

NOVARTIS AG  
Form 6-K  
October 20, 2008

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 or 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**Report on Form 6-K dated October 20, 2008**

**(Commission File No. 1-15024)**

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on September 5, 2006 (File No. 333-137112) and on October 1, 2004 (File No. 333-119475), in each case to the extent not superseded by documents or reports subsequently filed by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, in each case as amended*

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**Novartis AG**

(Name of Registrant)

**Lichtstrasse 35**

**4056 Basel**

**Switzerland**

(Address of Principal Executive Offices)

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

**Form 20-F:**  **Form 40-F:**

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

Yes:  **No:**

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

Yes:  **No:**

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

Yes:  **No:**

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

**Novartis International AG**

Novartis Global Communications

CH-4002 Basel

Switzerland

<http://www.novartis.com>

**FINANCIAL REPORT • RAPPORT TRIMESTRIEL • QUARTALSBERICHT**

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

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

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

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

*Third quarter*

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

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

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

## **OVERVIEW**

### **Nine months to September 30**

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

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

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

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

### **Third quarter**

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

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

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

### **Taking strategic actions for sustainable growth**

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

#### **Selectively strengthening healthcare portfolio**

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

#### **Stepping up innovation**

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

#### **Expanding in high-growth markets**

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

#### **Improving organizational efficiency**

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



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

#### **New commercial model for US General Medicines business**

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

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

#### **New Novartis organizational structure and management changes**

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

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

#### **Group outlook**

##### **(Barring any unforeseen events)**

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



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

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

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

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

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

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

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

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

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

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

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

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

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

**Operating income**

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

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

**Pharmaceuticals: +17% to USD 6.0 billion**

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

**Vaccines and Diagnostics: 71% to USD 52 million**

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

**Sandoz: +12% to USD 884 million**

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

net sales.

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

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

**Corporate income and expense, net**

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

**Third quarter****Net sales**

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

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

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

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

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

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

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

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

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

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

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

**Operating income**

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

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

**Pharmaceuticals: +13% to USD 1.7 billion**

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

**Vaccines and Diagnostics: +5% to USD 180 million**

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

**Sandoz: +29% to USD 293 million**

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

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

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

**Corporate income and expense, net**

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

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

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

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

**Income from associated companies**

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

**Financial income, net**

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

**Taxes**

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

**Net income from discontinued operations**

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

**Balance sheet**

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

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

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

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

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

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

#### **Cash flow**

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

**PHARMACEUTICALS PRODUCT REVIEW**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **R&D UPDATE**

### **Pharmaceuticals**

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

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

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

### **Vaccines and Diagnostics**

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

years is ongoing.

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

## **Sandoz**

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

## **Disclaimer**

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

## **About Novartis**

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

**Important dates**

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

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated income statements (unaudited)

## Nine months to September 30

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

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

## Consolidated income statements (unaudited)

## Third quarter

|  | Q3 2008        | Q3 2007        | Change       |            |
|--|----------------|----------------|--------------|------------|
|  | USD m          | USD m          | USD m        | %          |
| <b>Net sales from continuing operations</b>  | <b>10 747</b>  | <b>9 613</b>   | <b>1 134</b> | <b>12</b>  |
| Other revenues   | 283            | 205            | 78           | 38         |
| Cost of Goods Sold   | 3 021          | 3 034          | 13           | 0          |
| <i>Of which amortization and impairments of product and patent rights and trademarks</i> | 272            | 597            | 325          | 54         |
| <b>Gross profit</b>  | <b>8 009</b>   | <b>6 784</b>   | <b>1 225</b> | <b>18</b>  |
| Marketing & Sales  | 2 877          | 2 682          | 195          | 7          |
| Research & Development   | 1 942          | 1 552          | 390          | 25         |
| General & Administration   | 538            | 499            | 39           | 8          |
| Corporate environmental provision increase   |                | 590            | 590          |            |
| Other Income & Expense   | 317            | 9              | 308          |            |
| <b>Operating income from continuing operations</b>                                       | <b>2 335</b>   | <b>1 452</b>   | <b>883</b>   | <b>61</b>  |
| Income from associated companies   | 88             | 116            | 28           | 24         |
| Financial income   | 93             | 109            | 16           | 15         |
| Interest expense   | 96             | 66             | 30           | 45         |
| <b>Income before taxes from continuing operations</b>                                    | <b>2 420</b>   | <b>1 611</b>   | <b>809</b>   | <b>50</b>  |
| Taxes  | 338            | 37             | 301          |            |
| <b>Net income from continuing operations</b>   | <b>2 082</b>   | <b>1 574</b>   | <b>508</b>   | <b>32</b>  |
| Net income from discontinued Consumer Health operations                                  | 19             | 5 294          | 5 275        |            |
| <b>Total net income</b>  | <b>2 101</b>   | <b>6 868</b>   | <b>4 767</b> | <b>69</b>  |
| <i>Attributable to:</i>  |                |                |              |            |
| <i>Equity holders of Novartis AG</i>   | 2 090          | 6 865          | 4 775        | 70         |
| <i>Minority interests</i>  | 11             | 3              | 8            |            |
| <b>Average number of shares outstanding Basic (million)</b>                              | <b>2 264.2</b> | <b>2 312.1</b> | <b>47.9</b>  | <b>2</b>   |
| <b>Basic earnings per share (USD)<sup>(1)</sup></b>                                      |                |                |              |            |
| <b>Total</b>   | <b>0.92</b>    | <b>2.97</b>    | <b>2.05</b>  | <b>69</b>  |
| <b>Continuing operations</b>   | <b>0.92</b>    | <b>0.68</b>    | <b>0.24</b>  | <b>35</b>  |
| <b>Discontinued operations</b>   | <b>0.00</b>    | <b>2.29</b>    | <b>2.29</b>  | <b>100</b> |
| Average number of shares outstanding Diluted (million)                                   | 2 283.2        | 2 322.4        | 39.2         | 2          |
| <b>Diluted earnings per share (USD)<sup>(1)</sup></b>                                    |                |                |              |            |
| <b>Total</b>   | <b>0.92</b>    | <b>2.96</b>    | <b>2.04</b>  | <b>69</b>  |
| <b>Continuing operations</b>   | <b>0.92</b>    | <b>0.68</b>    | <b>0.24</b>  | <b>35</b>  |
| <b>Discontinued operations</b>   | <b>0.00</b>    | <b>2.28</b>    | <b>2.28</b>  | <b>100</b> |

(1) 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 (unaudited)****Nine months to September 30**

|   | <b>YTD 2008</b> | <b>YTD 2007</b> | <b>Change</b> |
|---|-----------------|-----------------|---------------|
|   | <b>USD m</b>    | <b>USD m</b>    | <b>USD m</b>  |
| Net income from continuing operations   | 6 656           | 5 609           | 1 047         |
| Fair value adjustments on financial instruments                               | 298             | 11              | 309           |
| Actuarial losses/gains from defined benefit plans, net                        | 948             | 1 041           | 1 989         |
| Novartis share of equity recognized by associated companies                   | 189             | 113             | 302           |
| Revaluation of initial minority interests in Speedel (2008) and Chiron (2007) | 36              | 55              | 19            |
| Translation effects   | 580             | 1 412           | 1 992         |
| Amounts related to discontinued operations                                    | 28              | 5 464           | 5 436         |
| <b>Recognized income and expense</b>  | <b>4 705</b>    | <b>13 705</b>   | <b>9 000</b>  |

**Third quarter**

|   | <b>Q3 2008</b> | <b>Q3 2007</b> | <b>Change</b> |
|---|----------------|----------------|---------------|
|   | <b>USD m</b>   | <b>USD m</b>   | <b>USD m</b>  |
| Net income from continuing operations                       | 2 082          | 1 574          | 508           |
| Fair value adjustments on financial instruments             | 221            | 5              | 226           |
| Actuarial losses from defined benefit plans, net            | 790            | 97             | 693           |
| Novartis share of equity recognized by associated companies | 176            | 21             | 197           |
| Revaluation of initial minority interest in Speedel         | 36             | 36             |               |
| Translation effects   | 1 945          | 1 107          | 3 052         |
| Amounts related to discontinued operations                  | 19             | 5 306          | 5 287         |
| <b>Recognized income and expense</b>                        | <b>995</b>     | <b>7 916</b>   | <b>8 911</b>  |

## Condensed consolidated balance sheets

|   | Sept 30,<br>2008<br>(unaudited)<br>USD m | Dec 31,<br>2007<br>USD m | Change<br>USD m | Sept 30,<br>2007<br>(unaudited)<br>USD m |
|---|--|--------------------------|-----------------|--|
| <b>Assets</b>                                       |  |                          |                 |  |
| <b>Non-current assets</b>                           |  |                          |                 |  |
| Property, plant & equipment                         | 12 989                                   | 12 633                   | 356             | 12 029                                   |
| Intangible assets                                   | 21 268                                   | 21 249                   | 19              | 21 106                                   |
| Financial and other non-current assets              | 24 466                                   | 14 140                   | 10 326          | 15 119                                   |
| <b>Total non-current assets</b>                     | <b>58 723</b>                            | <b>48 022</b>            | <b>10 701</b>   | <b>48 254</b>                            |
| <b>Current assets</b>                               |  |                          |                 |  |
| Inventories   | 5 958                                    | 5 455                    | 503             | 5 268                                    |
| Trade accounts receivable                           | 7 251                                    | 6 648                    | 603             | 6 813                                    |
| Other current assets                                | 1 951                                    | 2 126                    | 175             | 2 069                                    |
| Cash, short-term deposits and marketable securities | 8 137                                    | 13 201                   | 5 064           | 14 532                                   |
| <b>Total current assets</b>                         | <b>23 297</b>                            | <b>27 430</b>            | <b>4 133</b>    | <b>28 682</b>                            |
| <b>Total assets</b>                                 | <b>82 020</b>                            | <b>75 452</b>            | <b>6 568</b>    | <b>76 936</b>                            |
| <b>Equity and liabilities</b>                       |  |                          |                 |  |
| <b>Total equity</b>                                 | <b>50 737</b>                            | <b>49 396</b>            | <b>1 341</b>    | <b>49 493</b>                            |
| <b>Non-current liabilities</b>                      |  |                          |                 |  |
| Financial debts                                     | 2 063                                    | 677                      | 1 386           | 667                                      |
| Other non-current liabilities                       | 9 266                                    | 8 738                    | 528             | 9 275                                    |
| <b>Total non-current liabilities</b>                | <b>11 329</b>                            | <b>9 415</b>             | <b>1 914</b>    | <b>9 942</b>                             |
| <b>Current liabilities</b>                          |  |                          |                 |  |
| Trade accounts payable                              | 2 902                                    | 3 018                    | 116             | 2 725                                    |
| Financial debts and derivatives                     | 8 741                                    | 5 117                    | 3 624           | 6 576                                    |
| Other current liabilities                           | 8 311                                    | 8 506                    | 195             | 8 200                                    |
| <b>Total current liabilities</b>                    | <b>19 954</b>                            | <b>16 641</b>            | <b>3 313</b>    | <b>17 501</b>                            |
| <b>Total liabilities</b>                            | <b>31 283</b>                            | <b>26 056</b>            | <b>5 227</b>    | <b>27 443</b>                            |
| <b>Total equity and liabilities</b>                 | <b>82 020</b>                            | <b>75 452</b>            | <b>6 568</b>    | <b>76 936</b>                            |

