is fully committed to good corporate governance.

The Applicable Corporate Governance Standards

The following standards apply to Novartis:
- The Directive on Information Relating to Corporate Governance issued by the SWX Swiss Exchange;
- The Swiss Code of Best Practices for Corporate Governance;
- The securities laws of the United States of America as these apply to foreign issuers of securities listed on major US stock exchanges; and
- The Rules of the New York Stock Exchange (NYSE).

Novartis has incorporated the above Swiss and US standards – and the principles of corporate governance under the Swiss Code of Obligations – into the Articles of Incorporation, the Regulations of the Board and the Charters of the Board committees. The Corporate Governance and Nomination Committee as described in detail below reviews these standards and principles regularly in light of prevailing best practices and makes recommendations for improvements for consideration by the full Board of Directors (the "Board").

Novartis complies with Swiss law and US law as well as the rules and regulations of the SWX and the NYSE. As expressly permitted under US law and NYSE rules, Novartis deviates from US law and NYSE rules where they conflict with mandatory applicable Swiss corporate law. In particular:
- External auditors are appointed by the shareholders at the Annual General Meeting and not by the Audit and Compliance Committee, as required in the US.
- Equity compensation plans are established by the Compensation Committee or the management of local Novartis Group companies (under the principles approved by the Compensation Committee) but are not approved at the Annual General Meeting.
- Board committees submit all their reports to the Board but do not report to the shareholders directly (Novartis issues no proxy statement reports).

Printed copies of the aforementioned Novartis regulations can be obtained by writing to the following address: Novartis AG, Attn. Corporate Secretary, CH-4056 Basel, Switzerland. Further information on Corporate Governance can be found by visiting:

www.novartis.com/investors/en/corporate_governance.

Group Structure and Shareholders

Group Structure

The Divisions

The Novartis Group is divided operationally into four Divisions: Pharmaceuticals, Vaccines and Diagnostics, Sandoz (generic pharmaceuticals) and Consumer Health.

Novartis AG and Group Companies

The registered domicile of Novartis AG is Lichtstrasse 35, CH-4056 Basel, Switzerland.

Business operations are conducted through Novartis Group companies. Novartis AG, a holding company organized under Swiss law, owns directly or indirectly all companies worldwide belonging to the Novartis Group. Except as mentioned below, the shares of these companies are not publicly traded.

The most important Novartis subsidiaries and associated companies are listed in Note 32 to the Group's consolidated financial statements.

Majority Holdings in Publicly Traded Group Companies

The shares of Idenix Pharmaceuticals, Inc. and Novartis India Limited are traded on public stock exchanges. Novartis owns directly and indirectly:
- 55.8% of Idenix Pharmaceuticals, Inc. (a US company). The shares of Idenix Pharmaceuticals are listed for trading on the NASDAQ (Valor No. 1630029, ISIN US45166R2040, symbol: IDIX);
- 51% of Novartis India Limited. The remaining shares are registered for trading at the Bombay Stock Exchange (ISIN INE234A01025, symbol: HCBA).

Significant Minority Holdings in Publicly Traded Companies

Novartis AG directly or indirectly holds 33.3% of the bearer shares of Roche Holding AG, registered in Basel, Switzerland, and listed on the SWX Swiss Exchange (bearer shares: Valor No. 1203211, ISIN CH0012032113, symbol RO; nonvoting equity securities: Valor No. 1203204, ISIN CH0012032048, symbol: ROG; further securities of Roche Holding AG are ADSs for nonvoting equity securities, which are traded on the over-the-counter market in the US, symbol: RHHBY). The market value of this interest in Roche Holding AG on December 31, 2006, was USD 10.8 billion.

Roche is independently governed, managed and operated, meaning that Novartis does not control this company.

Shareholders of Novartis AG

As of December 31, 2006, there were more than 150 000 registered shareholders. Based on the share register, the largest registered shareholders were:

- The Novartis Foundation for Employee Participation, registered in Basel, Switzerland (holding 2.8% of the share capital); and
- Emasan AG, registered in Basel, Switzerland (holding 3.2%).

In addition:

- Mellon Bank, Everett, holds 2%, Nortrust Nominees, London, holds 2.7% and JPMorgan Chase Bank, New York, holds 7.6% of the registered shares as nominees.
- JPMorgan Chase Bank, the depositary for the shares represented by American Depositary Shares, is registered with 12.1% of the share capital as part of this role.

No other shareholder is registered as owner of more than 2% of the issued share capital and there are no cross-holdings equal to or higher than this amount.

Novartis has not entered into any shareholders' agreement or other agreement regarding the voting or holding of Novartis shares.

Capital Structure

Share Capital of Novartis AG

The share capital of Novartis AG is CHF 1 364 485 500, fully paid-in and divided into 2 728 971 000 registered shares of CHF 0.50 nominal value each. Novartis has neither authorized nor conditional capital. There are no preferential voting shares. All shares have equal voting rights. No participation certificates, nonvoting equity securities (Genussscheine) or profit-sharing certificates have been issued.

Novartis shares are listed on the SWX Swiss Exchange and traded on Virt-X (Valor No. 001200526, ISIN CH0012005267, symbol: NOVN.VX) and on the New York Stock Exchange (NYSE) in the form of American Depositary Shares (ADS) (Valor No. 567514, ISIN US66987V1098, symbol: NVS).

Changes in Capital, Share Repurchase Programs

Since the merger creating Novartis in December 1996, Novartis AG has implemented four share repurchase programs with a total commitment as of December 31, 2006, of CHF 15 billion. Three programs have been completed, with the shares repurchased in the second and third programs being canceled, and the capital of Novartis AG correspondingly being reduced by shareholder resolution at the Annual General Meetings held in 2002, 2003, 2004, 2005 and 2006. In August 2004, Novartis announced the start of a fourth program to repurchase shares via a second trading line in the SWX Swiss Exchange. Since the start of the fourth program, a total of 25.4 million shares have been repurchased for USD 1.2 billion. No shares were repurchased in 2006. A fifth repurchase program with a maximum value of CHF 4 billion was approved by the shareholders at the Annual General Meeting held in 2005, but will only be started after completion of the fourth repurchase program.

Capital Reductions

Year of Reduction	Number of Shares Canceled	Amount of Capital Reduced in CHF
2002	61 054 680	30 527 340
2003	22 680 000	11 340 000
2004	24 260 000	12 130 000
2005	38 039 000	19 019 500
2006	10 200 000	5 100 000

A table with additional information on the development of the share capital structure of Novartis AG over the last two years can be found in Note 5 to the financial statements of Novartis AG.

Convertible or Exchangeable Bonds, Warrants, Options or Other Securities granting Rights to Novartis Shares

There has been no issuance of convertible or exchangeable bonds, warrants, options or other securities granting rights to Novartis shares other than securities granted to associates as a component of compensation.

Information about shares and share options granted as compensation is set forth below in this section under the heading "Compensation, Benefits, Shareholdings" and in the Notes to the consolidated financial statements.

Shareholders' Rights

One Share One Vote

Each registered share entitles the holder to one vote at the Annual General Meeting.

Other Shareholder rights

Shareholders representing at least 10% of the share capital may request to convene an extraordinary General Meeting. Shareholders representing an aggregate nominal value of at least CHF 1 000 000, may request that an item be included in the agenda of an Annual General Meeting. Such requests must be made in writing at the latest 45 days before the date of the General Meeting, specifying the item to be included in the agenda and containing the proposal for which the shareholder requests a vote.

Shareholders have the right to receive dividends, appoint a proxy and hold such other rights as are granted under the Swiss Code of Obligations.

Registration as Shareholder

No restrictions exist regarding the transferability of Novartis shares. However, only those persons having their shares registered in the Novartis share register may exercise their voting rights. Pursuant to Swiss law, a person who wishes to register shares must make a declaration to the Novartis share register that the shares have been acquired in his/her own name and for his/her own account.

Only shareholders registered at least five days prior to the Annual General Meeting may vote their shares at the Annual General Meeting.

Voting Limitations

Each share carries one vote. However, the Articles of Incorporation provide that no shareholder shall be registered to vote for shares comprising more than 2% of the registered share capital unless the Board has granted, upon request, an exemption. Exemptions are in force for the two largest shareholders reported above (Novartis Foundation for Employee Participation and Emasan AG). In 2006, no other exemptions have been requested.

The statutory voting restrictions can be canceled with a two-thirds majority of the shares represented at the Annual General Meeting.

These voting restrictions have been imposed and retained to provide for voting diversity at the General Meeting and to ensure that no minority shareholder may dominate the General Meeting, where shareholder representation has been traditionally low for many companies.

Voting by Nominees

Nominees may not vote shares absent registration in the Novartis share register and, with registration, may only vote shares constituting an amount less than or equal to 0.5% of the registered share capital. The Board may register nominees with the right to vote in excess of that limit if the nominees disclose such particulars of the beneficial owners of the shares as the Board shall require. Groupings formed to circumvent this limitation are treated as a single person or nominee.

Voting by ADS Holders

Holders of American Depositary Shares (ADS) may vote by instructing JPMorgan Chase Bank to exercise the voting rights attached to the registered shares underlying the ADSs. JPMorgan Chase Bank, as depositary, may exercise the voting rights for deposited shares represented by ADS at its discretion to the extent the holders of the ADS have not given instructions as to how such underlying shares should be voted.

Resolutions and Elections at Annual General Meeting

Resolutions of shareholders at an Annual General Meeting are approved with a simple majority of the shares represented at the meeting, except in the following matters which by law (Swiss Code of Obligations, Art. 704) and the Articles of Incorporation require the approval of two thirds of the shares represented:

- Change of the purpose of Novartis AG;
- Creation of shares with privileged voting rights;
- Implementation or removal of restrictions regarding the transferability of shares;
- Authorized or conditional increase of the share capital;
- Increase of the share capital out of equity, or a contribution in kind or for the purpose of an acquisition of assets, and the grant of special benefits;
- Limitation or withdrawal of preemptive rights;
- Change of the domicile of Novartis AG; and
- Dissolution of Novartis AG without liquidation.

Change-of-Control Provisions

No Opting up, No Opting out

The Swiss Stock Exchange Act provides that whoever acquires more than 33 1/3% of the equity securities of a company shall be required to make a bid for all listed equity securities of that company. In its articles of incorporation, a company may increase this threshold to 49% ("opting up") or, under certain circumstances, waive the threshold ("opting out"). No such measures have been adopted.

Provisions in Certain Employment Agreements

The table below indicates the notice period or guaranteed compensation period and whether or not extension clauses apply in a change of control situation for members of Senior Management (see section "Senior Management Compensation" for definition) as of January 1, 2007.

Number of agreements	Notice period or guaranteed compensation in case of termination (in months)	Additional notice period or guaranteed compensation in case of a change of control (in months)
5	36	24
2	12	12
1	36	-
2	24	-
3	18	-
1	12	-
1	6	-

Board of Directors

Composition of the Board of Directors

The members of the Board are:

	Age	Board Member since	Term Expires
Daniel Vasella	53	1996	2007
Ulrich Lehner	60	2002	2008
Hans-Joerg Rudloff	66	1996	2007
Birgit Breuel	69	1996	2007
Peter Burckhardt	68	1996	2008
Srikant Datar	53	2003	2009
William W. George	64	1999	2009
Alexandre F. Jetzer	65	1996	2008
Pierre Landolt	59	1996	2008
Andreas von Planta	51	2006	2009
Wendelin Wiedeking	54	2003	2009
Rolf M. Zinkernagel	62	1999	2009

Further biographical information on each Board member can be found in the Annual Report (see pages 116–120).

Helmut Sihler retired from the Board, while Andreas von Planta was elected at the Annual General Meeting of February 28, 2006.

Board Member Independence

The Board has promulgated independence criteria for its members. These criteria are appended to the Regulations of the Board and can be found on the Internet at:

www.novartis.com/investors/en/corporate_governance.

Pursuant to these criteria, the Board has determined that all of its members, except for Daniel Vasella and Alexandre F. Jetzer, are independent and have no material dealings with Novartis AG or other companies of the Novartis Group outside their role as a Board member.

Daniel Vasella, the Chief Executive Officer, is the only executive Board member. Alexandre F. Jetzer is no longer a Novartis executive but supports various government relations activities under a consultancy agreement.

The combination of a large majority of independent Board members with a small minority of non-independent or executive Board members combines the knowledge and experience of current

or former Novartis managers with the diverse skills of the independent Board members.

Novartis conducts nonadvisory banking business with Barclays Capital, of which Hans-Joerg Rudloff is presently Chairman of the Executive Committee. The Board concluded that this relationship does not affect the independence of Hans-Joerg Rudloff pursuant to the Board's independence criteria.

Rolf M. Zinkernagel has been delegated to the Scientific Advisory Board of the Novartis Institute for Tropical Diseases (NITD). He is also a delegate to the Board of Directors of the Genomics Institute of the Novartis Research Foundation (GNF). The Board concluded that this relationship does not affect the independence of Rolf M. Zinkernagel pursuant to the Board's independence criteria.

No Board member is on the board of a listed company with which any Novartis Group company conducts a material amount of business.

Election and Term of Office

All Board members are elected individually.

