

NOVARTIS AG
Form 6-K
October 20, 2008

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 or 15d-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated October 20, 2008

(Commission File No. 1-15024)

This Report on Form 6-K shall be incorporated by reference in our Registration Statements on Form F-3 as filed with the Commission on May 11, 2001 (File No. 333-60712) and our Registration Statements on Form S-8 as filed with the Commission on September 5, 2006 (File No. 333-137112) and on October 1, 2004 (File No. 333-119475), in each case to the extent not superseded by documents or reports subsequently filed by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, in each case as amended

Novartis AG

(Name of Registrant)

Lichtstrasse 35

4056 Basel

Switzerland

(Address of Principal Executive Offices)

Edgar Filing: NOVARTIS AG - Form 6-K

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F: ☒ **Form 40-F:** ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes: ☐ **No:** ☒

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes: ☐ **No:** ☒

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes: ☐ **No:** ☒

Enclosure: **Novartis AG Announces Results for the First Nine Months of 2008**

Novartis International AG

Novartis Global Communications

CH-4002 Basel

Switzerland

<http://www.novartis.com>

FINANCIAL REPORT • RAPPORT TRIMESTRIEL • QUARTALSBERICHT

Novartis delivers sustained strong performance in first nine months of 2008 underpinned by accelerating growth in pharmaceuticals

- *Continuing healthcare operations build momentum in the first nine months of 2008*
- *Net sales advance 12% (+4% in local currencies) to USD 31.4 billion, led by Pharmaceuticals and double-digit growth in Vaccines and Diagnostics*
- *Operating income up 24% to USD 7.3 billion on the solid business expansion, enhanced productivity and currency benefits*
- *Net income up 19% to USD 6.7 billion, impacted by a higher tax rate in 2008 and the start of financing costs for 25% Alcon investment; Basic EPS up 22% to USD 2.93*
- *Strong pipeline: Three submissions receive accelerated US priority review status amid plans for more than 10 major US/EU regulatory submissions in 2008*
- *New Group structure and nominations strengthen top leadership team*
- *Novartis on track to achieve another year of record sales and earnings in 2008*

*Key figures Continuing operations**Nine months to September 30*

	YTD 2008		YTD 2007		% change	
	USD m	% of net sales	USD m	% of net sales	USD	lc
Net sales	31 382		28 141		12	4
Operating income⁽¹⁾	7 284	23.2	5 884	20.9	24	
Net income⁽¹⁾	6 656	21.2	5 609	19.9	19	
Basic earnings per share	USD 2.93		USD 2.40		22	

Third quarter

	Q3 2008		Q3 2007		% change	
	USD m	% of net sales	USD m	% of net sales	USD	lc
Net sales	10 747		9 613		12	7
Operating income⁽¹⁾	2 335	21.7	1 452	15.1	61	
Net income⁽¹⁾	2 082	19.4	1 574	16.4	32	
Basic earnings per share	USD 0.92		USD 0.68		35	

(1) Operating income and net income for the 2007 periods includes an exceptional pre-tax incremental environmental provision charge of USD 590 million (USD 463 million after taxes) to cover worldwide remediation plans

All product names appearing in italics are trademarks owned by or licensed to Novartis Group Companies

Basel, October 20, 2008 Commenting on the results, Dr. Daniel Vasella, Chairman and CEO of Novartis said: *Led by the enhanced performance of Pharmaceuticals in all regions as well as solid sales growth in Vaccines and Diagnostics and productivity gains in Consumer Health, we have achieved strong results in the third quarter of 2008 despite significant volatility in the global economic environment. We are rejuvenating our portfolio as recently launched pharmaceutical products provided USD 2.1 billion in sales to date in 2008 and several novel medicines have been recognized for their benefits to patients with priority review status at the FDA. Also, with a strong new leadership team, Novartis is positioning itself for continued growth and success in a demanding environment. Despite the economic uncertainty in the world markets, Novartis is on track for another year of record results in 2008, continuing to build momentum by focusing on innovation and performance.*

OVERVIEW

Nine months to September 30

Accelerating Pharmaceuticals growth underpins the strong results in continuing operations now focused solely on healthcare.

Group net sales rose 12% (+4% in local currencies) to USD 31.4 billion as higher sales volumes produced five percentage points and positive currency translation contributed eight points. Price changes reduced sales by one percentage point. Acquisitions had no impact.

Operating income advanced 24% to USD 7.3 billion thanks to the strong business expansion, as well as productivity gains from Forward, the Group-wide efficiency initiative that has provided resources for investments in strategic initiatives such as stepping up innovation and expanding in high-growth markets. The 2007 third quarter included an exceptional charge of USD 590 million to increase corporate environmental provisions. The operating income margin rose to 23.2% of net sales from 20.9% in the year-ago period. Excluding the environmental charge, operating income was up 13% in the first nine months of 2008.

Net income rose 19% to USD 6.7 billion in the 2008 nine-month period. Net income growth was slower than operating income growth due to an unusually low tax rate in 2007 that reflected various one-time factors. Also, weighing on the performance were financing costs since July 2008 for the acquisition of an initial 25% stake in Alcon, the world leader in eye care, from Nestlé S.A. Basic earnings per share (EPS) advanced 22% to USD 2.93 on fewer outstanding shares.

