ePhoto Image, Inc.
Form S-1/A
May 10, 2010

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Amendment No. 2
FORM S-1/A

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

ePhoto Image, Inc.
(Exact name of Registrant as specified in its charter)

NEVADA (State or other jurisdiction of incorporation or organization)	TBA (I.R.S. Employer Identification Number)
No. 181 Dragon Villas, No. 8 Shun An Nan Road Shunyi County, Beijing, China	Nevada Agency and Trust Company 50 West Liberty St, Suite 880 Reno, NV 89501
(Name and address of principal executive offices)	(Name and address of agent for service)

Registrant's telephone number, including area code: 0086-137-175-28189

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.|__|

If any of the securities being registered on the Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box |X|

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |__|

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. |__|

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box.|__|

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM PRICE SHARE (1)	PROPOSED MAXIMUM AGGREGATE OFFERING PRICE (2)	AMOUNT OF REGISTRATION FEE (3)
Common Stock	2,150,000 shares	$0.001	$2,150	$0.15

(1) This price was arbitrarily determined by ePhoto Image, Inc.

(2) Estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(a) under the Securities Act.

(3) Already paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SECTION 8(a), MAY DETERMINE.

COPIES OF COMMUNICATIONS TO:
David S. Jennings, Esq.
330 Carousel Parkway, Henderson, Nevada 89014
Phone: (702) 595-5150 / Fax: (800) 731-6120

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SUBJECT TO COMPLETION, Dated April 30, 2010

PROSPECTUS

EPHOTO IMAGE, INC.
2,150,000
COMMON STOCK
INITIAL PUBLIC OFFERING

The selling shareholders named in this prospectus are offering up to 2,150,000 shares of common stock offered through this prospectus. We will not receive any proceeds from this offering and have not made any arrangements for the sale of these securities. We have, however, set an offering price for these securities of $0.001 per share. We will use our best efforts to maintain the effectiveness of the resale registration statement from the effective date through and until all securities registered under the registration statement have been sold or are otherwise able to be sold pursuant to Rule 144 promulgated under the Securities Act of 1933.

	Offering Price	Underwriting Discounts and Commissions	Proceeds to Selling Shareholders
Per Share	$0.001	None	$0.001
Total	$2,150	None	$2,150

Our common stock is presently not traded on any market or securities exchange. The sales price to the public is fixed at $0.001 per share until such time as the shares of our common stock are traded on the Over-The-Counter Bulletin Board (“OTCBB”), which is sponsored by the Financial Industry Regulatory Authority (“FINRA”) formerly known as the National Association of Securities Dealers or NASD). The OTCBB is a network of security dealers who buy and sell stock. The dealers are connected by a computer network that provides information on current "bids" and "asks", as well as volume information. Although we intend to apply for quotation of our common stock on the FINRA Over-The-Counter Bulletin Board through a market maker, public trading of our common stock may never materialize. If our common stock becomes traded on the FINRA Over-The-Counter Bulletin Board, then the sale price to the public will vary according to prevailing market prices or privately negotiated prices by the selling shareholders.

The purchase of the securities offered through this prospectus involves a high degree of risk. See section entitled “Risk Factors” starting on page 6.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. The prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

The Date of This Prospectus is: April 30, 2010

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Summary

We were incorporated as ePhoto Image Inc. ("ePhoto") on September 20, 2007, in the State of Nevada for the purpose of developing digital image transaction software and a website through which visual artists can sell original photographic content.

We are a development stage company and have not generated any sales to date. As of January 31, 2010, we had $3 in current assets and current liabilities in the amount of $2,901. Accordingly, we had a negative working capital position as of January 31, 2010 of $2,898. Since our inception through January 31, 2010, we have incurred a net loss of $10,690. We do not have enough cash to enable us to implement our business plan as set forth in this prospectus. For these and other reasons, our independent auditors have raised substantial doubt about our ability to continue as a going concern. Accordingly, we will require additional financing.

Our principal executive offices are located at 50 West Liberty Street, Suite 880, Reno, NV 89501. Our operations office is located at No. 181 Dragon Villas, No. 8 Shun An Nan Road, Shunyi County, Beijing, China. Our phone number is 0086-137-175-28189. Our fiscal year end is April 30.

The Offering

Securities Being Offered	Up to 2,150,000 shares of our common stock, which includes all issued and outstanding shares with the exception of those held by our President and Director, Petra Jaeger, and shareholder, Namuun Ganbaatar.
Offering Price	The offering price of the common stock is $0.001 per share. There is no public market for our common stock. We cannot give any assurance that the shares offered will have a market value, or that they can be resold at the offered price if and when an active secondary market might develop, or that a public market for our securities may be sustained even if developed. The absence of a public market for our stock will make it difficult to sell your shares in our stock. We intend to apply to the FINRA over-the-counter bulletin board, through a market maker that is a licensed broker dealer, to allow the trading of our common stock upon our becoming a reporting

	entity under the Securities Exchange Act of 1934. If our common stock becomes so traded and a market for the stock develops, the actual price of stock will be determined by prevailing market prices at the time of sale or by private transactions negotiated by the selling shareholders. The offering price would thus be determined by market factors and the independent decisions of the selling shareholders.
Minimum Number of Shares To Be Sold in This Offering	None

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Securities Issued and to be Issued	7,750,000 shares of our common stock are issued and outstanding as of the date of this prospectus. Our President and Director, Petra Jaeger, owns an aggregate of 36.77% of the common shares of our company and therefore has substantial control. All of the common stock to be sold under this prospectus will be sold by existing shareholders. There will be no increase in our issued and outstanding shares as a result of this offering.
Use of Proceeds	We will not receive any proceeds from the sale of the common stock by the selling shareholders.

Summary Financial Information

Balance Sheet Data	As of January 31, 2010 (Unaudited)	As of April 30, 2009 (Audited)
Cash	$3	$2
Total Assets	$3	$2
Liabilities	$2,901	$0
Total Stockholders' Equity (Deficit)	$(2,898)	$2

Statement of Operations	For the three months ended January 31, 2010	For the nine months ended January 31, 2010	For the period from September 20, 2007 (inception) to January 31, 2010	For the year ended April 30, 2009
Revenue	$0	$0	$0	$0
Loss for the Period	$1,000	$2,900	$10,690	$7,790

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Risk Factors

An investment in our common stock involves a high degree of risk. You should carefully consider the risks described below and the other information in this prospectus before investing in our common stock. If any of the following risks occur, our business, operating results and financial condition could be seriously harmed. Currently, shares of our common stock are not publicly traded. In the event that shares of our common stock become publicly traded, the trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment.

Risks Associated with Our Financial Condition

Because our auditor has issued a going concern opinion regarding our company, there is an increased risk associated with an investment in our company.

We have earned limited revenue since our inception, which makes it difficult to evaluate whether we will operate profitably. Operating expenses for the period from September 20, 2007 (date of inception) to January 31, 2010, totaled $10,690. We have incurred cumulative net losses of $10,690 since inception to January 31, 2010. We have not attained profitable operations and are dependent upon obtaining financing or generating revenue from operations to continue operations for the next twelve months. As of January 31, 2010, we had cash in the amount of $3. Our future is dependent upon our ability to obtain financing or upon future profitable operations. We reserve the right to seek additional funds through private placements of our common stock and/or through debt financing. Our ability to raise additional financing is unknown. We do not have any formal commitments or arrangements for the advancement or loan of funds. For these reasons, our auditors stated in their report that they have substantial doubt we will be able to continue as a going concern. As a result, there is an increased risk that you could lose the entire amount of your investment in our company.

As of January 31, 2010, we had cash in the amount of $3. We have a working capital deficit of $2,898 as of January 31, 2010.We expect to spend approximately $20,000 to implement our business plan over the coming year. Our accounting, legal and administrative expenses for the next twelve months are anticipated to be $30,000. Without additional capital to contribute toward these expenditures for the next twelve months, we may not be able to continue as a going concern.

Our future is dependent upon our ability to obtain financing or upon future profitable operations. We reserve the right to seek additional funds through private placements of our common stock and/or through debt financing. Our ability to raise additional financing is unknown. We do not have any formal commitments or arrangements for the advancement or loan of funds. For these reasons, our auditors stated in their report that they have substantial doubt we will be able to continue as a going concern. As a result, there is an increased risk that you could lose the entire amount of your investment in our company.

Because we have a limited operating history, it is difficult to evaluate your investment in our stock.

Evaluation of our business will be difficult because we have a limited operating history. We are in the development stage of our business and have not yet begun to offer our products. To date, revenues are not substantial enough to maintain us without additional capital injection if we determine to pursue a growth strategy before significant revenues are generated. We face a number of risks encountered by early-stage companies, including our need to develop infrastructure to support growth and expansion; our need to obtain long-term sources of financing; our need to establish our marketing, sales and support organizations; and our need to manage expanding operations. Our business strategy may not be successful, and we may not successfully address these risks. If we are unable to sustain profitable operations, investors may lose their entire investment in us.

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Risks Associated with Our Business Model

Because we have not established the ePhoto brand name, and our website, products, and name have little, if any, name recognition, we may be prevented from generating revenues, which will reduce the value of your investment.

Because we are a new company with new products and we have not conducted advertising, there is little or no recognition of our ePhoto brand name. As a result, consumers may utilize websites and purchase products other than ours that have brand recognition in the market and we may be unable to generate sufficient revenues to meet our expenses or meet our business plan objectives, which will reduce the value of your investment.

If the stock photography market does not experience significant growth or if our products do not achieve broad acceptance, we will not be able to achieve revenues.

We hope to achieve revenues from sales of our product. We cannot accurately predict future growth rates or the size of the stock photography market, which drives the online stock photography industry. Demand for our product may not occur as anticipated, or may decrease, either generally or in specific geographic markets, during particular time periods. The expansion of the stock photography market, online stock photography industry, and the market for our product depends on a number of factors, such as:

- the cost, performance and reliability of our products and products offered by our competitors;
- public perceptions regarding stock photography and the effectiveness and value of digital stock photography;
- customer satisfaction with digital stock photography; and
- marketing efforts and publicity regarding the needs for stock photography and the public demand for stock photography.

Even if stock photography maintains wide market acceptance, our product may not adequately address market requirements and may not continue to gain market acceptance. If stock photography generally, or our product specifically, do not maintain wide market acceptance, we may not be able to achieve our anticipated level of growth, we may not achieve revenues and results of operations would suffer.

Because we do not have exclusive agreements with the visual artists that will provide our products, we may be unable to effectively provide and distribute our products or distribute them at all, which would adversely affect our reputation and materially reduce our revenues.

We do not own any images. We plan to pursue and enter into written agreements with the third party visual artists to supply our products and allow us to distribute them directly to our customers. If we lose the services of our third party visual artists, we may be unable to secure the services of replacement artists. In addition, because we do not have written agreements with all of these artists, they could refuse to supply some or all of our products, reduce the number of products that they supply or change the terms and prices under which they normally supply our products. The occurrence of any such conditions will have a materially negative effect upon our reputation and our ability to distribute our products, which will cause a material reduction in our revenues.

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If we are unable to gauge trends and react to changing consumer preferences in a timely manner, our sales will decrease, and our business may fail.

We believe our success depends in substantial part on our ability to offer images and other products that reflect current needs and anticipate, gauge and react to changing consumer demands in a timely manner. Our business is vulnerable to changes in consumer preferences. We will attempt to reduce the risks of changing demands and product acceptance in part by devoting a portion of our available products and designs to standard products that are not significantly modified from year to year. Nevertheless, if we misjudge consumer needs for our products, our ability to generate sales could be impaired resulting in the failure of our business. There are no assurances that our future products will be successful, and in that regard, any unsuccessful products could also adversely affect our business.

In the event that we are unable to successfully compete within the digital stock photography business, we may not be able to achieve profitable operations.

