NOVARTIS EGYPT AT THE STRATEGIC CROSS ROADS; TO BE OR NOT TO BE[1]

INTRODUCTION

On the early morning of April 15, 2006, Mr. Alaa Nashaat, Novartis Pharma Site Head, noticed that his coffee had become cold as he sat back in his chair deeply thinking about the decision quandary at hand. Several issues struggled in his mind as he thought about the value of operating in Egypt given the fact that it's the largest market in the Middle East. Pharmaceutical products have been one of the most competitive and profitable sectors of Egyptian manufacturing. Egypt is the supplier in the Middle East, accounting for 30% of the MENA region. Mr. Alaa also recalled that local manufacturing of drugs satisfies 92.56% of local demand yet based on 85% importation of raw materials. He started preparing some documents for the monthly operations meeting which was due in about 15 minutes. The government restrictions on pricing had seriously crippled the company's pricing policies. Raw material costs kept continuously ramping up. The issue became more dramatic with the rapid devaluation of the Egyptian pound. Novartis Pharma, Egypt, was at a serious cross roads and its survival was at stake. *"Net loss last year amounted to L.E. 15,776,735,"* Mr. Alaa thought to himself.

As the monthly Pharma operations meeting started, all attendees knew that a decision has to be made. For the last three weeks, management members were doing their homework to support the big decision and now it is time for the final discussion. Mr. Alaa started the discussion by saying: *"I think you all know that our financial performance has been declining for the past five years, our selling prices are fixed while our cost of operation is dramatically increasing. We are accumulating looses and our efforts to have price increases were hurdled by government policies. The fate of our factory is at stake and we have to react immediately. It is now or never"*

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[1] *This case was prepared by Heba Elmahdy, Mohamed Mostafa, Noha albassiouny, Osama Ahmad and Reda Barakat as part of the fulfillment of the graduate MGMT 508 course offered by Dr. Tarek Hatem , Professor of Strategic management at the American University in Cairo.*

NOVARTIS A.G. (THE FOUNDER MOTHER COMPANY)

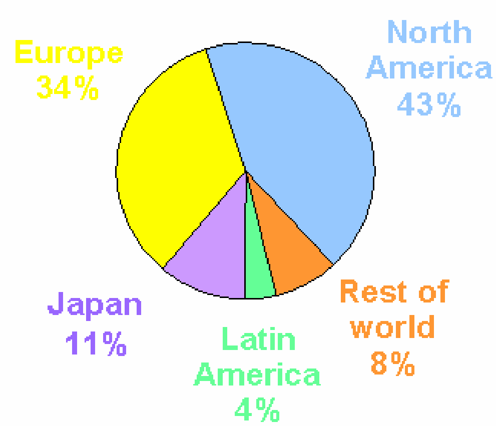
On March 7th 1996, Sandoz and Ciba-Geigy, the two Swiss-based chemical/life sciences giants, had agreed to become one company called Novartis. Novartis, at that time, was the result of the largest corporate merger in history. Since then and till today, Novartis is continuing to make progress in terms of innovations and financial profits. Novartis has proven itself to be one of the fastest growing healthcare companies worldwide in the last couple of years. It poised to further expand its market share in the coming years. In 2005, the Group reported worldwide sales of about CHF 40 billion. Novartis was ranked in 2005 as one of the 25 largest companies worldwide in terms of market value. Based on a ranking by IMS-Health, it is the fourth largest company in terms of total global pharmaceutical sales.

What led to such an efficient performance is that Novartis is one of the best combinations of strong pipeline and low patent-risk exposure accompanied by bold research investments to ensure ongoing leadership in innovation. It is also one the very few healthcare companies with leadership in both patented and generic drugs. This put together gave Novartis a Triple-A credit rating and ability to generate strong cash flow throughout its years of operations.

Pharmaceuticals is the core business for Novartis. Examples of some of the new products in this field include the blood pressure medicine Diovan®, the leukaemia treatment Glivec®, the breast cancer drug Femara®, the anti-fungal Lamisil® and Visudyne® for the treatment of age related macular degeneration(AMD). Novartis is also a force to be reckoned with in the generics market – through its subsidiary Sandoz – and in all the different areas of consumer health: over-the-counter (OTC) medicines, infant and baby food (Gerber), contact lenses and lens care products (CIBA Vision), medical nutrition and animal health.

The solid performance of Novartis made it a contributor to the Swiss exports by over 10%. Its own exports are estimated to be around CHF 16.6 billion whereas the rest of Switzerland exports around CHF 125.1 billion.

