NOVARTIS AG
Form 6-K
January 29, 2009

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 January 28, 2009

(Commission File No. 1-15024)

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on September 5, 2006 (File No. 333-137112) and on October 1, 2004 (File No. 333-119475), in each case to the extent not superseded by documents or reports subsequently filed by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, in each case as amended

---

Novartis AG

(Name of Registrant)

Lichtstrasse 35

4056 Basel

Switzerland

(Address of Principal Executive Offices)

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: x Form 40-F: o

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: o **No**: x

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: o **No**: x

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: o **No**: x

Enclosure: **Novartis AG Announces Results for 2008**

Novartis International AG

Novartis Global Communications

CH-4002 Basel

Switzerland

http://www.novartis.com

FINANCIAL REPORT RAPPORT FINANCIER FINANZBERICHT

Novartis increases dividend by 25% based on strong 2008 results from strategic healthcare portfolio

- *Sustained momentum during 2008 from continuing operations*

- *Net sales rise 9% (+5% in local currencies) to USD 41.5 billion on accelerating growth in Pharmaceuticals along with important contributions from Vaccines and Diagnostics and Consumer Health*

- *Operating income advances 32% to USD 9.0 billion*

- *Net income up 25% to USD 8.2 billion, impacted by a higher 2008 tax rate and start of financing costs for 25% Alcon stake*

- *Basic EPS rises 28% to USD 3.59 from USD 2.81 in 2007*

- *Sustained R&D productivity with 14 major regulatory submissions in 2008, led by Afinitor (US/EU), QAB149 (US/EU), ACZ885 (US/EU) and Menveo (US/EU)*

- *Dividend of CHF 2.00 per share proposed for 2008, a 25% increase from 2007 and representing a payout of 53% of net income from continuing operations*

- *Record results expected again in 2009 in an increasingly challenging environment*

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

Key figures Continuing operations

Full year

	2008		2007		% change	
	USD m	**% of net sales**	**USD m**	**% of net sales**	**USD**	**lc**
Net sales	**41 459**		38 072		9	5
Operating income(1)	**8 964**	21.6	6 781	17.8	32	
Net income(1)	**8 163**	19.7	6 540	17.2	25	
Basic earnings per share	**USD 3.59**		USD 2.81		28	

Fourth quarter

	Q4 2008		Q4 2007		% change	
	USD m	**% of net sales**	**USD m**	**% of net sales**	**USD**	**lc**
Net sales	**10 077**		9 931		1	8
Operating income(1)	**1 680**	16.7	897	9.0	87	
Net income(1)	**1 507**	15.0	931	9.4	62	
Basic earnings per share	**USD 0.66**		USD 0.41		61	

Basel, January 28, 2009 Commenting on the results, Dr. Daniel Vasella, Chairman and CEO of Novartis, said: *Thanks to successful innovation and a leading market position of our healthcare business portfolio, Novartis achieved a strong performance in 2008. Pharmaceuticals returned to dynamic growth and gained market share in the second half of the year, while Vaccines and Diagnostics continued its double-digit growth. Recently launched pharmaceutical products contributed USD 2.9 billion in sales in 2008 further rejuvenating our portfolio, and we submitted 14 major new products filings that underpin our innovation power. Organic growth was complemented by several acquisitions and strategic investments, the most important being the acquisition of a 25% share of Alcon. Novartis anticipates another year of record results in 2009, continuing on its path of sustainable growth.*

OVERVIEW

Full year

Pharmaceuticals led the strong performance supported by contributions from Vaccines and Diagnostics and Consumer Health. Net sales rose 9% (+5% in local currencies, or lc) to USD 41.5 billion. Higher sales volumes provided six percentage points of growth, while positive currency translation added four percentage points. Price changes had a negative effect of one point, while acquisitions had no impact. The US remained the Group s largest country market with 31% of net sales in 2008 (34% in 2007). The European region increased its contribution to 44% of net sales (42% in 2007), while the rest of the world provided 25% (24% in 2007) of net sales.

Operating income advanced 32% to USD 9.0 billion due to the solid business expansion as well as productivity gains from Forward, the Group s efficiency initiative that is freeing up resources for investments in innovation and expansion in high-growth markets. The 2007 results included exceptional charges of approximately USD 1.0 billion (USD 590 million for a Corporate environmental provision increase and USD 444 million of Forward restructuring charges). Excluding these two charges, operating income rose 15% in 2008.