We face substantial competition in the industry. Due to our small size, it can be assumed that many of our competitors have significantly greater financial, technical, marketing and other competitive resources. These competitors may have completed development of their sites and products and are presently marketing these to potential customers. Accordingly, these competitors may have already begun to establish brand-recognition with consumers. We will attempt to compete against these competitors by developing features that exceed the features offered by competing sites. However, we cannot assure you that our website will outperform competing sites or those competitors will not develop new sites and products that exceed what we provide. In addition, we may face competition based on price. If our competitors lower the prices on their products, then it may not be possible for us to market our products at prices that are economically viable. Increased competition could result in:

§ Lower than projected revenues;

§ Price reductions and lower profit margins;

§ The inability to develop and maintain our products with features and usability sought by potential customers.

Any one of these results could adversely affect our business, financial condition and results of operations. In addition, our competitors may develop competing products that achieve greater market acceptance. It is also possible that new competitors may emerge and acquire significant market share. Our inability to achieve sales and revenue due to competition will have an adverse effect on our business, financial condition and results of operations.

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The complexity of our website may lead to errors, defects, and bugs, which could subject us to significant costs or damages and adversely affect market acceptance of our website.

We have not undertaken significant testing of our website and it may contain undetected errors, weaknesses, defects or bugs when first introduced or as new versions are released. If our website or future sites contain production defects, reliability, quality or compatibility problems that are significant to our customers, our reputation may be damaged and customers may be reluctant to continue to buy our products, which could adversely affect our ability to retain and attract new customers. In addition, these defects or bugs could interrupt or delay sales of affected products, which could adversely affect our results of operations.

If defects or bugs are discovered after commencement of commercial operation of our website or future sites, we may be required to make significant expenditures of capital and other resources to resolve the problems. This could result in significant additional development costs and the diversion of technical and other resources from our other development efforts. These costs or damages could have a material adverse effect on our financial condition and results of operations.

If we do not effectively implement measures to sell our products, we may never achieve revenues and you will lose your entire investment.

We are currently refining our prototype website. When we are satisfied that our website provides the most effective distribution mechanism for stock photography possible for the consumer, we will begin the commercial operation of our website. We have not achieved revenues, or taken active steps to develop a sales force to attain revenues. We have no experience in providing direct sales and service, nor do we have distributors of our products other than our website. Moreover, our sales and marketing efforts may not achieve intended results and therefore may not generate the revenue we hope to achieve. As a result of our corporate strategies, we have decided to initially focus our resources in select areas in China and other Asian countries. We may change our focus to other markets or applications in the future. There can be no assurance that our focus or our near term plans will be successful. If we are not able to successfully address markets for our products, we may not be able to grow our business, compete effectively or achieve profitability.

If we are unable to successfully manage growth, our operations could be adversely affected.

Our progress is expected to require the full utilization of our management, financial and other resources, which to date has occurred with limited working capital. Our ability to manage growth effectively will depend on our ability to improve and expand operations, including our financial and management information systems, and to recruit, train and manage sales personnel. There can be no absolute assurance that management will be able to manage growth effectively.

If we do not properly manage the growth of our business, we may experience significant strains on our management and operations and disruptions in our business. Various risks arise when companies and industries grow quickly. If our business or industry grows too quickly, our ability to meet customer demand in a timely and efficient manner could be challenged. We may also experience development delays as we seek to meet increased demand for our products. Our failure to properly manage the growth that we or our industry might experience could negatively impact our ability to execute on our operating plan and, accordingly, could have an adverse impact on our business, our cash flow and results of operations, and our reputation with our current or potential customers.

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Because we intend to offer our product in China and other countries throughout Asia, we are subject to risks associated with international operations.

Although we have not commenced offering our products to consumers, we may rely on foreign third-party development, testing, and distribution operations. Foreign operations subject us to a number of risks associated with conducting business outside of the United States, including the following:

§ Unexpected changes in, or
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Sandoz	**1 039**	14.5	736	12.4	41
Consumer Health continuing operations	**812**	15.0	761	15.5	7
Corporate income & expense, net	1 228		532		131
Operating income from continuing operations	**6 781**	17.8	7 642	22.2	11

Operating income excluding environmental provision and Forward charges

	2007		2006		Change
	USD m	% of net sales	USD m	% of net sales	In %
Pharmaceuticals[1]	**6 393**	26.6	6 703	29.7	5
Vaccines and Diagnostics	**72**	5.0	26		
Sandoz	**1 039**	14.5	736	12.4	41
Consumer Health continuing operations[1]	**909**	16.8	761	15.5	19
Corporate income & expense, net[1],[2]	598		532		12
Operating income from continuing operations excluding Corporate environmental charge and Forward restructuring charge	**7 815**	20.5	7 642	22.2	2
Corporate environmental provision increase	590				
Forward restructuring charges	444				
Operating income from continuing operations	**6 781**	17.8	7 642	22.2	11

(1) Excludes respective component of the Forward restructuring charge in the 2007 fourth quarter of USD 444 million (Pharmaceuticals: USD 307 million, Consumer Health: USD 97 million and Corporate: USD 40 million)

(2) Excludes Corporate environmental provision increase of USD 590 million in the 2007 third quarter

Group

Operating income from continuing operations was affected significantly by one-time charges in 2007 that included approximately USD 1 billion in total for Corporate environmental provisions (USD 590 million) and restructuring charges for the Forward initiative (USD 444 million). Excluding these two charges, operating income from continuing operations rose 2%.

Pharmaceuticals

Among the factors contributing to the decline were lost operating income in the US due to the entry of generic competition for four products and the suspension of *Zelnorm,* major investments in late-stage development compounds, new product launches and restructuring charges. The operating margin declined to 25.3% of net sales (or to 26.7% of net sales excluding total restructuring charges) from 29.7% in 2006. Research & Development investments rose 19% to USD 5.1 billion and represented 21% of net sales, mainly to support the rich late-stage pipeline that includes the projects FTY720, QAB149, MFF258, ACZ885, ABF656, RAD001 and *Exforge*. Marketing & Sales expenses were up 9% to support many new product launches and rollouts, which was partly offset by productivity initiatives. Cost of Goods Sold was higher due mainly to a USD 320 million intangible asset impairment charge for *Famvir* product rights.

Vaccines and Diagnostics

The strong business performance supported significant investments in R&D, particularly for late-stage trials involving meningococcal meningitis vaccine candidates and a new strategic alliance with Intercell. The adjusted operating margin was 21.3% of net sales excluding legal settlement gains of USD 83 million in 2007 as well as restructuring and amortization charges for intangible assets.

Sandoz

Advancing broadly twice as fast as net sales, operating income expansion was driven by efficiency improvements throughout the division, economies of scale in marketing and productivity gains in R&D. As a result, the operating margin improved to 14.5% of net sales from 12.4% in 2006. Excluding one-time items and acquisition-related amortization of intangible assets in both periods, adjusted operating income rose 20% and the adjusted operating margin reached 20.0%.

Consumer Health continuing operations

Excluding the charge for Forward, operating income rose 19% and supported continued investments in R&D and marketing for new product launches and geographic expansion.

CONTINUING OPERATIONS

Fourth quarter

Key figures

	Q4 2007		Q4 2006		% change	
	USD m	% of net sales	USD m	% of net sales	USD	lc
Net sales	**9 931**		9 398		6	1
Operating income excl. Forward [1]	**1 341**	**13.5**	1 725	18.4	22	
Operating income	**897**	**9.0**	1 725	18.4	48	
Net income	**931**	**9.4**	1 596	17.0	42	
Basic earnings per share	**USD 0.41**		USD 0.67		39	

(1) Excludes USD 444 million in restructuring charges for the Forward initiative

Net sales

	Q4 2007 USD m	Q4 2006 USD m	% change USD	lc
Pharmaceuticals	**6 152**	6 049	2	5
Vaccines and Diagnostics	**398**	455	13	18
Sandoz	**1 971**	1 653	19	9
Consumer Health continuing operations	**1 410**	1 241	14	6
Net sales from continuing operations	**9 931**	9 398	6	1

Group

Overall good net sales growth in reported US dollars was achieved as Sandoz and Consumer Health offset the negative developments in Pharmaceuticals in the US and a weaker quarter in Vaccines and Diagnostics. Sales volumes and price changes each resulted in a loss of one percentage point in net sales, but were offset by acquisitions that provided one percentage point and currency translation that added seven percentage points to net sales.

Pharmaceuticals

Europe, Latin America and key emerging markets generated high-single-digit growth, but US net sales fell 21% due to generic competition for four products *Lotrel, Lamisil, Trileptal* and *Famvir* and the suspension of *Zelnorm*. However, worldwide net sales rose 8% for the unaffected product portfolio. *Diovan* (USD 1.4 billion, +12% lc) and *Gleevec/Glivec* (USD 0.8 billion, +12% lc) both improved their leadership positions as

the Oncology, Cardiovascular and Neuroscience franchises all delivered solid performances. The continued rollout of many new products including *Tekturna/Rasilez, Exforge, Exjade, Lucentis, Aclasta/Reclast, Exelon Patch* and *Xolair* in key markets around the world provided combined net sales of USD 427 million for the quarter.

Vaccines and Diagnostics

The net sales decline reflected deliveries of seasonal influenza vaccines occurring mainly in the third quarter of 2007 due to earlier availability as a result of high viral strain production yields for the vaccine. In comparison, poor production yields for vaccines last year led to more shipments occurring in the fourth quarter of 2006 than in the third quarter. Further expansion in Europe of the blood testing business supported the ongoing positive performance in Diagnostics.

Sandoz

Ongoing dynamic expansion as US net sales increased at a fast pace, while contributions from Eastern Europe, Asia and Latin America underpinned the performance. Key drivers were solid growth in the base retail generics business as well as recent launches of difficult-to-make and authorized generics.

Consumer Health continuing operations

Animal Health led the division with double-digit growth, reflecting the benefits of new product launches, recent sales force investments and the integration of Sankyo Lifetech in Japan. OTC grew at a slower pace, mainly due to the weak cough and cold season in the US. CIBA Vision was supported by new product launches, including *Air Optix Toric* contact lenses in Europe, with the year-ago period negatively impacted by a product recall.

Operating income

	Q4 2007		Q4 2006		Change
	USD m	% of net sales	USD m	% of net sales	In %
Pharmaceuticals	**925**	15.0	1 621	26.8	43
Vaccines and Diagnostics	**107**		2	0.4	
Sandoz	**250**	12.7	204	12.3	23
Consumer Health continuing operations	**85**	6.0	74	6.0	15
Corporate income & expense, net	256		176		45
Operating income from continuing operations	**897**	9.0	1 725	18.4	48

Operating income excluding Forward charge

	Q4 2007		Q4 2006		Change
	USD m	% of net sales	USD m	% of net sales	In %
Pharmaceuticals[(1)]	**1 232**	20.0	1 621	26.8	24
Vaccines and Diagnostics	**107**		2		0.4
Sandoz	**250**	12.7	204	12.3	23
Consumer Health continuing operations[(1)]	**182**	12.9	74	6.0	146
Corporate income & expense, net[(1)]	216		176		23
Operating income from continuing operations excluding Forward[(1)]	**1 341**	13.5	1 725	18.4	22
Forward restructuring charge	444				
Operating income from continuing operations	**897**	9.0	1 725	18.4	48

(1) Excludes a USD 444 million restructuring charge in the 2007 fourth quarter for the Forward initiative (Pharmaceuticals: USD 307 million, Consumer Health: USD 97 million and Corporate: USD 40 million)

Group

Operating income from continuing operations declined 22% excluding the restructuring charge of USD 444 million for the Forward initiative.

Pharmaceuticals

The significant decline reflected reduced income contributions from the US due to the loss of sales from products that have been suspended or face generic competition as well as ongoing investments in R&D, new product launches and restructuring charges. Excluding total restructuring charges, operating income fell 22% and the operating margin was 20.4% of net sales. Research & Development rose 19% in the fourth quarter of 2007 to represent 23% of net sales, mainly based on investments in late-stage development projects but also reflecting partial impairments of in-process R&D assets. Marketing & Sales expenses rose 3% as productivity initiatives helped offset some of the major investments being made in new product launches. Cost of Goods Sold was affected by the unfavorable product mix resulting from the loss of products in the US to generic competition and the suspension of *Zelnorm*.