Third quarter

Group net sales rose 12% (+7% lc) to USD 10.7 billion as Pharmaceuticals grew ahead of expectations and the US business returned to growth following challenges from products lost to generic competition in 2007 and the *Zelnorm* suspension, which negatively affected results in 2007. Higher sales volumes contributed eight percentage points of growth, while positive currency translation provided five percentage points. Price changes reduced sales by one percentage point.

Operating income surged 61% to USD 2.3 billion on the solid business expansion along with productivity gains in Pharmaceuticals, Sandoz and Consumer Health as well as from the Forward initiative. The operating income margin rose to 21.7% of net sales from 15.1% in the 2007 period. Excluding the year-ago exceptional corporate environmental charge, operating income rose 14%, above net sales expansion.

Net income rose 32% to USD 2.1 billion, at a slower pace than operating income as a result of the negative impact of a 14% tax rate in the 2008 quarter as compared to 2.3% in the 2007 period, which was very low due to various one-time factors, as well as higher financing costs due to the first stage of the Alcon acquisition in the 2008 third quarter. Basic earnings per share (EPS) rose 35% to USD 0.92. Excluding the corporate environmental charge in 2007, net income in the 2008 third quarter rose 2%.

Taking strategic actions for sustainable growth

In a rapidly changing and increasingly challenging environment, Novartis is implementing longer-term strategic initiatives to deliver sustainable and profitable growth. Key actions include strengthening the Group's healthcare portfolio, driving innovation through novel medicines, expanding in high-growth markets and improving efficiency.

Selectively strengthening healthcare portfolio

Novartis is strengthening its healthcare portfolio through targeted acquisitions. On July 7, Novartis purchased a 25% stake in **Alcon Inc.** (NYSE: ACL), the world's largest and most profitable eye care company, from Nestlé S.A. for USD 10.4 billion in cash as part of an agreement providing Novartis an opportunity to take majority ownership. In an optional second step, Novartis can acquire, and Nestlé can sell, the remaining 52% Alcon stake held by Nestlé between January 2010 and July 2011 for up to USD 28 billion. Alcon offers a range of pharmaceutical, surgical and consumer products for conditions of the eye. Also in the third quarter, Novartis acquired **Speedel Holding Ltd.** (SWX: SPPN), underpinning the direct renin inhibition program led by *Tekturna/Rasilez* and follow-on programs. Novartis holds 99.8% of Speedel's outstanding shares after a mandatory public tender offer ended in September. The acquisition price for the 90% not previously owned is estimated at CHF 933 million (or currently USD 850 million). Some of Speedel's development projects are being integrated into Pharmaceuticals R&D operations.

Stepping up innovation

Across the Novartis healthcare portfolio, sustained investments in innovation are delivering benefits for patients as pipeline projects are progressing well. A number of important US and EU submissions are being completed in 2008. **Afinitor** (RAD001), a breakthrough for advanced kidney cancer, is among three compounds accepted by the FDA for priority review. The meningococcal meningitis vaccine **Menveo**, which has the potential to become the first of its kind to protect from infancy to adulthood against four common serogroups in this often-fatal bacterial disease, was submitted for US approval in August. **QAB149**, a once-daily bronchodilator in development and a cornerstone for future respiratory disease therapies, will also be filed in 2008 for use against chronic obstructive pulmonary disease.

Expanding in high-growth markets

Novartis is expanding in high-growth emerging markets around the world, particularly the seven priority countries of Brazil, China, India, Mexico, Russia, South Korea and Turkey. The Group's net sales for these priority markets rose 17% to USD 3.3 billion in the first nine months, with all emerging markets worldwide now at about 25% of total net sales.

Improving organizational efficiency

The **Forward** initiative is advancing quickly to improve speed, flexibility and productivity. More than 150 projects are underway following the start of Forward in December 2007 with the aim of streamlining decision-making and freeing up resources to support future growth. Cost savings of USD 714 million have already been delivered in 2008, exceeding the

planned target of USD 670 million. A pre-tax annual cost savings goal of USD 1.6 billion has been set for 2010 compared to 2007.

New commercial model for US General Medicines business

As the US market continues to diversify and become more complex, an innovative new program called **Customer Centric Initiative** is underway to implement a new regional US business model that will better address customer needs and differences in local market dynamics. Five new regional units will be created that have cross-functional responsibility for the full primary care product portfolio, replacing the nationally managed sales forces.

This new model is designed to be more effective at driving sales growth by better meeting the diverse needs of multiple customers as well as a more efficient deployment of resources. About 550 full-time equivalent positions in the US sales force organization are planned to be reduced in a socially responsible manner, with more than half of the reductions planned from not filling already vacant positions. The new organization will start on January 1, 2009. A one-time charge of approximately USD 20 million is planned to be taken in the 2008 fourth quarter, with annual cost savings of USD 80 million anticipated from 2010.

New Novartis organizational structure and management changes

Novartis announced today the appointment of Joerg Reinhardt, PhD, as the new Chief Operating Officer, reporting to Dr. Daniel Vasella, Chairman and CEO. Replacing Joerg Reinhardt as Head of Vaccines and Diagnostics is Andrin Oswald, MD, currently CEO of Speedel and Global Head of Pharmaceutical Development Franchises. Furthermore, the Board has appointed George Gunn, MRCVS, as the new Head of Consumer Health in addition to his current role as Head of the Animal Health business unit. He will replace Thomas Ebeling, who has decided to pursue his career outside the company. Andreas Rummelt, PhD, will assume the newly created position of Group Head of Quality Assurance and Technical Operations and will remain a member of the Executive Committee of Novartis. Jeff George, currently Head of Emerging Markets in the Pharmaceuticals Division, will replace him as the new Head of Sandoz. In addition to his role as Head of the Oncology business unit in the Pharmaceuticals Division, David Epstein will also lead a new unit focusing on innovative molecular diagnostics. These changes will become effective on December 1, 2008. In addition, Thomas Werlen, PhD, who serves as General Counsel, was named a member of the Executive Committee with immediate effect.