Novartis continued dynamic growth is helping it in gaining grounds worldwide despite tough competition. The sale of its pharmaceutical products is illustrated by region in the following figure. Just by looking at the outreach of Novartis product one can assess the strength of this brand and its products.



Examples of the solid growth through innovation are the 11 US launches since 2000 focusing on cardiovascular and oncology

Novartis A.G. Corporate Mission

"We want to discover, develop and successfully market innovative products to 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."

Aspirations

"We want to be recognized for having a positive impact on people's lives with our products, meeting needs and even surpassing external expectations. We strive to create sustainable earnings growth, ranking in the top quartile of the industry and securing long-term business success. We want to build a reputation for an exciting workplace in which 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. In addition, we want to contribute to society through our economic contribution, through the positive environmental and social benefits of our products, and through open dialogue with our stakeholders."

NOVARTIS EGYPT: HISTORY AND BACKGROUND

Novartis Pharma Company (S.A.E.) was incorporated in 1962 under Law No. 26 of 1954, under the name of Swiss Pharma. In this year, the founding stone was set for a new joint venture facility to manufacture pharmaceutical products for the two Swiss companies Ciba Geigy and Sandoz/Wander. It was one of the very early foreign investments to start operations in the Egyptian market. The 5th of July 1965 witnessed the formal inauguration of Swisspharma facility. Since then, Novartis has been serving the Egyptian pharmaceutical & health care market by producing reliable and innovative medicines in various therapeutic areas. In March 1985 the Company modified its status to comply with the regulations of the Companies Law No. 159 of 1981 and is subject to the Investment Law No. 230 of 1989 and its executive regulations.

Following the merger between the two major Swiss founder companies, Ciba and Sandoz in 1996 and the formation of the Swiss giant Novartis A.G, Swisspharma acquired the new name Novartis Pharma S.A.E. Novartis in Egypt became one of the 140 worldwide corporations of the parent company Novartis A.G. The Company has LE 50,000,000 of authorized shares, of which LE 33,750,000 has been issued. Shares are owned by Novartis AG, Novartis Pharma A.G., and others having share percentages of 92.12 %, 6.57%, and 1.31% respectively.

Novartis Pharma is involved in manufacturing, trading and exporting chemical, medical, cosmetics, and veterinary and agriculture preparations, in additions to importing raw materials, packing materials, machines, equipment and spare parts.

Legal Structure

Novartis in Egypt is represented through two legal entities: Novartis Pharma SAE formed in 1962 and currently running the manufacturing operations in Egypt, and Novartis Egypt healthcare SAE formed in 2002 and is responsible for the marketing and trading operations in Egypt.

Mission and Vision

Novartis mission is results oriented aiming at achieving excellence and sustaining competitive advantage in the Egyptian market. Novartis mission is: "to discover, develop and successfully market innovative products to cure diseases, to ease suffering, and to enhance the quality of life. Also, to provide a shareholder return that reflects outstanding performance and to adequately reward those who invest ideas and work in our company."

Their aspirations for the future are: "to be recognized for having a positive impact on people's lives with our products, meeting needs and even surpassing external expectations. Novartis strives to create sustainable earnings growth, ranking in the top quartile of the industry and securing long-term business success. To build a reputation for an exciting workplace in which people can realize their professional ambitions. Novartis strives for a motivating environment where creativity and effectiveness are encouraged and where cutting-edge technologies are applied. In addition, to contribute to society through our economic contribution, through the positive environmental and social benefits of our products, and through open dialogue with our stakeholders."

However Novartis Pharma Operations in Egypt has its own mission & vision, its mission is: "to create and maintain a competitive edge for Novartis in Egypt through manufacturing and supplying pharmaceutical products of high quality and value in a timely manner and to the full satisfaction of Novartis stakeholders". Pharma operations vision is "to become a center of excellence and maximize value creation through: supporting business results in the areas of marketing and product growth while meeting and exceeding all customers' expectations, and being differentiated in quality and overall cost leadership through LEAN and efficient operations contributing to business results."

Objectives and Strategy

Novartis aims at becoming part of the global supply chain and be the supply point for 2 initially selected products. The company also aims at upgrading the site in Egypt to be comparable to other Novartis TO strategic sites and complying with the HSE & GMP requirements according to Novartis international standards. The upgrade is aimed at to create a competitive advantage for the facility, add more value to the business and manage local profitability issues.

Novartis Pharma operates within three framework strategies: external focus, which is basically understanding the customer well and responding with a high level of flexibility to the local market; innovation, being competitive though cutting edge products, technology and processes either created internally or acquired from others; and finally people, which entails hiring individuals who are willing to take responsibilities and initiatives and enhance team work and learning through out the organization.