Vaccines and Diagnostics

The results reflected the timing of seasonal influenza vaccine shipments, with more occurring in the third quarter of 2007 than in the fourth quarter. In contrast, poor production yields in 2006 led to more seasonal influenza vaccine sales in the fourth quarter than in the third quarter of 2006. Increased investments were made during the fourth quarter of 2007 in Research & Development in the meningitis vaccine portfolio and in technical infrastructure.

Sandoz

Operating income expanded largely in line with net sales, with the operating margin rising to 12.7% of net sales while supporting significant additional investments for expansion in emerging markets and product development. Excluding one-time items and the amortization of intangible assets in both periods, adjusted operating income advanced 22% and the corresponding operating margin reached 17.8%.

Consumer Health continuing operations

The improvement in operating income reflected improvements in Cost of Goods Sold due to a better product mix as well as a reduction in total operating costs. General & Administrative expenses declined, while Marketing & Sales investments benefited from targeted spending to support new product launches and geographic expansion. The year-ago quarter included a provision for a CIBA Vision recall of contact lenses.

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Corporate

Full year

	2007 USD m	2006 USD m	Change USD m	% change
Operating income from continuing operations excl. environmental provision and Forward[1]	**7 815**	**7 642**	**173**	**2**
Corporate environmental provision increase	590		590	
Forward restructuring charge	444		444	
Operating income from continuing operations	**6 781**	**7 642**	**861**	**11**
Income from associated companies	412	264	148	56
Financial income	531	354	177	50
Interest expense	237	266	29	11
Taxes	947	1 169	222	19
Net income from continuing operations	**6 540**	**6 825**	**285**	**4**
Net income from discontinued Consumer Health operations	5 428	377	5 051	
Total net income	**11 968**	**7 202**	**4 766**	**66**

(1) Excludes a Corporate environmental provision increase of USD 590 million in the 2007 third quarter and a USD 444 million restructuring charge in the 2007 fourth quarter for the Forward initiative

Fourth quarter

	Q4 2007 USD m	Q4 2006 USD m	Change USD m	% change
Operating income from continuing operations excl. Forward[1]	**1 341**	**1 725**	**384**	**22**
Forward restructuring charge	444		444	
Operating income from continuing operations	**897**	**1 725**	**828**	**48**
Income from associated companies	104	71	33	46
Financial income	245	95	150	158
Interest expense	61	57	4	7
Taxes	254	238	16	7
Net income from continuing operations	**931**	**1 596**	**665**	**42**
Net income from discontinued Consumer Health operations	18	67	85	127
Total net income	**913**	**1 663**	**750**	**45**

(1) Excludes a USD 444 million restructuring charge in the 2007 fourth quarter for the Forward initiative

Income from associated companies

Income from associated companies rose to USD 412 million in 2007, nearly double the USD 264 million in 2006 that included exceptional charges for Chiron. The investment in Roche provided income in 2007 of USD 391 million, up 35% from 2006. This represented USD 509

million in anticipated 2007 income from Roche that includes a positive prior-year adjustment of USD 13 million, which was offset by USD 118 million for amortization of intangible assets. Other associated companies added USD 21 million in income for 2007. In the fourth quarter, income rose 46% to USD 104 million from the comparable 2006 period.

Financial income, net

Net financial income more than tripled to USD 294 million in 2007 from USD 88 million in 2006, reflecting increased liquidity due to divestment proceeds and excellent currency management in very challenging conditions. In the fourth quarter, net financial income rose to USD 184 million from USD 38 million in the 2006 period, benefiting from improved liquidity and currency gains.

Taxes

The tax rate for continuing operations fell to 12.6% in 2007 from 14.6% in 2006 due to several factors that included the restructuring and environmental provision increases, a reduced corporate tax rate in Germany and a benefit from the restructuring of the Chiron business on integration into the Novartis Group. The Chiron restructuring, however, had a negative impact on the fourth quarter of 2007 as the tax rate rose to 21.4%, up from 13.0% in the comparable 2006 period.

Net income

Net income from continuing operations declined 4% to USD 6.5 billion in 2007, with basic earnings per share down 3% to USD 2.81 from USD 2.90 in 2006. Higher contributions of income from associated companies, improved net financial income and a lower tax rate all helped to mitigate the decline.

In the fourth quarter of 2007, net income from continuing operations fell 42% to USD 931 million, while basic earnings per share was down 41% to USD 0.40. The sharp reduction in net income was largely in line with reduced operating income, which was adversely impacted by lost income contributions from the US pharmaceuticals business and the Forward restructuring charge taken in the quarter.

Balance sheet

The Group s equity rose to USD 49.4 billion at December 31, 2007, from USD 41.3 billion at December 31, 2006. The net increase of USD 8.1 billion included USD 14.8 billion in total recognized income and expenses (comprised of USD 12.0 billion in net income, USD 2.2 billion in currency translation gains, USD 0.4 billion in actuarial gains on pension plans and USD 0.2 billion in other net movements) that were offset by USD 6.7 billion in transactions with shareholders (mainly a payment of USD 2.6 billion for the dividend and USD 4.1 billion in net share repurchases and share-based compensation).

Thanks to divestment proceeds and the strong cash flow from continuing operations, net liquidity rose sharply to USD 7.4 billion at the end of 2007 from USD 0.7 billion at the end of 2006. The debt/equity ratio at the end of 2007 improved to 0.12:1 compared to 0.18:1 at the end of 2006.

Novartis is one of the few non-financial services companies worldwide with the highest credit ratings from Standard & Poor s, Moody s and Fitch, the three benchmark rating agencies. S&P has rated Novartis as AAA for long-term maturities and as A1+ for short-term maturities. Moody s has rated the Group as Aaa and P1 for long- and short-term, while Fitch has rated Novartis as AAA for long-term maturities and F1+ for short-term maturities.

Cash flow

Cash flow from continuing operating activities was USD 9.2 billion in 2007, an increase of USD 0.9 billion from 2006 due mainly to the underlying business expansion and continued strict control of working capital. Net cash used for investing activities in continuing operations was USD 6.2 billion, mainly the result of USD 2.9 billion in net investments for intangible and tangible assets and USD 3.3 billion in financial assets (including marketable securities). Free cash flow from continuing operations after dividends was USD 3.8 billion, a decline from USD 4.0 billion in 2006 due to the larger dividend payment and higher capital expenditures. Among the reasons for the increased capital expenditures, which were USD 2.5 billion and represented 6.7% of net sales from continuing operations, were capacity expansion projects in Vaccines and Diagnostics, Sandoz and Pharmaceuticals.

Dividend proposal for 2007

The Board of Directors has proposed a dividend payment of CHF 1.60 per share for 2007, a 19% increase from the dividend of CHF 1.35 per share in 2006. Shareholders will vote on this proposal at the next Annual General Meeting on February 26, 2008. This proposal marks the eleventh consecutive year of a higher dividend payout since the creation of Novartis in December 1996. If approved by shareholders, dividends paid for 2007 on outstanding shares are expected to total approximately USD 3.2 billion. The dividend payout ratio for 2007 will be 49% of the Group s net income from continuing operations. Based on the year-end 2007 share price of CHF 62.10, the dividend yield is 2.6% compared to 1.9% in 2006. The payment date for the 2007 dividend is set for February 29, 2008. All issued shares are dividend bearing, with the exception of 272.7 million treasury shares.

Proposal for new CHF 10 billion share repurchase program

Utilizing the Group s strong free cash flow and proceeds from recent divestments, Novartis completed its fourth and fifth share repurchase programs during 2007, with a total of 85.3 million shares worth CHF 4.7 billion repurchased via a second trading line on the SWX Swiss Stock Exchange where Novartis is the exclusive buyer. Shareholders will also be asked to approve the cancellation of these shares acquired in 2007 along with a corresponding reduction of 3.1% in the Group s registered share capital. The Board of Directors will propose to shareholders the approval of a new CHF 10 billion repurchase program at the next Annual General Meeting in February 2008.

Preparing for a new growth cycle

Novartis believes it has an excellent portfolio to address a dynamically changing healthcare environment one that is diversified, yet focused solely on healthcare and in businesses with dynamic growth potential going beyond patented prescription pharmaceuticals to include generic pharmaceuticals, preventive vaccines and diagnostics, and targeted consumer health products.

The Sandoz, Vaccines and Diagnostics and Consumer Health Divisions are expected to again deliver strong performances in 2008. These businesses are expanding quickly and compete in some areas that are expected to grow faster than the global market for patented pharmaceuticals.

Thanks to leading positions for many top products and the ongoing launches for many new medicines, the Pharmaceuticals Division is expected to return to dynamic growth in the second half of 2008. Launches are progressing well for recently approved products, including *Exforge, Tekturna/Rasilez, Lucentis, Tasigna, Exelon Patch* and *Aclasta/Reclast,* following 15 major regulatory approvals in 2007 in the US and Europe.

However, the results of Pharmaceuticals in the first two quarters of 2008 will be negatively affected by the full-year effect of having lost significant sales contributions from five products in the US during 2007. These products Ze*lnorm*, *Lotrel*, *Trileptal*, *Lamisil* and *Famvir* had combined total net sales in the US of USD 3.1 billion in 2006, and net sales for this group fell to USD 1.7 billion in 2007, mainly from the entry of generic competition. The year-on-year impact of lost sales from these products will only diminish later in 2008. At the same time, underlying growth of the unaffected product portfolio driven by launches of many new products and further expansion of flagship products such as *Diovan* and *Gleevec/Glivec* are expected to support high-single digit net sales growth in the Pharmaceuticals Division by the

fourth quarter of 2008, and for net sales growth at a low-single-digit rate for the full year, both in local currencies.

To help Novartis more rapidly meet the needs of patients and customers, the Forward initiative was launched in December 2007 to improve competitiveness. This initiative, which is now underway and will be implemented in 2008 and 2009, will simplify organizational structures, accelerate and decentralize decision-making processes, redesign the way Novartis operates and provide productivity gains. Pre-tax annual cost savings of USD 1.6 billion are expected in 2010, with a pre-tax restructuring charge of USD 444 million taken in the 2007 fourth quarter. Approximately 2,500 full-time positions are expected to be reduced from among the currently nearly 100,000 full-time positions within the Group. Many reductions will be handled through normal fluctuation in staffing levels, which has traditionally averaged about 8% of the Group s annual workforce, as well as through vacancy management and social programs.

Ranked as having one of the industry s best pharmaceutical product pipelines, Novartis will continue making major investments in drug discovery, particularly biologic therapies. The Novartis Biologics unit was created in 2007 as a dedicated innovation unit with a strong biotech culture in the areas of discovery and development unique to biologics, and with full access to the extensive Novartis organization. These types of therapies are increasingly a priority and now total approximately 25% of the pre-clinical research pipeline.

Group outlook

(Barring any unforeseen events)

Given the outlook for strong contributions from most of its healthcare businesses, Novartis continuing operations expect another year of record net sales and earnings in 2008. Net sales from continuing operations for the Group are expected to rise at a mid-single-digit rate, and at a low-single-digit growth rate in the Pharmaceuticals Division, both in local currencies.

Pharmaceuticals products performance review

Note: All net sales growth figures refer to 2007 worldwide performance in local currencies

Diovan (USD 5.0 billion, +16% lc) reached another important milestone in 2007 as net sales reached USD 5 billion for the first time. *Diovan* has consistently grown thanks to new indications and clinical data underpinning its status as the world s No. 1 branded high blood pressure medicine. Many key countries, particularly the US, Japan and Germany, delivered double-digit growth. *Diovan* held in the US a 40% share among angiotensin receptor blockers (ARBs), the fastest-growing segment of the antihypertensive market. *Co-Diovan/Diovan HCT,* a single-tablet combination with a diuretic, was driven by growing use of multiple therapies.