The terms of office for which Board members are elected do not exceed three years. The specific terms of office of Board members are determined by shareholders in the election or re-election at Annual General Meetings. However, under Swiss law, a General Meeting of shareholders is entitled to remove Board members at any time notwithstanding their term of office.

The average tenure of the Board members is eight years and their average age is 60 years. In principle, a Board member is to retire after reaching 70 years of age. Under special circumstances, shareholders may grant an exemption from this rule and re-elect a member of the Board for further terms of office of no more than three years at a time.

Chairman and Chief Executive Officer

The Corporate Governance rules regarding the separation of the roles of the Chairman of the Board and the Chief Executive Officer vary from country to country. In most countries, companies have to make a choice and select the model that best ensures effective leadership, efficient decision-making and an adequate balance of power. The Board examines the question regularly. Presently, it is of the firm opinion that it is in the best interest of the company and the shareholders that Daniel Vasella serves as Chairman and Chief Executive Officer of the Group.

The Regulations of the Board provide that an independent Lead Director is appointed in case the Chairman of the Board also serves as Chief Executive Officer.

The Lead Director

The Board has appointed Ulrich Lehner as Lead Director (replacing Helmut Sihler, who retired from the Board on February 28, 2006). His responsibilities include ensuring an orderly process in the evaluation of the performance of the Chairman and Chief Executive Officer, chairing the Board's private sessions (i.e., the meetings of the Non-Executive Board members) and leading the independent members of the Board in case of a crisis or in matters requiring their separate consideration or decision. The Lead Director is also a member of all of the Board committees.

The non-executive independent Board members held two comprehensive private sessions, one of which was chaired by the former Lead Director, Helmut Sihler, and the other by the new Lead Director, Ulrich Lehner.

Role and Functioning of the Board

The Board holds the ultimate decision-making authority of Novartis AG for all matters except for those decisions reserved by law for shareholders.

The agendas of Board meetings are set by the Chairman. Any Board member may request a Board meeting or that an item be included on the agenda. Board members are provided, in advance of Board meetings, with adequate materials to prepare for the items on the agenda. Decisions are taken by the Board as a whole, with the support of its four committees described below (Chairman's Committee, Compensation Committee, Audit and Compliance Committee, and Corporate Governance and Nomination Committee). The primary functions of the Board include:

- Providing the strategic direction of Novartis;
- Determining the organizational structure and the manner of governance of the company;
- Supervising the business operations overall;
- Approving major acquisitions or divestments;
- Structuring the accounting system, the financial controls and the financial planning;
- Reviewing and approving the annual financial statements and results release of Novartis AG and the Group;

- Appointing and dismissing members of the Executive Committee, the Head of Internal Audit and other key executives;
- Promulgating fundamental corporate policies, in particular on financial matters, corporate governance and citizenship, personnel or environmental matters and overseeing compliance therewith;
- Preparing the matters to be presented at the General Meeting, including Novartis AG's financial statements and the consolidated financial statements for the Group;
- Evaluating regularly the performance of the Chairman and Chief Executive Officer and reviewing the performance of the members of the Executive Committee; and
- Performing a self-evaluation once a year.

Role and Functioning of the Board Committees

Each Board committee has a written charter outlining its duties and responsibilities and a chair elected by the Board. The Board committees meet regularly and consider the agenda determined by the Chair. Board committee members are provided, in advance of meetings, with adequate materials to prepare for the agenda items.

The Chairman's Committee:
The Chairman's Committee is composed of four Board members; the Chairman and Chief Executive Officer, the two Vice Chairmen, one of whom is the Lead Director and one other member of the Board.

The Chairman's Committee takes decisions on financial and other matters delegated by the Board to the Chairman's Committee in accordance with the Regulations of the Board. In addition, the Chairman's Committee also takes decisions and preliminary actions on behalf of the full Board in urgent cases.

The Compensation Committee:
The Compensation Committee is composed of three independent Board members.

The Compensation Committee reviews Group-wide compensation policies and programs, including share option programs and other incentive-based compensation, before the full Board makes final decisions. The Compensation Committee is responsible for reviewing and approving the compensation paid to members of the Executive Committee and other selected key executives as well as for determining the compensation for the Chairman and Chief Executive Officer. The Compensation Committee may seek outside expert advice from time to time to support its decisions and recommendations.

The Audit and Compliance Committee:
The Audit and Compliance Committee is composed of five independent members. The Board has determined that all the members of the Audit and Compliance Committee are independent as defined by the rules of the NYSE.

The Audit and Compliance Committee has determined that Ulrich Lehner, Srikant Datar and Hans-Joerg Rudloff possess the required accounting and financial management expertise required under the rules of the NYSE. Therefore, the Board has appointed them as the Audit and Compliance Committee's Financial Experts. The Board has also reassured itself that other members of the Audit and Compliance Committee have sufficient experience and ability in finance and matters of compliance to enable them to adequately discharge their responsibilities.
The Audit and Compliance Committee's main duties include:
- Evaluating and selecting the external auditors to be nominated for election at the Annual General Meeting;
- Reviewing the terms of engagement of these external auditors;
- Determining the scope and the review of the results of external and internal audits;
- Reviewing (together with external and internal auditors and the financial and accounting management of Novartis) whether the accounting policies and financial controls are appropriate, effective and compliant with the applicable accounting standards;
- Reviewing and approving the quarterly financial statements of the Group for the first three quarters of each year and the corresponding financial results releases;
- Reviewing internal control and compliance processes and procedures, including those for the management of business risks; and
- Reviewing processes and procedures to ensure compliance with laws and internal regulations.

The Corporate Governance and Nomination Committee:
The Corporate Governance and Nomination Committee is composed of five independent Board members.

The Corporate Governance and Nomination Committee develops corporate governance principles and recommends these to the Board for approval. Its duties include regular reviews of the Articles of Incorporation with a view to reinforcing shareholder rights, and of the composition and size of the Board and its committees. The Corporate Governance and Nomination Committee conducts an annual evaluation of the Board as a whole and gives guidance to

Board members on how to avoid potential conflicts of interest.

The Corporate Governance and Nomination Committee also proposes to the Board individuals who are qualified to become (or be re-elected as) Board members.

Board and Committees; Membership, Attendance, Number and Duration of Meetings

	Full Board	Chairman's Committee	Compensation Committee	Audit and Compliance Committee	Corporate Governance and Nomination Committee
Number of meetings in 2006	7	11	3	8	2
Approximate duration of each meeting (hours)	6–8	2	2	2–4	2
Daniel Vasella	7 [1]	11 [1]			
Helmut Sihler[2]	2	2	2	3	
Ulrich Lehner	7	9	1 [3]	7 [1]	1
Hans-Joerg Rudloff	7	11	3 [1]	8	2
Birgit Breuel	7			8	
Peter Burckhardt	7				
Srikant Datar	7			8	
William W. George	7	11	3		2 [1]
Alexandre F. Jetzer	7				
Pierre Landolt	6				2
Andreas von Planta[3]	5			5	
Wendelin Wiedeking	4				
Rolf M. Zinkernagel	7				2

[1] Chair [2] Until February 28, 2006 [3] Since February 28, 2006

Information and Control Systems

The Board:

The Board ensures that it receives sufficient information from the Executive Committee to perform its supervisory duty and to make the decisions that are reserved to the Board through several means:

- Since the Chairman is also the Chief Executive Officer of Novartis, who heads the meetings of the Executive Committee, he is fully informed on all current developments;
- The Chairman and Chief Executive Officer informs all Board Members regularly about current developments, including by way of a written monthly report;
- The Minutes of the Executive Committee meetings are made available to the Board members;
- Informal teleconferences are held as required between Board Members and the Chairman and Chief Executive Officer or the Lead Director;
- A session is held at each Board meeting with all members of the Executive Committee;
- The Board is informed in detail by each Division Head on a quarterly basis;
- By invitation, members of management attend Board meetings to report on areas of the business within their responsibility; and
- Board members are entitled to request information from members of the Executive Committee inside and outside of Board meetings and may visit any Novartis site.

Board Committees:
Board committees, in particular the Audit and Compliance Committee, regularly meet with management and outside consultants to review the business, better understand all laws and policies impacting the Group and support the management in meeting the requirements and expectations of stakeholders. In particular, the Chief Financial Officer and the representative of the external auditors are invited to the meetings of the Audit and Compliance Committee. Furthermore, the Head of Risk Management and the Business Practices Officer report on a regular basis to the Audit and Compliance Committee.

Internal Audit:
The Internal Audit function carries out operational and system audits; assists the organizational units in the accomplishment of objectives by providing an independent approach to the evaluation, improvement and effectiveness of their internal control framework; prepares reports regarding the audits it has performed; and reports any actual or suspected irregularities to the Audit and Compliance Committee and the Chairman of the Board.

Corporate Risk Management:
The Corporate Risk Management function reports on a regular basis on risk management. Organizational and process measures have been introduced to mitigate risks at an early stage. Organizationally, the responsibility for risk and risk mitigation is allocated to the Divisions, with specialized Corporate Functions such as Group Quality Operations; Corporate Health, Safety and Environment; and Business Continuity providing support and controlling the effectiveness of the risk management by the Divisions.

Management of the Company

The Board has delegated to the Executive Committee the coordination of day-to-day business operations of Group companies. The Executive Committee is headed by the Chief Executive Officer. The internal organizational structure and the definition of the areas of responsibility of the Board and the Executive Committee are set forth in the Board Regulations.

The Board has not concluded any contracts with third parties to manage the business.

Further biographical information on the members of Senior Management, a group of senior executives, can be found in the Annual Report.

Compensation, Benefits, Shareholdings

General Principles and Processes

Performance Based Compensation
Novartis aspires to be an employer of choice with the ability to attract, retain and motivate the most professional and high-caliber associates all around the world, who are critical to the company's success. The company compensation programs are designed to:

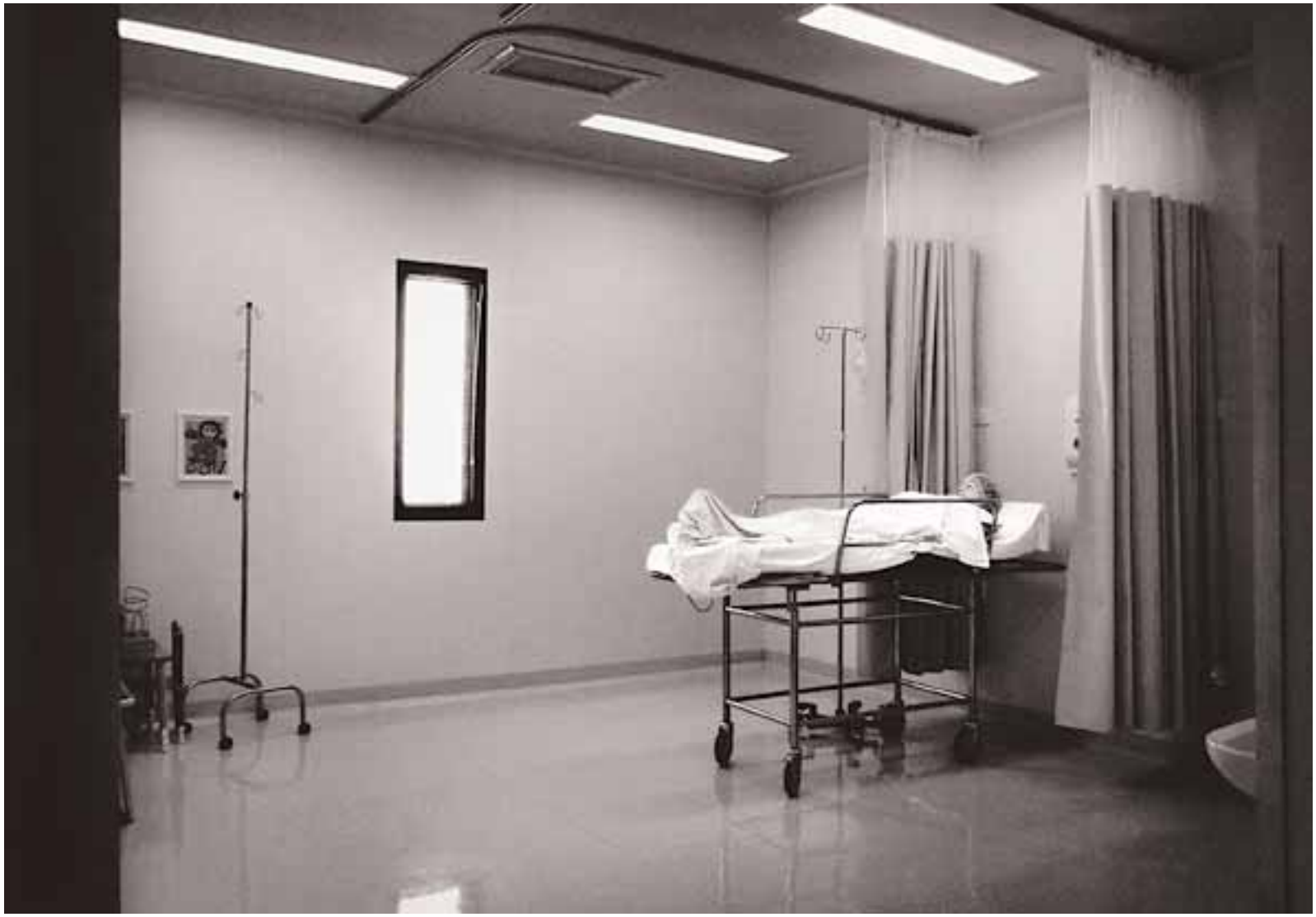
- endorse the employer of choice aspiration;
- align the objectives of our associates with the long-term interests of the shareholders;
- support a performance oriented culture and meritocracy that allows the company to reward high performing individuals who through their commitment and contribution, while adhering to 'best business practices', allow our company to achieve its goal to be one of the leading global industry performers;
- be comparable and competitive with a relevant group of other world class and industry peer companies who operate and compete for talent on a global basis.