**Condensed consolidated changes in equity (unaudited)****Nine months to September 30**

|  | YTD 2008      | YTD 2007      | Change       |
|--|---------------|---------------|--------------|
|  | USD m         | USD m         | USD m        |
| <b>Consolidated equity at January 1</b>    | <b>49 396</b> | <b>41 294</b> | <b>8 102</b> |
| Recognized income and expense              | 4 705         | 13 705        | 9 000        |
| Purchase of treasury shares, net           | 406           | 3 310         | 2 904        |
| Equity-based compensation                  | 420           | 430           | 10           |
| Dividends                                  | 3 345         | 2 598         | 747          |
| Changes in minority interests              | 33            | 28            | 5            |
| <b>Consolidated equity at September 30</b> | <b>50 737</b> | <b>49 493</b> | <b>1 244</b> |

**Third quarter**

|  | Q3 2008       | Q3 2007       | Change       |
|--|---------------|---------------|--------------|
|  | USD m         | USD m         | USD m        |
| <b>Consolidated equity at July 1</b>       | <b>51 605</b> | <b>43 664</b> | <b>7 941</b> |
| Recognized income and expense              | 995           | 7 916         | 8 911        |
| Purchase of treasury shares, net           | 26            | 2 215         | 2 241        |
| Equity-based compensation                  | 117           | 137           | 20           |
| Changes in minority interests              | 16            | 9             | 7            |
| <b>Consolidated equity at September 30</b> | <b>50 737</b> | <b>49 493</b> | <b>1 244</b> |

## Condensed consolidated cash flow statements (unaudited)

## Nine months to September 30

|  | YTD 2008<br>USD m | YTD 2007<br>USD m | Change<br>USD m |
|--|-------------------|-------------------|-----------------|
| <b>Net income from continuing operations</b>                                       | <b>6 656</b>      | <b>5 609</b>      | <b>1 047</b>    |
| Reversal of non-cash items   |                   |                   |                 |
| Taxes  | 1 084             | 693               | 391             |
| Depreciation, amortization and impairments   | 2 119             | 2 073             | 46              |
| Change in provisions and other non-current liabilities                             | 420               | 972               | 552             |
| Net financial income   | 112               | 110               | 2               |
| Other  | 2                 | 101               | 99              |
| <b>Net income adjusted for non-cash items</b>                                      | <b>10 165</b>     | <b>9 136</b>      | <b>1 029</b>    |
| Interest and other financial receipts  | 608               | 401               | 207             |
| Interest and other financial payments  | 585               | 124               | 461             |
| Taxes paid   | 1 570             | 1 618             | 48              |
| <b>Cash flow before working capital changes</b>                                    | <b>8 618</b>      | <b>7 795</b>      | <b>823</b>      |
| Payments out of provisions and other net cash movements in non-current liabilities | 481               | 228               | 253             |
| Change in net current assets and other operating cash flow items                   | 1 572             | 1 320             | 252             |
| <b>Cash flow from operating activities from continuing operations</b>              | <b>6 565</b>      | <b>6 247</b>      | <b>318</b>      |
| Investments in property, plant & equipment   | 1 445             | 1 795             | 350             |
| Acquisitions of subsidiaries   | 691               | 52                | 639             |
| Increase in financial assets, marketable securities and intangible assets          | 6 502             | 2 716             | 3 786           |
| <b>Cash flow from investing activities from continuing operations</b>              | <b>8 638</b>      | <b>4 563</b>      | <b>4 075</b>    |
| Change in current and non-current financial debts                                  | 5 040             | 666               | 5 706           |
| Dividends paid to shareholders of Novartis AG                                      | 3 345             | 2 598             | 747             |
| Treasury share transactions  | 483               | 3 099             | 2 616           |
| Other financing cash flows   | 37                | 201               | 238             |
| <b>Cash flow from financing activities from continuing operations</b>              | <b>1 175</b>      | <b>6 162</b>      | <b>7 337</b>    |
| Cash flow from discontinued operations   | 79                | 7 976             | 8 055           |
| Translation effect on cash and cash equivalents                                    | 66                | 97                | 31              |
| Change in cash and cash equivalents from discontinued operations                   |                   | 4                 | 4               |
| <b>Change in cash and cash equivalents from continuing operations</b>              | <b>911</b>        | <b>3 599</b>      | <b>4 510</b>    |
| Cash and cash equivalents at January 1 from continuing operations                  | 5 360             | 3 815             | 1 545           |
| <b>Cash and cash equivalents at September 30 from continuing operations</b>        | <b>4 449</b>      | <b>7 414</b>      | <b>2 965</b>    |

## Condensed consolidated cash flow statements (unaudited)

## Third quarter

|  | Q3 2008<br>USD m | Q3 2007<br>USD m | Change<br>USD m |
|--|------------------|------------------|-----------------|
| <b>Net income from continuing operations</b>                                       | <b>2 082</b>     | <b>1 574</b>     | <b>508</b>      |
| Reversal of non-cash items   |                  |                  |                 |
| Taxes  | 338              | 37               | 301             |
| Depreciation, amortization and impairments   | 861              | 953              | 92              |
| Change in provisions and other non-current liabilities                             | 203              | 820              | 617             |
| Net financial income   | 3                | 43               | 46              |
| Other  | 82               | 171              | 253             |
| <b>Net income adjusted for non-cash items</b>                                      | <b>3 569</b>     | <b>3 170</b>     | <b>399</b>      |
| Interest and other financial receipts  | 37               | 101              | 64              |
| Interest and other financial payments  | 26               | 43               | 69              |
| Taxes paid   | 394              | 645              | 251             |
| <b>Cash flow before working capital changes</b>                                    | <b>3 238</b>     | <b>2 583</b>     | <b>655</b>      |
| Payments out of provisions and other net cash movements in non-current liabilities | 174              | 85               | 89              |
| Change in net current assets and other operating cash flow items                   | 40               | 171              | 131             |
| <b>Cash flow from operating activities from continuing operations</b>              | <b>3 024</b>     | <b>2 327</b>     | <b>697</b>      |
| Investments in property, plant & equipment   | 478              | 650              | 172             |
| Acquisitions of subsidiaries   | 691              |                  | 691             |
| Increase in financial assets, marketable securities and intangible assets          | 11 954           | 1 938            | 10 016          |
| <b>Cash flow from investing activities from continuing operations</b>              | <b>13 123</b>    | <b>2 588</b>     | <b>10 535</b>   |
| Change in current and non-current financial debts                                  | 673              | 758              | 1 431           |
| Treasury share transactions  | 29               | 2 105            | 2 134           |
| Other financing cash flows   | 17               | 10               | 7               |
| <b>Cash flow from financing activities from continuing operations</b>              | <b>685</b>       | <b>2 873</b>     | <b>3 558</b>    |
| Cash flow from discontinued operations   | 148              | 7 808            | 7 956           |
| Translation effect on cash and cash equivalents                                    | 58               | 73               | 131             |
| Change in cash and cash equivalents from discontinued operations                   |                  | 55               | 55              |
| <b>Change in cash and cash equivalents from continuing operations</b>              | <b>9 620</b>     | <b>4 802</b>     | <b>14 422</b>   |
| Cash and cash equivalents at July 1 from continuing operations                     | 14 069           | 2 612            | 11 457          |
| <b>Cash and cash equivalents at September 30 from continuing operations</b>        | <b>4 449</b>     | <b>7 414</b>     | <b>2 965</b>    |



*Property, plant and  
equipment(1)*

|  |    |     |   |     |    |    |    |   |   |   |     |     |    |     |     |
|--|----|-----|---|-----|----|----|----|---|---|---|-----|-----|----|-----|-----|
| <i>Goodwill and other<br/>intangible assets(1)</i> | 73 | 311 | 3 | 208 | 17 | 34 | 18 | 2 | 2 | 4 | 113 | 559 | 83 | 113 | 642 |
|--|----|-----|---|-----|----|----|----|---|---|---|-----|-----|----|-----|-----|

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(1) Excluding impact of business acquisitions