Gleevec/Glivec (USD 3.1 billion, +14% lc), a therapy for certain forms of chronic myeloid leukemia (CML) and gastrointestinal stromal tumors (GIST), reinforced its leadership in helping patients with these and other often-fatal forms of cancer. New data from the IRIS study in patients with newly diagnosed Philadelphia chromosome-positive CML (Ph+ CML) showed *Gleevec/Glivec* halted disease progression to more advanced stages completely in the sixth year of treatment and that 88% of *Gleevec/Glivec* patients in the trial were still alive. *Gleevec/Glivec* has also benefited from wider use in patients with GIST and in various rare diseases. Competition in the CML market in 2007 had little impact on underlying demand.

Zometa (USD 1.3 billion, 2% lc), an intravenous bisphosphonate therapy for patients with cancer that has spread to the bones, delivered a steady performance amid signs that demand stabilized during 2007 in the US and Europe. Overall growth for this class of medicines has slowed with many patients receiving treatment less frequently and for a shorter course of therapy. However, this trend was balanced by increasing use in patients with lung cancer as well as rapid growth in Japan and markets outside the US and Europe. In December, the US Food and Drug Administration granted *Zometa* an additional six months of marketing exclusivity until 2013 following the completion of pediatric studies.

Sandostatin (USD 1.0 billion, +7% lc), for acromegaly and various neuroendocrine and carcinoid tumors, reached annual net sales of USD 1 billion for the first time thanks to increasing use of the long-acting-release *Sandostatin LAR* version given once a month that accounts for 85% of net sales. The once-daily *Sandostatin* version faces generic competition.

Neoral/Sandimmun (USD 944 million, 2% lc), for organ transplantation, has maintained generally stable worldwide net sales despite ongoing generic competition thanks to its pharmacokinetic profiles and reliability.

Femara (USD 937 million, +25% lc), an oral treatment for women with hormone-sensitive breast cancer, delivered ongoing dynamic growth primarily from expanded use in patients immediately after surgery (early adjuvant) in the US and Europe as well as from the 2006 launch in Japan. *Femara* has outpaced competitors and gained market share in the aromatase inhibitor segment due to its unique benefits.

Lotrel (USD 748 million, 45% lc, only in US) has been negatively affected since May 2007 following the at risk launch of a generic copy by Teva Pharmaceuticals despite a valid US patent until 2017. Sandoz also launched an authorized generic version of this high blood pressure medicine. A trial date has not been set for the ongoing lawsuit against Teva, which risks potentially significant damages if Novartis prevails.

Voltaren (USD 747 million, +3% lc), a therapy for inflammation and pain, showed steady growth, primarily in Latin America and Asia, based on long-term trust in the brand. Patent

protection for *Voltaren* in many key markets around the world has expired.

Trileptal (USD 692 million, 6% lc), a treatment for epilepsy seizures, generated growth until the expected entry of US generic competition in October 2007, which led to a sharp decline in US net sales in the fourth quarter of 2007.

Lescol (USD 665 million, 12% lc), a statin drug used to reduce cholesterol, was primarily impacted by decisions to reduce reference prices in Europe, while the introduction of generic simvastatin and a highly competitive market for this class weighed on US net sales.

Exelon (USD 632 million, +14% lc), for mild to moderate forms of Alzheimer s disease and dementia associated with Parkinson s disease, delivered solid growth. Several launches are underway for ***Exelon Patch*** in the US and Europe following regulatory approvals in 2007. This once-daily skin patch provides a novel treatment approach with a smooth and continuous delivery of *Exelon* to patients. *Exelon Patch* provides equivalent efficacy to the highest doses of capsules, but with three times fewer reports of nausea or vomiting.

Lamisil (USD 595 million, 40% lc), a therapy for fungal nail infections, fell sharply after the entry of US generic competition in July 2007. Basic patent protection for *Lamisil* s active ingredient has now expired worldwide, with generics already available in Europe and Japan.

Lucentis (USD 393 million), for treatment of the eye disease wet age-related macular degeneration (AMD), experienced dynamic growth in Europe and other markets in its first year after EU approval in January 2007. *Lucentis* is the only treatment proven in clinical trials to maintain and improve vision in these patients with this form of AMD, which is the leading cause of blindness in people over age 50. Genentech holds the US rights.

Exjade (USD 357 million, +141% lc) delivered strong growth based on its unique status as the first once-daily oral therapy for iron overload associated with various blood disorders. First launched in the US in November 2005 and in Europe starting in August 2006, *Exjade* is now approved in over 85 countries. In 2007 *Exjade* was submitted in Japan, a year ahead of schedule. About half of patients being given this medicine are new to iron chelation.

Xolair (USD 140 million, +30% lc), a biotechnology drug that offers a new approach for the treatment of moderate to severe allergic asthma, has benefited from rapid acceptance and is now available in 54 countries after EU approval in October 2005. *Xolair* is administered as an injection every two to four weeks and is proven to target a root cause of allergic asthma. Novartis co-promotes *Xolair* with Genentech in the US and shares a portion of operating income. Genentech reported US sales of USD 472 million for *Xolair* in 2007.

Zelnorm/Zelmac (USD 88 million, 84% lc), for irritable bowel syndrome and chronic constipation, was suspended in the US in March 2007, and subsequently in many other countries, to comply with a request from the FDA to review cardiovascular safety data. A treatment access program was started in the US to provide *Zelnorm* to appropriate patients. Novartis continues to believe *Zelnorm/Zelmac* offers important benefits to appropriate patients, and discussions continue with various health authorities.

Prexige (USD 91 million), an oral COX-2 inhibitor for osteoarthritic pain, was withdrawn in the European Union and many other countries in 2007. These actions were taken after the first withdrawal in August in Australia based on post-marketing reports of serious liver side-effects allegedly associated with long-term use of higher doses, including the deaths of two patients. In September, the FDA issued a not approvable letter for the 100 mg once-daily dose, which is the lowest available formulation. Novartis believes *Prexige*, which continues to

be available in some countries, is a valuable therapy option for appropriate patients, particularly those at risk of serious gastrointestinal complications, and will continue discussions with health authorities.

Exforge (USD 103 million), a single-tablet combination of two proven high blood pressure medicines, the angiotensin receptor blocker *Diovan* and the calcium channel blocker amlodipine, delivered the strongest launch performance of any Novartis anti-hypertensive medicine thanks to rapid growth in the US and Europe following approvals in 2007. Clinical data have shown nine of ten patients treated with *Exforge* reached treatment goals, confirming strong efficacy coupled with improved convenience.

Aclasta/Reclast (USD 41 million) was launched in September 2007 in the US as a 15-minute, once-yearly infusion for women with postmenopausal osteoporosis, while initial launches were started in Europe in Germany and the UK after European Union approval in October 2007. *The New England Journal of Medicine* published in September the results of the first-ever clinical study involving more than 2,100 men and women with osteoporosis who had suffered a hip fracture, showing that *Aclasta/Reclast* reduces the risk of further fractures.

Tekturna/Rasilez (USD 40 million), the first new type of high blood pressure medicine in more than a decade, has performed well in a highly competitive US marketplace following its approval and launch in March 2007. Launches are also underway after European approval in August 2007. Known as *Tekturna* in the US and as *Rasilez* in other markets, key drivers have been broad clinical data demonstrating efficacy in lowering blood pressure, its safety profile and rising reimbursement rates in US formulary plans. Initial results of trials related to the ASPIRE HIGHER program showed potential benefits of *Tekturna/Rasilez* in reducing a key biomarker of kidney disease (AVOID) and in reducing the severity of heart failure (ALOFT). *Rasilez HCT,* a single-tablet combination with a diuretic, was submitted for EU approval in late 2007, while US approval of *Tekturna HCT* is expected in early 2008. This medicine was discovered by Novartis and developed in collaboration with Speedel.

Tasigna was launched during the fourth quarter of 2007 in the US and Europe following regulatory approvals as a new therapy for patients with Philadelphia chromosome-positive chronic myeloid leukemia (Ph+ CML) who are resistant or intolerant to treatment with *Gleevec/Glivec* (imatinib). *Tasigna* is now approved in about 40 countries, and was also submitted for approval in Japan in June. *Tasigna* was designed to be a more potent and selective inhibitor of Bcr-Abl, the cause of Ph+ CML, and its mutations than *Gleevec/Glivec*. Separate Phase III studies are underway comparing *Tasigna* and *Gleevec/Glivec* in newly diagnosed CML patients as well as those with sub-optimal responses to previous therapy. A registration study is also underway in patients with gastrointestinal stromal tumors (GIST) who are resistant or intolerant to prior treatment.

Research & Development update

Pharmaceuticals

Galvus (vildagliptin), a new oral treatment for type 2 diabetes, is expected to be first made available in Europe in the first half of 2008. European health authorities announced in November 2007 their support for changes proposed by Novartis to prescribing information that would reduce the recommended daily doses to 50 mg once-daily or 50 mg twice-daily in combination with various other oral anti-diabetes medicines. EU approval was granted in November 2007 for ***Eucreas***, a single-tablet combination of *Galvus* with the oral anti-diabetes medicine metformin. In the US, Novartis is continuing discussions with the FDA on steps needed for approval after having received an approvable letter in February 2007 that included a request for additional clinical trial data. A resubmission for US regulatory approval is not expected before 2010.

FTY720 (fingolimod) is on track for regulatory submissions at the end of 2009 after clinical trial enrollment required for global submissions was completed in 2007. FTY720, an oral therapy, is currently being investigated in the largest worldwide Phase III program to be conducted in relapsing-remitting multiple sclerosis (MS) to further evaluate its efficacy and safety. The program includes FREEDOMS and FREEDOMS II, two-year placebo-controlled trials measuring reductions in relapse rates and disability progression, and the one-year TRANSFORMS trial comparing FTY720 with interferon beta-1a (Avonex®). FTY720 has the potential to be the first in a new class of disease-modifying MS therapies that action on inflammation and could potentially have a direct impact on the Central Nervous System.

QAB149 (indacaterol), a once-daily long-acting beta-agonist with 24-hour bronchodilation and a fast onset of action, completed enrollment in 2007 in a pivotal Phase III monotherapy trial as a treatment for chronic obstructive pulmonary disease (COPD), a condition in which the lungs have been damaged, usually from smoking. QAB149 is also being developed for use in combination with other respiratory medicines and development compounds in patients with COPD. Other combination trials are being done in asthma.

RAD001 (everolimus), a once-daily oral inhibitor of the mTOR pathway that has demonstrated broad clinical activity in multiple tumors, is progressing toward a potential first regulatory submission in 2008. Enrollment has been completed in the registration trial involving metastatic renal cell carcinoma, a form of kidney cancer. Registration trials are also underway in chemotherapy-refractory pancreatic islet cell tumors (pICT) in the first- and second-line setting and for chemotherapy-refractory carcinoid (slow growing) tumors. RAD001 acts by directly inhibiting tumor cell growth and metabolism as well as the formation of new blood vessels (angiogenesis).

SOM230 (pasireotide), a next-generation somatostatin analogue therapy, has completed Phase II studies for acromegaly, carcinoid tumors and Cushing s disease. A Phase III registration study is enrolling patients with Cushing s disease, a rare disorder characterized by excessive excretion of the hormone cortisol from a pituitary adenoma (tumor) and a condition for which there is no approved medical therapy. Additional registration studies for acromegaly and refractory carcinoid patients are set to begin in the first quarter of 2008.

Vaccines and Diagnostics

Menveo (MenACWY-CRM), in development as a vaccine against four common types of meningococcal meningitis, showed in a Phase II trial that it may protect infants as young as two months old. *Menveo* was well tolerated and showed high immunogenicity against four types A, C, W135 and Y. Infants and adolescents have the highest rate of this disease, with the highest attack rates in infants from age three to 12 months. This rare, but potentially

fatal, bacterial disease causes an infection of membranes around the brain and spinal cord. Existing vaccines have not worked in very young children.