Paying for performance is the guiding principle of the Novartis compensation policy. For superior performance, total compensation awarded to individual associates may reach levels comparable to the levels of compensation offered by the top quartile of relevant benchmark companies.

Under the performance-dependent variable compensation programs target incentive percentages (of annual base compensation) are typically defined for each participating associate at the start of the respective plan performance period. In general, these target percentages are multiplied at the end of the performance period with individual payout multipliers for each associate. The size of the multiplier depends on the incentive plan and on the actual performance achieved by the associate against individual objectives as agreed at the beginning of the performance period, compliance with the "Novartis Values and Behaviors," and the overall performance of the Group or the relevant business unit.

Incentive payout multipliers can range from 0 to 2. For exceptional performance, higher payout multipliers may apply. Such cases require the approval of the Chairman and Chief Executive Officer and/or the Compensation Committee. All compensation programs and levels are reviewed regularly based on publicly available data as well as analyses of independent compensation research compa-

RUSSIAN CHILDREN'S CLINICAL HOSPITAL; MOSCOW, RUSSIA



HOSPITAL DO CÂNCER; SÃO PAULO, BRAZIL

nies and external compensation advisors. Trends and developments in the field of compensation and corporate governance are carefully analysed, reviewed and discussed on an ongoing basis with outside experts, accountants and consultants.

Performance Management Process

Each Novartis associate is subject to a formal performance and appraisal process. This process is intended to enable all associates to focus on clear and ambitious goals, to set directions and priorities, and to clarify expectations among the overall organization. Furthermore, this approach promotes a culture of continuous improvement, supports individuals in meeting their development aspirations and strengthens organizational capabilities. This is a core process for improving individual, team and overall business performance.

For each performance year, line managers and their direct reports jointly determine and agree upon performance measures and business objectives. These objectives are derived from the cascading-down of business objectives as established at the Group, Division, Function and/or Business Unit levels.

Two performance assessments are carried out each year – a mid-year and a year-end review. The reviews consist of formal meetings between each associate and his/her line manager to evaluate the associate's performance, both in light of the business objectives defined at the beginning of the year and Group-wide "Novartis Values and Behaviors." Based on the year-end performance rating, line managers and next-level line managers determine the incentive award for each associate for the year under review as well as the target compensation for the coming year.

Share Ownership

In 2003, the Board established share ownership guidelines to further strengthen the ownership philosophy among Novartis senior executives. These guidelines require a small group of approximately 20 key executives to own a minimum multiple of their base salary in Novartis shares as described in more detail below under the heading "Ownership of Novartis Shares and Share Options by Senior Management."

Compensation for Novartis Associates

Competitive compensation packages are designed in consideration of compensation levels of comparable jobs in relevant benchmark companies.

The benchmark companies for compensation differ depending on the nature of specific jobs. For specific pharmaceutical jobs, a peer group of pharmaceutical companies is considered that typically consists of Abbott Laboratories, Amgen, AstraZeneca, Bristol-Myers Squibb, Eli Lilly, GlaxoSmithKline, Johnson & Johnson, Merck, Pfizer, Roche, Sanofi-aventis, Schering-Plough and Wyeth. For other positions, a wider group of relevant benchmark companies is considered from a variety of different industry sectors, such as fast moving consumer goods and general industry. Benchmark information is adjusted as necessary to reflect the size and scope of the Novartis business and the specific requirements of a particular job.

As long as an associate achieves his/her performance targets, the total amount of compensation awarded is generally comparable to the level of compensation provided by relevant benchmark companies. In case of over- or underperformance, the actual total compensation delivered is adjusted upwards or downwards.

The compensation packages of associates consist of base compensation and variable compensation as described in the following paragraphs.

Base Compensation

The base compensation is intended to give each associate a regular and predictable salary that does not depend on the annual performance of the associate or of the Novartis business. Salary levels depend on job characteristics, market competitiveness as well as on the skills of each associate. The salary evolution depends on the individual performance of the associate.

Variable Compensation

Novartis has three variable compensation plans: a Bonus Plan, a Novartis Equity Plan "Select" and a Long-term Performance Plan. Under these plans, except the Bonus Plan, awards (if any) are mandatorily delivered in equity.

Bonus Plans

Most associates participate in bonus plans. Under these plans, awards are made each year based on the associate's individual year-end performance rating and company or business unit performance. Below a certain rating, no awards are granted under the plans.

Depending on the applicable plan, bonuses are either delivered in cash or in shares via the Leveraged Share Savings Plans as described below.

Novartis Equity Plan "Select"

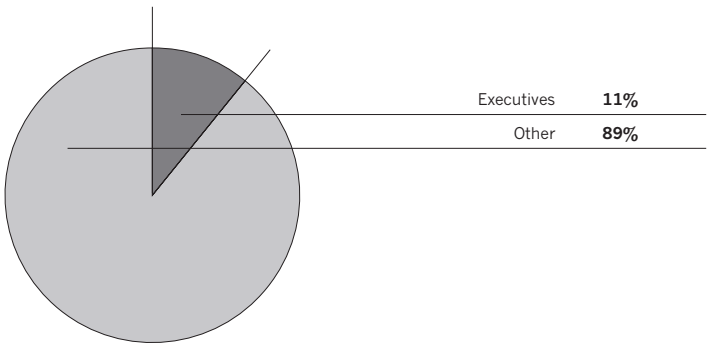
Awards may be granted each year based on the associate's individual year-end performance rating and company or business unit performance. Below a certain rating, no awards are granted under the plan.

Participants in this plan can select to receive their incentive in the form of restricted shares, tradable share options, or a combination of both. The Compensation Committee allocates the number of shares and share options based on the individual choice of the participant before the predetermined grant date. The share options are tradable, expire on the tenth anniversary and are exercisable for one share each (1:1). The exercise price equals the market price of the underlying share at the predetermined grant date.

Shares and tradable share options have a vesting period of two years in Switzerland and three years in other countries. As a consequence, if a participant leaves Novartis, shares or options not yet vested are forfeited if not determined otherwise by the Compensation Committee (reorganizations, divestments etc.).

In 2006, a total of 8 744 participants received a total of 12.5 million tradable share options and 3 281 402 restricted shares under the Novartis Equity Plan "Select." This represents a participation rate of approximately 10% of all associates worldwide. Approximately 11% of the total equity value awarded under the plan in 2006 was granted to Senior Management.

As of December 31, 2006, a total of 55.7 million share options were outstanding, that provided the right to an equal number of shares, which corresponds to 2.0% of the total number of Novartis AG issued shares.



Long-term Performance Plan

Within the Novartis Compensation framework, a Long-term Performance Plan has been created and targeted to executives who are in key positions and have a significant impact on the long-term success of Novartis. Incentive awards under the Long-term Performance Plan as well as awards made under the Equity Plan "Select" intend to align the interest of the associates with the long term interest of shareholders.

Under the Long-term Performance Plan around 100 key executives throughout the Group may be granted Novartis shares. Actual grants (if any) depend on the Group's overall performance over a period of three years, measured in terms of Economic Value Added (EVA, as defined in the Novartis accounting manual) relative to predetermined targets, i.e. pay-outs are conditional to the achievement of the EVA objective. If the actual performance of the Group is below a threshold level or the participant leaves the company during the performance period, then no shares will be earned.

The Long-term Performance Plan has been redesigned by the Compensation Committee in 2005. In the new design, as mentioned above, the Group Economic Value Added determines the delivery of shares (if any) instead of the specific divisional or business unit Economic Value Added as was the case in the old plans.

The first new Long-term Performance Plan is introduced in 2006 and will have a first share delivery (if any) in February 2009. The old plans will run out via transition plans in the next years with conditional (i.e. if EVA targets are achieved) share releases in February 2007 and 2008.

Special Share Awards

In addition to the Base and Variable Compensation as described above, selected associates across the Group may receive special awards of restricted or unrestricted shares. These special awards are fully discretionary, providing the flexibility to reward particular achievements or exceptional performance of individual associates and to retain key contributors.

The restricted Special Share Awards generally have a five-year vesting period. If a participant voluntarily leaves Novartis, unvested shares generally forfeit. Around 70 executives at different levels of the organization were awarded restricted shares in 2006.

The Compensation Committee may decide to award restricted or unrestricted Novartis shares to individual associates as a special incentive to reward exceptional performance, or grant one-off or annual share awards in recognition of particular achievements or consistently outstanding performance.

Leveraged Share Savings Plans

As indicated under "Bonus Plans" above, associates are encouraged to receive their bonus awards fully or partially in Novartis shares instead of cash to achieve alignment with shareholders interests. To reinforce this alignment the company therefore sponsors Leveraged Share Savings Plans by matching investments in shares after a certain holding period.

There are several types of Leveraged Share Savings Plans. Participating associates in principle may only participate in one of these plans in a given year.

Shares invested in the Swiss Employee Share Ownership Plan (ESOP), which is available in Switzerland to approximately 12 000 associates, have a three-year blocking period and are matched at the end of the blocking period with one share for every two shares invested. In 2006 approximately 5 800 associates participated in this plan.

In the UK associates can invest up to 5% of their monthly salary up to a maximum of GBP 125 in shares, and might be invited to invest all or part of their net bonus in shares. Two invested shares are matched with one share immediately which will vest after three years. In 2006, approximately 1 400 associates participated in these plans.

Approximately 30 of the most valued key executives in the world are invited to participate in a five-year Leveraged Share Savings Plan. The shares invested in this plan are blocked for a period of five years after the investment date. At the end of the blocking period, the invested shares are matched based on a ratio of 1:1, i.e. one share for each invested share.

No shares will be matched under the plans if an associate leaves Novartis prior to expiration of the blocking period other than due to retirement.

Source of the Shares Awarded

The shares awarded under the plans are not newly issued but are repurchased from the market.

Senior Management Compensation

For the purpose of this Annual Report, "Senior Management" has been defined to include members of the Executive Committee, Permanent Attendees to the Executive Committee and Business Unit Heads.

In 2006, a total of 19 executives comprised Senior Management. The employment of two executives was terminated during the year, while one Business Unit (Ophthalmics) was repositioned within the Pharmaceuticals Division and one Business Unit (Medical Nutrition) is in the process of being divested. Based on these changes, as of January 1, 2007, Senior Management is comprised of 15 executives.

The compensation policies, the performance management process and the incentive plans described above apply equally to Senior Management, including the Chairman and Chief Executive Officer.

The decisions on the compensation of Senior Management members are based on an evaluation of the individual performance of the member as well as the performance of the business for which the Senior Management member is responsible. The Compensation Committee considers the achievement of both short-term and long-term performance targets, including revenue growth, economic value creation (operating and net income, earnings per share and economic value added), market share growth and ongoing efforts to optimize organizational effectiveness and productivity.

Compensation of the Chairman and Chief Executive Officer

General Process

In the December Board Meeting the Board takes note, discusses and approves the company's financial objectives for the following year. The Chairman and Chief Executive Officer presents his individual objectives, targets and visions which are reviewed, discussed and approved by the Board. The Board particularly ensures that the Chairman and Chief Executive Officer's objectives are in line with the company's goals to guarantee sustainable long-term performance while not being compromised by short-term financial objectives, but on the contrary support the long-term business objectives in the interest of all stakeholders.

For the year-end the Chairman and Chief Executive Officer prepares a self-appraisal, which is discussed with the Lead Director and the Board. The Lead Director also has individual discussions about the Chairman and Chief Executive Officer's performance with all Board Members.

In January, the Board approves the audited results of the company and evaluates the degree of achievement in respect of the tar-

geted financial objectives of the past year and compares the results with peer industry companies taking into account general financial criteria and industry development.

In a private session, the independent members of the Board only, discuss the overall performance of the Chairman and Chief Executive Officer and then share their appraisal with him.

Subsequently the Compensation Committee decides upon the total remuneration package for the last year and the target compensation (base and variable compensation, and special share awards) for the coming year, taking into account all relevant factors including available benchmark information.

The performance of the Chairman and Chief Executive Officer is also reviewed quarterly by the entire Board in connection with the discussion of the quarterly financial performance of the company.

Compensation of the Chairman and Chief Executive Officer in 2006

The Compensation Committee met in a separate session without the Chairman and Chief Executive Officer on January 17, 2006, to determine the amount of his variable compensation for 2005 and his target compensation for 2006. Based on the evaluation of the factors described above, the Compensation Committee concluded that the performance of the Chairman and Chief Executive Officer during 2005 was exceptional and that he had not only met, but exceeded, the performance targets defined at the beginning of the year. In recognition of this outstanding and sustained performance, the Compensation Committee decided to reward the Chairman and Chief Executive Officer accordingly (the Compensation Table below provides the details).