Net income grew 25% to USD 8.2 billion in 2008, rising at a slower pace than operating income due to an unusually low tax rate in 2007 that included various one-time factors. Also affecting net income were the start of financing costs in July 2008 for the acquisition of a 25% stake in Alcon Inc. The agreement with Nestlé S.A. provides future rights to majority control of Alcon, the world leader in eye care. Excluding the exceptional charges for the environmental provision and Forward, net income rose 11%. Basic earnings per share grew 28% to USD 3.59 from USD 2.81 in 2007 on fewer outstanding shares.

Fourth quarter

Dynamic results from Pharmaceuticals and Vaccines and Diagnostics secured the Group s excellent performance, with net sales growth of 1% (+8% lc) reflecting the severe negative impact of volatile currency markets. Higher sales volumes provided nine percentage points of growth, but negative currency translation reduced sales by seven percentage points. Price changes across the Group had a negative impact of one percentage point.

Operating income surged 87% to USD 1.7 billion on the business expansion and amid increasingly challenging economic conditions, aided by productivity gains across the Group. Excluding the USD 444 million Forward restructuring charge in the 2007 quarter, operating income rose 25% in the 2008 quarter, a pace well above net sales growth.

Net income was up 62% to USD 1.5 billion, as non-operating income contributions were reduced mainly by financing costs for the 25% Alcon acquisition. Excluding the year-ago Forward restructuring charge, net income rose 20% in the fourth quarter of 2008. Basic earnings per share (EPS) rose 61% to USD 0.66 from USD 0.41 in the year-ago period.

Investing to achieve sustainable growth

Novartis has made significant progress in recent years to focus and strengthen the Group s healthcare businesses, stepping up investments in innovation, expanding in high-growth markets and improving operational efficiency.

These remain top priorities for the strengthened leadership team of Novartis in 2009 with targets set to deliver superior growth, achieve more productivity gains, further improve cash flow management and bolster the product portfolio.

Novartis completed a series of targeted acquisitions and strategic investments in 2008, led by the purchase in July of a 25% stake in **Alcon Inc.** (NYSE: ACL), the world leader in eye care, from Nestlé S.A. The USD 10.4 billion cash purchase is part of an agreement providing future rights to take majority ownership. In the optional second step, Novartis can acquire, and Nestlé can sell, the remaining 52% Alcon stake held by Nestlé between January 1, 2010, and July 31, 2011, for up to USD 28 billion. Also in 2008, Novartis acquired **Speedel Holding AG** of Switzerland, gaining full control over future development of the novel antihypertensive *Tekturna/Rasilez*. In addition, the acquisition of **Protez** provided access to the development project PTZ601 for severe bacterial infections. Novartis also advanced its respiratory drug delivery capabilities through the acquisition of **Nektar Therapeutics** pulmonary business, which was completed at the end of the year.

Sustained investments in innovation are providing better preventive and therapeutic options, with the Group s medicines touching the lives of an estimated 850 million people in 2008. Novartis completed 14 major submissions in the US, Europe and Japan during 2008. ***Afinitor***, a potential breakthrough for advanced kidney cancer, was among three Novartis submissions that the US Food and Drug Administration (FDA) accepted in 2008 for priority review. The vaccine ***Menveo*** for protection against four meningococcal meningitis serogroups was submitted in 2008 for US and EU approval and initial use from ages 11-55, with late-stage trials in infants continuing to support future submissions. Other submissions included **QAB149** (US/EU), a once-daily bronchodilator for chronic obstructive pulmonary disease (COPD) and planned to become a cornerstone for future combination therapies; the antibody **ACZ885** (US/EU) for initial use in targeted autoimmune diseases such as Muckle-Wells Syndrome; and a single-pill combination of the high blood pressure medicines ***Diovan*** and ***Tekturna/Rasilez*** (US).