## Consolidated income statements Third quarter Divisional segmentation (unaudited)

|  | Pharmaceuticals        |                        | Vaccines and<br>Diagnostics |                        | Sandoz                 |                        | Consumer Health<br>continuing<br>operations |                        | Corporate              |                        | Total<br>continuing<br>operations |                        | Discontinued<br>Consumer Health<br>operations |                        | Total Group            |                        |
|--|------------------------|------------------------|-----------------------------|------------------------|------------------------|------------------------|---|------------------------|------------------------|------------------------|-----------------------------------|------------------------|---|------------------------|------------------------|------------------------|
|  | Q3<br>2008<br>USD<br>m | Q3<br>2007<br>USD<br>m | Q3<br>2008<br>USD<br>m      | Q3<br>2007<br>USD<br>m | Q3<br>2008<br>USD<br>m | Q3<br>2007<br>USD<br>m | Q3<br>2008<br>USD<br>m                      | Q3<br>2007<br>USD<br>m | Q3<br>2008<br>USD<br>m | Q3<br>2007<br>USD<br>m | Q3<br>2008<br>USD<br>m            | Q3<br>2007<br>USD<br>m | Q3<br>2008<br>USD<br>m                        | Q3<br>2007<br>USD<br>m | Q3<br>2008<br>USD<br>m | Q3<br>2007<br>USD<br>m |
| <b>Net sales to third parties</b>  | <b>6</b>               | <b>5</b>               | <b>666</b>                  | <b>572</b>             | <b>899</b>             | <b>783</b>             | <b>1 473</b>                                | <b>1 373</b>           |                        |                        | <b>10</b>                         | <b>9</b>               |   |                        | <b>10</b>              | <b>9</b>               |
| Sales to other Divisions   | 51                     | 51                     | 4                           | 12                     | 72                     | 56                     | 12  | 9                      | 139                    | 128                    |                                   |                        |   |                        |                        |                        |
| <b>Sales of Divisions</b>  | <b>6</b>               | <b>5</b>               |                             |                        | <b>1</b>               | <b>1</b>               |   |                        |                        |                        | <b>10</b>                         | <b>9</b>               |   |                        | <b>10</b>              | <b>9</b>               |
|  | <b>760</b>             | <b>936</b>             | <b>670</b>                  | <b>584</b>             | <b>971</b>             | <b>839</b>             | <b>1 485</b>                                | <b>1 382</b>           | <b>139</b>             | <b>128</b>             | <b>747</b>                        | <b>613</b>             |   | <b>315</b>             | <b>747</b>             | <b>928</b>             |
| Other revenues   | 157                    | 105                    | 103                         | 88                     | 6                      | 4                      | 17  | 8                      |                        |                        | 283                               | 205                    |   | 1                      | 283                    | 206                    |
| Cost of Goods Sold   | 1                      | 1                      |                             |                        | 1                      | 1                      |   |                        |                        |                        | 3                                 | 3                      |   |                        | 3                      | 3                      |
|  | 213                    | 312                    | 397                         | 315                    | 022                    | 049                    | 531   | 493                    | 142                    | 135                    | 021                               | 034                    |   | 153                    | 021                    | 187                    |
| <i>Of which<br/>amortization and<br/>impairments of<br/>product and patent<br/>rights and<br/>trademarks</i>                 | <i>100</i>             | <i>412</i>             | <i>71</i>                   | <i>68</i>              | <i>82</i>              | <i>97</i>              | <i>19</i>                                   | <i>20</i>              |                        |                        | <i>272</i>                        | <i>597</i>             |   | <i>6</i>               | <i>272</i>             | <i>591</i>             |
| <b>Gross profit</b>  | <b>5</b>               | <b>4</b>               |                             |                        |                        |                        |   |                        |                        |                        | <b>8</b>                          | <b>6</b>               |   |                        | <b>8</b>               | <b>6</b>               |
|  | <b>704</b>             | <b>729</b>             | <b>376</b>                  | <b>357</b>             | <b>955</b>             | <b>794</b>             | <b>971</b>                                  | <b>897</b>             | <b>3</b>               | <b>7</b>               | <b>009</b>                        | <b>784</b>             |   | <b>163</b>             | <b>009</b>             | <b>947</b>             |
| Marketing & Sales  | 1                      | 1                      |                             |                        |                        |                        |   |                        |                        |                        | 2                                 | 2                      |   |                        | 2                      | 2                      |
|  | 960                    | 841                    | 63                          | 51                     | 353                    | 303                    | 501   | 487                    |                        |                        | 877                               | 682                    |   | 49                     | 877                    | 731                    |
| Research & Development   | 1                      | 1                      |                             |                        |                        |                        |   |                        |                        |                        | 1                                 | 1                      |   |                        | 1                      | 1                      |
|  | 572                    | 219                    | 86                          | 65                     | 156                    | 145                    | 79  | 77                     | 49                     | 46                     | 942                               | 552                    |   | 4                      | 942                    | 556                    |
| General & Administration   | 203                    | 182                    | 31                          | 43                     | 109                    | 88                     | 92  | 82                     | 103                    | 104                    | 538                               | 499                    |   | 15                     | 538                    | 514                    |
| Environmental provision increase   |                        |                        |                             |                        |                        |                        |   |                        |                        |                        | 590                               | 590                    |   |                        |                        | 590                    |
| Other Income & Expense   | 226                    | 54                     | 16                          | 26                     | 44                     | 30                     | 7   | 7                      | 24                     |                        | 317                               | 9                      | 28  | 5 848                  | 289                    | 839                    |
| <i>Of which<br/>amortization and<br/>impairments of<br/>capitalized intangible<br/>assets included in<br/>function costs</i> | <i>257</i>             | <i>23</i>              | <i>7</i>                    | <i>4</i>               | <i>2</i>               | <i>10</i>              |   | <i>6</i>               | <i>1</i>               |                        | <i>267</i>                        | <i>43</i>              |   | <i>13</i>              | <i>267</i>             | <i>30</i>              |
| <b>Operating income</b>  | <b>1</b>               | <b>1</b>               |                             |                        |                        |                        |   |                        |                        |                        | <b>2</b>                          | <b>1</b>               |   |                        | <b>2</b>               | <b>7</b>               |
|  | <b>743</b>             | <b>541</b>             | <b>180</b>                  | <b>172</b>             | <b>293</b>             | <b>228</b>             | <b>292</b>                                  | <b>244</b>             | <b>173</b>             | <b>733</b>             | <b>335</b>                        | <b>452</b>             | <b>28</b>                                     | <b>5 943</b>           | <b>363</b>             | <b>395</b>             |
| Income from associated companies   |                        |                        |                             |                        |                        |                        |   |                        |                        |                        | 88                                | 116                    |   |                        | 88                     | 116                    |
| Financial income   |                        |                        |                             |                        |                        |                        |   |                        |                        |                        | 93                                | 109                    |   |                        | 93                     | 109                    |
| Interest expense   |                        |                        |                             |                        |                        |                        |   |                        |                        |                        | 96                                | 66                     |   |                        | 96                     | 66                     |
| <b>Income before taxes</b>   |                        |                        |                             |                        |                        |                        |   |                        |                        |                        | <b>2</b>                          | <b>1</b>               |   |                        | <b>2</b>               | <b>7</b>               |
|  |                        |                        |                             |                        |                        |                        |   |                        |                        |                        | <b>420</b>                        | <b>611</b>             | <b>28</b>                                     | <b>5 943</b>           | <b>448</b>             | <b>554</b>             |
| Taxes  |                        |                        |                             |                        |                        |                        |   |                        |                        |                        | 338                               | 37                     | 9   | 649                    | 347                    | 686                    |
| <b>Net income</b>  |                        |                        |                             |                        |                        |                        |   |                        |                        |                        | <b>2</b>                          | <b>1</b>               |   |                        | <b>2</b>               | <b>6</b>               |
|  |                        |                        |                             |                        |                        |                        |   |                        |                        |                        | <b>082</b>                        | <b>574</b>             | <b>19</b>                                     | <b>5 294</b>           | <b>101</b>             | <b>868</b>             |
| <i>Additions to:<br/>Property, plant and<br/>equipment<sup>(1)</sup></i>   | <i>249</i>             | <i>369</i>             | <i>101</i>                  | <i>74</i>              | <i>89</i>              | <i>143</i>             | <i>35</i>                                   | <i>56</i>              | <i>17</i>              | <i>16</i>              | <i>491</i>                        | <i>658</i>             |   | <i>9</i>               | <i>491</i>             | <i>667</i>             |

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|   |   |    |     |   |    |    |   |    |     |    |    |     |
|---|---|----|-----|---|----|----|---|----|-----|----|----|-----|
| <i>Goodwill and other intangible assets<sup>(1)</sup></i> | 3 | 90 | 208 | 3 | 19 | 10 | 1 | 17 | 317 | 12 | 17 | 329 |
|---|---|----|-----|---|----|----|---|----|-----|----|----|-----|

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(1) Excluding impact of business acquisitions

27

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**Notes to the Condensed Interim Consolidated Financial Statements for the nine months ended September 30, 2008 (unaudited)**

**1. Basis of preparation**

These condensed consolidated financial statements for the nine-month period ended September 30, 2008, were prepared in accordance with International Accounting Standard 34 Interim Financial Reporting and accounting policies set out in the 2007 Annual Report.

**2. Selected critical accounting policies**

The principal accounting policies of Novartis are set out in note 1 to the consolidated financial statements in the 2007 Annual Report and conform with International Financial Reporting Standards (IFRS). The presentation of financial statements requires management to make subjective and complex judgments that affect the reported amounts. Because of the inherent uncertainties, actual outcomes and results may differ from management's assumptions and estimates. In particular, as discussed in note 9 of the 2007 Annual Report, Novartis regularly reviews long-lived assets, including identifiable intangible assets and goodwill for impairment. Goodwill and acquired research and development projects not yet ready for use are subject to impairment review at least annually, or when events have occurred that require an assessment. Other intangible assets are reviewed for impairment whenever an event or decision occurs that raises concern about the value. The amount of goodwill and other intangible assets on the Group's consolidated balance sheet has risen significantly in recent years, primarily from recent acquisitions. Impairment testing under IFRS may lead to further impairment charges in the future.

**3. Business combinations, divestments and other significant transactions**

The following significant transactions occurred during 2008 and 2007:

**2008**

**Corporate Issuance of Swiss franc bonds**

On June 26, Novartis issued two Swiss franc bonds totaling CHF 1.5 billion (USD 1.5 billion) in the Swiss capital market, with each listed on the SWX Swiss exchange. One was a 3.5% four-year bond for a total of CHF 700 million issued by Novartis Securities Investment Ltd. and guaranteed by Novartis AG. The other was a 3.625% seven-year bond of CHF 800 million issued by Novartis AG.

**Corporate Alcon**

On April 7, Novartis announced an agreement with Nestlé S.A. to acquire a 25% stake in Alcon Inc. (NYSE: ACL), and providing the option of acquiring an additional 52% stake. The potential value of these two transactions is approximately USD 39 billion.