Compensation of Senior Management Members

General Process

The Board meets in January together with the Chairman and Chief Executive Officer to review and discuss the performance of the other members of Senior Management for the previous year, taking into account the audited financial results and the level of achievement of the individual financial and nonfinancial targets. In a separate session, the Compensation Committee decides, in presence of the Chairman and Chief Executive Officer, on the variable compensation for the members of Senior Management for the past year. At the same meeting, the Compensation Committee decides on the target compensation packages for the coming year.

In addition to the full-year assessment, the mid-year performance of Senior Management is reviewed in June. At the same time, the Board also carries out a mid-year review of the performance of the individual businesses.

During the year restricted Special Share Awards may be granted for performance or retention reasons.

Compensation of Senior Management Members in 2006

At its meeting on January 18, 2006, the Compensation Committee decided on the amount of the variable compensation for 2005 for the members of Senior Management by applying the principles described above.

Members of Senior Management (including the Chairman and Chief Executive Officer) received a total of USD 11 897 000 in salary and USD 4 579 000 in cash bonuses. The number of share options granted to members of Senior Management was 925 040 and the number of shares granted was 989 620 (excluding shares matched under the Leveraged Share Savings Plans; see pages 106 and 110). Other compensation in the amount of USD 2 865 000 was set aside for their pension, retirement and other benefits (excluding severance payments; see further below).

Disclosure of Individual Compensation to Members of the Executive Committee

The following Compensation Table provides details on the total compensation awarded to the members of the Executive Committee in 2006 (excluding shares matched under the Leveraged Share Savings Plans). The “Variable compensation” set forth in the table was awarded in 2006 for 2005 performance. Variable compensation for 2006 performance will be disclosed in the 2007 Annual Report. Novartis’ “fast-track” publication of its Annual Report determines this time sequence for the disclosure of executive compensation.

The term “blocked shares” used in the footnotes to the Compensation Table refers to the ability of associates in Switzerland to voluntarily and irrevocably commit not to sell their shares for a period of up to ten years (including any vesting period) from the date of grant. Novartis encourages associates to block their shares because doing so aligns the associates’ interests with the shareholders’ interests. The Swiss Federal Tax Administration, in its Kreisschreiben Nr. 5, Section 3.2, ascribes a net present value (the “taxable value”) to such blocked shares. For details see footnote 7 to the Compensation Table. Similarly, the Swiss tax authorities also ascribe a taxable value to tradable share options. In the view of Novartis, the taxable values represent the appropriate values to report in the Compensation Table.

The accounting cost of compensation for Senior Management and Board members, calculated in accordance with International Financial Reporting Standards, is reported in Note 28 in the consolidated financial statements.

Compensation Table Executive Committee

Name and Principal Position	Currency	Base Compensation	Variable compensation						Other Compensation [6]	Total [7]
			Bonus		Equity Plan "Select"		Long-term Performance Plan	Special Share Awards		
		Cash (amount)	Cash (amount)	Shares (number) [1]	Shares (number) [2]	Options (number) [3]	Shares (number) [4]	Shares (number) [5]	(amount)	(amount)
Daniel Vasella Chairman & Chief Executive Officer	CHF	3 000 000	-	126 228	210 379	-	84 152	28 051	199 505	21 068 072
Urs Baerlocher Head of Legal and Tax Affairs	CHF	836 668	-	12 364	12 364	69 961	8 626	-	140 732	2 906 296
Raymund Breu Chief Financial Officer	CHF	1 071 670	-	18 409	-	416 667	11 045	15 000	140 732	6 553 054
Juergen Brokatzky-Geiger Head of Human Resources	CHF	615 000	-	8 416	8 416	47 620	6 312	-	147 088	2 603 647
Paul Choffat Head of Consumer Health	CHF	820 008	738 000	-	31 052	-	8 626	-	144 549	4 288 058
Thomas Ebeling Head of Pharmaceuticals	CHF	1 125 004	1 386 000	-	97 195	-	17 357	15 000	197 799	10 702 885
Mark C. Fishman Head of Biomedical Research	USD	895 833	13 481	13 352	33 993	124 876	13 289	-	260 662	6 443 462
Andreas Rummelt Head of Sandoz	CHF	890 004	-	13 149	39 447	-	7 890	-	135 650	4 791 974

[1] Participants elected to invest in the Leveraged Share Savings Plans instead of receiving bonus in cash. Daniel Vasella, Urs Baerlocher and Raymund Breu have blocked all these shares for 10 years.

[2] These shares include shares granted under the Novartis mandatory Equity Plan "Select". Daniel Vasella, Urs Baerlocher and Raymund Breu have blocked all of these shares for 10 years. For the other members of the Executive Committee the combined vesting and voluntary blocking periods of these share awards range between 2-10 years.

[3] Novartis employee share options are tradable. Options granted under the Novartis Equity Plan "Select" outside North-America have an exercise price of CHF 71.30 per share that corresponds to the share price at the predetermined grant date on February 6, 2006. In Switzerland, the options have a cliff-vesting period of two years after the date of grant and will expire on February 5, 2016. Options on US ADS granted to participants in North America have an exercise price of USD 54.70 per ADS that corresponds to the ADS price at the grant date. The US options have a cliff-vesting period of three years after the grant date and will expire on February 5, 2016.

[4] These shares were released under the Long-term Performance Plan based on the achievement of EVA objectives. Daniel Vasella, Urs Baerlocher and Raymund Breu have blocked all these shares for 10 years; the other members of the Executive Committee have not blocked these shares.

[5] These shares include unrestricted share awards for Daniel Vasella and restricted share awards for Raymund Breu and Thomas Ebeling for their outstanding performance. All these shares are blocked for 10 years.

[6] Amounts include payments made by Novartis for pension and other benefits.

[7] The total compensation amounts for all Executive Committee members with the exception of Mark C. Fishman have been calculated using the taxable value described above. As set out in the Kreisschreiben Nr. 5 issued by the Swiss Federal Tax Administration, the taxable value of share grants depends on the combined vesting and blocking period. The longer the combined vesting/blocking period, the lower generally the taxable value. The taxable value of a share award that is subject to a two-year vesting/blocking period, for example, equals 89% of its market value at the date of grant. The taxable value of a share award with a combined vesting/blocking period of 10 years equals 55.84% of its market value at the date of grant (see Section 3.2, Kreisschreiben Nr. 5). At the grant date the market value of the shares equaled CHF 71.30 per share. Tradable share options under the Equity Plan "Select" have a taxable value of CHF 8.59 per option.
Equity awards are generally not taxed at grant in the US. Accordingly, there is no objective basis for calculating a tax value for Mark C. Fishman's equity awards. The total compensation amount for Mark C. Fishman is therefore presented on the basis of the market value of the shares and the trinomial value of the share options granted. At the grant date, the market value of the US ADS equaled USD 54.70 per ADS and the value of the US ADS options equaled USD 15.67 per option.

Benefits

General Policy

Pension benefits at Novartis are generally designed to provide a safety net against financial hardship that may result from disability or death as well as to provide a reasonable level of retirement income based on years of service with Novartis. As a general policy, the level of pension benefits provided to associates is country-specific and does not exceed local market practice.

Since a significant number of associates are employed either in Switzerland or the US, the pension and healthcare benefits in those countries are described in more detail below.

Pension Plans in Switzerland

Swiss Pension Fund

The Swiss Pension Fund operates a defined-benefit plan that provides retirement benefits and risk insurance for death or disability.

The Swiss Pension Fund is funded by contributions from Group companies and the insured associates. The Swiss Pension Fund insures remuneration up to a maximum base salary of CHF 220 000 per year, reduced with an offset of 30% of salary up to a maximum of CHF 24 120. The bonus of associates with a base salary below CHF 220 000 are insured through a defined-contribution incentive/bonus pension plan, which is financed through contributions by the company and the insured associates.

Swiss Management Pension Fund

The Swiss Management Pension Fund is basically a defined-contribution plan that also provides retirement annuity benefits and risk insurance for death and disability for components of remuneration in excess of the maximum insurable amount of base salary described in the previous paragraph. The Swiss Management Pension Fund insures base salary above CHF 220 000 and bonus, up to a maximum of CHF 774 000. The Swiss Management Pension Fund is funded through contributions by Novartis and the insured associates.

US-Based Employee Pension Plans

US Defined-Benefit Plan

The pension plan for certain US-based associates of Novartis Corporation and its US affiliates is a funded, tax-qualified, noncontributory defined-benefit pension plan. The amount of annual earnings covered by the pension plan is generally equal to the associate's base salary and annual bonus. The amount of annual earnings that may be considered in calculating benefits under this pension plan is limited by law (in 2006: USD 220 000). Novartis Corporation and its US affiliates also maintain various unfunded supplemental pension plans to cover associates for amounts over and above the limitation. The defined-benefit pension plans are "closed plans"; new associates participate in the US defined-contribution plan.

US Defined-Contribution Plans

Associates of a Group company located in the US generally are eligible to participate in tax-qualified defined-contribution plans through which they may contribute a portion of their annual compensation (subject to the annual limitation described above) and receive a company match that is generally USD 1 for each USD 1 contributed by the participant. Associates can receive up to 6% of their base salary and annual bonus as employer contributions.

In addition, certain Group companies in the US sponsor defined-contribution plans, with contributions ranging from 3% to 10% of annual covered compensation. Associates who still accrue service years in the US defined-benefit plan do not receive such company contributions.

Novartis Corporation and its US subsidiaries also maintain various unfunded supplemental defined-contribution plans to cover associates for amounts over and above the aforementioned limitation.

Healthcare Plans

In Switzerland, Novartis does not provide healthcare benefits to associates. In other countries, healthcare plans have been established in accordance with local market practices.

In the US, all Group companies offer associates healthcare benefits which provide for a company subsidy. Certain Group companies also provide contributory post-retirement medical programs which integrate with US government-provided Medicare for participants over age 65.

Benefits to Senior Management

The members of the Executive Committee (with the exception of Mark C. Fishman) participate in the Swiss pension plans described hereinbefore in the same manner as other associates.

The US defined-benefit pension formula that applies to Mark C. Fishman is a pension equity plan (PEP) formula as it applies to other participating US associates. Benefits under the PEP formula are based on (i) the associate's highest average earnings for a five-calendar-year period during the last 10 calendar years of service with Novartis, and (ii) the associate's accumulated PEP credits (expressed as a percentage of final average earnings, and ranging from 2% to 13% for each year of service based on the associate's attained age in a particular year). Benefits accrued under the PEP plan are payable after retirement in the form of an annuity or a lump sum. The US defined-contribution plan that applies to Mark C. Fishman is the same plan that applies to other participating US associates; however, the aforementioned additional company contribution does not apply to him.

In 2006, a total of USD 308 000 was contributed to defined-benefit plans and USD 1 266 000 to defined-contribution plans for Senior Management members.

The pension benefits that have been accrued by Executive Committee members in the defined-benefit (DB) plans as of December 31, 2006, as well as the employer pension contributions in 2006, are summarized in the table next page.

The combined pension plans aim at a maximum target pension annuity of 60% of CHF 774 000 (= CHF 464 400) per annum.

Executive Committee Pension Benefits

	Currency	Accrued Benefit in DB Plans	Employer Contributions to DB plans	Employer Contributions to DC plans
Daniel Vasella	CHF	83 351	18 632	122 100
Urs Baerlocher	CHF	115 711	18 632	122 100
Raymund Breu	CHF	103 944	18 632	122 100
Juergen Brokatzky-Geiger	CHF	87 522	18 609	117 174
Paul Choffat	CHF	95 736	18 609	122 100
Thomas Ebeling	CHF	26 493	18 632	110 801
Mark C. Fishman	USD	45 761	21 000	54 750
Andreas Rummelt	CHF	84 232	18 609	110 801

DB - Defined benefit DC - Defined contribution

Allocation of Shares under the Leveraged Share Savings Plans

Recipients of bonus awards in 2001, respectively 2003, were invited to invest their bonus in the Leveraged Share Savings Plan (five-year plan) respectively ESOP (three-year plan). These plans matured in 2006. Based on associates' previous investments under these plans and the investments of the associates in the UK in 2006, the company allocated 1 030 000 shares to 6 700 participants. From the total number of shares, 150 482 (14.6%) shares were issued to Senior Management. Members of the Executive Committee received the following number of matching shares. The percentages indicate the ratio by which they invested their past annual incentive in the Leverage Share Savings Plans: Daniel Vasella (107 360; 100%), Urs Baerlocher (8 600; 100%), Raymund Breu (12 880; 100%), Juergen Brokatzky-Geiger (860; 50%), Thomas Ebeling (11 600; 100%) and Andreas Rummelt (2 920; 85%). Daniel Vasella, Urs Baerlocher and Raymund Breu have blocked all of these shares for 10 years. The other Executive Committee members did not block these shares.