Disclaimer

These materials contain certain forward-looking statements relating to the Group s business, which can be identified by the use of forward-looking terminology such as proposed, expects, outlook , to show, set, strategy , expected , designed to, confident, will future trends, potential , targeted, proposal, believes, pipelines , approvable, may, or similar expressions, or by express or implied dis 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. 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; 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 growth areas in healthcare, Novartis offers a diversified portfolio to best meet these needs: innovative medicines, cost-saving generic pharmaceuticals, preventive vaccines and 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 98,200 full-time associates and operate in over 140 countries around the world. For more information, please visit http://www.novartis.com.

Important dates

February 26, 2008	Annual General Meeting
April 21, 2008	First quarter 2008 results
July 17, 2008	Second quarter and first half 2008 results
October 20, 2008	Third quarter and first nine months 2008 results

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statements (audited)

Full year

	2007 USD m	2006 USD m	Change USD m	Change %
Net sales from continuing operations	**38 072**	**34 393**	**3 679**	**11**
Other revenues	875	712	163	23
Cost of Goods Sold	-11 032	-9 411	-1 621	17
Of which amortization and impairments of product and patent rights and trademarks	*-1 329*	*-763*	*-566*	*74*
Gross profit	**27 915**	**25 694**	**2 221**	**9**
Marketing & Sales	-11 126	-10 092	-1 034	10
Research & Development	-6 430	-5 321	-1 109	21
General & Administration	-2 133	-1 882	-251	13
Other Income & Expense[1]	-1 445	-757	-688	91
Operating income from continuing operations	**6 781**	**7 642**	**-861**	**-11**
Income from associated companies	412	264	148	56
Financial income	531	354	177	50
Interest expense	-237	-266	29	-11
Income before taxes from continuing operations	**7 487**	**7 994**	**-507**	**-6**
Taxes	-947	-1 169	222	-19
Net income from continuing operations	**6 540**	**6 825**	**-285**	**-4**
Net income from discontinued Consumer Health operations	5 428	377	5 051	
Total net income	**11 968**	**7 202**	**4 766**	**66**
Attributable to:				
Equity holders of Novartis AG	*11 946*	*7 175*	*4 771*	*66*
Minority interests	*22*	*27*	*-5*	*-19*
Average number of shares outstanding Basic (million)	**2 317.5**	**2 345.2**	**-27.7**	**-1**
Basic earnings per share (USD)[2]				
Total	**5.15**	**3.06**	**2.09**	**68**
Continuing operations	**2.81**	**2.90**	**-0.09**	**-3**
Discontinued operations	**2.34**	**0.16**	**2.18**	
Average number of shares outstanding Diluted (million)	2 328.9	2 360.5	-31.6	-1
Diluted earnings per share (USD)[2]				
Total	5.13	3.04	2.09	69
Continuing operations	2.80	2.88	-0.08	-3
Discontinued operations	2.33	0.16	2.17	

(1) Includes Corporate environmental provision increase of USD 590 million taken in the third quarter of 2007 and a restructuring charge of USD 444 million taken in the fourth quarter of 2007 for the Forward initiative

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

Consolidated income statements (unaudited)

Fourth quarter

	Q4 2007 USD m	Q4 2006 USD m	Change USD m	Change %
Net sales from continuing operations	**9 931**	**9 398**	**533**	**6**
Other revenues	240	256	-16	-6
Cost of Goods Sold	-3 013	-2 677	-336	13
Of which amortization and impairments of product and patent rights and trademarks	*-250*	*-223*	*-27*	*12*
Gross profit	**7 158**	**6 977**	**181**	**3**
Marketing & Sales	-3 045	-2 904	-141	5
Research & Development	-1 847	-1 540	-307	20
General & Administration	-634	-593	-41	7
Other Income & Expense[1]	-735	-215	-520	242
Operating income from continuing operations	**897**	**1 725**	**-828**	**-48**
Income from associated companies	104	71	33	46
Financial income	245	95	150	158
Interest expense	-61	-57	-4	7
Income before taxes from continuing operations	**1 185**	**1 834**	**-649**	**-35**
Taxes	-254	-238	-16	7
Net income from continuing operations	**931**	**1 596**	**-665**	**-42**
Net income from discontinued Consumer Health operations	-18	67	-85	-127
Total net income	**913**	**1 663**	**-750**	**-45**
Attributable to:				
Equity holders of Novartis AG	*904*	*1 654*	*-750*	*-45*
Minority interests	*9*	*9*		
Average number of shares outstanding Basic (million)	**2 278.0**	**2 348.8**	**-70.8**	**-3**
Basic earnings per share (USD)[2]				
Total	**0.40**	**0.70**	**-0.30**	**-43**
Continuing operations	**0.41**	**0.67**	**-0.26**	**-39**
Discontinued operations	**-0.01**	**0.03**	**-0.04**	**-133**
Average number of shares outstanding Diluted (million)	2 287.2	2 367.5	-80.3	-3
Diluted earnings per share (USD)[2]				
Total	0.39	0.70	-0.31	-44
Continuing operations	0.40	0.67	-0.27	-40
Discontinued operations	-0.01	0.03	-0.04	-133

(1) Includes a restructuring charge of USD 444 million taken in the fourth quarter of 2007 for the Forward initiative

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

Consolidated statement of recognized income and expense (audited)

Full year

	2007 USD m	2006 USD m	Change USD m
Net income from continuing operations	6 540	6 825	-285
Fair value adjustments on financial instruments	1	108	-107
Actuarial gains from defined benefit plans, net	450	116	334
Novartis share of equity recognized by associated companies	150	-76	226
Revaluation of initial minority interests in Chiron	55	592	-537
Translation effects	2 188	1 495	693
Amounts related to discontinued operations	5 446	384	5 062
Recognized income and expense	**14 830**	**9 444**	**5 386**

Consolidated statement of recognized income and expense (unaudited)

Fourth quarter

	Q4 2007 USD m	Q4 2006 USD m	Change USD m
Net income from continuing operations	931	1 596	-665
Fair value adjustments on financial instruments	-10	104	-114
Actuarial gains from defined benefit plans, net	-591	266	-857
Novartis share of equity recognized by associated companies	37	-9	46
Revaluation of initial minority interests in Chiron		-17	17
Translation effects	776	625	151
Amounts related to discontinued operations	-18	55	-73
Recognized income and expense	**1 125**	**2 620**	**-1 495**

Condensed consolidated balance sheets (audited)

	Dec 31, 2007 USD m	Dec 31, 2006 USD m	Change USD m
Assets			
Non-current assets			
Property, plant & equipment	12 633	10 945	1 688
Intangible assets	21 249	21 230	19
Financial and other non-current assets	14 140	14 429	-289
Total non-current assets	**48 022**	**46 604**	**1 418**
Current assets			
Inventories	5 455	4 498	957
Trade accounts receivable	6 648	6 161	487
Other current assets	2 126	2 054	72
Cash, short-term deposits and marketable securities	13 201	7 955	5 246
Total current assets from continuing operations	27 430	20 668	6 762
Assets related to discontinued operations		736	-736
Total current assets	**27 430**	**21 404**	**6 026**
Total assets	**75 452**	**68 008**	**7 444**
Equity and liabilities			
Total equity	**49 396**	**41 294**	**8 102**
Non-current liabilities			
Financial debts	677	656	21
Other non-current liabilities	8 738	9 824	-1 086
Total non-current liabilities	**9 415**	**10 480**	**-1 065**
Current liabilities			
Trade accounts payable	3 018	2 487	531
Financial debts and derivatives	5 117	6 643	-1 526
Other current liabilities	8 506	6 897	1 609
Total current liabilities from continuing operations	16 641	16 027	614
Liabilities related to discontinued operations		207	-207
Total current liabilities	**16 641**	**16 234**	**407**
Total liabilities	**26 056**	**26 714**	**-658**
Total equity and liabilities	**75 452**	**68 008**	**7 444**

Condensed consolidated changes in equity

Full year (audited)

	2007 USD m	2006 USD m	Change USD m
Consolidated equity at January 1	**41 294**	**33 164**	**8 130**
Recognized income and expense	14 830	9 444	5 386
Purchase/sale of treasury shares, net	-4 687	248	-4 935
Equity-based compensation	597	506	91
Dividends	-2 598	-2 049	-549
Changes in minority interests	-40	-19	-21
Consolidated equity at December 31	**49 396**	**41 294**	**8 102**

Fourth quarter (unaudited)

	Q4 2007 USD m	Q4 2006 USD m	Change USD m
Consolidated equity at October 1	**49 493**	**38 590**	**10 903**
Recognized income and expense	1 125	2 620	-1 495
Purchase/sale of treasury shares, net	-1 377	-42	-1 335
Equity-based compensation	167	134	33
Changes in minority interests	-12	-8	-4
Consolidated equity at December 31	**49 396**	**41 294**	**8 102**

Condensed consolidated cash flow statements (audited)

Full year

	2007 USD m	2006 USD m	Change USD m
Net income from continuing operations	**6 540**	**6 825**	**-285**
Reversal of non-cash items			
Taxes	947	1 169	-222
Depreciation, amortization and impairments	2 936	1 962	974
Change in provisions and other non-current liabilities	1 365	346	1 019
Net financial income	-294	-88	-206
Other	-97	141	-238
Net income adjusted for non-cash items	**11 397**	**10 355**	**1 042**
Interest and other financial receipts	539	519	20
Interest and other financial payments	-255	-277	22
Taxes paid	-1 581	-1 715	134
Cash flow before working capital changes	**10 100**	**8 882**	**1 218**
Restructuring payments and other cash payments out of provisions	-355	-303	-52
Change in net current assets and other operating cash flow items	-535	-275	-260
Cash flow from operating activities from continuing operations	**9 210**	**8 304**	**906**
Investments in property, plant & equipment	-2 549	-1 779	-770
Acquisitions of subsidiaries	-52	-4 522	4 470
Increase in marketable securities, intangible and financial assets	-3 643	-56	-3 587
Cash flow from investing activities from continuing operations	**-6 244**	**-6 357**	**113**
Cash flow from financing activities from continuing operations	**-9 318**	**-4 931**	**-4 387**
Cash flow from discontinued operations	7 595	457	7 138
Translation effect on cash and cash equivalents	298	25	273
Change in cash and cash equivalents from discontinued operations	4	-4	8
Change in cash and cash equivalents from continuing operations	**1 545**	**-2 506**	**4 051**
Cash and cash equivalents at January 1 from continuing operations	3 815	6 321	-2 506
Cash and cash equivalents at December 31 from continuing operations	**5 360**	**3 815**	**1 545**

Condensed consolidated cash flow statements (unaudited)

Fourth quarter

	Q4 2007 USD m	Q4 2006 USD m	Change USD m
Net income from continuing operations	**931**	**1 596**	**-665**
Reversal of non-cash items			
Taxes	254	238	16
Depreciation, amortization and impairments	863	563	300
Change in provisions and other non-current liabilities	393	71	322
Net financial income	-184	-38	-146
Other	4	43	-39
Net income adjusted for non-cash items	**2 261**	**2 473**	**-212**
Interest and other financial receipts	138	121	17
Interest and other financial payments	-131	-155	24
Taxes paid	37	-307	344
Cash flow before working capital changes	**2 305**	**2 132**	**173**
Restructuring payments and other cash payments out of provisions	-127	-105	-22
Change in net current assets and other operating cash flow items	785	342	443
Cash flow from operating activities from continuing operations	**2 963**	**2 369**	**594**
Investments in property, plant & equipment	-754	-662	-92
Acquisitions of subsidiaries		-14	14
Increase in marketable securities, intangible and financial assets	-927	82	-1 009
Cash flow from investing activities from continuing operations	**-1 681**	**-594**	**-1 087**
Cash flow from financing activities from continuing operations	**-3 156**	**-1 903**	**-1 253**
Cash flow from discontinued operations	-381	-46	-335
Translation effect on cash and cash equivalents	201	-20	221
Change in cash and cash equivalents from discontinued operations		-4	4
Change in cash and cash equivalents from continuing operations	**-2 054**	**-198**	**-1 856**
Cash and cash equivalents at October 1 from continuing operations	7 414	4 013	3 401
Cash and cash equivalents at December 31 from continuing operations	**5 360**	**3 815**	**1 545**