On July 7, Novartis acquired the 25% stake from Nestlé for USD 10.4 billion in cash, which represented 74 million shares. This investment reflects a price of USD 143.18 per share, which is Alcon's volume-weighted average share price between January 7, 2008, and April 4, 2008. Alcon's closing share price was USD 148.44 on April 4, the last trading day before the signing of this agreement. This purchase price was reduced by approximately USD 200 million to account for the Alcon dividend paid in May 2008 on these shares to Nestlé rather than Novartis.

Novartis financed the purchase of the 25% Alcon stake from internal cash reserves and external short-term financing.

In the optional second step, Novartis has the right to acquire Nestlé's remaining 52% majority stake in Alcon between January 1, 2010, and July 31, 2011, for a fixed price of USD 181.00 per share, or approximately USD 28 billion. During this period, Nestlé has the right to require Novartis to buy its remaining stake at a 20.5% premium to Alcon's share price at the time of exercise, but not exceeding USD 181.00 per share. Novartis has no obligation to purchase the remaining 23% of shares held by Alcon minority shareholders at any time.

For the first step of this transaction, an allocation of the USD 10.4 billion purchase price has been made using publicly available data and information from the due diligence process. As a result, the share of identifiable net assets acquired by Novartis for the 25% stake is estimated at USD 6.2 billion, along with goodwill of approximately USD 4.2 billion. Based on an average of analyst forecasts, the share of Alcon's net income for the 2008 third quarter attributable to Novartis was USD 121 million, which was more than offset by USD 126 million in charges for amortization of separately identified additional intangible assets and other items.

Under an accounting alternative currently available under IAS 39, the outstanding options for the optional second step involving the remaining 52% Alcon stake held by Nestlé have not been valued.

#### **Pharmaceuticals Speedel**

On July 10, Novartis announced the purchase of an additional 51.7% stake in Speedel Holding Ltd. (SWX: SPPN) and plans to acquire the remaining shares in the Swiss biopharmaceutical company through a mandatory public tender offer. Novartis acquired the 51.7% stake through off-exchange transactions with major Speedel shareholders for CHF 130 per share in cash. As of June 30, 2008, Speedel had 7.8 million registered outstanding shares (or a total of 7.9 million shares on a fully diluted basis). In accordance with Swiss law, Novartis successfully completed a mandatory public tender offer for all remaining outstanding shares at the same price of CHF 130 per share in cash in early October and now holds more than 99.8% of Speedel's outstanding shares. A so-called "squeeze out" procedure has been initiated to cancel all remaining outstanding shares in exchange for the cash offer. This process, including the delisting of Speedel's shares on the Swiss Stock Exchange, is expected to be completed in early 2009. The acquisition price for the 90.3% not previously owned is estimated at CHF 933 million (or currently USD 850 million). Speedel has been fully consolidated as a subsidiary following the July 2008 acquisition of a majority stake. Based on a preliminary purchase price allocation, Speedel's identified net assets amount to USD 484 million and produced goodwill of USD 416 million. The consolidation of Speedel resulted in immaterial amounts being included in the Group's income and operating cash flow statements.

#### **Pharmaceuticals Protez**

On June 4, Novartis agreed to acquire Protez Pharmaceuticals, a privately held US biopharmaceuticals company, gaining access to PZ-601, a broad-spectrum antibiotic in Phase II development against potentially fatal drug-resistant infections. Novartis agreed to acquire 100% of Protez for USD 100 million. Protez's owners are eligible for additional payments of up to USD 300 million, which are contingent upon the future success of PZ-601. Protez has been consolidated since the transaction completion on July 17. Based on a preliminary purchase price allocation, Protez's identified net assets amounted to USD 63 million and produced goodwill of USD 37 million. The consolidation of Protez has resulted in immaterial amounts being included in the Group's income and operating cash flow statements.

2007

**Pharmaceuticals    Betaseron® agreement related to Chiron acquisition**

On September 14, Novartis and Bayer Schering Pharma AG completed an agreement related to regulatory, development, manufacturing and supply agreements for the multiple sclerosis medicine Betaseron®. The agreement was reached after the April 2006 acquisition of Chiron. As part of this agreement with Bayer Schering, Novartis received a one-time payment of USD 200 million primarily related to a transfer of manufacturing facilities to Bayer Schering as well as receiving rights to market its own branded version of Betaseron®, to be known as *Extavia*, starting in the first half of 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.

**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 result 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%. The equity investment is treated for accounting purposes as an available-for-sale marketable security recorded in the financial assets of the Division.

**Consumer Health    Gerber Business Unit divestment**

On September 1, Novartis completed the divestment of the Gerber infant products Business Unit for 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, were 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 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, were recorded in the third quarter.

The Gerber and Medical Nutrition Business Units are disclosed as discontinued operations in all periods in the Group's consolidated financial statements. Prior to their divestment, these businesses had combined 2007 net sales of USD 1.7 billion and operating income of USD 311 million.

#### 4. Principal currency translation rates

Nine months to September 30

|         | Average rates<br>YTD 2008<br>USD | Average rates<br>YTD 2007<br>USD | Period-end rates<br>Sept 30, 2008<br>USD | Period-end rates<br>Sept 30, 2007<br>USD |
|---------|----------------------------------|----------------------------------|--|--|
| 1 CHF   | 0.947                            | 0.821                            | 0.913                                    | 0.853                                    |
| 1 EUR   | 1.522                            | 1.344                            | 1.439                                    | 1.417                                    |
| 1 GBP   | 1.947                            | 1.987                            | 1.805                                    | 2.022                                    |
| 100 JPY | 0.946                            | 0.839                            | 0.958                                    | 0.868                                    |

Third quarter

|         | Average rates<br>Q3 2008<br>USD | Average rates<br>Q3 2007<br>USD | Period-end rates<br>Sept 30, 2008<br>USD | Period-end rates<br>Sept 30, 2007<br>USD |
|---------|---------------------------------|---------------------------------|--|--|
| 1 CHF   | 0.933                           | 0.834                           | 0.913                                    | 0.853                                    |
| 1 EUR   | 1.503                           | 1.374                           | 1.439                                    | 1.417                                    |
| 1 GBP   | 1.892                           | 2.020                           | 1.805                                    | 2.022                                    |
| 100 JPY | 0.930                           | 0.850                           | 0.958                                    | 0.868                                    |

#### 5. Legal proceedings update

A number of Novartis subsidiaries are the subject of various legal proceedings that arise from time to time. As a result, the Group may become subject to substantial liabilities that may not be covered by insurance.

While Novartis does not currently expect any of these proceedings will have a material adverse effect on its financial position, litigation is inherently unpredictable and large verdicts do occur. As a result, Novartis may in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its results of operations or cash flow. The consolidated financial statements in the 2007 Annual Report in note 19 contain a summary of major legal proceedings.

The following non-exhaustive list relating to some of the cases reported in the 2007 Annual Report (note 19) includes information as of the 2008 third quarter:

##### **Zometa/Aredia litigation**

A Novartis subsidiary is now a defendant in more than 540 cases brought in US courts by plaintiffs who claim to have experienced osteonecrosis of the jaw after treatment with *Zometa/Aredia*. All purported class actions have been dismissed. Discovery is continuing in these cases.

**Average Wholesale Price litigation**

Claims have been brought against various pharmaceutical companies, including Novartis subsidiaries, alleging among other things that they fraudulently overstated the Average Wholesale Price (AWP and best price have been used by the US and state governments to calculate Medicare and Medicaid reimbursements, respectively). Discovery is ongoing in some cases. In a trial in Alabama against a Novartis subsidiary, the jury rejected the State's claims for punitive damages, but decided against the Novartis subsidiary on the State's claims for compensatory damages and interest with an award of USD 33 million. The Novartis subsidiary has appealed the verdict to the Supreme Court of Alabama.

**Femara patent litigation**

A generic company challenges the validity and enforceability of the basic compound patent, which expires in 2011. A hearing on a preliminary injunction was held between October 14 and 17, 2008. A decision is pending. A trial date has not yet been scheduled.

**J&J Nicolson patent litigation**

Johnson & Johnson filed suits seeking declaration that their Oasys® and Advance® products do not infringe CIBA Vision's silicone hydrogel patents. The first trial on the Johnson & Johnson Oasys® product is scheduled to begin in the US in March 2009. Novartis has also filed infringement suits based on these patent rights in the US, the Netherlands, Germany, France, Italy and Ireland. A hearing was held in the Netherlands regarding the validity and infringement of the patent on June 13, 2008. The Dutch court decision is expected before the end of 2008.

**Trileptal investigation**

A Novartis subsidiary is fully cooperating with an investigation by the US Attorney's Office for the Eastern District of Pennsylvania, which served an administrative subpoena pursuant to the Health Insurance Portability and Accountability Act. The US Attorney's Office is conducting parallel civil and criminal investigations into allegations of potential off-label promotion of *Trileptal*. The investigation has included requests for information and documents and meetings with the Government. Communication with the Government is ongoing. Novartis is currently unable to express an opinion on the likely outcome of these investigations.

**TOBI (tobramycin) investigation**

The US Attorney's Office for the Northern District of California served a subpoena covering several Novartis subsidiaries seeking certain information regarding the marketing and promotion of TOBI, a treatment for patients with cystic fibrosis that was acquired through the purchase of Chiron Corporation in mid-2006. The investigation has included requests for documents and meetings were held with the Government. Communication with the Government is ongoing. Novartis is currently unable to express an opinion on the likely outcome of this investigation.