Ownership of Novartis Shares and Share Options by Senior Management

Ownership Guidelines

In 2003, the Board adopted share ownership guidelines that took effect in December 2003 under which Executive Committee members and other nominated executives are required to own at least a certain multiple of their base salary in Novartis shares or vested tradable options. The multiple equals five for the Chairman and Chief Executive Officer, three for other Executive Committee members and one or two for other nominated executives. Executives have three years from the date of nomination to comply with the minimal share holding requirements. The first measurement date is December 31, 2008. In the event of a substantial drop in the share price, the Board may, at its discretion, extend the time period to reach the minimal shareholding requirement. Based on the year-end share price, most designated executives, including all Executive Committee members, already complied with the share ownership guidelines as of December 31, 2006.

Shares Owned by Senior Management

The total number of Novartis shares owned by the 15 executives who belonged to Senior Management as of January 1, 2007, and by persons closely linked to them was 3 194 298. This implies an average holding of 212 953 shares. "Persons closely linked to them" are (i) their spouse, (ii) their children below age 18, (iii) any legal entities that they own or otherwise control, and (iv) any legal or natural person who is acting as their fiduciary. No member of Senior Management owned 1% or more of outstanding shares. As of December 31, 2006, the individual ownership of Novartis shares of Executive Committee members (including persons closely linked to them) was as follows:

	Number of Shares Owned Directly or Indirectly
Daniel Vasella	1 466 129
Urs Baerlocher	265 939
Raymund Breu	313 020
Juergen Brokatzky-Geiger	52 333
Paul Choffat	61 757
Thomas Ebeling	173 205
Mark C. Fishman	148 550
Andreas Rummelt	151 563
Total	**2 632 496**

Options Owned by Senior Management

The total number of Novartis share options owned by the 15 executives who belonged to Senior Management as of January 1, 2007, and by persons closely linked to them was 5 677 639. This

implies an average holding of 378 509 options. Broken down by grant year since 2002, the numbers of options held are:

Grant Year	Options Held [1] (number)	Exercise Price (CHF)	Term Life (years)
2006	905 424	71.30	10
2005	3 144 984	57.45	10
2004	736 301	57.45	10
2003	543 073	49.00	9
2002	281 977	62.00	9

[1] Options granted under the Novartis Equity Plan "Select" are exercisable for one share each (1:1)

Loans, Severance Payments, Compensation to Former Members of Senior Management

No loans were granted by the Group to Senior Management during 2006 or were outstanding as of December 31, 2006.

During 2006, two members of Senior Management received USD 1 633 863 as severance upon the termination of their employment with Novartis.

In 2006, total compensation of USD 741 795 was paid to four former members of Senior Management. Due to an investment of past bonus awards in the Leveraged Share Savings Plans, the invested shares of one former member of Senior Management, were matched with 799 shares in 2006. The matched shares were not forfeited since he continues to be employed.

Non-Executive Director Compensation and Shareholdings

General Principles

The Compensation Committee determines the compensation of Non-Executive Directors. They receive an annual fee in an amount that varies with the Board and committee responsibilities of each Director. They receive no additional fees for attending meetings or acting as committee chairs.

Directors can choose to receive the annual fee in cash, shares or a combination of both. The conversion between cash and shares is based on the share price at the predetermined grant date. The grant date (February 6, 2006) and related share price (CHF 71.30) are the same as under the Novartis Equity Plan "Select." As of January 1, 2003, share options were no longer offered to Directors, nor were shares granted to Directors in acknowledgement of business performance. Directors are reimbursed for travel and other necessary business expenses incurred in the performance of their services; the reimbursement of these expenses is not included in the compensation figures reported aside. No loans were granted to Non-Executive Directors.

Compensation to Non-Executive Directors in 2006

	Annual Cash Compensation (CHF)	Shares (number)
Ulrich Lehner Vice Chairman, Lead Director[1] Chairman's Committee (Member) Compensation Committee (Member) Audit and Compliance Committee (Chair) Corporate Governance and Nomination Committee (Member)	656 250	5 523
Hans-Joerg Rudloff Vice Chairman Chairman's Committee (Member) Compensation Committee (Chair) Audit and Compliance Committee (Member) Corporate Governance and Nomination Committee (Member)	789 890	0
Birgit Breuel Audit and Compliance Committee (Member)	473 994	0
Peter Burckhardt	169 903	4 208
Srikant Datar Audit and Compliance Committee (Member)	298 125	2 131
William W. George Chairman's Committee (Member) Compensation Committee (Member) Corporate Governance and Nomination Committee (Chair)	375 000	3 156
Alexandre F. Jetzer[2]	13 911	4 909
Pierre Landolt Corporate Governance and Nomination Committee (Member)	128 402	4 124
Andreas von Planta Audit and Compliance Committee (Member)	360 766	1 578
Wendelin Wiedeking	112 490	3 608
Rolf M. Zinkernagel[3] Corporate Governance and Nomination Committee (Member)	471 198	3 009
Total	**3 849 929**	**32 246**

[1] Ulrich Lehner succeeded Helmut Sihler as Lead Director; Helmut Sihler retired from the Board at the Annual General Meeting of February 28, 2006.
[2] In addition, Alexandre F. Jetzer was compensated CHF 300 722 for other consulting services.
[3] Rolf M. Zinkernagel's compensation includes CHF 250 000 for acting as the Board's delegate to the scientific advisory boards of the Genomics Institute of the Novartis Research Foundation (GNF) and the Novartis Institute for Tropical Diseases (NITD).

Ownership of Novartis Shares and Share Options by Non-Executive Directors

Ownership Guidelines

Under the share ownership guidelines, Non-Executive Directors are required to own at least 5 000 Novartis shares within three years after joining the Board. As of December 31, 2006, all Non-Executive Directors who have served at least three years on the Board comply with these share ownership guidelines.

Shares Owned by Non-Executive Directors

As of December 31, 2006, the individual ownership of Novartis shares by the Non-Executive Directors and persons closely linked to them was as follows:

Beneficial Owner	Number of Shares Owned Directly or Indirectly
Ulrich Lehner	16 788
Hans-Joerg Rudloff	109 791
Birgit Breuel	5 000
Peter Burckhardt	19 472
Srikant Datar	9 403
William W. George	118 865
Alexandre F. Jetzer	65 530
Pierre Landolt	15 670
Andreas von Planta	2 178
Wendelin Wiedeking	15 586
Rolf M. Zinkernagel	19 231
Total	**397 514**

The total number of Novartis shares owned as of December 31, 2006, by the Non-Executive Directors and persons closely linked to them was 397 514. This implies an average holding of 36 138 shares. “Persons closely linked to them” are (i) their spouse, (ii) their children below age 18, (iii) any legal entities that they own or otherwise control, or (iv) any legal or natural person who is acting as their fiduciary. None of the Non-Executive Directors and persons closely linked to them owned 1% or more of outstanding shares.

Options Owned by Non-Executive Directors

As of December 31, 2006, the Non-Executive Directors held a total of 159 407 Novartis share options. The options held for the previous five years are all from the grant year 2002 (the last year in which share options were granted to Directors) and have the following characteristics:

Grant Year	Options Held [1] (number)	Exercise Price (CHF)	Term Life (years)
2002	79 087	62.0	9

[1] Options are exercisable for one share each (1:1)

Compensation to Former Non-Executive Directors

In 2006 an amount of USD 50 406 was paid to one former Non-Executive Director.

Auditors

Duration of the Mandate and Terms of Office of the Independent Auditors

Based on a recommendation by the Audit and Compliance Committee, the Board nominates an independent auditor for election at the Annual General Meeting. PricewaterhouseCoopers (PwC) assumed its existing auditing mandate for Novartis in 1996. The lead auditors responsible for the mandate, Robert P. Muir and Daniel Suter, began serving in their roles in 2005 and 2003, respectively.

Auditing and Additional Fees

PwC charged the following fees for professional services rendered for the 12-month period ended December 31, 2006:

	2006 USD 000	2005 USD 000
Audit Services	19 785	20 129
Audit-Related Services	1 356	490
Tax Services	329	800
Other Services	344	22
Total	**21 814**	21 441

Audit Services are defined as the standard audit work that needs to be performed each year in order to issue opinions on the consolidated financial statements of the Group, to issue opinions relating to management’s assessment of internal controls over financial reporting and the effectiveness of the Group’s internal controls over financial reporting, and to issue reports on local statutory financial statements. Also included are services that can only be provided by the Group auditor, such as auditing of nonrecurring transactions and implementation of new accounting policies, audits of significant and

newly implemented system controls, pre-issuance reviews of quarterly financial results, consents and comfort letters and any other audit services required for US Securities and Exchange Commission or other regulatory filings.

Audit-Related Services include those other assurance services provided by the independent auditor but not restricted to those that can only be provided by the auditor signing the audit report. They comprise amounts for services such as acquisition due diligence and related audits, audits of pension and benefit plans, contractual audits of third-party arrangements, assurance services on corporate citizenship reporting, and consultation regarding new accounting pronouncements.

Tax Services represent tax compliance, tax returns, assistance with historical tax matters and other services.

Other Services include training in the finance area, benchmarking studies, assessment of certain non-financial processes and license fees for use of accounting and other reporting guidance databases.

Supervisory and Control Instruments

Audit and Compliance Committee

Management is responsible for creating the financial statements and managing the reporting process. Further, Management is responsible for designing internal controls over financial reporting and assessing and reporting on the effectiveness of those internal controls. The Audit and Compliance Committee reviews financial reporting processes on behalf of the Board.

For each quarterly and annual release of financial information, the Disclosure Review Committee reviews the release for accuracy and completeness of the release's disclosures. The Disclosure Review Committee is chaired by the Chief Financial Officer and is attended by the heads of Divisions, the heads of finance of Divisions and the heads of the following Corporate Functions: Legal & Tax Affairs, Treasury, Financial Reporting & Accounting, Internal Audit and Investor Relations. The decisions taken by the Disclosure Review Committee are reviewed by the Audit and Compliance Committee before publication of the financial release.

The Internal Audit function regularly carries out audits on operations and processes and performs such other functions as are assigned to it by the Board of Directors, the Chairman and Chief Executive Officer or the Audit and Compliance Committee. As a matter of principle, all organizational units of the Group are subject to audits from time to time. The Audit and Compliance Committee reviews regularly the internal audit scope, the audit plans and the results of the internal audits.

As the independent auditor, PwC is responsible for expressing an opinion on the conformity of the audited financial statements with International Financial Reporting Standards ("IFRS") and compliance with Swiss law. Additionally, PwC is responsible for expressing an opinion on Management's assessment of the effectiveness of internal control over financial reporting and for providing an opinion on the effectiveness of internal control over financial reporting.

The Audit and Compliance Committee is responsible for overseeing the conduct of these activities by Management and PwC. During 2006, the Audit and Compliance Committee held eight meetings. PwC was invited to all those meetings to attend during those agenda points that dealt with accounting, financial reporting or auditing matters and all matters of importance were discussed. PwC provided to the Audit and Compliance Committee the written disclosures required by US Independence Standards Board Standard No. 1 (Communications with Audit Committees), and the Audit and Compliance Committee and PwC have discussed PwC's independence from Novartis and Novartis Management.

Based on the reviews and discussions with Management and PwC referred to above, the Audit and Compliance Committee recommended to the Board, and the Board approved, inclusion of the audited financial statements in the Annual Report for the year ended December 31, 2006.

Policy on Pre-Approval of Audit and Non-Audit Services of Independent Auditors

The Audit and Compliance Committee's policy is to pre-approve all audit and non-audit services provided by PwC. These services may include audit services, audit-related services, tax services and other services, as described above. Pre-approval is detailed as to the particular service or categories of services, and is subject to a specific budget.

PwC and Management report, on a quarterly basis, to the Audit and Compliance Committee regarding the extent of services provided in accordance with this pre-approval and the fees for the services performed to date on a quarterly basis. The Audit and Compliance Committee may also pre-approve additional services on a case-by-case basis.

Information and Communication Policy

Introduction

Novartis is committed to open and transparent communication with shareholders, investors, financial analysts, customers, suppliers and other interested parties. Material information pertaining to Novartis businesses is timely and broadly disseminated in a manner that complies with obligations under the rules of both the SWX Swiss Exchange and the New York Stock Exchange. Novartis voluntarily complies with Regulation FD of the United States Securities and Exchange Commission (SEC). Forward-looking statements, which reflect Managment's understanding of the situation and performance as of the date of such statements, are made in an effort to help stakeholders better understand the progress of Novartis businesses.

Information Materials

Each year a detailed Annual Report to shareholders is published, which provides information on the results and operations of Novartis businesses. The Annual Report also provides information on developments in efforts regarding Corporate Citizenship, Health, Safety and Environment and Human Resources. Central to the Annual Report is one section entirely devoted to Corporate Governance and another to the audited financial statements of the reported year.

Financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and a bridging statement to US GAAP is provided. Apart from the Annual Report, an annual report on Form 20-F is also produced and filed with the SEC.

Since 2003, on a quarterly basis, results have been filed with the SEC on Form 6-K. Financial results releases are disseminated in the same manner as press releases. The quarterly results press releases contain unaudited financial statements in accordance with IFRS and US GAAP.

Press releases are issued from time to time regarding developments in various Novartis businesses and other activities in which they are involved. All releases are disseminated broadly and simultaneously pursuant to the rules and regulations of the Swiss and New York Stock Exchanges. Press releases relating to financial results and material events are also filed with the SEC on Form 6-K. An archive containing Annual Reports to Shareholders, annual reports to the SEC on Form 20-F, and quarterly results releases as well as related materials, such as slide presentations and conference call webcasts, can be found on the Novartis Investor Relations website (www.novartis.com/investors). A press release archive is also maintained on:

www.novartis.com/news/en/media.shtml

Information contained in all reports and releases is deemed correct and accurate at the time of release. Past releases are not updated to take into account changes in the marketplace or Novartis businesses.