William George, a member of the Novartis Board of Directors, has decided not to stand for reelection at the next annual shareholder meeting. At the next meeting, which is scheduled for February 2009, the Board will propose William Brody, MD, PhD, for election. He is President of The Johns Hopkins University and designated President of the Salk Institute. The Board of Directors and Dr. Daniel Vasella have also reached an agreement on the terms of a new contract extending his current position as Chairman and CEO of Novartis.

Group outlook

(Barring any unforeseen events)

Novartis reaffirms expectations for another year of record net sales and earnings in 2008 from the Group's continuing operations now focused solely on healthcare. Net sales from continuing operations for the Group are expected to rise at a mid-single-digit rate in local currencies. The strong momentum in Pharmaceuticals has confirmed expectations for a new growth cycle in the second half of 2008, with the Division's net sales now expected to grow at a mid-single-digit rate in 2008 in local currencies. Sandoz net sales are now expected to grow at a low-single-digit rate for the full year in local currencies.

BUSINESS REVIEW**Nine months to September 30****Net sales**

	YTD 2008	YTD 2007	% change	
	USD m	USD m	USD	lc
Pharmaceuticals	19 901	17 873	11	4
Vaccines and Diagnostics	1 268	1 054	20	15
Sandoz	5 753	5 198	11	1
Consumer Health continuing operations	4 460	4 016	11	4
Net sales from continuing operations	31 382	28 141	12	4

Pharmaceuticals: +11 % (+4 % lc) to USD 19.9 billion

Accelerating momentum in Pharmaceuticals has been driven by ongoing dynamic growth from Novartis Oncology, the portfolio of high blood pressure medicines and USD 2.1 billion of contributions from recently launched products.

Outside North America, all regions achieved strong growth, led by Europe at USD 7.8 billion (+9% lc), Japan at USD 1.9 billion (+5% lc), Latin America at USD 1.3 billion (+7% lc) and the rest of the world at USD 2.0 billion (+16% lc). US net sales fell 5%, but have been recovering from the negative impact of lower sales during 2007 from four products (*Lotrel*, *Lamisil*, *Trileptal* and *Famvir*) that face generic competition as well as the suspension of *Zelnorm*.

Oncology (USD 6.2 billion, +14% lc) represented 31% of Pharmaceuticals net sales in the first nine months of 2008, and provided four of the five top-selling medicines with *Gleevec/Glivec* (USD 2.8 billion, +16% lc) as the flagship product. Cardiovascular strategic products (USD 5.0 billion, +8% lc) advanced on further gains for *Diovan* (USD 4.3 billion, +11% lc) and increasing contributions from the new high blood pressure medicines *Exforge* and *Tekturna/Rasilez*.

More than 100 new product launches have been completed in the top 20 countries so far in 2008 following the 15 major US and European regulatory approvals in 2007. Among top performers were the once-yearly osteoporosis therapy *Aclasta/Reclast* (USD 169 million), the age-related blindness medicine *Lucentis* (USD 658 million) and the addition of a once-daily skin patch that has reinvigorated the *Exelon* franchise (USD 606 million, +21% lc).

Vaccines and Diagnostics: +20 % (+15 % lc) to USD 1.3 billion

Deliveries of H5N1 pandemic influenza vaccines to the US government in 2008 as well as a solid performance from the blood testing diagnostics business led the double-digit expansion, with additional growth from pediatric vaccines, the Menjugate meningitis C vaccine and tick-borne encephalitis (TBE) vaccines.

Sandoz: +11 % (+1 % lc) to USD 5.8 billion

Improving performances in many key markets offset the US, where net sales fell 9% on a lack of new product launches in 2008 and lower prices. Central and Eastern European sales rose over 16% lc, with Russia among the top five Sandoz countries worldwide. In Germany, net sales were largely unchanged, but market share rose nearly three percentage points. Canada, Turkey and Brazil were among top-performing emerging generics markets.

Consumer Health continuing operations: +11% (+4% lc) to USD 4.5 billion

CIBA Vision delivered the strongest performance, benefiting from new contact lens product launches in key regions in 2008. Animal Health expanded its companion animal business, while OTC growth in key emerging markets more than offset lower sales in the US that have been hampered by factors that include changes in consumer spending.

Operating income

	YTD 2008	% of net sales	YTD 2007	% of net sales	Change
	USD m		USD m		%
Pharmaceuticals	6 017	30.2	5 161	28.9	17
Vaccines and Diagnostics	52	4.1	179	17.0	71
Sandoz	884	15.4	789	15.2	12
Consumer Health continuing operations	858	19.2	727	18.1	18
Corporate income & expense, net ⁽¹⁾	527		972		46
Operating income from continuing operations⁽¹⁾	7 284	23.2	5 884	20.9	24

(1) Operating income and Corporate income & expense, net, for 2007 periods includes an exceptional incremental environmental provision charge of USD 590 million for worldwide remediation plans.