Culture & Resources

According to the Chairman Daniel Vassella the company's culture means that "employees will make an extra effort to produce a drug quickly not because someone told them that there is money in it for them but because they understand that what they are doing is of great benefit to patients."

The company is against discrimination and believes providing equal opportunity for their employees. Work force diversity is encouraged and valued. The company is also against favoritism therefore employing of relatives is not allowed within the same reporting lines. Finally, Novartis encourages continued education and training of its employees. It provides it to the employees and supports them if they involve in them on their own.

All Marketing & Sales functions are under Novartis Egypt- Health Care. Finance functions serve both the Novartis Egypt and Novartis Pharma S.A.E. Novartis Pharma got the ISO 14001 in 2004. Novartis Pharma also got the 5 year Occupational Safety Award as an "Outstanding performer" for winning the prize for 6 consecutive years.

Pharmaceutical Operations in Egypt: Facts and Figures

Novartis' manufacturing facility covers an area of 80'000 square meters. Production started in 1965 with 1 million packs and in 2005 the production reached 55 million packs. The facility produces 127 diversified pharmaceutical forms (tablets, capsules reams syrups and injectables)**.** The pharmaceutical operations team serves the business in Egypt through a structure of integrated and support functions taking responsibility from the starting point of procurement till delivery of the finished product to customers.

THE PHARMACEUTICAL INDUSTRY PROFILE

Historical Overview

The year 1939 witnessed the birth of the pharmaceutical industry in Egypt: with the establishment of "Misr Co. for pharmaceutical industries" by Banque Misr. In the 1950s, 10% share of the local market was mostly supplied from abroad by leading multinationals. In 1952 criteria were laid sown for local manufacture and importation of medical drugs and chemicals. In the following years Memphis and Cid were founded as the government adopted the policy of free medical care for all citizens under the social insurance scheme. Drug consumption with the rapid increase in population, the upgrading of the health standards through establishment of hospitals and pharmaceutical industries and increased health awareness. In the 1960s, the local industry was nationalized with a major process of mergers, while three foreign firms were attracted into joint venture operations - Hoechst, Pfizer and Swiss Pharma. In the 1970s, eleven local producers contributed 90 percent of the domestic market. In the1990s, the market was opened up to foreign and domestic new-comers.

General Market Highlights

On the economic level, the domestic market growth driven by population and GDP per capita elevation. Egypt today has a population of about 69.997 Million according to the Central Agency for Public Mobilization and Statistics, however the per capita consumption of drugs is still low at $16 per annum, despite the rapid increase in population, the upgrading of the health standards through establishment of hospitals, and the increased health awareness. There was an increased government health spending and free medical care for all citizens under the social insurance scheme. In general, international comparisons would have to adjust for the significantly lower price ruling in Egypt.

The Egyptian drug market is the largest market in the Middle East. Pharmaceutical products have been one of the most competitive and profitable sectors of Egyptian manufacturing. Egypt is the supplier in the Middle East, accounting for 30% of the MENA region. Local manufacturing of drugs satisfies 92.56% of local demand based on 85% importation of raw materials. The balance of 7.5% valued at 316 mn, is closed through the importation of advanced drugs for cancer, cardiovascular and insulin disorders where local technology is not available in these domains. The Egyptian drug industry is a drug-formulation one as opposed to a research-based one. Moreover, companies operating in the field run high risk of exposure to foreign currency exchange risk embedded in the pharmaceutical ingredients importation bill.

Pharmaceuticals consumption witnessed dynamic growth since the industry was established with particularly rapid surges throughout the last decade at a CAGR of 13.44%. Local producers excel in the production of generic products. According to Coopers & Lybrand (1995), Egyptian drugs - especially in the generic range - are reported to be superior to those of other middle income industrialized countries.

In general, low wages have been singled out by manufacturers as one of the strengths of producing pharmaceuticals in Egypt. Another key ingredient to export strength is Egypt's highly competitive prices by international standards and the fact that tariff and non tariff protection has been negligible in this sector. Around two thirds of Egypt's exports are generated by the private sector and the balance by the public sector. Total sales have been growing at 30 percent in the 1990s and have reached more than $1 billion in 1995. In 2004 total pharmaceuticals market was valued more than $ 2.4 billion.

On the technological level, we find that another major asset to this industry is the large pool of highly trained doctors, pharmacists, engineers and skilled technicians whose long experience in the sector has given Egyptian pharmaceutical products a distinguished reputation in the entire region. Despite that, currently, there is negligible R&D in Egypt, however the patent protection laws imposed by GATT demand more research and development.