## Supplementary information

## Condensed consolidated change in liquidity (unaudited)

## Nine months to September 30

|   | YTD 2008<br>USD m | YTD 2007<br>USD m | Change<br>USD m |
|---|-------------------|-------------------|-----------------|
| <b>Change in cash and cash equivalents</b>                                | <b>911</b>        | <b>3 599</b>      | <b>4 510</b>    |
| Change in marketable securities, financial debt and financial derivatives | 9 163             | 3 034             | 12 197          |
| <b>Change in net liquidity</b>  | <b>10 074</b>     | <b>6 633</b>      | <b>16 707</b>   |
| Net liquidity at January 1  | 7 407             | 656               | 6 751           |
| <b>Net liquidity at September 30</b>                                      | <b>2 667</b>      | <b>7 289</b>      | <b>9 956</b>    |

## Third quarter

|   | Q3 2008<br>USD m | Q3 2007<br>USD m | Change<br>USD m |
|---|------------------|------------------|-----------------|
| <b>Change in cash and cash equivalents</b>                                | <b>9 620</b>     | <b>4 802</b>     | <b>14 422</b>   |
| Change in marketable securities, financial debt and financial derivatives | 1 486            | 2 390            | 904             |
| <b>Change in net liquidity</b>  | <b>8 134</b>     | <b>7 192</b>     | <b>15 326</b>   |
| Net liquidity at July 1   | 5 467            | 97               | 5 370           |
| <b>Net liquidity at September 30</b>                                      | <b>2 667</b>     | <b>7 289</b>     | <b>9 956</b>    |

**Free cash flow (unaudited)****Nine months to September 30**

|   | YTD 2008<br>USD m | YTD 2007<br>USD m | Change<br>USD m |
|---|-------------------|-------------------|-----------------|
| <b>Cash flow from operating activities from continuing operations</b> | <b>6 565</b>      | <b>6 247</b>      | <b>318</b>      |
| Purchase of property, plant & equipment                               | 1 445             | 1 795             | 350             |
| Purchase of intangible and financial assets                           | 276               | 684               | 408             |
| Sale of property, plant & equipment, intangible and financial assets  | 244               | 559               | 315             |
| Dividends   | 3 345             | 2 598             | 747             |
| <b>Free cash flow from continuing operations</b>                      | <b>1 743</b>      | <b>1 729</b>      | <b>14</b>       |
| Free cash flow from discontinued operations                           | 217               | 53                | 270             |
| <b>Free cash flow</b>   | <b>1 526</b>      | <b>1 782</b>      | <b>256</b>      |

**Third quarter**

|   | Q3 2008<br>USD m | Q3 2007<br>USD m | Change<br>USD m |
|---|------------------|------------------|-----------------|
| <b>Cash flow from operating activities from continuing operations</b> | <b>3 024</b>     | <b>2 327</b>     | <b>697</b>      |
| Purchase of property, plant & equipment                               | 478              | 650              | 172             |
| Purchase of intangible and financial assets                           | 110              | 362              | 252             |
| Sale of property, plant & equipment, intangible and financial assets  | 78               | 303              | 225             |
| <b>Free cash flow from continuing operations</b>                      | <b>2 514</b>     | <b>1 618</b>     | <b>896</b>      |
| Free cash flow from discontinued operations                           | 132              | 58               | 74              |
| <b>Free cash flow</b>   | <b>2 382</b>     | <b>1 560</b>     | <b>822</b>      |

Note: The definition of free cash flow used by Novartis does not include payments made to increase investments in associated companies nor acquisitions of subsidiaries.

**Share information**

|  | September 30,<br>2008 | September 30, 2007 |
|--|-----------------------|--------------------|
| Number of shares outstanding (million) | 2 264.8               | 2 295.2            |
| Registered share price (CHF)           | 58.55                 | 64.25              |
| ADS price (USD)                        | 52.84                 | 54.96              |
| Market capitalization (USD billion)    | 121.1                 | 125.8              |
| Market capitalization (CHF billion)    | 132.6                 | 147.5              |

## Impact of intangible asset charges and significant exceptional items Nine months to September 30 (unaudited)

|  | Vaccines and      |                   |                   |                   | Consumer Health   |                   |                       |                   |                   |                   | Total continuing operations |                   |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------------|-------------------|-------------------|-------------------|-----------------------------|-------------------|
|  | Pharmaceuticals   |                   | Diagnostics       |                   | Sandoz            |                   | continuing operations |                   | Corporate         |                   | operations                  |                   |
|  | YTD 2008<br>USD m | YTD 2007<br>USD m | YTD 2008<br>USD m | YTD 2007<br>USD m | YTD 2008<br>USD m | YTD 2007<br>USD m | YTD 2008<br>USD m     | YTD 2007<br>USD m | YTD 2008<br>USD m | YTD 2007<br>USD m | YTD 2008<br>USD m           | YTD 2007<br>USD m |
| <b>Reported operating income</b>   | <b>6 017</b>      | <b>5 161</b>      | <b>52</b>         | <b>179</b>        | <b>884</b>        | <b>789</b>        | <b>858</b>            | <b>727</b>        | <b>527</b>        | <b>972</b>        | <b>7 284</b>                | <b>5 884</b>      |
| Recurring amortization   | 315               | 311               | 239               | 215               | 225               | 214               | 59                    | 64                | 2                 | 3                 | 840                         | 807               |
| Impairment of intangible assets  | 291               | 343               | 1                 |                   | 15                | 37                |                       | 3                 |                   |                   | 307                         | 383               |
| <b>Intangible asset charges</b>  | <b>606</b>        | <b>654</b>        | <b>240</b>        | <b>215</b>        | <b>240</b>        | <b>251</b>        | <b>59</b>             | <b>67</b>         | <b>2</b>          | <b>3</b>          | <b>1 147</b>                | <b>1 190</b>      |
| Acquisition-related restructuring and integration expenses (including acquisition-related accounting impact of inventory adjustments), net | 6                 |                   | 11                | 12                |                   |                   |                       | 9                 |                   |                   | 17                          | 21                |
| Restructuring expenses   | 83                |                   |                   |                   | 7                 | 13                | 3                     |                   |                   |                   | 87                          | 13                |
| Impairment of property, plant & equipment  | 6                 |                   |                   |                   | 1                 | 20                | 1                     |                   | 4                 |                   | 10                          | 20                |
| <b>Exceptional restructuring and acquisition related integration expenses, net</b>   | <b>95</b>         |                   | <b>11</b>         | <b>12</b>         | <b>8</b>          | <b>33</b>         | <b>4</b>              | <b>9</b>          | <b>4</b>          |                   | <b>114</b>                  | <b>54</b>         |
| <b>Exceptional gains from divesting brands, subsidiaries and financial investments</b>   | <b>141</b>        | <b>166</b>        |                   |                   |                   |                   |                       |                   |                   |                   | <b>141</b>                  | <b>166</b>        |
| Impairment of financial assets   | 26                | 22                |                   |                   |                   | 10                |                       |                   | 9                 | 7                 | 35                          | 39                |
| Environmental provision increase   |                   |                   |                   |                   |                   |                   |                       |                   |                   | 590               |                             | 590               |
| Litigation and exceptional settlements   |                   |                   | 49                | 83                |                   |                   |                       |                   |                   |                   | 49                          | 83                |
| Suspension of <i>Zelnorm</i>   |                   | 87                |                   |                   |                   |                   |                       |                   |                   |                   |                             | 87                |
| Release of pre-launch inventory provisions   | 45                | 107               |                   |                   |                   |                   |                       |                   |                   |                   | 45                          | 107               |
| Release of US government rebate  | 104               |                   |                   |                   |                   |                   |                       |                   |                   |                   | 104                         |                   |

|  |              |              |            |            |              |              |            |            |            |            |              |              |
|--|--------------|--------------|------------|------------|--------------|--------------|------------|------------|------------|------------|--------------|--------------|
| provisions   |              |              |            |            |              |              |            |            |            |            |              |              |
| <b>Other exceptional items</b>   | <b>123</b>   | <b>2</b>     | <b>49</b>  | <b>83</b>  |              | <b>10</b>    |            |            | <b>9</b>   | <b>597</b> | <b>163</b>   | <b>526</b>   |
| <b>Total adjustments</b>   | <b>437</b>   | <b>490</b>   | <b>202</b> | <b>144</b> | <b>248</b>   | <b>294</b>   | <b>55</b>  | <b>76</b>  | <b>15</b>  | <b>600</b> | <b>957</b>   | <b>1 604</b> |
| <b>Adjusted operating income</b>   | <b>6 454</b> | <b>5 651</b> | <b>254</b> | <b>323</b> | <b>1 132</b> | <b>1 083</b> | <b>913</b> | <b>803</b> | <b>512</b> | <b>372</b> | <b>8 241</b> | <b>7 488</b> |
| Income from associated companies   |              |              |            |            |              |              |            |            |            |            | 344          | 308          |
| Recurring amortization related to income from associated companies, net of tax |              |              |            |            |              |              |            |            |            |            | 229          | 90           |
| Net financial income   |              |              |            |            |              |              |            |            |            |            | 112          | 110          |
| Taxes (adjusted for above items)   |              |              |            |            |              |              |            |            |            |            | 1393         | 1147         |
| <b>Adjusted net income from continuing operations</b>                          |              |              |            |            |              |              |            |            |            |            | <b>7 533</b> | <b>6 849</b> |
| <b>Adjusted net income attributable to shareholders</b>                        |              |              |            |            |              |              |            |            |            |            | <b>7 505</b> | <b>6 836</b> |
| <b>Adjusted basic earnings per share from continuing operations</b>            |              |              |            |            |              |              |            |            |            |            | <b>3.31</b>  | <b>2.93</b>  |