Pharmaceuticals: +17% to USD 6.0 billion

The strong improvement in operating income was underpinned by productivity gains as the operating margin rose 1.3 percentage points to 30.2% of net sales. Marketing & Sales declined 1.4 percentage points to 30.0% of net sales as productivity gains more than offset major investments in the rollout of new products including *Exforge*, *Tektura/Rasilez*, *Aclasta/Reclast*, *Lucentis* and *Exelon Patch*. R&D investments rose 16%, supporting expansion in biologics and initiatives to accelerate the Oncology pipeline. R&D expenses also included a one-time charge of USD 223 million for full impairment of the development project Aurograb. Cost of Goods Sold improved 1.5 percentage points largely due to a one-time charge of USD 320 million in the 2007 period for a partial impairment of *Famvir* after the start of US generic competition. Other Income & Expenses were negative in the 2008 period compared to small income in 2007 from various one-time gains, including proceeds from the sale of shares and product divestments.

Vaccines and Diagnostics: 71% to USD 52 million

Major investments in two meningitis vaccines in Phase III development as well as initiatives to improve manufacturing quality and capacity, and a strong negative financial exchange rate impact were among reasons for the decline in operating income. Adjusted operating income (excluding exceptional items and amortization of intangible assets) was USD 254 million in the first nine months compared to USD 323 million in the 2007 period.

Sandoz: +12% to USD 884 million

Despite lower contributions from the US, the positive performance supported accelerated R&D investments (+27%), particularly in difficult-to-make generics that provide a competitive advantage, and a 22% rise in Marketing & Sales for the expansion in emerging markets. Costs of Goods Sold improved from a favorable product mix and efficiency gains. The operating margin rose 0.2 percentage points to 15.4% of

net sales.

Consumer Health continuing operations: +18% to USD 858 million

Operating income achieved a much faster growth rate than net sales on the back of the solid expansion and productivity gains in all businesses from the Forward initiative. The operating income margin improved 1.1 percentage points to 19.2% of net sales.

Corporate income and expense, net

The 2007 period included the exceptional charge of USD 590 million for corporate environmental provisions. Excluding this charge, the higher expenses came from additional investments in global IT infrastructure and the translation impact of negative foreign exchange movements.

Third quarter**Net sales**

	Q3 2008 USD m	Q3 2007 USD m	% change USD	lc
Pharmaceuticals	6 709	5 885	14	9
Vaccines and Diagnostics	666	572	16	14
Sandoz	1 899	1 783	7	0
Consumer Health continuing operations	1 473	1 373	7	3
Net sales from continuing operations	10 747	9 613	12	7

Pharmaceuticals: +14% (+9% lc) to USD 6.7 billion

Building on the turnaround achieved during 2008, all regions contributed to the improving performance driven by ongoing expansion of the flagship oncology and cardiovascular franchises as well as USD 800 million in sales from recently launched products, particularly *Lucentis*, *Aclasta/Reclast*, *Exforge*, *Tekturna/Rasilez*, *Exjade* and *Exelon Patch*.

Overcoming the challenges of 2007, the US returned to growth for the first time in 2008 as net sales rose 9% on the underlying strong expansion, particularly in Oncology. Outside of North America, all other regions delivered growth: Europe (USD 2.6 billion, +9% lc), Japan (USD 624 million, +3% lc), Latin America (USD 441 million, +4% lc) and the rest of the world (USD 672 million, +11% lc).

Oncology (USD 2.1 billion, +15% lc) solidified its position as the leading performer with one-third of total Pharmaceutical net sales and driven by *Gleevec/Glivec* (USD 950 million, +15% lc), *Zometa* (USD 360 million, +9% lc) and *Femara* (USD 289 million, +16% lc). The Cardiovascular strategic franchise rose 20% lc to USD 1.7 billion, gaining share in the global antihypertension market on contributions from the new high blood pressure medicines *Tekturna/Rasilez* and *Exforge* as well as *Diovan* (USD 1.4 billion, +9% lc).

Vaccines and Diagnostics: +16% (+14% lc) to USD 666 million

A sale of H5N1 pandemic vaccines to the US government and increased sales of pediatric vaccines led the double-digit improvement. About 33 million doses of seasonal influenza vaccines have been sold so far for the 2008/2009 season, with additional sales expected in the 2008 fourth quarter. Diagnostics maintained solid growth.

Sandoz: +7% (+0% lc) to USD 1.9 billion

Solid results in many key regions, including a 20% lc rise in Central and Eastern Europe, were offset by a 15% decline in the US, where there were no new product launches. Among the countries with improving contributions were Russia, Poland and Ukraine.

Consumer Health continuing operations: +7% (+3% lc) to USD 1.5 billion

Edgar Filing: NOVARTIS AG - Form 6-K

All businesses generated higher sales, particularly CIBA Vision thanks to new contact lens product launches. Animal Health was helped by market share gains in the US parasiticide market and expansion of its companion animal business. OTC achieved modest growth as emerging markets offset an ongoing decline in US sales linked to economic conditions.

Operating income

	Q3 2008		Q3 2007		Change
	USD m	% of net sales	USD m	% of net sales	%
Pharmaceuticals	1 743	26.0	1 541	26.2	13
Vaccines and Diagnostics	180	27.0	172	30.1	5
Sandoz	293	15.4	228	12.8	29
Consumer Health continuing operations	292	19.8	244	17.8	20
Corporate income & expense, net ⁽¹⁾	173		733		76
Operating income from continuing operations⁽¹⁾	2 335	21.7	1 452	15.1	61

(1) Operating income and Corporate income & expense, net, for 2007 periods includes an exceptional incremental environmental provision charge of USD 590 million for worldwide remediation plans.