Consolidated income statements Full year Divisional segmentation (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health continuing operations		Corporate		Total continuing operations		Discontinued Consumer Health operations		Total Group	
	2007 USD m	2006 USD m	2007 USD m	2006 USD m	2007 USD m	2006 USD m	2007 USD m	2006 USD m	2007 USD m	2006 USD m	2007 USD m	2006 USD m	2007	2006 USD m	2007 USD m	2006 USD m
Net sales to third parties	**24 025**	**22 576**	**1 452**	**956**	**7 169**	**5 959**	**5 426**	**4 902**			**38 072**	**34 393**	**1 728**	**2 627**	**39 800**	**37 020**
Sales to other Divisions	181	162	24	9	242	148	37	39	-484	-358						
Sales of Divisions	**24 206**	**22 738**	**1 476**	**965**	**7 411**	**6 107**	**5 463**	**4 941**	**-484**	**-358**	**38 072**	**34 393**	**1 728**	**2 627**	**39 800**	**37 020**
Other revenues	426	424	392	231	21	24	36	33			875	712	7	9	882	721
Cost of Goods Sold	-4 480	-3 826	-1 077	-795	-4 068	-3 420	-1 894	-1 754	487	384	-11 032	-9 411	-903	-1 404	-11 935	-10 815
Of which amortization and impairments of product and patent rights and trademarks	*-683*	*-225*	*-280*	*-172*	*-288*	*-288*	*-78*	*-78*			*-1 329*	*-763*		*-12*	*-1 329*	*-775*
Gross profit	**20 152**	**19 336**	**791**	**401**	**3 364**	**2 711**	**3 605**	**3 220**	**3**	**26**	**27 915**	**25 694**	**832**	**1 232**	**28 747**	**26 926**
Marketing & Sales	-7 687	-7 069	-227	-124	-1 236	-1 061	-1 976	-1 838			-11 126	-10 092	-399	-664	-11 525	-10 756
Research & Development	-5 088	-4 265	-295	-148	-563	-477	-301	-260	-183	-171	-6 430	-5 321	-26	-43	-6 456	-5 364
General & Administration	-798	-703	-160	-92	-351	-311	-375	-360	-449	-416	-2 133	-1 882	-77	-125	-2 210	-2 007
Other Income & Expense	-493	-596	-37	-63	-175	-126	-141	-1	-599	29	-1 445	-757	5 822	132	4 377	-625
Of which amortization and impairments of capitalized intangibles included in function costs	*-174*	*-119*	*-15*		*-37*	*-38*	*-15*	*-8*	*-3*	*-8*	*-244*	*-173*	*-6*	*-33*	*-250*	*-206*
Operating income	**6 086**	**6 703**	**72**	**-26**	**1 039**	**736**	**812**	**761**	**-1 228**	**-532**	**6 781**	**7 642**	**6 152**	**532**	**12 933**	**8 174**
Income from associated companies											412	264			412	264
Financial income											531	354			531	354
Interest expense											-237	-266			-237	-266
Income before taxes											**7 487**	**7 994**	**6 152**	**532**	**13 639**	**8 526**
Taxes											-947	-1 169	-724	-155	-1 671	-1 324
Net income											**6 540**	**6 825**	**5 428**	**377**	**11 968**	**7 202**
Additions to: Property, plant and equipment[1]	*1 436*	*1 135*	*287*	*113*	*627*	*264*	*209*	*197*	*98*	*106*	*2 657*	*1 815*	*32*	*36*	*2 689*	*1 851*
Goodwill and other intangibles[1]	*352*	*351*	*211*	*13*	*41*	*38*	*12*	*109*	*5*		*621*	*511*	*83*	*69*	*704*	*580*

[1] Excluding impact of business acquisitions

Consolidated income statements **Fourth quarter** **Divisional segmentation** (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health continuing operations		Corporate		Total continuing operations		Discontinued Consumer Health operations		Total Group	
	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 20 USD
Net sales to third parties	**6 152**	**6 049**	**398**	**455**	**1 971**	**1 653**	**1 410**	**1 241**			**9 931**	**9 398**		**655**	**9 931**	**10 0**
Sales to other Divisions	44	42	6	-5	64	36	8	6	-122	-79						
Sales of Divisions	**6 196**	**6 091**	**404**	**450**	**2 035**	**1 689**	**1 418**	**1 247**	**-122**	**-79**	**9 931**	**9 398**		**655**	**9 931**	**10 0**
Other revenues	132	160	91	81	6	6	11	9			240	256		2	240	2
Cost of Goods Sold	-1 144	-1 002	-361	-356	-1 114	-933	-516	-476	122	90	-3 013	-2 677		-353	-3 013	-3 0
Of which amortization and impairments of product and patent rights and trademarks	*-92*	*-74*	*-73*	*-68*	*-65*	*-62*	*-20*	*-19*			*-250*	*-223*		*-3*	*-250*	*-2*
Gross profit	**5 184**	**5 249**	**134**	**175**	**927**	**762**	**913**	**780**	**0**	**11**	**7 158**	**6 977**		**304**	**7 158**	**7 2**
Marketing & Sales	-2 078	-2 026	-85	-51	-362	-314	-520	-513			-3 045	-2 904		-163	-3 045	-3 0
Research & Development	-1 439	-1 213	-105	-62	-167	-135	-86	-82	-50	-48	-1 847	-1 540		-13	-1 847	-1 5
General & Administration	-248	-218	-39	-44	-99	-96	-109	-109	-139	-126	-634	-593		-35	-634	-6
Other Income & Expense	-494	-171	-12	-16	-49	-13	-113	-2	-67	-13	-735	-215	-28	6	-763	-2
Of which amortization and impairments of capitalized intangibles included in function costs	*-111*	*-54*	*-7*		*-9*	*-12*	*-6*	*-2*		*-1*	*-133*	*-69*		*-9*	*-133*	*-*
Operating income	**925**	**1 621**	**-107**	**2**	**250**	**204**	**85**	**74**	**-256**	**-176**	**897**	**1 725**	**-28**	**99**	**869**	**1 8**
Income from associated companies											104	71			104	
Financial income											245	95			245	
Interest expense											-61	-57			-61	-
Income before taxes											**1 185**	**1 834**	**-28**	**99**	**1 157**	**1 9**
Taxes											-254	-238	10	-32	-244	-2
Net income											**931**	**1 596**	**-18**	**67**	**913**	**1 6**
Additions to: Property, plant and equipment[(1)]	*377*	*435*	*121*	*50*	*233*	*89*	*63*	*77*	*50*	*39*	*844*	*690*		*11*	*844*	*7*

Goodwill and other intangibles[1]	*41*	*74*	*3*	*13*	*7*	*25*	*10*	*4*	*1*		*62*	*116*		*13*	*62*	*1*

(1) Excluding impact of business acquisitions

Notes to the Condensed Consolidated Financial Information for 2007

1. Basis of preparation

This consolidated financial information containing condensed financial information for the three-month quarterly and the 12-month periods ended December 31, 2007, has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting and with the accounting policies set out in the 2007 Annual Report, which was published on January 17, 2008. Following a unanimous vote by the US Securities and Exchange Commission (SEC) to amend the relevant rules in November 2007, Novartis no longer provides a reconciliation to US Generally Accepted Accounting Principles.

2. Divestments, business combinations and other significant transactions

The following significant transactions occurred during 2007 and 2006:

2007

Pharmaceuticals Betaseron® agreement related to Chiron acquisition

On September 14, Novartis and Bayer Schering Pharma AG completed an agreement related to the regulatory, development, manufacturing and supply agreements for the multiple sclerosis medicine Betaseron®. The agreement was reached following the April 2006 acquisition of Chiron. As part of this agreement with Bayer Schering, Novartis received a one-time payment of approximately USD 200 million related to a transfer of manufacturing facilities as well as receiving rights to market its own branded version of Betaseron® starting in 2009 (pending regulatory approvals). As a result of this transaction, a final reassessment was made of the related assets from the Chiron acquisition as of April 20, 2006. This resulted in an increase of USD 235 million in identified net assets, which was adjusted in the 2007 first quarter. After taking this into account, final Pharmaceutical Division goodwill for the Chiron acquisition at December 31, 2007, amounted to USD 1.9 billion.

Vaccines and Diagnostics Intercell agreement

On September 28, Novartis entered into a strategic alliance with Intercell, an Austrian biotechnology company, focused on vaccines development. As a consequence of the agreement, Novartis paid USD 383 million (EUR 270 million) and recorded USD 207 million (EUR 146 million) of intangible assets. The payment also included the acquisition of an additional 4.8 million shares for USD 176 million (EUR 124 million), which increased the Novartis holding in Intercell to 15.9%.

Consumer Health Gerber Business Unit divestment

On September 1, Novartis completed the divestment of the Gerber infant products Business Unit for approximately USD 5.5 billion to Nestlé S.A. A pre-tax divestment gain of USD 4.0 billion, and an after-tax gain of USD 3.6 billion, was recorded in the third quarter.

Consumer Health Medical Nutrition Business Unit divestment

On July 1, Novartis completed the divestment of the remainder of the Medical Nutrition Business Unit for approximately USD 2.5 billion to Nestlé S.A. A pre-tax divestment gain of USD 1.8 billion, and an after-tax gain of USD 1.6 billion, was recorded in the third quarter.

The Gerber and Medical Nutrition Business Units (which included the Nutrition & Santé business divested in February 2006) are disclosed as discontinued operations in all periods in

the Group s consolidated financial statements. These businesses had combined 2007 net sales of USD 1.7 billion and operating income of USD 311 million before their divestment.

2006

Corporate Chiron acquisition

On April 20, Novartis completed the acquisition of the remaining 56% of the shares of Chiron Corporation that Novartis did not already own for USD 48.00 per share. The amount paid for the shares, related options of associates and transaction costs totaled approximately USD 5.7 billion. Novartis created a new division called Vaccines and Diagnostics with two activities: human vaccines named Novartis Vaccines and a diagnostics activity that retained Chiron as its name. Chiron s biopharmaceuticals activities were integrated into the Pharmaceuticals Division.

For the period from January 1, until the completion of the acquisition, the 44% minority interest in Chiron held by Novartis had been accounted for using the equity method. For the period after completion of the acquisition, the results of Chiron have been fully consolidated with its identifiable assets and liabilities being revalued to their fair value at the date of acquisition. The Group s 44% minority interest in Chiron also was revalued directly into equity by USD 0.6 billion.

Pharmaceuticals

As part of the Chiron transaction, Chiron s pharmaceuticals activities have been integrated into the Pharmaceuticals Division. Included in this portfolio are products for the treatment of cystic fibrosis, renal/skin cancer and skin infections. Chiron s early-stage research has been incorporated into the Pharmaceuticals Division research unit, the Novartis Institutes for BioMedical Research (NIBR).

On July 14, 2006, Novartis announced that its offer for the UK biopharmaceutical company NeuTec Pharma plc specialized in hospital anti-infectives, became unconditional and the company has been consolidated from this date. Novartis paid USD 606 million to fully acquire the company. NeuTec Pharma plc has had no post-acquisition sales, although expenses and cash flows were consolidated from the acquisition date. Goodwill on this transaction at December 31, 2007, amounted to USD 136 million.

Vaccines and Diagnostics

Since the Chiron acquisition, its vaccines and diagnostics activities comprise the division s results. Goodwill on this transaction at December 31, 2007, amounted to USD 1.1 billion.