## Impact of intangible asset charges and significant exceptional items Third quarter (unaudited)

|  | Vaccines and     |                  |                  |                  |                  |                  | Consumer Health       |                  |                  |                  | Total continuing operations |                  |
|--|------------------|------------------|------------------|------------------|------------------|------------------|-----------------------|------------------|------------------|------------------|-----------------------------|------------------|
|  | Pharmaceuticals  |                  | Diagnostics      |                  | Sandoz           |                  | continuing operations |                  | Corporate        |                  | Q3 2008<br>USD m            | Q3 2007<br>USD m |
|  | Q3 2008<br>USD m | Q3 2007<br>USD m | Q3 2008<br>USD m | Q3 2007<br>USD m | Q3 2008<br>USD m | Q3 2007<br>USD m | Q3 2008<br>USD m      | Q3 2007<br>USD m | Q3 2008<br>USD m | Q3 2007<br>USD m |                             |                  |
| <b>Reported operating income</b>   | <b>1 743</b>     | <b>1 541</b>     | <b>180</b>       | <b>172</b>       | <b>293</b>       | <b>228</b>       | <b>292</b>            | <b>244</b>       | <b>173</b>       | <b>733</b>       | <b>2 335</b>                | <b>1 452</b>     |
| Recurring amortization   | 114              | 106              | 78               | 72               | 69               | 70               | 19                    | 23               | 1                |                  | 281                         | 271              |
| Impairment of intangible assets  | 243              | 329              |                  |                  | 15               | 37               |                       | 3                |                  |                  | 258                         | 369              |
| <b>Intangible asset charges</b>  | <b>357</b>       | <b>435</b>       | <b>78</b>        | <b>72</b>        | <b>84</b>        | <b>107</b>       | <b>19</b>             | <b>26</b>        | <b>1</b>         |                  | <b>539</b>                  | <b>640</b>       |
| Acquisition-related restructuring and integration expenses (including acquisition-related accounting impact of inventory adjustments), net | 6                |                  |                  | 2                |                  |                  |                       | 3                |                  |                  | 6                           | 5                |
| Restructuring expenses   | 36               |                  |                  |                  | 3                | 6                |                       |                  |                  |                  | 39                          | 6                |
| Impairment of property, plant & equipment  |                  |                  |                  |                  | 1                | 2                | 1                     |                  |                  |                  | 2                           | 2                |
| <b>Exceptional restructuring and acquisition related integration expenses, net</b>   | <b>42</b>        |                  |                  | <b>2</b>         | <b>2</b>         | <b>8</b>         | <b>1</b>              | <b>3</b>         |                  |                  | <b>43</b>                   | <b>13</b>        |
| <b>Exceptional gains from divesting brands, subsidiaries and financial investments</b>   |                  | <b>166</b>       |                  |                  |                  |                  |                       |                  |                  |                  |                             | <b>166</b>       |
| Impairment of financial assets   | 5                | 19               |                  |                  |                  |                  |                       |                  | 3                | 3                | 8                           | 22               |
| Environmental provision increase   |                  |                  |                  |                  |                  |                  |                       |                  |                  | 590              |                             | 590              |
| Litigation and exceptional settlements   |                  |                  |                  |                  |                  |                  |                       |                  |                  |                  |                             |                  |
| Suspension of <i>Zelnorm</i>   |                  | 16               |                  |                  |                  |                  |                       |                  |                  |                  |                             | 16               |
| <b>Other exceptional items</b>   | <b>5</b>         | <b>35</b>        |                  |                  |                  |                  |                       |                  | <b>3</b>         | <b>593</b>       | <b>8</b>                    | <b>628</b>       |
| <b>Total adjustments</b>   | <b>404</b>       | <b>304</b>       | <b>78</b>        | <b>74</b>        | <b>86</b>        | <b>115</b>       | <b>18</b>             | <b>29</b>        | <b>4</b>         | <b>593</b>       | <b>590</b>                  | <b>1 115</b>     |
| <b>Adjusted operating income</b>   | <b>2 147</b>     | <b>1 845</b>     | <b>258</b>       | <b>246</b>       | <b>379</b>       | <b>343</b>       | <b>310</b>            | <b>273</b>       | <b>169</b>       | <b>140</b>       | <b>2 925</b>                | <b>2 567</b>     |
| Income from associated companies   |                  |                  |                  |                  |                  |                  |                       |                  |                  |                  | 88                          | 116              |
| Recurring amortization related to income from associated companies, net of tax   |                  |                  |                  |                  |                  |                  |                       |                  |                  |                  | 160                         | 31               |
| Net financial income   |                  |                  |                  |                  |                  |                  |                       |                  |                  |                  | 3                           | 43               |
| Taxes (adjusted for above items)   |                  |                  |                  |                  |                  |                  |                       |                  |                  |                  | 498                         | 313              |
| <b>Adjusted net income from continuing</b>   |                  |                  |                  |                  |                  |                  |                       |                  |                  |                  | <b>2 672</b>                | <b>2 444</b>     |

|                                |              |              |
|--------------------------------|--------------|--------------|
| <b>operations</b>              |              |              |
| <b>Adjusted net income</b>     |              |              |
| <b>attributable to</b>         |              |              |
| <b>shareholders</b>            | <b>2 661</b> | <b>2 441</b> |
| <b>Adjusted basic earnings</b> |              |              |
| <b>per share from</b>          |              |              |
| <b>continuing operations</b>   | <b>1.17</b>  | <b>1.06</b>  |

## Supplementary tables: Nine months to September 30, 2008 Net sales of top 20 pharmaceutical products (unaudited)

| Brands                         | Therapeutic area                         | US           |                              | Rest of world |                              | Total         |                 |                              |
|--------------------------------|--|--------------|------------------------------|---------------|------------------------------|---------------|-----------------|------------------------------|
|                                |  | USD m        | % change in local currencies | USD m         | % change in local currencies | USD m         | % change in USD | % change in local currencies |
| <i>Diovan/Co Diovan</i>        | Hypertension                             | 1 795        | 10                           | 2 526         | 12                           | 4 321         | 18              | 11                           |
| <i>Gleevec/Glivec</i>          | Chronic myeloid leukemia                 | 654          | 27                           | 2 126         | 13                           | 2 780         | 26              | 16                           |
| <i>Zometa</i>                  | Cancer complications                     | 492          | 2                            | 545           | 3                            | 1 037         | 9               | 3                            |
| <i>Sandostatin</i>             | Acromegaly                               | 318          | 6                            | 534           | 7                            | 852           | 14              | 7                            |
| <i>Femara</i>                  | Breast cancer                            | 360          | 18                           | 490           | 18                           | 850           | 25              | 18                           |
| <i>Neoral/Sandimmun</i>        | Transplantation                          | 78           | 5                            | 660           | 4                            | 738           | 5               | 4                            |
| <i>Lucentis</i>                | Age-related macular degeneration         |              |                              | 658           | 169                          | 658           | 195             | 169                          |
| <i>Voltaren (Excl. OTC)</i>    | Inflammation/pain                        | 4            | 43                           | 620           | 4                            | 624           | 13              | 3                            |
| <i>Exelon/Exelon Patch</i>     | Alzheimer's disease                      | 201          | 28                           | 405           | 18                           | 606           | 31              | 21                           |
| <i>Lescol</i>                  | Cholesterol reduction                    | 116          | 27                           | 380           | 2                            | 496           | 1               | 10                           |
| <b>Top ten products total</b>  |  | <b>4 018</b> | <b>11</b>                    | <b>8 944</b>  | <b>14</b>                    | <b>12 962</b> | <b>21</b>       | <b>13</b>                    |
| <i>Exjade</i>                  | Iron chelator                            | 151          | 14                           | 235           | 72                           | 386           | 51              | 42                           |
| <i>Comtan/Stalevo</i>          | Parkinson's disease                      | 148          | 13                           | 228           | 18                           | 376           | 24              | 16                           |
| <i>Tegretol</i>                | Epilepsy                                 | 114          | 21                           | 240           | 5                            | 354           | 16              | 10                           |
| <i>Ritalin/Focalin</i>         | Attention deficit / hyperactive disorder | 249          | 15                           | 71            | 17                           | 320           | 18              | 15                           |
| <i>Foradil</i>                 | Asthma                                   | 11           | 35                           | 295           | 3                            | 306           | 15              | 1                            |
| <i>Lotrel</i>                  | Hypertension                             | 296          | 55                           |               |                              | 296           | 55              | 55                           |
| <i>Exforge</i>                 | Hypertension                             | 106          | 489                          | 182           | 378                          | 288           | 454             | 422                          |
| <i>Trileptal</i>               | Epilepsy                                 | 105          | 77                           | 154           | 2                            | 259           | 56              | 59                           |
| <i>Tobramycin</i>              | Cystic fibrosis                          | 139          | 9                            | 80            | 2                            | 219           | 9               | 5                            |
| <i>Myfortic</i>                | Transplantation                          | 70           | 46                           | 149           | 50                           | 219           | 60              | 48                           |
| <b>Top 20 products total</b>   |  | <b>5 407</b> | <b>2</b>                     | <b>10 578</b> | <b>16</b>                    | <b>15 985</b> | <b>16</b>       | <b>9</b>                     |
| Rest of portfolio              |  | 999          | 19                           | 2 917         | 10                           | 3 916         | 6               | 13                           |
| <b>Total Division sales(1)</b> |  | <b>6 406</b> | <b>5</b>                     | <b>13 495</b> | <b>9</b>                     | <b>19 901</b> | <b>11</b>       | <b>4</b>                     |

(1) Net sales for the nine months to September 30, 2008, include a one-time contribution of USD 104 million from a brand-specific provision reversal following a Novartis review of accounting for rebate programs to US government health agencies. Individual brand sales may include contributions from the reversal of these provisions.