Pharmaceuticals: +13% to USD 1.7 billion

The double-digit improvement was largely in line with higher net sales, with the operating income margin declining slightly by 0.2 percentage points to 26.0% of net sales. Marketing & Sales fell sharply to 29.2% of net sales from 31.3% in the year-ago quarter on the benefits of productivity gains amid sustained investments in new product launches that have been providing significant sales contributions in 2008. R&D expenses were up 2.7 percentage points, mainly from the Aurograb charge, but partially offset by productivity gains. Cost of Goods Sold declined 4.2 percentage points as a percentage of net sales, mainly due to the year-ago charge of USD 320 million for the *Famvir* impairment, while production costs rose 1.3 percentage points in 2008 due to the impact of an inventory optimization initiative and currency effects. Other Income & Expenses swung to a net expense in the 2008 third quarter compared to income in the 2007 period that included USD 166 million in one-time divestment gains.

Vaccines and Diagnostics: +5% to USD 180 million

Adjusted operating income (excluding exceptional items and amortization of intangible assets) rose to USD 258 million from USD 246 million in the 2007 quarter.

Sandoz: +29% to USD 293 million

Significant operational efficiency gains in manufacturing and procurement underpinned strong gains that compensated for lower contributions from the US and supported investments in product development and emerging markets. Operating income also benefited from lower impairment charges in 2008 compared to 2007. The operating income margin rose 2.6 percentage points from the year-ago quarter to 15.4% of net sales.

Consumer Health continuing operations: +20% to USD 292 million

The solid business expansion, particularly in CIBA Vision and Animal Health, and benefits of improved productivity in all businesses from the Forward initiative led to double-digit growth. The operating income margin rose 2.0 percentage points to 19.8% of net sales.

Corporate income and expense, net

Excluding the year-ago exceptional charge for corporate environmental provisions, the increase in net corporate expenses came primarily from additional investments in global IT infrastructure and the translation impact of negative foreign exchange movements.

FINANCIAL REVIEW**Nine months to September 30 and third quarter**

	YTD 2008 USD m	YTD 2007 USD m	Change %	Q3 2008 USD m	Q3 2007 USD m	Change %
Operating income from continuing operations⁽¹⁾	7 284	5 884	24	2 335	1 452	61
Income from associated companies	344	308	12	88	116	24
Financial income	326	286	14	93	109	15
Interest expense	214	176	22	96	66	45
Taxes	1 084	693	56	338	37	
Net income from continuing operations	6 656	5 609	19	2 082	1 574	32
Net income from discontinued operations	28	5 446		19	5 294	
Total net income⁽¹⁾	6 684	11 055	40	2 101	6 868	69

(1) Operating income for the 2007 periods includes an exceptional incremental environmental provision charge of USD 590 million to cover worldwide remediation plans (USD 463 million after taxes).

Income from associated companies

Higher contributions from the Roche investment led to the rise for the first nine months of 2008, while the decline in the 2008 third quarter was due to negative adjustments to first-half 2008 estimates for Roche and foreign exchange movements. The 2008 third quarter also included for the first time results from the July acquisition of a 25% stake in Alcon, which was a net expense of USD 5 million as the anticipated net income contribution was more than offset by the amortization of intangible assets and other charges.

Financial income, net

Financing costs to purchase the initial 25% Alcon stake and lower levels of average net liquidity led to net financial expenses of USD 3 million in the 2008 third quarter, a swing from USD 43 million of net financial income in the year-ago period. For the first nine months, however, net financial income was largely unchanged at USD 112 million as proceeds received from divestments during the second half of 2007 provided significantly higher net financial income during the first half of 2008.

Taxes

The unusually low tax rates in the 2007 periods (2.3% for third quarter and 11.0% for the first nine months) included favorable one-time benefits from the corporate environmental provision charge as well as several other factors that occurred mainly in the 2007 third quarter. The tax rate for continuing operations was 14.0% for the first nine months of 2008 as well as the third quarter, in line with full-year 2008 expectations.

Net income from discontinued operations

The significant gains in 2007 discontinued operations represent the divestments of Medical Nutrition (as of July 1, 2007) and Gerber (as of September 1, 2007). In the 2008 periods, contributions represent various adjustments to accruals related to these divestments.

Balance sheet

Total equity rose to USD 50.7 billion as of September 30, 2008, compared to USD 49.4 billion at the end of 2007. This increase of USD 1.3 billion comes from USD 6.7 billion in net income that was offset by currency translation losses of USD 0.6 billion, USD 3.3 billion for the 2008 dividend payment (which was 29% higher than the year-earlier payment in US

dollar terms), USD 0.9 billion in actuarial losses on defined-benefit pension plans and USD 0.6 billion for purchase of treasury shares and other items.

The debt/equity ratio rose to 0.21:1 from 0.12:1 at the end of 2007 following the launch of significant financing programs to support recent acquisitions, particularly the 25% Alcon stake and Speedel. Two Swiss franc bond issues were successfully completed during the second quarter of 2008, raising CHF 1.5 billion, while the Commercial Paper program in the US provided USD 3.8 billion in additional financing.

Net debt at September 30, 2008, was USD 2.7 billion compared to net liquidity of USD 7.4 billion at the end of 2007, reflecting payments during the 2008 third quarter of USD 11.1 billion for the Alcon, Speedel and Protez acquisitions.