Investor Relations Program

Novartis has an Investor Relations program which includes the following:

- A full-year results presentation;
- Investor events focusing on the Novartis R&D pipeline;
- Themed events, covering areas of interest such as therapeutic advances in medicine, pharmaceutical research or the generics business (Sandoz);
- One-on-one and group meetings with investors and analysts at a Novartis site or during roadshows at major financial centers;
- Conference calls for quarterly results or in conjunction with other press releases; and
- Presentations at broker-sponsored industry conferences.

These activities focus on recently announced activities or financial results and are conducted in line with stock exchange disclosure rules and Regulation FD.

Presentations are regularly posted to the financial community in an archive on the Novartis Investor Relations website, as audio webcasts and/or PDF documents for slide presentations. These presentations are not regularly updated, but reflect the developments within Novartis over time.

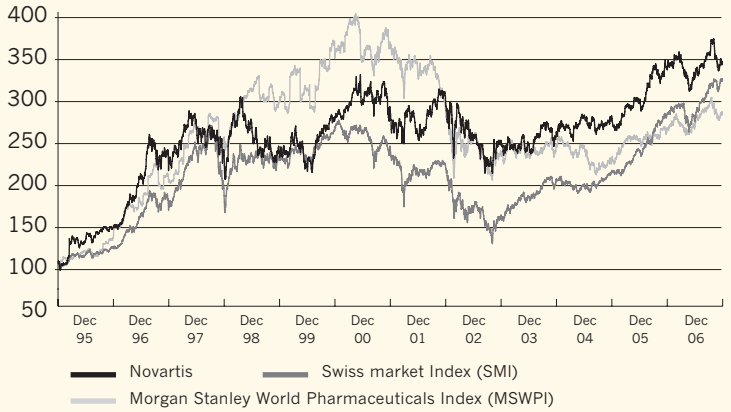
Novartis Investor Relations is managed from the global headquarters in Basel, Switzerland. A team of professionals is located in New York to assist in coordinating responses to inquiries from the US. Their contact details as well as an Investor Relations mailbox are made available on the Novartis Investor Relations website

(www.novartis.com/investors).

On the Novartis website, you can also subscribe to the Novartis Investor Relations e-mail distribution system.

Performance Graph

This graph compares the total shareholder return of Novartis, the Morgan Stanley World Pharmaceuticals Index and the Swiss Market Index (SMI). The graph assumes an investment of CHF 100 in Novartis at the closing price on December 31, 1995, and an equal amount invested in each of the indices.



	Dec 95	Dec 96	Dec 97	Dec 98	Dec 99	Dec 00	Dec 01	Dec 02	Dec 03	Dec 04	Dec 05	Dec 06
Novartis	100	147	244	281	247	317	269	230	270	330	358	338
SMI	100	122	197	228	245	268	215	158	201	273	320	319
MSWPI	100	142	221	292	302	380	334	229	219	261	282	279

Further Information

Topic	Location
SHARE CAPITAL Capital Structure	 Articles of Incorporation of Novartis AG (www.novartis.com/investors/en/corporate_governance)
Novartis Key Share Data	http://www.novartis.com/investors/en/share_information/key_share_data.shtml
SHAREHOLDER RIGHTS Information on the Novartis share and the shareholder's participation rights Articles of Incorporation of Novartis AG	 (www.novartis.com/investors/en/corporate_governance) Investor Relation information: (www.novartis.com/investors)
BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE Internal organization and allocation of responsibilities	 Board Regulations and Board Committee Charters (www.novartis.com/investors/en/corporate_governance)
SENIOR MANAGEMENT	Management Team http://www.novartis.com/about_novartis/en/structure.shtml
NOVARTIS CODE FOR SENIOR FINANCIAL OFFICERS	(http://www.novartis.com/investors/en/corporate_governance)
ADDITIONAL INFORMATION Sources for further information and anticipated key reporting dates in 2007	 IR Calendar (http://www.novartis.com/investors/en/contact_us/ir_calendar.shtml)

BOARD OF DIRECTORS
FROM LEFT TO RIGHT: ANDREAS VON PLANTA, PETER BURCKHARDT, ROLF M. ZINKERNAGEL, BIRGIT BREUEL, SRIKANT DATAR, HANS-JOERG RUDLOFF, DANIEL VASELLA, ULRICH LEHNER, PIERRE LANDOLT, WILLIAM W. GEORGE, WENDELIN WIEDEKING, ALEXANDRE F. JETZER

Daniel Vasella, M.D.
Chairman and CEO
Swiss, age 53

Ulrich Lehner, Ph.D.
Vice Chairman and Lead Director
German, age 60

Hans-Joerg Rudloff
Vice Chairman
German, age 66

Dr. h.c. Birgit Breuel
German, age 69

Peter Burckhardt, M.D.
Swiss, age 68

Srikant Datar, Ph.D.
American, age 53

William W. George
American, age 64

Alexandre F. Jetzer
Swiss, age 65

Pierre Landolt
Swiss, age 59

Andreas von Planta, Ph.D.
Swiss, age 51

Dr. Ing. Wendelin Wiedeking
German, age 54

Rolf M. Zinkernagel, M.D.
Swiss, age 62

Honorary Chairman

Alex Krauer, Ph.D.

Corporate Secretary

Bruno Heynen

† Marc Moret, who was a key architect in the creation of Novartis and former Sandoz Chairman, died on March 17, 2006.

Daniel Vasella, M.D.
Swiss, age 53

Function at Novartis AG Since 1996 Dr. Vasella has served as Chief Executive Officer of the Group and as executive member of the Board of Directors. In 1999, he additionally was appointed Chairman of the Board of Directors.

Activities in governing or supervisory bodies Dr. Vasella is also a member of the Board of Directors of Pepsico, Inc.*, United States, a member of the Board of Dean's Advisors at the Harvard Business School, and a member of the INSEAD Board of Directors.

Professional background Dr. Vasella graduated with an M.D. from the University of Bern in 1979. After holding a number of medical positions in Switzerland, he joined Sandoz Pharmaceuticals Corporation in the US in 1988. From 1993 to 1995, Dr. Vasella advanced from Head of Corporate Marketing and Senior Vice President and Head of Worldwide Development to Chief Operating Officer of Sandoz Pharma Ltd. In 1995 and 1996, Dr. Vasella was a member of the Sandoz Group Executive Committee and Chief Executive Officer of Sandoz Pharma Ltd. He received the Harvard Business School's Alumni Achievement Award and the Appeal of Conscience Award as well as the AJ Congress Humanitarian Award and numerous other awards. Dr. Vasella was awarded an honorary doctorate by the University of Basel. He has also been honored with the Ordem Nacional do Cruzeiro do Sul (Brazil) and holds the rank of Chevalier in the Ordre National de la Légion d'honneur (France).

Permanent management or consultancy engagements Dr. Vasella is a member of the International Board of Governors of the Peres Center for Peace in Israel and a member of the International Business Leaders Advisory Council for the Mayor of Shanghai. He also serves as a member of several industry associations and educational institutions.

Ulrich Lehner, Ph.D.
German, age 60

Function at Novartis AG Ulrich Lehner was elected in 2002 to the Board of Directors of Novartis AG. He became Vice Chairman and Lead Director in 2006 and is Chairman of the Audit and Compliance Committee. He is a member of the Chairman's Committee, the Compensation Committee and the Corporate Governance and Nomination Committee. The Board has appointed him as Audit Committee Financial Expert. He qualifies as an independent Non-Executive Director.

Activities in governing or supervisory bodies Ulrich Lehner is Chairman of the Management Board of Henkel KGaA, Germany. He also serves as a member of the Board of Ecolab Inc.*, United States, as member of the supervisory board of E.ON AG* and of HSBC Trinkaus & Burkhardt KGaA*, both in Germany.

Professional background Ulrich Lehner studied business administration and mechanical engineering. From 1975 to 1981, Ulrich Lehner was an auditor with KPMG Deutsche Treuhand-Gesellschaft AG in Duesseldorf. In 1981, he joined Henkel KGaA. After heading the Controlling Department of Fried. Krupp GmbH in Germany from 1983 to 1986, he returned to Henkel as Finance Director. From 1991 to 1994, Ulrich Lehner headed the Management Holding Henkel Asia-Pacific Ltd. in Hong Kong. From 1995 to 2000, he served as Executive Vice President, Finance/Logistics (CFO), of Henkel.

Hans-Joerg Rudloff
German, age 66

Function at Novartis AG Since 1996 Hans-Joerg Rudloff has served as Vice Chairman. In 1999, he became a member of the Chairman's Committee and the Compensation Committee and since 2002 he has been a member of the Corporate Governance and Nomination Committee. He qualifies as an independent, Non-Executive Director. Since 2004 Hans-Joerg Rudloff has been a member of the Audit and Compliance Committee.

Activities in governing or supervisory bodies Hans-Joerg Rudloff joined Barclays Capital* in 1998, where he is presently Chairman. Hans-Joerg Rudloff also serves on a number of boards of other companies, including the Boards of Directors of the TBG Group (Thyssen-Bornemisza Group), Monaco, Marcuard Group, Geneva, RBC, Russia and ADB Consulting, Geneva, Switzerland. In 2005, Hans-Joerg Rudloff became Chairman of the International Capital Markets Association (ICMA) and is Chairman of the Compensation Committee of ICMA. In 2006, he joined Rosneft and became Chairman of the Audit Committee and the Remuneration Committee. He also is the Chairman of the Board of Bluebay Asset Management Ltd.

Professional background Hans-Joerg Rudloff studied economics at the University of Bern and graduated in 1965. He joined Credit Suisse in Geneva and moved to New York in 1968 to join the investment banking firm of Kidder Peabody Inc. He was in charge of the Swiss operation and was elected Chairman of Kidder Peabody International and a member of the Board of Kidder Peabody Inc. in 1978. In 1980 he joined Credit Suisse First Boston and was elected Vice Chairman in 1983 and Chairman and CEO in 1989. From 1986 to 1990, Hans-Joerg Rudloff was also a member of the Executive Board of Credit Suisse in Zurich in charge of all securities and capital market departments. From 1994 to 1998 Hans-Joerg Rudloff was Chairman of MC-BBL in Luxembourg. In 1994, Hans-Joerg Rudloff was elected to the Board of Directors of Sandoz AG.

Permanent management or consultancy engagements Hans-Joerg Rudloff is a member of the Advisory Board of the MBA program of the University of Bern, Switzerland, of Landeskreditbank Baden-Wuerttemberg, Germany, and EnBW (Energie Baden-Wuerttemberg), Germany.

*Publicly listed companies

Dr. h.c. Birgit Breuel
German, age 69

Function at Novartis AG Since 1996, Birgit Breuel has served as a Member of the Board. In 1999, she became a member of the Audit and Compliance Committee. She qualifies as an independent, Non-Executive Director.

Professional background Birgit Breuel studied politics at the Universities of Hamburg, Oxford and Geneva. She was Minister of Economy and Transport (1978–1986) and Minister of Finance (1986–1990) of Niedersachsen (Lower Saxony), the second-largest state of Germany. In 1990, Birgit Breuel was elected to the Executive Board of the Treuhandanstalt, which was responsible for the privatization of the former East Germany's economy. In 1991, she also became the President of the Treuhandanstalt. From 1995 to 2000, she acted as the General Commissioner and CEO of the world exhibition EXPO 2000 in Hanover, Germany.

Peter Burckhardt, M.D.
Swiss, age 68

Function at Novartis AG Dr. Burckhardt has been a member of the Board of Directors since 1996. He qualifies as an independent, Non-Executive Director.

Activities in governing or supervisory bodies From 1982 to 2004 Dr. Burckhardt has been the Chairman of the Novartis (formerly Sandoz) Foundation for Biomedical Research in Switzerland. Since 1982, Dr. Burckhardt has been the Head of the Department of Internal Medicine at the University Hospital of Lausanne, then chief of medical service A, until 2004.

Professional background Dr. Burckhardt is a Professor of Medicine and the former Chairman of the Department of Internal Medicine at the University Hospital of Lausanne, Switzerland. He has an M.D. from the University of Basel and is a trained internal medicine and endocrinology specialist from the University of Lausanne and the Massachusetts General Hospital, Boston. In addition to his clinical activities, Dr. Burckhardt conducts clinical research, mainly in bone diseases and calcium metabolism. He has authored more than 300 scientific publications and is an editorial board member of several international scientific journals. He was president of the Swiss Society of Internal Medicine, a member of the appeal committee of the national agency for drug controls, Chairman of National Societies and member of the Executive Committee of the International Foundation of Osteoporosis, and treasurer until 2006. Other experiences comprise board membership in several scientific societies including the Swiss Societies of Nutrition, Clinical Chemistry, Endocrinology, Bone and Mineral Research, the Committee for Endocrinology of the European Community and advisory roles to scientific foundations in Switzerland and Germany.