## Supplementary tables: Third quarter 2008 Net sales of top 20 pharmaceutical products (unaudited)

| Brands                        | Therapeutic area                       | US           |                              | Rest of world |                              | Total        |                 |                              |
|-------------------------------|--|--------------|------------------------------|---------------|------------------------------|--------------|-----------------|------------------------------|
|                               |  | USD m        | % change in local currencies | USD m         | % change in local currencies | USD m        | % change in USD | % change in local currencies |
| <i>Diovan/Co Diovan</i>       | Hypertension                           | 612          | 9                            | 831           | 10                           | 1 443        | 14              | 9                            |
| <i>Gleevec/Glivec</i>         | Chronic myeloid leukemia               | 232          | 29                           | 718           | 10                           | 950          | 21              | 15                           |
| <i>Zometa</i>                 | Cancer complications                   | 179          | 10                           | 181           | 7                            | 360          | 13              | 9                            |
| <i>Sandostatin</i>            | Acromegaly                             | 113          | 11                           | 181           | 7                            | 294          | 14              | 9                            |
| <i>Femara</i>                 | Breast cancer                          | 125          | 19                           | 164           | 14                           | 289          | 20              | 16                           |
| <i>Neoral/Sandimmun</i>       | Transplantation                        | 23           | 12                           | 212           | 9                            | 235          | 3               | 9                            |
| <i>Lucentis</i>               | Age-related macular degeneration       |              |                              | 221           | 73                           | 221          | 81              | 73                           |
| <i>Voltaren (Excl. OTC)</i>   | Inflammation/pain                      | 1            | 80                           | 205           | 0                            | 206          | 5               | 2                            |
| <i>Exelon/Exelon Patch</i>    | Alzheimer s disease                    | 77           | 31                           | 138           | 21                           | 215          | 31              | 23                           |
| <i>Lescol</i>                 | Cholesterol reduction                  | 38           | 25                           | 121           | 2                            | 159          | 2               | 9                            |
| <b>Top ten products total</b> |  | <b>1 400</b> | <b>12</b>                    | <b>2 972</b>  | <b>11</b>                    | <b>4 372</b> | <b>16</b>       | <b>11</b>                    |
| <i>Exjade</i>                 | Iron chelator                          | 55           | 17                           | 93            | 67                           | 148          | 51              | 43                           |
| <i>Comtan/Stalevo</i>         | Parkinson s disease                    | 52           | 18                           | 79            | 23                           | 131          | 27              | 21                           |
| <i>Tegretol</i>               | Epilepsy                               | 31           | 0                            | 78            | 5                            | 109          | 9               | 4                            |
| <i>Ritalin/Focalin</i>        | Attention deficit/hyperactive disorder | 77           | 31                           | 23            | 22                           | 100          | 28              | 27                           |
| <i>Foradil</i>                | Asthma                                 | 3            | 57                           | 94            | 6                            | 97           | 11              | 1                            |
| <i>Lotrel</i>                 | Hypertension                           | 101          | 53                           |               |                              | 101          | 53              | 53                           |
| <i>Exforge</i>                | Hypertension                           | 44           | 529                          | 71            | 253                          | 115          | 360             | 347                          |
| <i>Trileptal</i>              | Epilepsy                               | 35           | 77                           | 51            | 2                            | 86           | 57              | 58                           |
| <i>Tobramycin</i>             | Cystic fibrosis                        | 48           | 12                           | 26            | 0                            | 74           | 10              | 9                            |
| <i>Myfortic</i>               | Transplantation                        | 25           | 32                           | 53            | 46                           | 78           | 50              | 40                           |
| <b>Top 20 products total</b>  |  | <b>1 871</b> | <b>8</b>                     | <b>3 540</b>  | <b>13</b>                    | <b>5 411</b> | <b>17</b>       | <b>11</b>                    |
| Rest of portfolio             |  | 332          | 15                           | 966           | 7                            | 1 298        | 3               | 2                            |
| <b>Total Division sales</b>   |  | <b>2 203</b> | <b>9</b>                     | <b>4 506</b>  | <b>8</b>                     | <b>6 709</b> | <b>14</b>       | <b>9</b>                     |

## Nine months to Sept 30 Pharmaceutical net sales by therapeutic area (unaudited)

|   | YTD 2008<br>USD m | YTD 2007<br>USD m | % change<br>USD |
|---|-------------------|-------------------|-----------------|
| <b>Cardiovascular &amp; Metabolism</b>                |                   |                   |                 |
| <i>Diovan</i>   | 4 321             | 3 657             | 18              |
| <i>Lotrel</i>   | 296               | 660               | 55              |
| <i>Exforge</i>  | 288               | 52                | 454             |
| <i>Tekturma/Rasilez</i>                               | 98                | 20                | 390             |
| Other   | 26                | 4                 | NM              |
| <b>Total strategic franchise products</b>             | <b>5 029</b>      | <b>4 393</b>      | <b>14</b>       |
| <b>Mature products (including Lescol)</b>             | <b>1 136</b>      | <b>1 118</b>      | <b>2</b>        |
| <b>Total Cardiovascular &amp; Metabolism products</b> | <b>6 165</b>      | <b>5 511</b>      | <b>12</b>       |
| <b>Oncology &amp; Hematology</b>                      |                   |                   |                 |
| <i>Gleevec/Glivec</i>                                 | 2 780             | 2 204             | 26              |
| <i>Zometa</i>   | 1 037             | 954               | 9               |
| <i>Sandostatin</i>                                    | 852               | 749               | 14              |
| <i>Femara</i>   | 850               | 679               | 25              |
| <i>Exjade</i>   | 386               | 255               | 51              |
| Other   | 275               | 206               | 33              |
| <b>Total Oncology &amp; Hematology products</b>       | <b>6 180</b>      | <b>5 047</b>      | <b>22</b>       |
| <b>Neuroscience &amp; Ophthalmics</b>                 |                   |                   |                 |
| <i>Lucentis</i>                                       | 658               | 223               | 195             |
| <i>Exelon/Exelon Patch</i>                            | 606               | 461               | 31              |
| <i>Comtan/Stalevo</i>                                 | 376               | 303               | 24              |
| <i>Tegretol</i>                                       | 354               | 304               | 16              |
| <i>Ritalin/Focalin</i>                                | 320               | 271               | 18              |
| <i>Trileptal</i>                                      | 259               | 594               | 56              |
| Other   | 613               | 780               | 21              |
| <b>Total strategic franchise products</b>             | <b>3 186</b>      | <b>2 936</b>      | <b>9</b>        |
| <b>Mature products</b>                                | <b>313</b>        | <b>318</b>        | <b>2</b>        |
| <b>Total Neuroscience &amp; Ophthalmics products</b>  | <b>3 499</b>      | <b>3 254</b>      | <b>8</b>        |
| <b>Respiratory</b>                                    |                   |                   |                 |
| <i>Foradil</i>  | 306               | 267               | 15              |
| <i>Tobramycin</i>                                     | 219               | 201               | 9               |
| <i>Xolair</i>   | 156               | 100               | 56              |
| Other   | 77                | 60                | 28              |
| <b>Total strategic franchise products</b>             | <b>758</b>        | <b>628</b>        | <b>21</b>       |
| <b>Mature products</b>                                | <b>66</b>         | <b>70</b>         | <b>-6</b>       |
| <b>Total Respiratory products</b>                     | <b>824</b>        | <b>698</b>        | <b>18</b>       |
| <b>Immunology &amp; Infectious Diseases (IID)</b>     |                   |                   |                 |
| <i>Neoral/Sandimmun</i>                               | 738               | 700               | 5               |
| <i>Myfortic</i>                                       | 219               | 137               | 60              |
| <i>Aclasta/Reclast</i>                                | 169               | 10                | NM              |
| <i>Elidel</i>   | 118               | 133               | 11              |
| Other   | 261               | 185               | 41              |
| <b>Total strategic franchise products</b>             | <b>1 505</b>      | <b>1 165</b>      | <b>29</b>       |
| <b>Mature products</b>                                | <b>737</b>        | <b>1 156</b>      | <b>36</b>       |
| <b>Total IID products</b>                             | <b>2 242</b>      | <b>2 321</b>      | <b>3</b>        |
| <b>Additional mature products</b>                     |                   |                   |                 |
| <i>Voltaren (Excluding OTC)</i>                       | 624               | 552               | 13              |

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|   |               |               |           |
|---|---------------|---------------|-----------|
| <i>Enablex/Emselex</i>                        | 149           | 128           | 16        |
| <i>Prexige</i>                                | 21            | 81            | 74        |
| <i>Zelnorm/Zelmac</i>                         | 8             | 83            | 90        |
| Other   | 189           | 198           | 5         |
| <b>Total additional mature products</b>       | <b>991</b>    | <b>1 042</b>  | <b>5</b>  |
| <b>Total strategic franchise products</b>     | <b>16 658</b> | <b>14 169</b> | <b>18</b> |
| <b>Total mature products</b>                  | <b>3 243</b>  | <b>3 704</b>  | <b>12</b> |
| <b>Total Division net sales<sup>(1)</sup></b> | <b>19 901</b> | <b>17 873</b> | <b>11</b> |

NM Not meaningful

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(1) Net sales for the nine months to September 30, 2008, include a one-time contribution of USD 104 million from a brand-specific provision reversal following a Novartis review of accounting for rebate programs to US government health agencies. Individual brand sales may include contributions from the reversal of these provisions.

## Third quarter Pharmaceutical net sales by therapeutic area (unaudited)

|   | Q3 2008<br>USD m | Q3 2007<br>USD m | % change<br>USD |
|---|------------------|------------------|-----------------|
| <b>Cardiovascular &amp; Metabolism</b>                |                  |                  |                 |
| <i>Diovan</i>   | 1 443            | 1 267            | 14              |
| <i>Lotrel</i>   | 101              | 66               | 53              |
| <i>Exforge</i>  | 115              | 25               | 360             |
| <i>Tekturma/Rasilez</i>                               | 40               | 9                | 344             |
| Other   | 12               | 2                | NM              |
| <b>Total strategic franchise products</b>             | <b>1 711</b>     | <b>1 369</b>     | <b>25</b>       |
| <b>Mature products (including Lescol)</b>             | <b>361</b>       | <b>369</b>       | <b>2</b>        |
| <b>Total Cardiovascular &amp; Metabolism products</b> | <b>2 072</b>     | <b>1 738</b>     | <b>19</b>       |
| <b>Oncology &amp; Hematology</b>                      |                  |                  |                 |
| <i>Gleevec/Glivec</i>                                 | 950              | 783              | 21              |
| <i>Zometa</i>   | 360              | 318              | 13              |
| <i>Sandostatin</i>                                    | 294              | 258              | 14              |
| <i>Femara</i>   | 289              | 240              | 20              |
| <i>Exjade</i>   | 148              | 98               | 51              |
| Other   | 96               | 68               | 41              |
| <b>Total Oncology &amp; Hematology products</b>       | <b>2 137</b>     | <b>1 765</b>     | <b>21</b>       |
| <b>Neuroscience &amp; Ophthalmics</b>                 |                  |                  |                 |
| <i>Lucentis</i>                                       | 221              | 122              | 81              |
| <i>Exelon/Exelon Patch</i>                            | 215              | 164              | 31              |
| <i>Comtan/Stalevo</i>                                 | 131              | 103              | 27              |
| <i>Tegretol</i>                                       | 109              | 100              | 9               |
| <i>Ritalin/Focalin</i>                                | 100              | 78               | 28              |
| <i>Trileptal</i>                                      | 86               | 198              | 57              |
| Other   | 188              | 247              | 24              |
| <b>Total strategic franchise products</b>             | <b>1 050</b>     | <b>1 012</b>     | <b>4</b>        |
| <b>Mature products</b>                                | <b>102</b>       | <b>106</b>       | <b>4</b>        |
| <b>Total Neuroscience &amp; Ophthalmics products</b>  | <b>1 152</b>     | <b>1 118</b>     | <b>3</b>        |
| <b>Respiratory</b>                                    |                  |                  |                 |
| <i>Foradil</i>  | 97               | 87               | 11              |
| <i>Tobramycin</i>                                     | 74               | 67               | 10              |
| <i>Xolair</i>   | 61               | 36               | 69              |
| Other   | 25               | 20               | 25              |
| <b>Total strategic franchise products</b>             | <b>257</b>       | <b>210</b>       | <b>22</b>       |
| <b>Mature products</b>                                | <b>17</b>        | <b>18</b>        | <b>6</b>        |
| <b>Total Respiratory products</b>                     | <b>274</b>       | <b>228</b>       | <b>20</b>       |
| <b>Immunology &amp; Infectious Diseases (IID)</b>     |                  |                  |                 |
| <i>Neoral/Sandimmun</i>                               | 235              | 243              | 3               |
| <i>Myfortic</i>                                       | 78               | 52               | 50              |
| <i>Aclasta/Reclast</i>                                | 66               | 5                | NM              |
| <i>Elidel</i>   | 35               | 39               | 10              |
| Other   | 93               | 68               | 37              |
| <b>Total strategic franchise products</b>             | <b>507</b>       | <b>407</b>       | <b>25</b>       |
| <b>Mature products</b>                                | <b>245</b>       | <b>301</b>       | <b>19</b>       |
| <b>Total IID products</b>                             | <b>752</b>       | <b>708</b>       | <b>6</b>        |
| <b>Additional mature products</b>                     |                  |                  |                 |
| <i>Voltaren (Excluding OTC)</i>                       | 206              | 196              | 5               |