Novartis continues to have a very strong credit rating, with Standard & Poor's rating Novartis as AA- for long-term maturities and as A-1+ for short-term maturities. Moody's has rated the Group as Aa2 and P-1, respectively, while Fitch has given a long-term rating of AA and a short-term rating of F1+.

Novartis suspended its share repurchase program in April 2008 after announcing the Alcon agreement. Before the suspension, six million shares were repurchased for USD 296 million via a second trading line on the Swiss Stock Exchange.

Cash flow

In the first nine months of 2008, cash flow from operating activities from continuing operations rose USD 0.3 billion to USD 6.6 billion. Cash outflow from investing activities from continuing operations amounted to USD 8.6 billion, mainly from the purchase of the initial 25% stake in Alcon and USD 1.4 billion in capital expenditures. Proceeds of the Swiss franc bond offerings in the 2008 second quarter and the ongoing US commercial paper program provided a cash inflow of USD 5.2 billion. This was partially offset by the 2007 dividend payment of USD 3.3 billion, treasury share repurchases of USD 0.5 billion and a decrease of USD 0.2 billion in other current and non-current financial debts, which resulted in a net cash inflow of USD 1.2 billion from financing activities from continuing operations.

PHARMACEUTICALS PRODUCT REVIEW

Notes: Net sales data refer to worldwide performance in local currencies for the first nine months of 2008.

Diovan (USD 4.3 billion, +11% lc), the world's top-selling branded medicine for high blood pressure, has grown steadily in all key markets worldwide, with areas outside the US now accounting for about 60% of net sales and delivering 12% lc growth. US sales rose 10% as *Diovan* strengthened its 40% leading share of the angiotensin receptor blockers (ARBs) segment despite an overall slowdown in the antihypertensive market, including ARBs. *Diovan* has benefited from its status as the only medicine in the ARB class approved to treat high blood pressure, high-risk heart attack survivors and heart failure.

Gleevec/Glivec (USD 2.8 billion, +16% lc), a targeted therapy for certain forms of chronic myeloid leukemia (CML) and gastrointestinal stromal tumors (GIST), has sustained solid double-digit growth during 2008 based on its status as the leading therapy for these and other life-threatening forms of cancer. *Glivec* has received priority review status from the FDA as the first therapy to be assessed for use after surgery for GIST (adjuvant setting). Phase III results published in 2007 showed a dramatic 89% reduction in risk of GIST returning after surgery in patients treated with *Glivec* compared to placebo. A decision by the FDA is expected by the end of 2008. Similar submissions have been filed in the EU and Switzerland, and will be filed in other countries.

Zometa (USD 1.0 billion, +3% lc), an intravenous bisphosphonate therapy for patients with cancer that has spread to the bones, has resumed growth worldwide. Sales, which rose 9% lc in the third quarter, were supported by existing indications as well as new data presented in May at the American Society of Clinical Oncology showing for the first time in a large trial a significant anticancer benefit of *Zometa* therapy. The study in premenopausal women with hormone-sensitive, early-stage breast cancer showed the addition of *Zometa* to hormone therapy after surgery significantly reduced the risk of recurrence or death by 36% beyond benefits achieved with hormone therapy alone. More studies are underway to review potential benefits. Two studies, AZURE (pre-and post-menopausal breast cancer) and ZEUS (prostate cancer), have completed recruitment.

Sandostatin (USD 852 million, +7% lc), for acromegaly and various neuroendocrine and carcinoid tumors, has seen strong growth from *Sandostatin LAR*, the once-monthly version that accounts for 85% of net sales, particularly in key regions such as Latin America and in emerging markets. New competition in the US had minimal impact on the growth of *Sandostatin LAR* (less than 2% market share).

Femara (USD 850 million, +18% lc), an oral therapy for women with hormone-sensitive breast cancer, has grown dynamically thanks to its unique range of clinical trial data, outpacing competitors and capturing over 30% of the aromatase inhibitor segment (IMS Health: June 2008). The entry of generic competition in some markets, including southern Europe, has had a modest impact on global growth.

Lucentis (USD 658 million), a biotechnology eye therapy now approved in more than 70 countries, has delivered dynamic growth since its first launch in early 2007. *Lucentis* is the only treatment proven to maintain and improve vision in patients with wet age-related macular degeneration, a leading cause of blindness in people over age 50, and has been judged as cost-effective by various government health agencies, including the UK National Institute for Health and Clinical Excellence (NICE). Genentech holds the US rights.

Exelon/Exelon Patch (USD 606 million, +21% lc), a therapy for mild to moderate forms of Alzheimer's disease and dementia linked with Parkinson's disease, exceeded the USD 500 million milestone thanks to dynamic growth in the once-daily *Exelon Patch*, which provided 45% of US sales, and led to overall market share gains.

Exjade (USD 386 million, +42% lc) is now available in over 90 countries as the first and only once-daily oral therapy for iron overload, a potentially fatal condition linked to various blood disorders.

Lotrel (USD 296 million, -55% lc, only in the US), a single-pill combination therapy for high blood pressure, has fallen since mid-2007 after an at risk launch by a generic competitor despite a US patent valid until 2017. Sales come from higher-dose formulations.

Exforge (USD 288 million), a single-pill combination of the angiotensin receptor blocker *Diovan* (valsartan) with the calcium channel blocker amlodipine, has continued to set new standards for launching high blood pressure combination therapies. The US approved *Exforge* in July 2008 as a first-line therapy, providing a new growth opportunity.