3. Principal currency translation rates

Full year

	Average rates 2007 USD	Average rates 2006 USD	Period-end rates Dec 31, 2007 USD	Period-end rates Dec 31, 2006 USD
1 CHF	**0.834**	0.798	**0.881**	0.819
1 EUR	**1.371**	1.256	**1.465**	1.317
1 GBP	**2.002**	1.842	**1.996**	1.965
100 JPY	**0.850**	0.860	**0.884**	0.841

Fourth quarter

	Average rates Q4 2007 USD	Average rates Q4 2006 USD	Period-end rates Dec 31, 2007 USD	Period-end rates Dec 31, 2006 USD
1 CHF	**0.874**	0.810	**0.881**	0.819
1 EUR	**1.450**	1.290	**1.465**	1.317
1 GBP	**2.046**	1.916	**1.996**	1.965
100 JPY	**0.885**	0.850	**0.884**	0.841

4. Legal proceedings update

A number of Novartis subsidiaries are the subject of various legal proceedings that arise from time to time in the ordinary course of business. While Novartis does not believe any of them will have a material adverse effect on the Group s consolidated financial position, litigation is inherently unpredictable and excessive verdicts do occur. As a consequence, Novartis may in the future incur judgments or enter into settlements of claims that could have a material adverse effect on consolidated results of operations in any particular period. Please consult the consolidated financial statements in the 2007 Annual Report for a summary of major legal proceedings. The following non-exhaustive list reflects recent developments in legal proceedings:

Product liability litigation

Zometa/Aredia

A Novartis affiliate is now a defendant in approximately 390 cases brought in US courts by approximately 420 plaintiffs who claim to have experienced osteonecrosis of the jaw after treatment with *Zometa/Aredia*. Two of these cases purport to be class actions. Discovery is continuing in these cases.

Chiron/*Fluvirin*

The former Chiron Corporation, which Novartis acquired in 2006, was the subject of a number of legal proceedings arising from the inability of Chiron to deliver its *Fluvirin* seasonal influenza vaccine to the US market for the 2004/2005 flu season. These included class-action lawsuits alleging breaches of securities laws and shareholder derivative litigations alleging breaches of fiduciary duties. The securities fraud class-action cases were settled in April 2006. The settlement is currently under revision in light of a 2007 court order denying settlement approval. The share derivative litigations have all been dismissed.

Patent litigation

Contact lenses

Rembrandt Vision Technologies filed a patent infringement suit against CIBA Vision in October 2005 in the US District Court for the Eastern District of Texas. The lawsuit involves CIBA Vision s O_2OPTIX and NIGHT & DAY contact lens products. Rembrandt asserts that these contact lens products infringe Rembrandt s US Patent No. 5,712,327. Rembrandt is seeking substantial past damages and a future royalty on sales of O_2OPTIX and NIGHT & DAY products, and an injunction may be sought against O_2OPTIX. The court has set a trial date for January 30, 2008.

A lawsuit filed in 2006 by CooperVision relating to the so-called Nicolson patents was settled in November 2007, with CIBA Vision licensing its Nicolson patents to CooperVision against royalty payments on US net sales of CooperVision s Biofinity® contact lenses until 2014 and on net sales outside the US until 2016. CIBA Vision also receives a continuing royalty from Bausch & Lomb on the same Nicolson patents for the net sales of its Purevision® products. Both the CooperVision and the Bausch & Lomb royalties could cease if the Nicolson patents were declared invalid as part of litigation with Johnson & Johnson.

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Supplementary information (unaudited)

Condensed consolidated change in liquidity

Full year

	2007 USD m	2006 USD m	Change USD m
Change in cash and cash equivalents	**1 545**	**-2 506**	**4 051**
Change in marketable securities, financial debt and financial derivatives	5 206	683	4 523
Change in net liquidity	**6 751**	**-1 823**	**8 574**
Net liquidity at January 1 from continuing operations	656	2 479	-1 823
Net liquidity at December 31 from continuing operations	**7 407**	**656**	**6 751**

Fourth quarter

	Q4 2007 USD m	Q4 2006 USD m	Change USD m
Change in cash and cash equivalents	**-2 054**	**-198**	**-1 856**
Change in marketable securities, financial debt and financial derivatives	2 172	1 545	627
Change in net liquidity	**118**	**1 347**	**-1 229**
Net liquidity/debt at October 1 from continuing operations	7 289	-691	7 980
Net liquidity at December 31 from continuing operations	**7 407**	**656**	**6 751**

Free cash flow

Full year

	2007 USD m	2006 USD m	Change USD m
Cash flow from operating activities from continuing operations	**9 210**	**8 304**	**906**
Purchase of property, plant & equipment	-2 549	-1 779	-770
Purchase of intangible and financial assets	-895	-709	-186
Sale of property, plant & equipment, intangible and financial assets	593	278	315
Dividends	-2 598	-2 049	-549
Free cash flow from continuing operations	**3 761**	**4 045**	**-284**
Free cash flow from discontinued operations	-314	295	-609
Total free cash flow	**3 447**	**4 340**	**-893**

Fourth quarter

	Q4 2007 USD m	Q4 2006 USD m	Change USD m
Cash flow from operating activities of continuing operations	**2 963**	**2 369**	**594**
Purchase of property, plant & equipment	-754	-662	-92
Purchase of intangible and financial assets	-211	-94	-117
Sale of property, plant & equipment, intangible and financial assets	34	73	-39
Free cash flow from continuing operations	**2 032**	**1 686**	**346**
Free cash flow from discontinued operations	-367	-11	-356
Total free cash flow	**1 665**	**1 675**	**-10**

Share information

	December 31, 2007	December 31, 2006
Year-end number of shares outstanding (million)	**2 264.5**	2 348.2
Registered share price (CHF)	**62.10**	70.25
ADS price (USD)	**54.31**	57.44
Market capitalization (USD billion)	**123.9**	135.1
Market capitalization (CHF billion)	**140.6**	165.0

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Impact of intangible asset charges and significant exceptional items Full year

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health continuing operations		Corporate		Total continuing operations	
	2007 USD m	2006 USD m	2007 USD m	2006 USD m	2007 USD m	2006 USD m	2007 USD m	2006 USD m	2007 USD m	2006 USD m	2007 USD m	2006 USD m
Reported operating income	**6 086**	**6 703**	**72**	**-26**	**1 039**	**736**	**812**	**761**	**-1 228**	**-532**	**6 781**	**7 642**
Recurring amortization	411	268	295	172	293	279	89	83	3	8	1 091	810
Impairment of intangible assets	446	76			32	47	4	3			482	126
Intangible asset charges	**857**	**344**	**295**	**172**	**325**	**326**	**93**	**86**	**3**	**8**	**1 573**	**936**
Acquisition-related restructuring and integration expenses (including acquisition-related accounting impact of inventory adjustments), net		226	25	161		53	9				34	440
Forward initiative restructuring expenses	307						97		40		444	
Other restructuring expenses	25				11	8					36	8
Other impairment of property, plant & equipment		3		7	31						31	10
Exceptional restructuring and acquisition related integration expenses, net	**332**	**229**	**25**	**168**	**42**	**61**	**106**		**40**		**545**	**458**
Exceptional gains from divesting brands, subsidiaries and financial investments	**-171**	**-87**				**7**					**-171**	**-80**
Impairment of financial assets	41	34			27				10	5	78	39
Corporate environmental provision increase									590		590	
Litigation and other settlements			-83								-83	
Suspension of *Zelnorm*	80										80	
Tekturna/Rasilez inventory provision	-107										-107	
Release of Tricare revenue deduction accrual		-62										-62
France accounting irregularity						69						69
Other exceptional items	**14**	**-28**	**-83**		**27**	**69**			**600**	**5**	**558**	**46**
Total adjustments	**1 032**	**458**	**237**	**340**	**394**	**463**	**199**	**86**	**643**	**13**	**2 505**	**1 360**
Adjusted operating income	**7 118**	**7 161**	**309**	**314**	**1 433**	**1 199**	**1 011**	**847**	**-585**	**-519**	**9 286**	**9 002**

Income from associated companies	412	264
Associated company exceptional charges incurred by Chiron prior to its acquisition		53
Net financial income	294	88
Taxes (adjusted for above items)	-1 639	-1 618
Adjusted net income from continuing operations	**8 353**	**7 789**
Adjusted net income attributable to shareholders	**8 331**	**7 762**
Adjusted basic earnings per share from continuing operations	**USD 3.59**	**USD 3.31**

Impact of intangible asset charges and significant exceptional items Fourth quarter

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health continuing operations		Corporate		Total continuing operations	
	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m
Reported operating income	**925**	**1 621**	**-107**	**2**	**250**	**204**	**85**	**74**	**-256**	**-176**	**897**	**1 725**
Recurring amortization	100	91	80	68	79	73	25	19		1	284	252
Impairment of intangible assets	103	37			-5	1	1	2			99	40
Intangible asset charges	**203**	**128**	**80**	**68**	**74**	**74**	**26**	**21**		**1**	**383**	**292**
Acquisition-related restructuring and integration expenses (including acquisition-related accounting impact of inventory adjustments), net		32	13	39		7					13	78
Forward initiative restructuring expenses	307						97		40		444	
Other restructuring expenses	25				-2						23	
Other impairment of property, plant & equipment		5		7	11	-7					11	5
Exceptional restructuring and acquisition related integration expenses, net	**332**	**37**	**13**	**46**	**9**	**0**	**97**		**40**		**491**	**83**
Exceptional gains from divesting brands, subsidiaries and financial investments	**-5**					**7**					**-5**	**7**
Impairment of financial assets	19	9			17	-10			3	2	39	1
Zelnorm suspension	-7										-7	
France accounting irregularity						11						11
Other exceptional items	**12**	**9**			**17**	**1**			**3**	**2**	**32**	**12**
Total adjustments	**542**	**174**	**93**	**114**	**100**	**82**	**123**	**21**	**43**	**3**	**901**	**394**
Adjusted operating income	**1 467**	**1 795**	**-14**	**116**	**350**	**286**	**208**	**95**	**-213**	**-173**	**1 798**	**2 119**
Income from associated companies											104	71
Net financial income											184	38
Taxes (adjusted for above items)											-492	-364
											1 594	**1 864**

Adjusted net income from continuing operations		
Adjusted net income attributable to shareholders	**1 585**	**1 855**
Adjusted basic earnings per share from continuing operations	**USD 0.70**	**USD 0.79**

Supplementary tables: Full year 2007 Net sales of top 20 pharmaceutical products (unaudited)

		US		Rest of world		Total		
Brands	**Therapeutic area**	**USD m**	**% change in local currencies**	**USD m**	**% change in local currencies**	**USD m**	**% change in USD**	**% change in local currencies**
Diovan/Co Diovan	Hypertension	2 194	18	2 818	14	5 012	19	16
Gleevec/Glivec	Chronic myeloid leukemia	714	13	2 336	14	3 050	19	14
Zometa	Cancer complications	649	-7	648	3	1 297	1	-2
Sandostatin (group)	Acromegaly	409	11	618	5	1 027	12	7
Neoral/Sandimmun	Transplantation	108	-14	836	0	944	3	-2
Femara	Breast cancer	411	22	526	28	937	30	25
Lotrel	Hypertension	748	-45			748	-45	-45
Voltaren (group)	Inflammation/pain	9	13	738	3	747	8	3
Trileptal	Epilepsy	500	-9	192	4	692	-4	-6
Lescol	Cholesterol reduction	207	-19	458	-8	665	-8	-12
Top ten products total		**5 949**	**-4**	**9 170**	**9**	**15 119**	**7**	**3**
Exelon	Alzheimer s disease	212	13	420	14	632	20	14
Lamisil (group)	Fungal infections	266	-54	329	-21	595	-39	-40
Comtan/Stalevo (group)	Parkinson s disease	178	13	242	23	420	24	18
Tegretol (incl. CR/XR)	Epilepsy	123	2	290	1	413	6	1
Lucentis	Age-related macular degeneration			393	NM	393	NM	NM
Ritalin/Focalin (group)	Attention deficit/hyperactive disorder	299	13	76	9	375	14	12
Foradil	Asthma	21	50	341	-1	362	9	1
Exjade (group)	Iron chelator	175	43	182	721	357	150	141
Miacalcic	Osteoporosis	147	-26	134	-11	281	-17	-20
Tobramycin	Cystic fibrosis	174	47	99	60	273	54	51
Top 20 products total		**7 544**	**-5**	**11 676**	**13**	**19 220**	**9**	**5**
Rest of portfolio		1 204	-22	3 601	1	4 805	-2	-6
Total Division sales		**8 748**	**-8**	**15 277**	**10**	**24 025**	**6**	**2**