Governmental Regulatory Entities and Policies Supervising the Pharmaceutical Industry

In (1962-75): The Egyptian Public Drug Corporation was established to restructure the drug industry and trade. Merging of small and medium size laboratories was done to achieve that.
During this period Hoechst Orient, Pfizer Egypt, Ciba and Sandoz established their production facilities in Egypt to enhance their customer base which was already established in that period through importation on account of the escalating political situation at the time.

In (1976-83): The Egyptian Public Drug Corporation was abolished and replaced by the Supreme Council for the pharmaceutical sector; responsible for setting guidelines for pharmaceutical companies. However, it was concentrated mainly on the running of the public sector companies.
More private companies emerged such as ACDIMA (The Arab Company for Drug and Medical Appliances) group of companies, Squibb and Pharco as a direct result of the Open door policy throughout the Sadat era.

In (1984-91): The public sector drug authority was established. Pharmaceutical companies were classified into 3 different sectors: Public Sector, Joint venture and Private sector. Its role included setting production plans in light of the government's five year economic plan to avoid shortages or oversupply, integrating all companies in the field of manufacturing, importing, distributing and exporting of drugs and chemicals under its umbrella to achieve the objectives of the ministry of Health, encouraging research and flow of information between local and international drug authorities, and finally the pricing and registration of new drugs.

Starting (1992): Following the Law#203 governing the operations of public sector companies, the Holding Company for Pharmaceuticals and its affiliate companies were established to replace the public sector Drug Authority. The Drug planning and policy center was also established to handle the pricing and importation of drugs.

Unlike the rest of the industries falling under the state ownership, under the privatization program, government ownership in the pharmaceutical affiliate is allowed dilution up to a maximum of 40%, out of which 10% is to be owned by the respective companies' employees' funds. The remaining 60% stake will firmly belong to the state. With the Open Door policy adopted by Sadat, as mentioned above, the market was opened up to foreign and domestic new-comers and, by 1996, the industry numbered 9 multinationals, 8 private and 11 public sector companies with employment of about 60 thousand. The share of the public firms declined from 80 percent in the mid 1980s to a current 40 percent of domestic production.

On the pricing control level, currently the industry's pricing system is applied to all ownership structures working in the market namely; public owned companies, private sector and multinationals. The "cost plus formula" pricing policy was adopted in 1990 allowing a net profit margin of 15% on essential drugs, a 25% on non-essentials and a mark-up of 40% on vitamins and OTC drugs. Since then price changes are very difficult and rare. On the registration level, Egypt relies on the approval procedures in 5 other countries among which are Great Britain, US and Germany. A product is only approved in Egypt after it has obtained a "free sales certificate" in one of these markets which results in a lag of 2 to 3 years between the introduction of the drug in these countries and it being marketed in Egypt. This is due to the serious lack of R&D in Egypt. On the infringing activity level, however, Egypt has implemented Patent law (Law 132 of 1949) which allows patents to expire after 10 years. This made it possible for the industry to excel in the manufacturing of generic versions of still-elsewhere patented drugs which is a form of implicit promotion. However, this segment drug industry will be vulnerably exposed to risk after the GATT conditions embedded in its Trade Related Intellectual Properties Agreement "Trip's". Starting 2005, Egypt will have to grant protection for pharmaceutical products. A minimum of 20 years protection apply from the day of filing for the patent application.