Trileptal (USD 259 million, -59% lc), for epilepsy seizures, has been impacted by generic competition for tablet formulations in key markets, including the US, since late 2007.

Xolair (USD 156 million, +39% lc, only Novartis sales), a biotechnology therapy for moderate to severe allergic asthma, showed recent positive new Phase III data for use in treating children. Results showed children age 6 to 11 years taking *Xolair* for 24 weeks suffered fewer exacerbations than children on placebo. *Xolair* was generally safe and well tolerated. Novartis plans to submit these data in the US and Europe for regulatory approvals. *Xolair Liquid* was also submitted in March 2008 for EU approval. Novartis co-promotes *Xolair* with Genentech in the US and shares a portion of operating income. Genentech's *Xolair* sales in the US were USD 382 million for the first nine months of 2008.

Aclasta/Reclast (USD 169 million), a once-yearly infusion therapy for various forms of osteoporosis, has now been used in more than 250,000 patients worldwide and has outpaced benchmarks since its launch in August 2007. New indications approved in 2008 have broadened the use of *Aclasta* in Europe to include treating osteoporosis in men. Data also shows *Aclasta* reduces the risk of new fractures after a hip fracture in both men and women. The updated European product information also includes study results showing *Aclasta* reduced all-cause mortality in trial patients by 28% against placebo.

Tekturna/Rasilez (USD 98 million), a direct renin inhibitor that represents the first new type of high blood pressure medicine in more than a decade, continues to grow in the US and in Europe. Data from the ALOFT (heart failure) and AVOID (kidney disease) studies, which are part of the ASPIRE HIGHER cardio-renal outcomes trial program, have been added to European product information. Regulatory decisions are expected soon for *Rasilez HCT*, a combination with a diuretic, in Switzerland and Europe. Data from the AGELESS study will be unveiled at the American Heart Association meeting in November.

Tasigna (USD 57 million) is available in over 50 countries and gaining as a new therapy for patients with a certain form of chronic myeloid leukemia (CML) resistant or intolerant to prior therapy, including *Gleevec/Glivec*. A Phase III trial comparing *Tasigna* and *Gleevec/Glivec* in newly diagnosed CML patients completed recruitment in the quarter.

Galvus (USD 25 million), a new oral treatment for type 2 diabetes, and *Eucreas*, a single-tablet combination with metformin, have shown promising results during the rollout in

Europe following approvals in early 2008. The majority of sales in Europe and Latin America have been for *Eucreas*, the first single-pill combination in the DPP-IV inhibitor class to be launched in Europe. A resubmission for US approval is not planned.

R&D UPDATE

Pharmaceuticals

Afinitor (everolimus, **RAD001**), an oral inhibitor of the mTOR pathway that acts by directly inhibiting tumor cell growth and metabolism as well as the formation of new blood vessels (angiogenesis), continues to demonstrate potential in multiple cancers. It received priority review status from the FDA based on results from the RECORD-1 trial showing *Afinitor* more than doubled the time without tumor growth in patients with advanced kidney cancer after failure of standard treatment. A decision in the US is expected by the end of 2008, and regulatory submissions have also been made in the EU and Switzerland with more filings planned in 2008. New data presented at ESMO in September 2008 show *Afinitor* controls tumor growth in patients with advanced pancreatic neuroendocrine tumors (NET) when used in combination with Sandostatin® LAR® or as monotherapy. Registration trials are underway in first- and second-line settings for this rare and difficult-to-treat form of cancer as well as in progressive advanced carcinoid tumors.

FTY720 (fingolimod) remains on track for regulatory submissions by the end of 2009, with the potential to become the first once-daily oral therapy for multiple sclerosis, a chronic and often disabling autoimmune disease that attacks the central nervous system. Various trials are underway in the largest Phase III program ever conducted in MS. First results are expected in early 2009 from TRANSFORMS, a head-to-head trial against Avonex® (interferon beta-1a) in patients with relapsing remitting MS. A new Phase III trial called INFORMS started in the third quarter of 2008 in patients with the primary progressive form of MS for which there are no available treatments.

QAB149 (indacaterol), a once-daily long-acting beta-agonist with 24-hour bronchodilation and a fast onset of action, is set for the first regulatory submissions by the end of 2008 as a monotherapy treatment for chronic obstructive pulmonary disease (COPD), an incurable and common condition in which the lungs have been damaged, usually from smoking. QAB149 is also being developed for use in COPD patients with other respiratory therapies, including with the corticosteroid mometasone (QMF149) and with the anti-muscarinic antagonist NVF239 (QVA149).

Vaccines and Diagnostics

Menveo (MenACWY-CRM) was submitted in August for US approval as a new vaccine to protect against four common types of meningococcal meningitis known as A,C, W-135 and Y. The first submission was made for ages 11-55. The submission for EU approval will be made soon. The Phase III program for use from age two months to 10

years is ongoing.

The **menB** vaccine has shown potential to be the first to protect infants as young as six months from the deadly meningococcal B serogroup. New results showed nearly all infants age six to 12 months in a Phase II study generated a protective immune response as early as one month after the second dose against strains representing multiple antigens in the vaccine. Another study recently showed the vaccine worked in infants who received it starting at two months of age. A Phase III trial in infants and children is underway.

Sandoz

A response was submitted in September to the FDA responding to questions from the US agency for the development project **enoxaparin**, a technologically enabled generic version of Lovenox® (enoxaparin sodium) being developed with Momenta. This medicine is a low-molecular-weight heparin marketed by Sanofi-aventis and used for the prevention and treatment of deep vein thrombosis and several cardiovascular conditions. A launch of this product in the US is expected during 2009.