Novartis is expanding in high-growth markets with a longer-term perspective, particularly among the leading emerging markets of Brazil, China, India, Mexico, Russia, South Korea and Turkey. The Group s net sales from these seven markets rose 18% lc to USD 4.3 billion in 2008. Emerging markets across the world generated net sales growth of 13% lc to USD 10.0 billion, rising faster than established markets to represent 24% of net sales in 2008 compared to 22% in 2007.

Operational efficiency initiatives have made rapid progress to improve speed, flexibility and productivity while freeing up resources. **Forward,** a Group-wide project launched in December 2007, provided annual cost savings of approximately USD 1.1 billion in 2008, exceeding the target of USD 670 million, that included procurement savings ahead of plan. Further significant cost savings are expected in 2009, and the 2010 cost-savings target of USD 1.6 billion (compared to 2007) will likely be exceeded.

Ahead of the anticipated loss of patent protection for *Diovan* starting in 2011 in Europe, and in 2012 in the US, Novartis is investing in three focused areas to help drive growth through this period for the Group as well as the Pharmaceuticals Division. Goals of these investments: (1) Accelerate the Oncology pipeline, including faster expansion into new indications; (2) accelerate growth in targeted emerging markets by building up commercial organizations; and (3) accelerate and broaden indications for 13 major pipeline projects in General Medicines.

These targeted actions build on expectations for ongoing dynamic growth from recently launched products, which contributed USD 2.9 billion of net sales in 2008, as well as current expectations for the approvals and fast uptake for a number of projects now in late-stage development.

25% increase in dividend proposal for 2008

The Board of Directors proposes a dividend payment of CHF 2.00 per share for 2008, a 25% increase from the dividend of CHF 1.60 per share in 2007. Shareholders will vote on this proposal at the next Annual General Meeting on February 24, 2009. This marks the 12th consecutive increase in the dividend paid per share since the creation of Novartis in December 1996. If approved by shareholders, dividends paid out on the outstanding shares will amount to approximately USD 4.3 billion compared to USD 3.3 billion in 2007. The payout ratio for 2008 is estimated at 53% of the Group s net income from continuing operations. Based on the year-end 2008 share price of CHF 52.70, the dividend yield rises to 3.8% from 2.6% in 2007. The payment date for the 2008 dividend is set for February 27, 2009. All issued shares are dividend bearing, with the exception of 190.5 million treasury shares.

Group outlook

(Barring any unforeseen events)

Novartis expects another year of record net sales and earnings in 2009, targeting superior growth in a challenging environment. The Group s net sales are expected to grow at a mid-single-digit rate in 2009, while Pharmaceuticals net sales are expected to grow at a mid- to high-single-digit rate, both in local currencies.

BUSINESS REVIEW

Full year

Net sales

	2008 USD m	2007 USD m	% change USD	lc
Pharmaceuticals	**26 331**	24 025	10	5
Vaccines and Diagnostics	**1 759**	1 452	21	20
Sandoz	**7 557**	7 169	5	1
Consumer Health continuing operations	**5 812**	5 426	7	4
Net sales from continuing operations	**41 459**	38 072	9	5

Pharmaceuticals: +10% (+5% lc) to USD 26.3 billion

Accelerating momentum in Pharmaceuticals in 2008 was driven by ongoing dynamic growth in Oncology, sustained expansion of the cardiovascular portfolio and USD 2.9 billion of contributions in 2008 from recently launched products including *Aclasta/Reclast, Tekturna/Rasilez, Exforge, Exjade, Lucentis, Exelon* Patch*, Tasigna* and *Xolair.*

Outside North America, all regions achieved solid performances: Europe (USD 10.1 billion, +10% lc), Latin America (USD 1.7 billion, +8% lc), Japan (USD 2.6 billion, +4% lc) and rest of the world with USD 2.6 billion (+15% lc). The priority emerging markets of China, Russia, South Korea and Turkey together delivered more than 20% lc net sales growth. In the US, net sales fell 2% to USD 8.6 billion, returning to growth in the second half of 2008 and nearly offsetting the 2007 impact of generic competition and the *Zelnorm* suspension.