Permanent management or consultancy engagements Since 1990, he has been the organizer and chairman of the International Symposia on Nutrition and Osteoporosis.

Srikant Datar, Ph.D.
American, age 53

Function at Novartis AG Srikant Datar became a member of the Board in 2003. He qualifies as an independent, Non-Executive Director.

Activities in governing or supervisory bodies Srikant Datar is a member of the Board of ICF International, Fairfax, Virginia.

Professional background In 1973, Srikant Datar graduated with distinction in mathematics and economics at the University of Bombay. He is a Chartered Accountant and holds two masters degrees and a Ph.D. from Stanford University. Srikant Datar has worked as an accountant and planner in industry and as a professor at the Universities of Carnegie Mellon, Stanford and Harvard in the US. He currently holds the Arthur Lowes Dickinson Professorship at Harvard University. His research interests are in the areas of cost management, measurement of productivity, new product development, time-based competition, incentives and performance evaluation. He is the author of many scientific publications and has received several academic awards and honors. Srikant Datar has advised and worked with numerous renowned firms such as General Motors, Mellon Bank and Morgan Stanley in research, development and training.

Permanent management or consultancy engagements Srikant Datar is Senior Associate Dean at the Graduate School of Business Administration of Harvard University, Boston, Massachusetts.

*publicly listed companies

William W. George
American, age 64

Function at Novartis AG In 1999, William W. George was elected as a member of the Board of Directors. In 2000, he became a member of the Compensation Committee. In 2001, he became a member of the Chairman's Committee and also the Chairman of the Corporate Governance and Nomination Committee. He qualifies as an independent, Non-Executive Director.

Activities in governing or supervisory bodies William W. George is a member of the Boards of Directors of Goldman Sachs* and Exxon Mobil*.

Professional background William W. George received his BSIE from Georgia Institute of Technology in 1964 and his MBA from Harvard University in 1966. From 1966 to 1969, he worked in the US Department of Defense as special assistant to the Secretary of the Navy and as assistant to the Comptroller. After having served as President of Litton Microwave Cooking Products, William W. George held a series of executive positions with Honeywell from 1978 to 1989. Thereafter he served as President and Chief Operating Officer of Medtronic, Inc. in Minneapolis, and, from 1991 to 2001, as its Chief Executive Officer. From 1996 to 2002, he was Medtronic's Chairman. He has served as Executive-in-Residence at Yale School of Management and Professor of Leadership and Governance at IMD International in Lausanne, Switzerland.

Permanent management or consultancy engagements William W. George is Professor of Management Practice at Harvard Business School. In addition, he is a trustee of the Carnegie Endowment for International Peace and the World Economic Forum USA.

Alexandre F. Jetzer
Swiss, age 65

Function at Novartis AG Alexandre F. Jetzer has served as a Director since 1996. He is a Non-Executive Director.

Activities in governing or supervisory bodies Alexandre F. Jetzer is also a member of the Board of Directors of Clariden Bank, Zurich, Switzerland, of the Supervisory Board of Compagnie Financière Michelin, Granges-Paccot (FR), Switzerland, and of the Board of the Lucerne Festival Foundation, Lucerne, Switzerland.

Professional background Alexandre F. Jetzer graduated with Masters of law and economics from the University of Neuchâtel, Switzerland and is a licensed attorney. After serving as General Secretary of the Swiss Federation of Commerce and Industry (Vorort) from 1967 on, Alexandre F. Jetzer joined Sandoz in 1980. In 1981 he was appointed Member of the Sandoz Group Executive Committee in the capacity of Chief Financial Officer (CFO) and, as of 1990, as Head of Management Resources and International Coordination. From 1995 to 1996, he was Chairman and Chief Executive Officer of Sandoz Pharmaceuticals Corporation in East Hanover, New Jersey (US) and he additionally served as President and CEO of Sandoz Corporation in New York (NY). After the merger which created Novartis in 1996 until 1999, he was appointed as a member of the Executive Committee of Novartis and Head of International Coordination, Legal & Taxes.

Permanent management or consultancy engagements Alexandre F. Jetzer has a consultancy agreement with Novartis International AG (Government Relations Support). In addition he is a member of the International Advisory Panel (IAP) on Biotechnology Strategy of the Prime Minister of Malaysia and a member of the Development Committee of the Neuroscience Center of the University of Zurich, Switzerland.

Pierre Landolt
Swiss, age 59

Function at Novartis AG Pierre Landolt has served as a Director since 1996. He qualifies as an independent, Non-Executive Director.

Activities in governing or supervisory bodies Pierre Landolt is President of the Sandoz Family Foundation, Glaris, Switzerland, Chairman of the Board of Directors of Emasan AG, Basel, Switzerland, and of Vaucher Manufacture Fleurier SA, Fleurier, Switzerland. He is a member of the Board of Directors of Syngenta AG*, where he also serves as member of the Audit Committee, and of the Syngenta Foundation for Sustainable Agriculture, both in Basel, Switzerland. In addition, Pierre Landolt is Associate Partner of Banque Landolt & Cie, Lausanne, Switzerland, and Vice Chairman of the Board of Directors of Parmigiani Fleurier SA., Fleurier, Switzerland, and of the "Fondation du Montreux Jazz Festival," Montreux, Switzerland.

Professional background Pierre Landolt graduated with a Bachelor of Law degree from the University of Paris-Assas. From 1974 to 1976, he worked for Sandoz Brazil SA. In 1977, he acquired an agricultural estate in the arid Northeast region of Brazil and transformed it into a model farm for organic and biotechnological development. He also created an irrigation company, initially for his own farm and today active in the entire northern region of Brazil. Since 1997, Pierre Landolt has been Associate and Chairman of AxialPar Ltda, São Paulo, Brazil, an investment company focussed on sustainable development. In 2000, he co-founded EcoCarbone France, Paris, a company active in the design and development of carbon sequestration processes in Asia, Africa, South America and Europe.

Andreas von Planta, Ph.D.
Swiss, age 51

Function at Novartis AG In 2006, Andreas von Planta was elected to the Board of Directors of Novartis AG. He has been a member of the Audit and Compliance Committee since 2006. He qualifies as an independent, Non-Executive Director.

Activities in governing or supervisory bodies Andreas von Planta is Vice Chairman of Holcim Ltd* and the Schweizerische National-Versicherungs-Gesellschaft AG*, and is a member of the boards of various Swiss subsidiaries of foreign companies.

Professional background Andreas von Planta holds lic. iur. and Ph.D. degrees from the University of Basel and an LL.M. from Columbia University School of Law, New York. He passed his bar examinations in Basel in 1982. Since 1983, he has lived in Geneva, working for the law firm Lenz & Staehelin where he became a partner in 1988. His areas of specialization include corporate law, corporate finance, company reorganizations and mergers & acquisitions.

Permanent management or consultancy engagements Andreas von Planta sits on the Board of Editors of the Swiss Review of Business Law, and is a former Chairman of the Geneva Association of Business Law.

Dr. Ing. Wendelin Wiedeking
German, age 54

Function at Novartis AG Wendelin Wiedeking was elected as a member of the Board in 2003. He qualifies as an independent, Non-Executive Director.

Activities in governing or supervisory bodies Wendelin Wiedeking is Chairman of the Executive Board of Dr.-Ing. h.c. F. Porsche AG*, Germany.

Professional background Born in Ahlen, Germany, Mr. Wiedeking studied mechanical engineering and worked as a scientific assistant in the Machine Tool Laboratory of the Rhine-Westphalian College of Advanced Technology in Aachen. His professional career began in 1983 as Director's Assistant in the Production and Materials Management area of Dr.-Ing. h.c. F. Porsche AG in Stuttgart-Zuffenhausen. In 1988, he moved to the Glyco Metall-Werke KG in Wiesbaden as Division Manager, where he advanced by 1990 to the position of Chief Executive and Chairman of the Board of Management of Glyco AG. In 1991, he returned to Porsche AG as Production Director. A year later, the Supervisory Board appointed him spokesman of the Executive Board (CEO), and Chairman in 1993.

Rolf M. Zinkernagel, M.D.
Swiss, age 62

Function at Novartis AG In 1999, Dr. Zinkernagel was elected to the Board of Directors of Novartis AG. He has been a member of the Corporate Governance and Nomination Committee since 2001. He qualifies as an independent, Non-Executive Director.

Professional background Dr. Zinkernagel graduated from the University of Basel with an M.D. in 1970. Since 1992 he has been Professor and Director of the Institute of Experimental Immunology at the University of Zurich. Dr. Zinkernagel has received many awards and prizes for his work and contribution to science, the most prestigious being the Nobel Prize for Medicine which he was awarded in 1996. Dr. Zinkernagel was a member of the Board of Directors of Cytos Biotechnology AG*, Schlieren/Zurich, Switzerland until April 2003.

Permanent management or consultancy engagements Dr. Zinkernagel is a member of the Swiss Society of Allergy and Immunology, the American Associations of Immunologists and of Pathologists, the ENI European Network of Immunological Institutions, and President of the Executive Board of the International Union of Immunological Societies (IUIS). He is also a member of the Scientific Advisory Boards of: Bio-Alliance AG, Frankfurt, Germany; Aravis General Partner Ltd., Cayman Islands; Bioxell*, Milan, Italy; Esbatech, Zurich, Switzerland; Novimmune, Geneva, Switzerland; Miikana Therapeutics, Fremont CA (until January 2006); Nuvo Research* (until September 2005: Dimethaid), Toronto, Canada; Humab, San Francisco CA, US; xbiotech, Vancouver, Canada; ImVision, Hannover, Germany; MannKind*, Sylmar CA, US; and Laboratoire Koch, Lausanne, Switzerland (since 2006). Dr. Zinkernagel is also a Science Consultant to: GenPat77, Berlin/Munich, Germany; Liponova*, Hannover, Germany; Solis Therapeutics, Palo Alto, US; Ganymed, Mainz, Germany; and Zhen-Ao Group, Dalian, China.

*Publicly listed companies

RUSSIAN CHILDREN'S CLINICAL HOSPITAL; MOSCOW, RUSSIA

EXECUTIVE COMMITTEE
FROM LEFT TO RIGHT: THOMAS WELLAUER, ANDREAS RUMMELT, PAUL CHOFFAT, JUERGEN BROKATZKY-GEIGER, MARK C. FISHMAN, DANIEL VASELLA, THOMAS EBELING, RAYMUND BREU, URS BAERLOCHER, JOERG REINHARDT

Daniel Vasella, M.D.
Chairman and CEO
Member since 1996
Swiss, age 53

Urs Baerlocher, J.D.
Head of Legal and Tax Affairs
Member since 1999
Swiss, age 64

Raymund Breu, Ph.D.
Chief Financial Officer
Member since 1996
Swiss, age 61

Juergen Brokatzky-Geiger, Ph.D.
Head of Human Resources
Member since 2005
German, age 54

Paul Choffat, J.D.
Head of Consumer Health
Member since 2002
Swiss, age 57

Thomas Ebeling
Head of Pharmaceuticals
Member since 1998
German, age 47

Mark C. Fishman, M.D.
Head of Biomedical Research
Member since 2002
American, age 55

Joerg Reinhardt, Ph.D.
Head of Vaccines and Diagnostics
Member since 2007
German, age 50

Andreas Rummelt, Ph.D.
Head of Sandoz
Member since 2006
German, age 50

Thomas Wellauer, Ph.D.
Head of Corporate Services
Member since 2007
Swiss, age 51

Secretary to the Executive Committee

Monika Matti

Daniel Vasella, M.D.
Swiss, age 53

Dr. Vasella graduated with an M.D. from the University of Bern in 1979. After holding a number of medical positions in Switzerland, he joined Sandoz Pharmaceuticals Corporation in the US in 1988. From 1993 to 1995, Dr. Vasella advanced from Head of Corporate Marketing and Senior Vice President and Head of Worldwide Development to Chief Operating Officer of Sandoz Pharma Ltd. In 1995 and 1996, he was a member of the Sandoz Group Executive Committee and Chief Executive Officer of Sandoz Pharma Ltd. After the merger that created Novartis in 1996, Dr. Vasella became Chief Executive Officer of the Group and executive member of the Board of Directors. In 1999 he additionally was appointed Chairman of the Board of Directors. Dr. Vasella is a director of Pepsico, Inc. (US). He is a member of the Board of Dean's Advisors at the Harvard Business School, and a member of the INSEAD Board of Directors. Dr. Vasella is also a member of the International Board of Governors of the Peres Center for Peace in Israel and the International Business Leaders Advisory Council for the Mayor of Shanghai. He was awarded an honorary doctorate by the University of Basel in 2002.

Urs Baerlocher, J.D.
Swiss, age 64

Urs Baerlocher earned his J.D. from the University of Basel and was admitted to the bar in 1970. After working as a tax lawyer, he joined Sandoz Ltd. in 1973, and held a number of key positions including Head of Strategic Planning and Head of Group Reporting. In 1987, he was made a member of the Sandoz Executive Board, responsible i.a. for Strategic Planning, Human Resources, Legal, Taxes, Patents and Trademarks. In 1990, he became CEO of the Sandoz Nutrition Division and in 1993 CEO of Sandoz Pharma Ltd. In 1995, Urs Baerlocher assumed the position of Chairman of the Board of Sandoz Deutschland GmbH (Germany) and Biochemie GmbH (Austria). After the formation of Novartis in 1996, Urs Baerlocher was appointed Head of Legal, Tax, Insurance, to which Corporate Security and International Coordination were added. In 1999, he became a member of the Executive Committee of Novartis. From 2000, he held the position of Head of Legal and General Affairs. His responsibilities were extended to include Corporate Intellectual Property and Corporate Health, Safety & Environment as well as from 2004, Corporate Risk Management and from 2005, Public Affairs and the functional reporting of Group Quality Operations. Since May 2006, Urs Baerlocher has been Head of Legal and Tax Affairs.