Disclaimer

This release contains certain forward-looking statements relating to the Group's business, which can be identified by terminology such as momentum, pipeline, priority review, plans, on track, expectations, strategic, opportunity, optional, can, potential, will, designed to, outlook, expected, potentially, set, or similar expressions, or by express or implied discussions regarding potential new products, potential new indications for existing products, or regarding potential future revenues from any such products, or potential future sales or earnings of the Novartis Group or any of its divisions or business units; or by discussions of strategy, plans, expectations or intentions. You should not place undue reliance on these statements. Such forward-looking statements reflect the current views of the Group regarding future events, and involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. There can be no guarantee that any new products will be approved for sale in any market, or that any new indications will be approved for existing products in any market, or that such products will achieve any particular revenue levels. Nor can there be any guarantee that the Novartis Group, or any of its divisions or business units, will achieve any particular financial results. In particular, management's expectations could be affected by, among other things, uncertainties involved in the development of new pharmaceutical products; unexpected clinical trial results, including additional analysis of existing clinical data or unexpected new clinical data; unexpected regulatory actions or delays or government regulation generally; the Group's ability to obtain or maintain patent or other proprietary intellectual property protection, including the uncertainties involved in the US litigation process; competition in general; government, industry, and general public pricing and other political pressures; the impact that the foregoing factors could have on the values attributed to the Group's assets and liabilities as recorded in the Group's consolidated balance sheet; and other risks and factors referred to in Novartis AG's current Form 20-F on file with the US Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. Novartis is providing the information in these materials as of this date and does not undertake any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

About Novartis

Novartis AG provides healthcare solutions that address the evolving needs of patients and societies. Focused solely on healthcare, Novartis offers a diversified portfolio to best meet these needs: innovative medicines, cost-saving generic pharmaceuticals, preventive vaccines, diagnostic tools and consumer health products. Novartis is the only company with leading positions in these areas. In 2007, the Group's continuing operations (excluding divestments in 2007) achieved net sales of USD 38.1 billion and net income of USD 6.5 billion. Approximately USD 6.4 billion was invested in R&D activities throughout the Group. Headquartered in Basel, Switzerland, Novartis Group companies employ approximately 98,000 full-time associates and operate in over 140 countries around the world. For more information, please visit <http://www.novartis.com>.

Important dates

November 19, 2008	Pharmaceuticals research update (Cambridge, Massachusetts)
January 2009	Fourth quarter and full-year 2008 results
February 2009	Annual General Meeting (Basel)
April 2009	First quarter 2009 results
July 2009	Second quarter and first half 2009 results
October 2009	Third quarter and first nine months 2009 results

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statements (unaudited)

Nine months to September 30

	YTD 2008 USD m	YTD 2007 USD m	Change USD m	%
Net sales from continuing operations	31 382	28 141	3 241	12
Other revenues	854	635	219	34
Cost of Goods Sold	8 605	8 019	586	7
<i>Of which amortization and impairments of product and patent rights and trademarks</i>	<i>770</i>	<i>1 079</i>	<i>309</i>	<i>29</i>
Gross profit	23 631	20 757	2 874	14
Marketing & Sales	8 798	8 081	717	9
Research & Development	5 383	4 583	800	17
General & Administration	1 616	1 499	117	8
Corporate environmental provision increase		590	590	
Other Income & Expense	550	120	430	
Operating income from continuing operations	7 284	5 884	1 400	24
Income from associated companies	344	308	36	12
Financial income	326	286	40	14
Interest expense	214	176	38	22
Income before taxes from continuing operations	7 740	6 302	1 438	23
Taxes	1 084	693	391	56
Net income from continuing operations	6 656	5 609	1 047	19
Net income from discontinued Consumer Health operations	28	5 446	5 418	
Total net income	6 684	11 055	4 371	40
<i>Attributable to:</i>				
<i>Equity holders of Novartis AG</i>	<i>6 656</i>	<i>11 042</i>	<i>4 386</i>	<i>40</i>
<i>Minority interests</i>	<i>28</i>	<i>13</i>	<i>15</i>	
Average number of shares outstanding Basic (million)	2 265.7	2 331.0	65.3	3
Basic earnings per share (USD)⁽¹⁾				
Total	2.94	4.74	1.80	38
Continuing operations	2.93	2.40	0.53	22
Discontinued operations	0.01	2.34	2.33	100
Average number of shares outstanding Diluted (million)	2 283.6	2 343.1	59.5	3
Diluted earnings per share (USD)⁽¹⁾				
Total	2.91	4.71	1.80	38
Continuing operations	2.90	2.39	0.51	21
Discontinued operations	0.01	2.32	2.31	100

(1) Earnings per share (EPS) is calculated on the amount of net income attributable to the equity holders of Novartis AG

Consolidated income statements (unaudited)

Third quarter

	Q3 2008 USD m	Q3 2007 USD m	Change USD m	%
Net sales from continuing operations	10 747	9 613	1 134	12
Other revenues	283	205	78	38
Cost of Goods Sold	3 021	3 034	13	0
<i>Of which amortization and impairments of product and patent rights and trademarks</i>	272	597	325	54
Gross profit	8 009	6 784	1 225	18
Marketing & Sales	2 877	2 682	195	7
Research & Development	1 942	1 552		