Oncology (USD 8.2 billion, +14% lc) growth was led by *Gleevec/Glivec* (USD 3.7 billion, +15% lc). Other products achieving annual net sales of more than USD 1 billion were *Zometa* (USD 1.4 billion) as well as *Femara* and *Sandostatin* (each USD 1.1 billion). Cardiovascular strategic products (USD 6.7 billion, +10% lc) advanced on gains from the new medicines *Exforge* (USD 406 million) and *Tekturna/Rasilez* (USD 144 million), which together provided over half of the franchise s incremental growth, while the Group s flagship product *Diovan* (USD 5.7 billion, +10% lc) expanded at a steady pace.

Top performers among recently launched medicines included the once-yearly osteoporosis therapy *Aclasta/Reclast* (USD 254 million), the age-related macular degeneration drug *Lucentis* (USD 886 million) and the addition of *Exelon* Patch, a skin patch formulation for Alzheimer s disease that has reinvigorated the *Exelon* franchise (USD 815 million).

Vaccines and Diagnostics: +21% (+20% lc) to USD 1.8 billion

Deliveries of H5N1 pandemic influenza vaccines to the US government and steady growth in diagnostics led the expansion. Additional growth came from components sold for use in pediatric vaccines, all of which more than offset lower US seasonal influenza vaccine sales.

Sandoz: +5% (+1% lc) to USD 7.6 billion

Modest growth was achieved as improving performances in many markets were largely offset by a 10% decline in the US on a lack of new product launches in 2008. Central and Eastern Europe advanced 13% lc, with Russia at the forefront. Germany rose 2% lc, leading to 2.5 percentage points of market share gains to 26.4% in fast-changing industry conditions. Canada, Turkey and Brazil were among other top-performing markets.

Consumer Health continuing operations: +7% (+4% lc) to USD 5.8 billion

All businesses delivered higher sales in deteriorating market conditions, particularly CIBA

Vision thanks to new product launches. OTC grew dynamically in emerging markets, while US sales declined due to changes in consumer spending that have affected this industry. Animal Health growth came from expansion of the companion animals business.

Operating income

	2008		2007		Change
	USD m	% of net sales	USD m	% of net sales	%
Pharmaceuticals	**7 579**	28.8	6 086	25.3	25
Vaccines and Diagnostics	**78**	4.4	72	5.0	8
Sandoz	**1 084**	14.3	1 039	14.5	4
Consumer Health continuing operations	**1 048**	18.0	812	15.0	29
Corporate Income & Expense, net	825		1 228		
Operating income from continuing operations(1)	**8 964**	21.6	6 781	17.8	32

(1) Operating income in 2007 includes USD 1 034 million of exceptional charges (USD 590 million for a Corporate environmental provision increase and USD 444 million for Forward restructuring charges, of which Pharmaceuticals: USD 307 million, Consumer Health: USD 97 million and Corporate: USD 40 million).

Pharmaceuticals: +25% to USD 7.6 billion

Advancing more than twice as fast as net sales, operating income benefited from the accelerating pace of growth in the second half of 2008 and increased productivity as well as from lower exceptional charges. As a result, the operating margin in 2008 rose 3.5 percentage points to 28.8% of net sales from 25.3% in 2007. Marketing & Sales costs fell 1.2 percentage points to 30.8% of net sales as productivity initiatives involving new commercial models, particularly in the US and Europe, provided resources to support ongoing new product launches including *Aclasta/Reclast, Tekturna/Rasilez, Exforge, Lucentis* and *Exelon* Patch. R&D investments rose 0.5 percentage points to 21.7% of net sales and included investments in late-stage projects such as QAB149, FTY720, ACZ885 and in Oncology. R&D expenses in 2008 also included a one-time charge of USD 223 million for full impairment of the terminated development project *Aurograb*. Cost of Goods Sold fell 1.6 percentage points to 17.0% of net sales, primarily reflecting the 2007 impairment charge of USD 320 million for *Famvir*. Excluding the exceptional Forward restructuring charge of USD 307 million in 2007, operating income rose 19% and the operating margin rose 2.2 percentage points to 28.8%.

Vaccines and Diagnostics: +8% to USD 78 million

Higher vaccine volumes and a better product mix helped support major R&D investments in the Phase III meningitis vaccine candidates *Menveo* and MenB as well as initiatives to improve vaccines manufacturing quality and capacity.