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|   |              |              |           |
|---|--------------|--------------|-----------|
| <i>Enablex/Emselex</i>                    | 54           | 47           | 15        |
| <i>Prexige</i>                            | 2            | 29           | NM        |
| <i>Zelnorm/Zelmac</i>                     | 3            | 8            | NM        |
| Other                                     | 61           | 64           | 5         |
| <b>Total additional mature products</b>   | <b>322</b>   | <b>328</b>   | <b>2</b>  |
| <b>Total strategic franchise products</b> | <b>5 662</b> | <b>4 763</b> | <b>19</b> |
| <b>Total mature products</b>              | <b>1 047</b> | <b>1 122</b> | <b>7</b>  |
| <b>Total Division net sales</b>           | <b>6 709</b> | <b>5 885</b> | <b>14</b> |

NM Not meaningful

## Net sales by region (unaudited)

## Nine months to September 30

|  | YTD 2008<br>USD m | YTD 2007<br>USD m | % change<br>USD | local<br>currencies | YTD 2008<br>% of total | YTD 2007<br>% of total |
|--|-------------------|-------------------|-----------------|---------------------|------------------------|------------------------|
| <b>Pharmaceuticals</b>                       |                   |                   |                 |                     |                        |                        |
| US   | 6 406             | 6 761             | 5               | 5                   | 32                     | 38                     |
| Rest of world                                | 13 495            | 11 112            | 21              | 9                   | 68                     | 62                     |
| <b>Total</b>                                 | <b>19 901</b>     | <b>17 873</b>     | <b>11</b>       | <b>4</b>            | <b>100</b>             | <b>100</b>             |
| <b>Vaccines and Diagnostics</b>              |                   |                   |                 |                     |                        |                        |
| US   | 584               | 448               | 30              | 33                  | 46                     | 43                     |
| Rest of world                                | 684               | 606               | 13              | 2                   | 54                     | 57                     |
| <b>Total</b>                                 | <b>1 268</b>      | <b>1 054</b>      | <b>20</b>       | <b>15</b>           | <b>100</b>             | <b>100</b>             |
| <b>Sandoz</b>                                |                   |                   |                 |                     |                        |                        |
| US   | 1 327             | 1 457             | 9               | 10                  | 23                     | 28                     |
| Rest of world                                | 4 426             | 3 741             | 18              | 6                   | 77                     | 72                     |
| <b>Total</b>                                 | <b>5 753</b>      | <b>5 198</b>      | <b>11</b>       | <b>1</b>            | <b>100</b>             | <b>100</b>             |
| <b>Consumer Health continuing operations</b> |                   |                   |                 |                     |                        |                        |
| US   | 1 280             | 1 335             | 4               | 4                   | 29                     | 33                     |
| Rest of world                                | 3 180             | 2 681             | 19              | 8                   | 71                     | 67                     |
| <b>Total</b>                                 | <b>4 460</b>      | <b>4 016</b>      | <b>11</b>       | <b>4</b>            | <b>100</b>             | <b>100</b>             |
| <b>Group continuing operations</b>           |                   |                   |                 |                     |                        |                        |
| US   | 9 597             | 10 001            | 4               | 4                   | 31                     | 36                     |
| Rest of world                                | 21 785            | 18 140            | 20              | 8                   | 69                     | 64                     |
| <b>Total</b>                                 | <b>31 382</b>     | <b>28 141</b>     | <b>12</b>       | <b>4</b>            | <b>100</b>             | <b>100</b>             |

## Net sales by region (unaudited)

## Third quarter

|  | Q3 2008<br>USD m | Q3<br>2007<br>USD m | % change<br>USD | local<br>currencies | Q3 2008<br>% of total | Q3<br>2007<br>% of total |
|--|------------------|---------------------|-----------------|---------------------|-----------------------|--------------------------|
| <b>Pharmaceuticals</b>                       |                  |                     |                 |                     |                       |                          |
| US   | 2 203            | 2 017               | 9               | 9                   | 33                    | 34                       |
| Rest of world                                | 4 506            | 3 868               | 16              | 8                   | 67                    | 66                       |
| <b>Total</b>                                 | <b>6 709</b>     | <b>5 885</b>        | <b>14</b>       | <b>9</b>            | <b>100</b>            | <b>100</b>               |
| <b>Vaccines and Diagnostics</b>              |                  |                     |                 |                     |                       |                          |
| US   | 360              | 302                 | 19              | 22                  | 54                    | 53                       |
| Rest of world                                | 306              | 270                 | 13              | 6                   | 46                    | 47                       |
| <b>Total</b>                                 | <b>666</b>       | <b>572</b>          | <b>16</b>       | <b>14</b>           | <b>100</b>            | <b>100</b>               |
| <b>Sandoz</b>                                |                  |                     |                 |                     |                       |                          |
| US   | 428              | 504                 | 15              | 15                  | 23                    | 28                       |
| Rest of world                                | 1 471            | 1 279               | 15              | 6                   | 77                    | 72                       |
| <b>Total</b>                                 | <b>1 899</b>     | <b>1 783</b>        | <b>7</b>        | <b>0</b>            | <b>100</b>            | <b>100</b>               |
| <b>Consumer Health continuing operations</b> |                  |                     |                 |                     |                       |                          |
| US   | 433              | 461                 | 6               | 6                   | 29                    | 34                       |
| Rest of world                                | 1 040            | 912                 | 14              | 8                   | 71                    | 66                       |
| <b>Total</b>                                 | <b>1 473</b>     | <b>1 373</b>        | <b>7</b>        | <b>3</b>            | <b>100</b>            | <b>100</b>               |
| <b>Group continuing operations</b>           |                  |                     |                 |                     |                       |                          |
| US   | 3 424            | 3 284               | 4               | 4                   | 32                    | 34                       |
| Rest of world                                | 7 323            | 6 329               | 16              | 8                   | 68                    | 66                       |
| <b>Total</b>                                 | <b>10 747</b>    | <b>9 613</b>        | <b>12</b>       | <b>7</b>            | <b>100</b>            | <b>100</b>               |

## Quarterly analysis for continuing operations (unaudited)

## Key figures by quarter

|                  | Q3 2008 | Q2 2008 | Change |    |
|------------------|---------|---------|--------|----|
|                  | USD m   | USD m   | USD m  | %  |
| Net sales        | 10 747  | 10 726  | 21     | 0  |
| Operating income | 2 335   | 2 461   | 126    | 5  |
| Financial income | 93      | 85      | 8      | 9  |
| Interest expense | 96      | 61      | 35     | 57 |
| Taxes            | 338     | 338     | 0      | 0  |
| Net income       | 2 082   | 2 266   | 184    | 8  |

## Net sales by region

|               | Q3 2008 | Q2 2008 | Change |   |
|---------------|---------|---------|--------|---|
|               | USD m   | USD m   | USD m  | % |
| US            | 3 424   | 3 221   | 203    | 6 |
| Europe        | 4 632   | 4 747   | 115    | 2 |
| Rest of world | 2 691   | 2 758   | 67     | 2 |
| Total         | 10 747  | 10 726  | 21     | 0 |

## Net sales by Division

|                                       | Q3 2008 | Q2 2008 | Change |     |
|---------------------------------------|---------|---------|--------|-----|
|                                       | USD m   | USD m   | USD m  | %   |
| Pharmaceuticals                       | 6 709   | 6 928   | 219    | 3   |
| Vaccines and Diagnostics              | 666     | 322     | 344    | 107 |
| Sandoz                                | 1 899   | 1 948   | 49     | 3   |
| Consumer Health continuing operations | 1 473   | 1 528   | 55     | 4   |
| Total                                 | 10 747  | 10 726  | 21     | 0   |

## Operating income by Division

|   | Q3 2008 | Q2 2008 | Change |    |
|---|---------|---------|--------|----|
|   | USD m   | USD m   | USD m  | %  |
| Pharmaceuticals                             | 1 743   | 2 178   | 435    | 20 |
| Vaccines and Diagnostics                    | 180     | 75      | 255    |    |
| Sandoz                                      | 293     | 246     | 47     | 19 |
| Consumer Health continuing operations       | 292     | 304     | 12     | 4  |
| Corporate income & expense, net             | 173     | 192     | 19     | 10 |
| Operating income from continuing operations | 2 335   | 2 461   | 126    | 5  |
| Discontinued Consumer Health operations     | 28      | 6       | 22     |    |

|              |              |       |     |   |
|--------------|--------------|-------|-----|---|
| <b>Total</b> | <b>2 363</b> | 2 467 | 104 | 4 |
|--------------|--------------|-------|-----|---|

43

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**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: October 20, 2008

By: /s/ MALCOLM B. CHEETHAM

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