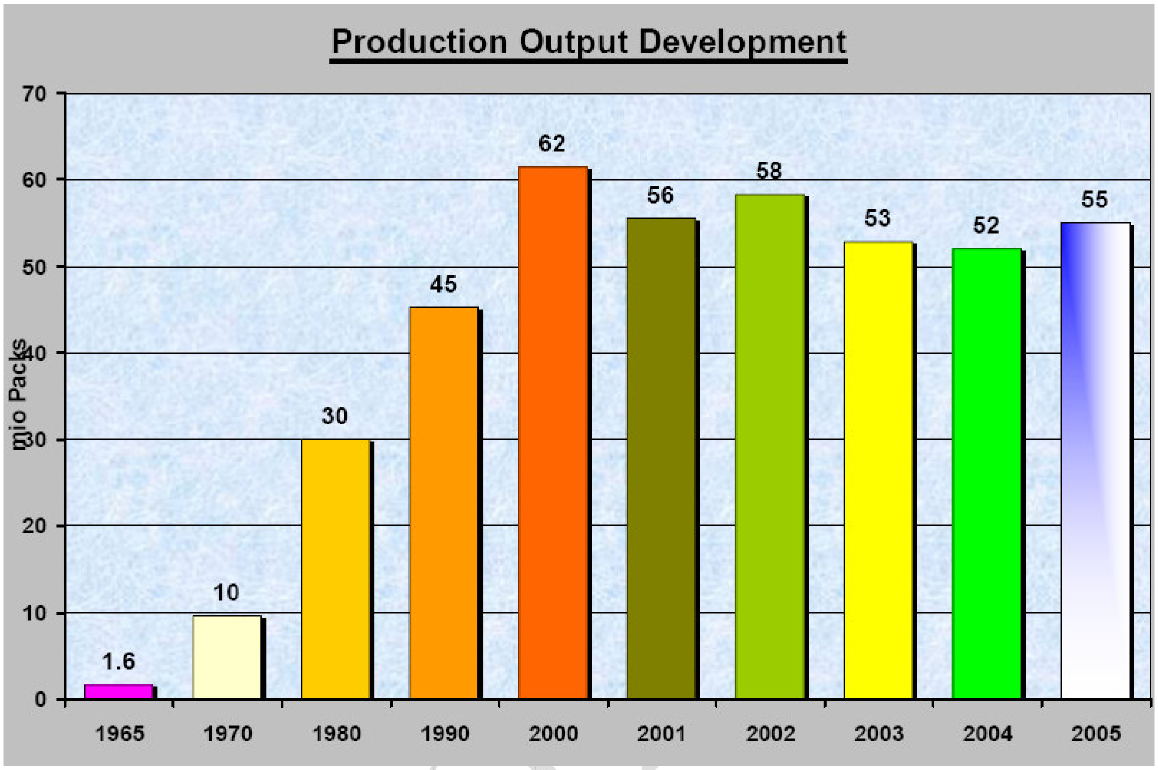
THE STRATEGIC CROSSROADS

As the meeting continued, the picture became clearer and as Mr. Nashaat put it, "*We have to import our raw material from our founder company carrying all the know how and royalties cost. We have to pay in Swiss francs or Euros. The devaluation of the Egyptian Pound even did put us in a worth situation. Our cost of gods is exceeding 85%. On the other hand, most of our products were priced years ago and their fixed prices do not reflect the current cost structure. We have requested price increases but these efforts are hurdled by the ministry of health policies. Now we either improve our financial performance or this facility will not survive for long. Our alternatives are:*

1. **Continue struggling locally**: *We can continue our efforts to convince the Ministry of Health to improve our prices. We can introduce more products to the local market. New products will have better prices but we can not stop producing the old ones. We have to improve our production efficiency and further reduce our cost. We will be still suffering high transfer prices of raw material but we can try.*

2. **Going out to export**: *We have a chance to convince our founder company to become a supply point for part of their products in our region. This would get us out of the fixed prices in Egypt. But to do this we have to comply with totally different standards. Before exporting we need to pass European good manufacturing practice (GMP) inspections. We have been working for the last several decades to supply the local market only. Export market is a totally different league. We have to upgrade our facility to comply with the international standards. We have to change the way we perform our business. The upgrade is estimated to cost us more than 15 million Swiss francs. The founder company will not finance such a project unless we have the potential and the competencies needed to succeed."*

Exhibit I: Novartis Local Production Highlights



Product Range Vs Galenical Forms (Local Production)

Customer	Solid	Liquid	Creams Oint	Suppos	Injectables	Total Local Prod.
NPH	42	4	1	4	8	59
NCH	14	14	8	1	1	38
SDZ	14	5	0	0	4	23
Total	70	23	9	5	13	120

Exhibit II: Novartis Pharma Organizational Structure:

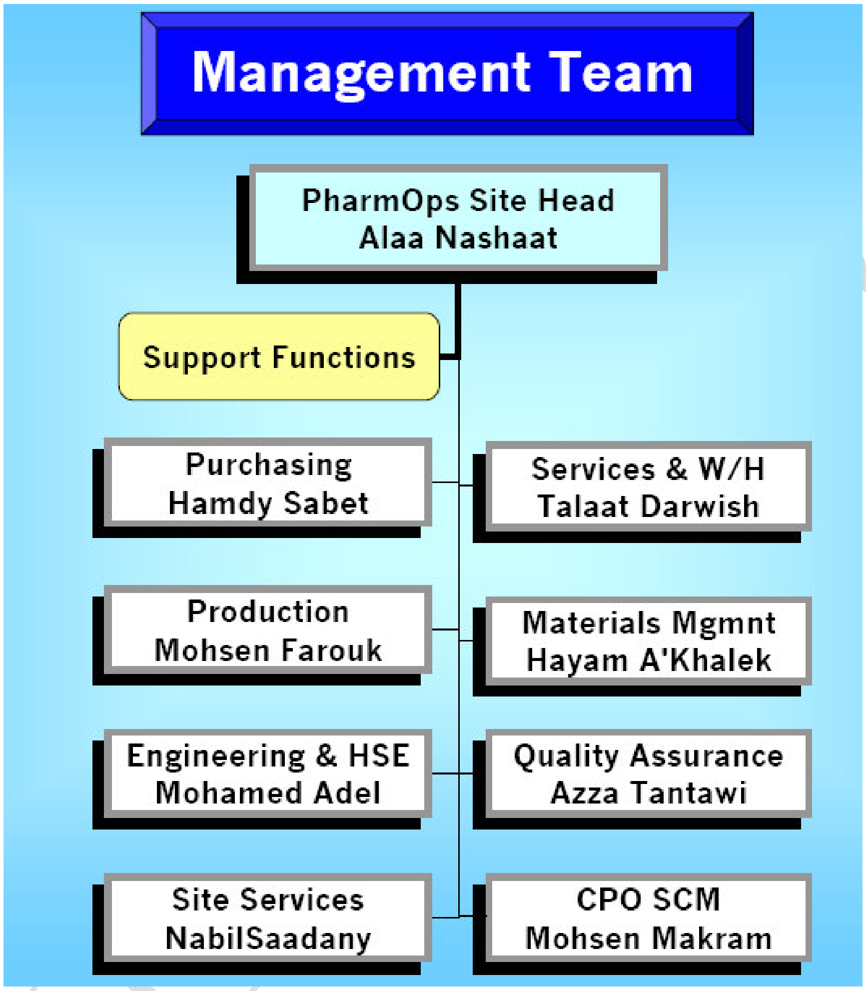


Exhibit III: Novartis Corporate Global Position.

		CHF billion	Market share (%)
1. Pfizer	US	45.95	8.58
2. GlaxoSmithKline	UK	32.82	6.13
3. Sanofi-Aventis	F	28.68	5.35
4. Novartis	**CH**	**27.08**	**5.05**
5. Johnson & Johnson	US	24.33	4.54
6. AstraZeneca	UK/SE	22.85	4.27
7. Merck & Co	US	22.33	4.17
8. Roche	CH	18.64	3.48
9. Abbott	US	14.84	2.77
10. Wyeth	US	14.13	2.64

(Global pharmaceutical sector, January-September 2005.
Source: IMS-Health. CHF 1.30 = USD 1.00)

Exhibit IV: Novartis Pharma Products in Egypt:

Novartis Pharma - Egypt
Pharmaceutical Operations Division

Locally Manufactured Products

Product Name	Product Name	Product Name
NPH	NCH	SNDZ
ANAFRANIL 25MG. 20 C.T	BRADORAL 20 T	CEFTRIAXONE 500MG. VIALS I.M.
ANAFRANIL 75MG SR 10FCT	CALCIUM SANDOZ D3	CEFTRIAXONE 500MG.VIALS I.V.
BRINERDIN 30 C.T.	CALCIUM IRON	CEFTRIAXONE 1000MG. VIALS I.M.
CATAFAST 50 MG 9 SACHETS	CALCIUM MAGNESIUM	CEFTRIAXONE 1000MG. VIALS I.V.
CATAFLAM 1.5% 15ML DROPS	CALCIUM ZINC	RIMACTANE 300 MG.8 CAPS.
CATAFLAM 25MG 10CT	EURAX LOTION 60ML	RIMACTANE 2% 50ML.SYP.
CATAFLAM 50MG.10CT	EURAX CREAM 30	RIMACTAZID OBLONG 300 MG 8 CT
CATAFLAM 75MG. 5 SUPP.	FENISTIL 24 10 CAPS	CURAM 156.25MG. 60ML.ORAL SUSP
CATAFLAM 75MG./3ML.3 AMPS.	FENISTIL DROPS 15ML	SERVICLAZIDE 80MG. 10 TABS.
CO-DIOVAN 160/25MG 10 FCT	FENISTIL GEL 20 G	CURAM 312.5MG. 60ML. ORAL SUSP
CO-TAREG 160/12.5 MG 14 FCT	FENISTIL SYRUP 100 ML	CURAM 1000MG. 8 F.C.T.
CO-TAREG 80+12.5MG. 14 FCT.	FENISTIL 10 T	SERVIVIT PLUS 14 CAPS.
FORADIL 30 CAPSULES (ALU/ALU)	IMPORTAL 10 SACHETS	SERVIFLOX 250MG. 10FCT.
GLUCOFORMIN 500 MG 80 TAB.	LAMISIL CREAM 15 GR	SERVIFLOX 500MG 10 FCT
HYDERGINE 1.5MG.10T.	OROFAR 10 T	SERVIFLOX 750MG.10 F.C.T.
LAMISIL 125MG 7TABS.	OTRIVIN / AD 15 ML	SERVIPEP 20MG.14 FCT
LAMISIL 250 MG.7 TABS.	OTRIVIN / CH 15 ML	SERVIPEP 40MG. 14 FCT.
LESCOL XL 80MG. 14 FCT	OTRIVIN BABY SALINE 15 ML	CURAM 625MG. 12 F.C.T.
LIORESAL 10MG 6 TAB	PROCTO GLYVENOL 5 SUPPOS	RIMACURE 3FDC (30tablet))
LIORESAL 25MG 6 TAB	PROCTO GLYVENOL CR. 15	RIMASTARE 4FDC (30 tablet)
METHERGIN 1 ML.5AMP.	RIMANAL GEL 20G	
METHERGIN 30 C.T.	SINECOD DROPS 15 ML	
MIACALCIC 100MRC-U 5AMPS.1ML.	SINECOD SYRUP 100 ML	
MIACALCIC 200IU NASAL SPR 3BOT	SPASMO CANULASE 30 BIT.	
MIACALCIC 50 MRC-U 5AMPS.1ML.	TAVEGYL 2ML 3 Amp	
MOSEGOR 0.5MG.20C.T	TAVEGYL SYRUP 100 ML	
MOSEGOR 100ML.SYP (ALC. FREE)	TAVEGYL 10T	
NITRODERM TTS 10MG 7PATCHES	TRIAMINIC PEDIATRIC ORAL DROPS 15 ML	
NITRODERM TTS 5MG 7PATCHES	VIBROCIL GEL 10 GR.	
PARLODEL 2.5 MG 20 TAB.	VIBROCIL SPRAY 10 ML	
SIRDALUD 4MG 10T.(KARAT)	VITA MERFEN OINT 15GR.	
STARLIX 120 MG. 24 FCT	VOLTAREN 15 G	
STARLIX-COMBI PACK (24+24 TAB)	VOLTAREN 25 G	
SYNACTHEN DEPOT 1ML 1AMP	VOLTAREN 50 G	
SYNTOCINON 10 IU 5 AMP.	VOLTAREN 25 T	
SYNTOCINON 5 IU 5 AMP.	VENORUTON FORTE 10T	
TAREG 160 MG 14 FCT	VENORUTON GEL 20G	
TAREG 40 MG 10 FCT	VENORUTON 300 MG 20 CAPS	
TAREG 80 MG 14 FCT		
TEGRETOL 200MG 20TABS.		
TEGRETOL CR 200MG 20 FCT		
TEGRETOL CR 400MG 10 FCT.		
TEGRETOL SYRUP 100ML		
VOLTAREN 100 MG. 5 SUPP.		
VOLTAREN 100 MG. SR 10FCT		
VOLTAREN 12.5 MG. SUPPOS.		
VOLTAREN 25 MG. 5 SUPPOS.		
VOLTAREN 50 MG. 20 C.T		
VOLTAREN 50MG D DISP.10T.		
VOLTAREN 75 MG. 3ML.3AMP.		
VOLTAREN 75 MG. SR 10CT		
VOLTAREN RESINATE 75MG.10CAPS.		
ZADITEN 100ML.SYP (ALC.FREE)		
ZADITEN 1MG.20 T.		

Exhibit V: Novartis Pharma Financial statements :

NOVARTIS PHARMA (S.A.E.)

Balance Sheet - At December 31, 2005

(all amounts in Egyptian Pounds)

	2005	2004
Non-current Assets		
Property, plant and equipment	64,180,666	55,699,705
Total Non-current Assets	**64,180,666**	**55,699,705**
Current Assets		
Inventories	56,805,320	72,417,199
Receivables and other debit balances	178,273,891	180,089,782
Cash and bank balances	537,274	1,108,392
Total Current Assets	**235,616,485**	**253,615,373**
Current Liabilities		
Bank overdrafts	47,296,023	94,588,575
Borrowings	160,000,000	160,000,000
Trade and other payables	92,152,722	38,643,507
Total Current Liabilities	**299,448,745**	**293,232,082**
Net Deficit in Working Capital	**(63,832,260)**	**(39,616,709)**
Total Invested Funds	**348,406**	**16,082,996**
Represented in:		
Shareholders' Equity		
Share up capital	33,750,000	33,750,000
Legal reserve	2,078,651	1,064,044
Accumulated losses	(35,480,245)	(18,731,048)
Total Shareholders' Equity	**348,406**	**16,082,996**

NOVARTIS PHARMA (S.A.E.)