Sandoz: +4% to USD 1.1 billion

Reduced income from the US overshadowed efficiency improvements and solid growth in emerging markets, as the operating margin fell 0.2 percentage points to 14.3% of net sales. Sandoz made major investments in emerging markets and in several R&D projects involving difficult-to-make generics such as biosimilars that provide competitive advantages. Cost of Goods Sold benefited from a more favorable product mix.

Consumer Health continuing operations: +29% to USD 1.0 billion

Robust growth in operating income outpaced net sales thanks to the business expansion, particularly in CIBA Vision, and Forward-related productivity gains. Excluding the exceptional Forward restructuring charge of USD 97 million in 2007, operating income rose 15% and the operating margin rose 1.2 percentage points to 18.0% of net sales.

Corporate Income & Expense, net

Net expenses in 2007 included charges of USD 630 million for the environmental provision increase and Corporate-related Forward restructuring charges. Excluding these two factors, the higher net expenses in 2008 came mainly from global IT infrastructure investments, negative currency effects and an increase in provisions for product liabilities.

Fourth quarter

Net sales

	Q4 2008 USD m	Q4 2007 USD m	% change USD	% change lc
Pharmaceuticals	**6 430**	6 152	5	10
Vaccines and Diagnostics	**491**	398	23	33
Sandoz	**1 804**	1 971	8	0
Consumer Health continuing operations	**1 352**	1 410	4	4
Net sales from continuing operations	**10 077**	9 931	1	8

Pharmaceuticals: +5% (+10% lc) to USD 6.4 billion

In a dynamic performance, Pharmaceuticals achieved its highest 2008 quarterly net sales growth rate in local currencies, reflecting the return to growth in the US in the second half of the year after 2007 challenges that lingered into the first half of 2008. Growth drivers in the 2008 quarter included the US (+11% lc), Europe (+12% lc) and expansion in priority emerging markets (+23% lc) as well as USD 852 million in contributions from recently launched products.

Cardiovascular strategic products (USD 1.7 billion, +14% lc) gained market share, with the new high blood pressure medicines *Exforge* (USD 118 million) and *Tekturna/Rasilez* (USD 46 million) delivering rapid growth, and *Diovan* (USD 1.4 billion, +7% lc) remained the world s top-selling antihypertensive medicine.

Oncology (USD 2.0 billion, +13% lc) represented 32% of Pharmaceuticals sales with broad double-digit gains for many products, including *Gleevec/Glivec* (USD 890 million, +12% lc), *Femara* (USD 279 million, +15% lc) and *Exjade* (USD 145 million, +51% lc), while *Zometa* (USD 345 million, +4% lc) continued its turnaround to growth.

Neuroscience and Ophthalmics (USD 1.0 billion, +14% lc) benefited from dynamic growth in *Lucentis* (USD 228 million, +60% lc) and the *Exelon* franchise (USD 209 million, +33% lc) following the launch of the new *Exelon* Patch skin patch formulation in 2007.

Vaccines and Diagnostics: +23% (+33% lc) to USD 491 million

Combination pediatric vaccine component sales more than doubled in the fourth quarter of 2008, in part due to a one-time revenue recognition of USD 50 million following a change of contract terms with a customer. Rabies vaccines provided further growth, while seasonal flu vaccine

sales were largely unchanged from the 2007 period.

Sandoz: 8% (+0% lc) to USD 1.8 billion

Many regions showed solid growth, led by a 25% lc increase in Russia and further gains in Central and Eastern Europe, with Canada, Australia and Germany also delivering better performances. However, sales in the US fell 12% amid continued launch delays in 2008. The US was also affected by lost sales and costs for voluntary product recalls as part of an FDA review of a US manufacturing site.

Consumer Health continuing operations: 4% (+4% lc) to USD 1.4 billion

Overall performance in local currencies was positive despite deteriorating market conditions, with CIBA Vision achieving strong momentum from new product launches. OTC sales rose in local currencies on higher demand for cough and cold products.