NM Not meaningful

Supplementary tables: Fourth quarter 2007 Net sales of top 20 pharmaceutical products (unaudited)

		US		Rest of world		Total		
Brands	**Therapeutic area**	**USD m**	**% change in local currencies**	**USD m**	**% change in local currencies**	**USD m**	**% change in USD**	**% change in local currencies**
Diovan/Co Diovan	Hypertension	561	11	794	13	1 355	18	12
Gleevec/Glivec	Chronic myeloid leukemia	201	16	645	11	846	21	12
Zometa	Cancer complications	168	-3	175	-3	343	1	-3
Sandostatin (group)	Acromegaly	109	10	169	4	278	13	6
Neoral/Sandimmun	Transplantation	26	-16	218	-4	244	2	-6
Femara	Breast cancer	107	16	151	23	258	26	20
Lotrel	Hypertension	88	-75			88	-75	-75
Voltaren (group)	Inflammation/pain	2	0	193	1	195	10	1
Trileptal	Epilepsy	48	-67	50	0	98	-48	-51
Lescol	Cholesterol reduction	49	-20	114	-12	163	-9	-14
Top ten products total		**1 359**	**-17**	**2 509**	**7**	**3 868**	**2**	**-4**
Exelon	Alzheimer s disease	55	12	116	16	171	24	14
Lamisil (group)	Fungal infections	-3	-102	69	-34	66	-71	-72
Comtan/Stalevo (group)	Parkinson s disease	47	15	70	22	117	27	18
Tegretol (incl. CR/XR)	Epilepsy	29	-9	80	2	109	5	-1
Lucentis	Age-related macular degeneration			170	NM	170	NM	NM
Ritalin/Focalin (group)	Attention deficit/hyperactive disorder	83	5	21	11	104	8	5
Foradil	Asthma	4	0	91	-10	95	3	-10
Exjade (group)	Iron chelator	43	8	59	428	102	104	91
Miacalcic	Osteoporosis	33	-30	37	-6	70	-15	-19
Tobramycin	Cystic fibrosis	46	-4	26	13	72	3	0
Top 20 products total		**1 696**	**-19**	**3 248**	**12**	**4 944**	**4**	**-2**
Rest of portfolio		291	-30	917	-7	1 208	-8	-14
Total Division sales		**1 987**	**-21**	**4 165**	**7**	**6 152**	**2**	**-5**

NM Not meaningful

Full year Pharmaceutical net sales by therapeutic area (unaudited)

	2007 USD m	2006 USD m	% change USD
Cardiovascular & Metabolism			
Diovan	5 012	4 223	19
Lotrel	748	1 352	-45
Exforge	103	10	930
Tekturna/Rasilez	40	0	NM
Other	8	1	NM
Total strategic franchise products	**5 911**	**5 586**	**6**
Mature products (including Lescol)	**1 494**	**1 534**	**-3**
Total Cardiovascular & Metabolism products	**7 405**	**7 120**	**4**
Oncology & Hematology			
Gleevec/Glivec	3 050	2 554	19
Zometa	1 297	1 283	1
Sandostatin (group)	1 027	915	12
Femara	937	719	30
Exjade	357	143	150
Other	283	295	-4
Total Oncology & Hematology products	**6 951**	**5 909**	**18**
Neuroscience			
Trileptal	692	721	-4
Exelon	632	525	20
Comtan/Stalevo (group)	420	339	24
Tegretol	413	391	6
Ritalin/Focalin (group)	375	330	14
Other	382	351	9
Total strategic franchise products	**2 914**	**2 657**	**10**
Mature products	**431**	**440**	**-2**
Total Neuroscience products	**3 345**	**3 097**	**8**
Respiratory			
Foradil	362	331	9
TOBI/Tobramycin	273	177	54
Xolair	140	102	37
Other	87	69	26
Total strategic franchise products	**862**	**679**	**27**
Mature products	**97**	**103**	**-6**
Total Respiratory products	**959**	**782**	**23**
Ophthalmics, Dermatology, Gastrointestinal & Urology			
Lucentis	393	19	NM
Enablex/Emselex	179	114	57
Elidel	176	179	-2
Zelnorm/Zelmac	88	561	-84
Other	605	706	-14
Total strategic franchise products	**1 441**	**1 579**	**-9**
Mature products (including Lamisil)	**711**	**1 097**	**-35**
Total ODGU products	**2 152**	**2 676**	**-20**
Arthritis & Bone			

Prexige	91	47	94
Aclasta/Reclast	41	3	NM
Total strategic franchise products	**132**	**50**	**164**
Mature products (including Voltaren)	**1 442**	**1 430**	**1**
Total Arthritis & Bone products	**1 574**	**1 480**	**6**
Infectious Diseases, Transplantation & Immunology (IDTI)			
Neoral/Sandimmun	944	918	3
Other	448	330	36
Total strategic franchise products	**1 392**	**1 248**	**12**
Mature products	**247**	**264**	**-6**
Total IDTI products	**1 639**	**1 512**	**8**
Total strategic franchise products	**19 603**	**17 708**	**11**
Total mature products	**4 422**	**4 868**	**-9**
Total Division net sales	**24 025**	**22 576**	**6**

NM Not meaningful

Fourth quarter Pharmaceutical net sales by therapeutic area (unaudited)

	Q4 2007 USD m	Q4 2006 USD m	% change USD
Cardiovascular & Metabolism			
Diovan	1 355	1 152	18
Lotrel	88	354	-75
Exforge	51	3	NM
Tekturna/Rasilez	20	0	NM
Other	4	1	NM
Total strategic franchise products	**1 518**	**1 510**	**1**
Mature products (including Lescol)	**376**	**390**	**-4**
Total Cardiovascular & Metabolism products	**1 894**	**1 900**	**0**
Oncology & Hematology			
Gleevec/Glivec	846	702	21
Zometa	343	339	1
Sandostatin (group)	278	245	13
Femara	258	204	26
Exjade	102	50	104
Other	77	74	4
Total Oncology & Hematology products	**1 904**	**1 614**	**18**
Neuroscience			
Exelon	171	138	24
Comtan/Stalevo (group)	117	92	27
Tegretol	109	104	5
Ritalin/Focalin (group)	104	96	8
Trileptal	98	189	-48
Other	63	110	-43
Total strategic franchise products	**662**	**729**	**-9**
Mature products	**116**	**110**	**5**
Total Neuroscience products	**778**	**839**	**-7**
Respiratory			
Foradil	95	92	3
TOBI/Tobramycin	72	70	3
Xolair	40	35	14
Other	27	19	42
Total strategic franchise products	**234**	**216**	**8**
Mature products	**27**	**26**	**4**
Total Respiratory products	**261**	**242**	**8**
Ophthalmics, Dermatology, Gastrointestinal & Urology			
Lucentis	170	11	NM
Enablex/Emselex	51	38	34
Elidel	43	47	-9
Zelnorm/Zelmac	5	153	-97
Other	145	160	-9
Total strategic franchise products	**414**	**409**	**1**
Mature products (including Lamisil)	**96**	**259**	**-63**
Total ODGU products	**510**	**668**	**-24**
Arthritis & Bone			

Prexige	10	18	-44
Aclasta/Reclast	30	1	NM
Total strategic franchise products	**40**	**19**	**111**
Mature products (including Voltaren)	**374**	**364**	**3**
Total Arthritis & Bone products	**414**	**383**	**8**
Infectious Diseases, Transplantation & Immunology (IDTI)			
Neoral/Sandimmun	244	240	2
Other	127	91	40
Total strategic franchise products	**371**	**331**	**12**
Mature products	**20**	**72**	**-72**
Total IDTI products	**391**	**403**	**-3**
Total strategic franchise products	**5 143**	**4 828**	**7**
Total mature products	**1 009**	**1 221**	**-17**
Total Division net sales	**6 152**	**6 049**	**2**

NM Not meaningful

Net sales from continuing operations by region (unaudited)

Full year

	2007 USD m	2006 USD m	% change USD	% change local currencies	2007 % of total	2006 % of total
Pharmaceuticals						
US	8 748	9 472	-8	-8	36	42
Rest of world	15 277	13 104	17	10	64	58
Total	**24 025**	**22 576**	**6**	**2**	**100**	**100**
Vaccines and Diagnostics						
US	602	462	30	30	41	48
Rest of world	850	494	72	62	59	52
Total	**1 452**	**956**	**52**	**47**	**100**	**100**
Sandoz						
US	1 959	1 548	27	26	27	26
Rest of world	5 210	4 411	18	9	73	74
Total	**7 169**	**5 959**	**20**	**13**	**100**	**100**
Consumer Health						
US	1 765	1 765	0	0	33	36
Rest of world	3 661	3 137	17	9	67	64
Total	**5 426**	**4 902**	**11**	**6**	**100**	**100**
Group continuing operations						
US	13 074	13 247	-1	-1	34	39
Rest of world	24 998	21 146	18	11	66	61
Total	**38 072**	**34 393**	**11**	**6**	**100**	**100**

Net sales from continuing operations by region (unaudited)

Fourth quarter

	Q4 2007 USD m	Q4 2006 USD m	% change USD	% change local currencies	Q4 2007 % of total	Q4 2006 % of total
Pharmaceuticals						
US	1 987	2 521	-21	-21	32	42
Rest of world	4 165	3 528	18	7	68	58
Total	**6 152**	**6 049**	**2**	**-5**	**100**	**100**
Vaccines and Diagnostics						
US	154	230	-33	-33	39	51
Rest of world	244	225	8	-4	61	49
Total	**398**	**455**	**-13**	**-18**	**100**	**100**
Sandoz						
US	502	422	19	18	25	26
Rest of world	1 469	1 231	19	6	75	74
Total	**1 971**	**1 653**	**19**	**9**	**100**	**100**
Consumer Health						
US	430	444	-3	-3	30	36
Rest of world	980	797	23	11	70	64
Total	**1 410**	**1 241**	**14**	**6**	**100**	**100**
Group continuing operations						
US	3 073	3 617	-15	-15	31	38
Rest of world	6 858	5 781	19	7	69	62
Total	**9 931**	**9 398**	**6**	**-1**	**100**	**100**

Quarterly analysis for continuing operations (unaudited)

Key figures by quarter

	Q4 2007 USD m	Q3 2007 USD m	Change USD m	Change %
Net sales	**9 931**	9 613	318	3
Operating income	**897**	1 452	-555	-38
Financial income	**245**	109	136	125
Interest expense	**-61**	-66	5	-8
Taxes	**-254**	-37	-217	
Net income	**931**	1 574	-643	-41

Net sales by region

	Q4 2007 USD m	Q3 2007 USD m	Change USD m	Change %
US	**3 073**	3 285	-212	-6
Europe	**4 295**	3 984	311	8
Rest of world	**2 563**	2 344	219	9
Total	**9 931**	9 613	318	3

Net sales by Division

	Q4 2007 USD m	Q3 2007 USD m	Change USD m	Change %
Pharmaceuticals	**6 152**	5 885	267	5
Vaccines and Diagnostics	**398**	572	-174	-30
Sandoz	**1 971**	1 783	188	11
Consumer Health continuing operations	**1 410**	1 373	37	3
Net sales from continuing operations	**9 931**	9 613	318	3
Discontinued Consumer Health operations		315	-315	
Total	**9 931**	9 928	3	0

Operating income by Division

	Q4 2007 USD m	Q3 2007 USD m	Change USD m	Change %

Pharmaceuticals	**925**	1 541	-616	-40
Vaccines and Diagnostics	**-107**	172	-279	-162
Sandoz	**250**	228	22	10
Consumer Health continuing operations	**85**	244	-159	-65
Corporate income & expense, net	-256	-733	477	-65
Operating income from continuing operations	**897**	1 452	-555	-38
Discontinued Consumer Health operations	-28	5 943	-5 971	
Total	**869**	7 395	-6 526	-88

SIGNATURES

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

Novartis AG

Date: January 22, 2007

By: /s/ MALCOLM B. CHEETHAM

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