Raymund Breu, Ph.D.
Swiss, age 61

Raymund Breu graduated from the Swiss Federal Institute of Technology (ETH) in Zurich, Switzerland, with a Ph.D. in mathematics. In 1975, he joined the Treasury Department of the Sandoz Group, and, in 1982, became the Head of Finance for the Sandoz affiliates in the UK. In 1985, he was appointed Chief Financial Officer of Sandoz Corporation in New York, where he was responsible for all Sandoz Finance activities in the US. In 1990, he became Group Treasurer of Sandoz Ltd., Basel, Switzerland, and, in 1993, Head of Group Finance and Member of the Sandoz Executive Board. Following the formation of Novartis in 1996, Raymund Breu assumed his current position as Chief Financial Officer and member of the Executive Committee of Novartis. He is also a member of the Board of Directors of Swiss Re, the SWX Swiss Exchange and its admission panel, and the Swiss takeover commission.

Juergen Brokatzky-Geiger, Ph.D.
German, age 54

Juergen Brokatzky-Geiger graduated with a Ph.D. in Chemistry from the University of Freiburg, Germany in 1982. He joined Ciba-Geigy Ltd. in 1983 as a Laboratory Head in the Pharmaceuticals Division. After a job rotation in Summit, New Jersey (US) from 1987 to 1988 he held positions of increasing responsibility in Research and Development (R&D) including Group Leader of Process R&D, Head of Process R&D and Head of Process Development and Pilot Plant Operations. During the merger of Ciba-Geigy and Sandoz in 1996, Juergen Brokatzky-Geiger was appointed Integration Officer of Technical Operations. Thereafter, he became the Head of Chemical and Analytical Development and served as the Global Head of Technical R&D from 1999 to August 2003. Juergen Brokatzky-Geiger was appointed to his present position as Head of Human Resources on September 1, 2003. He has been a member of the Executive Committee of Novartis since January 1, 2005.

Paul Choffat, J.D.
Swiss, age 57

Paul Choffat holds a J.D. from the University of Lausanne, Switzerland, and an M.B.A. from the International Institute for Management Development (IMD) in Lausanne. He started his professional career with Nestlé in Zurich, Switzerland, and London, UK. From 1981 to 1985, he was a project manager at McKinsey & Company in Zurich. Between 1987 and 1994, Paul Choffat held a number of senior positions at Landis & Gyr in Zug, Switzerland, where he became a member of the Executive Board and Head of the Communications Division. In 1994, he moved to Von Roll in Gerlafingen, Switzerland, as CEO. Paul Choffat joined Sandoz Ltd. in 1995 as Head of Management Resources and International Coordination. He subsequently became a member of the Executive Board and was responsible for Group Planning and Organization. During the Novartis merger he headed the Integration Office. In 1996, Paul Choffat returned to line management as CEO of Fotolabo SA, Montpreveyres-sur-Lausanne, Switzerland, where he remained for three years before becoming an entrepreneur and private investor in 1999. He rejoined Novartis in January 2002 as Head of Novartis Consumer Health and member of the Executive Committee of Novartis.

Thomas Ebeling
German, age 47

Thomas Ebeling graduated from the University of Hamburg, Germany with a degree in psychology. From 1987 to 1991, he held several positions of increasing responsibility at Reemstma Germany. In 1991, he joined Pepsi-Cola Germany as Marketing Director. He became Marketing Director for Germany and Austria in 1993, and was National Sales and Franchise Director for Pepsi's retail and on-premise sales from 1994. He then served as General Manager of Pepsi-Cola Germany. In 1997, Thomas Ebeling joined Novartis as General Manager of Novartis Nutrition for Germany and Austria. After serving as CEO of Novartis Nutrition worldwide, he became CEO of Novartis Consumer Health Division and Chief Operating Officer of Novartis Pharma AG before attaining his present position in 2000. He has been a member of the Board of Directors of Idenix Pharmaceuticals Inc. since 2003.

Mark C. Fishman, M.D.
American, age 55

Dr. Fishman graduated with a B.A. from Yale College in 1972 and an M.D. from Harvard Medical School in 1976. He was appointed President of the Novartis Institutes for BioMedical Research (NIBR) in 2002. Before joining Novartis, Dr. Fishman was Chief of Cardiology and Director of the Cardiovascular Research Center at the Massachusetts General Hospital in Boston, Massachusetts. He continues to hold a professorship in the Department of Medicine at Harvard Medical School. Dr. Fishman serves on several editorial boards and has worked with national policy and scientific committees including those of the US National Institutes of Health (NIH) and the Wellcome Trust. He completed his Internal Medicine residency, Chief residency, and Cardiology training at the Massachusetts General Hospital. He has been honored with many awards and distinguished lectureships, and is a member of the Institute of Medicine of the National Academies (US) and Fellow of the American Academy of Arts and Sciences.

Joerg Reinhardt, Ph.D.
German, age 50

Joerg Reinhardt graduated with a Ph.D. in Pharmaceutical Sciences from the University of Saarbruecken, Germany in 1981. In April 2006, he became CEO of the new Novartis Vaccines and Diagnostics Division that combines the vaccines and blood testing businesses of the former Chiron Corp. Previously, Joerg Reinhardt was Head of Development at the Novartis Pharmaceuticals Division, overseeing the company's clinical, pharmaceutical, chemical and biotechnological product development, as well as drug safety assessment and regulatory affairs. Joerg Reinhardt joined Sandoz Pharma Ltd. in 1982 and held positions of increasing responsibility in research and development for the company. In 1994, he was made Head of Development for Sandoz Pharma Ltd. After the merger that created Novartis in 1996, Joerg Reinhardt became Head of Preclinical Development and Project Management for Novartis and assumed the position of Head of Pharmaceutical Development in 1999. He chairs the Board of Directors of the Genomics Institute of the Novartis Foundation in La Jolla, California. He has been a member of the Executive Committee of Novartis since January 1, 2007.

Andreas Rummelt, Ph.D.
German, age 50

Andreas Rummelt graduated with a Ph.D. in Pharmaceutical Sciences from the University of Erlangen-Nuernberg, Germany. He joined Sandoz Pharma Ltd. in 1985 and held various positions in Development. From 1985 to 1994, he served as a Laboratory Head, then Group Head, and finally as Department Head in the area of Drug Delivery Systems. In 1994 he was appointed Head of Worldwide Technical Research & Development, a position he retained following the merger that created Novartis in 1996. From 1999 until October 2004, Andreas Rummelt served as Head of Technical Operations of Novartis Pharma AG. He was appointed to his present position as CEO of Sandoz on November 1, 2004 and has been a member of the Executive Committee of Novartis since January 1, 2006.

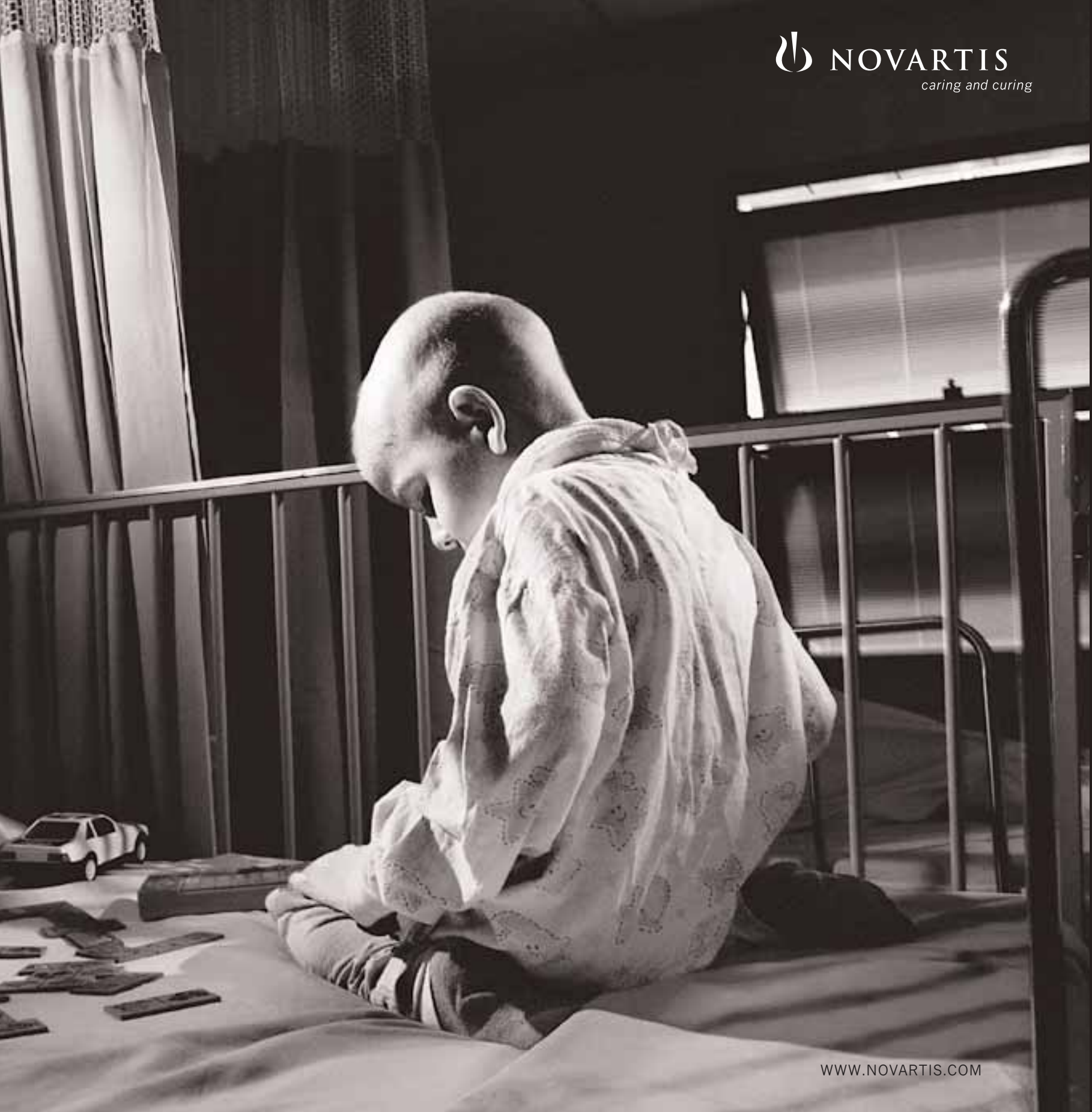
Thomas Wellauer, Ph.D.
Swiss, age 51

Thomas Wellauer graduated with a Ph.D. in Systems Engineering and an M.S. in Chemical Engineering from the Swiss Federal Institute of Technology (ETH). He also holds a M.B.A. from the University of Zurich. Thomas Wellauer joined Novartis in 2006 as Head of Corporate Services. He started his career with McKinsey and Company, becoming a Partner in 1991 and Senior Partner in 1996. In 1997, he was named CEO of the Winterthur Insurance Group, which later was acquired by Credit Suisse. At Credit Suisse he was a member of the Group Executive Board, initially responsible for the group's insurance business before becoming CEO of the Financial Services Division. Most recently before joining Novartis, Thomas Wellauer headed and completed the Clariant Performance Improvement Program, a global turnaround project at the specialty chemicals maker. He has been a member of the Executive Committee of Novartis since January 1, 2007.

BUSINESS UNIT HEADS

Name, nationality and age	Head of Business Unit	Active for Novartis since	Significant positions previously held	Education
David Epstein American, 45	Oncology	1989	Chief Operating Officer and member of the Executive Committee of Novartis Pharmaceuticals Corporation	Bachelor of Science, Pharmacy, Rutgers University, M.B.A., Columbia University
Larry Allgaier American, 48	OTC	2003	VP and General Manager, North America Baby Care, for Procter & Gamble	Bachelor of Science, Chemical Engineering, Christian Brothers University
George Gunn British, 56	Animal Health	2003	President Animal Health, Pharmacia Corp.; Head Animal Health, US and Region North America, for Novartis Animal Health	Bachelor of Veterinary Medicine and Surgery from the Royal Dick School of Veterinary Studies, Edinburgh, UK
Kurt T. Schmidt American, 49	Gerber	2002	Head, Novartis Animal Health Business Unit; Area Director Australasia, Kraft Foods; General Manager Food for Kraft Foods, Germany	Bachelor of Science, United States Naval Academy, Annapolis; M.B.A., University of Chicago
Michael Kehoe Canadian, 49	CIBA Vision	2006	President Global Oral Care for Procter & Gamble	Bachelor of Commerce, Queen's University, Kingston, Canada

Michael Kehoe succeeded Joseph Mallof, effective February 21, 2006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