Statement of Income - For the year ended December 31, 2005

(all amounts in Egyptian Pounds)

	2005	**2004**
Net sales	312,114,449	262,595,797
Cost of goods sold	(278,776,065)	(223,734,115)
Gross profit	**33,338,384**	**38,861,682**
General and administrative expenses	(3,340,821)	(2,782,645)
Provisions	(33,803,658)	(3,638,489)
Loss on disposal of property, plant and equipment	-	(134,247)
Other operating expenses	(1,879,012)	(524,157)
Operating (loss) profit	**(5,685,107)**	**31,782,144**
Financing costs, net	(7,819,325)	(11,489,992)
Net (loss) profit for the year before income tax	**(13,504,432)**	**20,292,152**
Income tax expenses	(2,272,303)	-
Net (loss) profit for the year after income tax	**(15,776,735)**	**20,292,152**

NOVARTIS PHARMA (S.A.E.)

Statement of Changes in Shareholders' Equity - For the year ended December 31, 2005

(all amounts in Egyptian Pounds)

	Share up Capital	Legal Reserve	Accumulated Deficit	Total
Balance at January 1, 2004	**33,750,000**	**1,064,044**	**(39,023,200)**	**(4,209,156)**
Net profit for the year	-	-	20,292,152	**20,292,152**
Balance at December 31, 2004 and January 1, 2005	**33,750,000**	**1,064,044**	**(18,731,048)**	**16,082,996**
Transfer to legal reserve	-	1,014,607	(1,014,607)	-
Prior year adjustments	-	-	42,145	**42,145**
Net loss for the year	-	-	(15,776,735)	**(15,776,735)**
Balance at December 31, 2005	**33,750,000**	**2,078,651**	**(35,480,245)**	**348,406**

NOVARTIS PHARMA (S.A.E.)

Statement of Cash Flow - For the year ended December 31, 2005
(all amounts in Egyptian Pounds)

		2005	2004
Cash flows from operating activities			
Net (loss) profit for the year		**(15,776,735)**	**20,292,152**
Adjustments for:			
Interest expenses		7,785,249	7,544,663
Depreciation		6,088,399	5,113,767
Loss on disposal of property, plant and equipment		-	134,247
Income tax expenses		2,272,303	-
Operating (loss) profit before changes in working capital		**369,216**	**33,084,829**
Changes in working capital			
Receivables and other debit balances		1,858,036	(7,253,048)
Inventories		15,611,879	(20,508,165)
Trade and other payables		51,236,912	(24,627,843)
Cash provided from (used in) operations		**69,076,043**	**(19,304,227)**
Interest paid		(7,785,249)	(7,544,663)
Net cash provided from (used in) operating activities		**61,290,794**	**(26,848,890)**
Cash flows from investing activities			
Purchase of property, plant and equipment		(14,569,360)	(13,155,735)
Proceeds from disposal of property, plant and equipment		-	76,755
Net cash used in investing activities		**(14,569,360)**	**(13,078,980)**
Cash flows from financing activities			
Change in banks overdrafts		(47,292,552)	34,959,821
Net cash (used in) from financing activities		**(47,292,552)**	**34,959,821**
Net decrease in cash and cash equivalents		**(571,118)**	**(4,968,049)**
Cash and cash equivalents at beginning of the year		1,108,392	6,076,441
Cash and cash equivalents at end of the year		**537,274**	**1,108,392**

Exhibit VI: Pharmaceutical Market Structure and Main Players:

Ministry of health
Drug planning and policy center

Public Enterprise office

Holding company

Production

- El Nile
- Memphis
- Alexandria
- El Kahira
- Arab Drugs
- Misr
- Cid
- El Nasr Chemicals

Importation

- El Gomhoria
- Packaging
- Arab Medical packaging

Distribution

- EgyDrug

Private sector

Acdima group	Local Producers
EIPICO	Amriya
SEDICO	Minapharm
MUP	Amoun
Flexipack	October Pharma
Arab Gelatin	Pharco
Medicinal plants	Tenth of Ramadan
Arab Glass	Alkan Pharma
	ACAPI
	Global Napi
	Arab Otsuka

Multinationals

- Pfizer Egypt
- Sanofi Aventis
- Novartis SAE
- BMS
- Glaxo
- Servier Egypt
- Eli Lilly Egypt

Exhibit VII: Egyptian Market Share Distribution 2005