Operating income

	Q4 2008		Q4 2007		Change
	USD m	% of net sales	USD m	% of net sales	%
Pharmaceuticals	**1 562**	24.3	925	15.0	69
Vaccines and Diagnostics	**26**	5.3	107		
Sandoz	**200**	11.1	250	12.7	20
Consumer Health continuing operations	**190**	14.1	85	6.0	124
Corporate Income & Expense, net	298		256		
Operating income from continuing operations(1)	**1 680**	16.7	897	9.0	87

(1) Operating income in 2007 includes a USD 444 million exceptional restructuring charge for Forward (Pharmaceuticals: USD 307 million, Consumer Health: USD 97 million and Corporate: USD 40 million)

Pharmaceuticals: +69% to USD 1.6 billion

Among factors contributing to the sharp rise in operating income were the markedly improved business performance and benefits from increased productivity as well as significantly lower exceptional charges. The operating margin rose 9.3 percentage points to 24.3% of net sales. Cost of Goods Sold improved 2.1 percentage points, while other revenues rose on increased product royalties. Marketing & Sales costs fell 0.5 percentage points to 33.3% of net sales despite major investments in Europe, Japan, emerging markets and Oncology. Research & Development investments rose at a slower pace than net sales in the quarter, falling 0.4 percentage points to 23.0% of net sales compared to the 2007 period, which included partial impairments of various In-Process R&D assets. Other Income & Expenses, net, fell to 2.1% of net sales from 8.0% in the 2007 quarter, which included a Forward restructuring charge of USD 307 million.

Vaccines and Diagnostics: USD 26 million

The swing to profitability in 2008 from a loss in the 2007 quarter was bolstered by pediatric combination vaccine sales that included one-time revenue recognition of USD 50 million due to a change in contract terms with a customer. Adjusted operating income (excluding exceptional items and the amortization of intangible assets) rose to USD 55 million from a loss of USD 14 million in the 2007 quarter.

Sandoz: 20% to USD 200 million

Productivity gains and sustained growth in many regions were more than offset by lower contributions from the US, which included one-time charges of USD 34 million for product recalls and related costs as part of an FDA review of a US production site. As a result, the operating margin fell to 11.1% of net sales. However, adjusted operating income excluding exceptional items and the amortization of intangible assets in both periods fell only 9%.

Consumer Health continuing operations: +124% to USD 190 million

Excluding USD 97 million of Forward restructuring charges in 2007, operating income rose 4% mainly on strong underlying growth in CIBA Vision and productivity gains across the businesses, but was impacted by negative currency movements. The operating margin rose 1.2 percentage points to 14.1% of net sales when excluding the 2007 Forward charge.

Corporate Income & Expense, net

Net corporate expenses were higher on factors including the negative impact of exchange rate movements and an increase in product liability provisions. The 2007 quarter also included USD 40 million of Forward restructuring charges.

FINANCIAL REVIEW

Full year and fourth quarter

	2008 USD m	2007 USD m	Change %	Q4 2008 USD m	Q4 2007 USD m	Change %
Operating income from continuing operations(1)	**8 964**	**6 781**	**32**	**1 680**	**897**	**87**
Income from associated companies	441	412	7	97	104	7
Financial income	384	531	28	58	245	76
Interest expense	290	237	22	76	61	25
Taxes	1 336	947	41	252	254	1
Net income from continuing operations(1)	**8 163**	**6 540**	**25**	**1 507**	**931**	**62**
Net income from discontinued operations	70	5 428		42	18	
Total net income(1)	**8 233**	**11 968**	**31**	**1 549**	**913**	**70**

(1) Operating and net income in 2007 include exceptional charges of USD 1 034 million (USD 788 million after tax) for Corporate environmental provision increase (Q3: USD 590 million) and Forward restructuring charges (Q4: USD 444 million). Q4 2007 results only include Forward restructuring charges (USD 325 million after tax).

Income from associated companies

Higher contributions from Roche led to the slight increase in income to USD 441 million in 2008 compared to USD 412 million in 2007. The 25% Alcon stake resulted in a net loss for 2008 of USD 11 million, as the anticipated net income contribution of USD 255 million since the acquisition in July was more than offset by a charge of USD 266 million for the amortization of intangible and other assets. In the fourth quarter, income from associated companies fell to USD 97 million on a slightly negative contribution from Alcon.

Financial income, net

Financing costs to purchase the 25% Alcon stake in July 2008 led to sharply lower average net liquidity, resulting in a decline in net financial income to USD 94 million in 2008 from USD 294 million in 2007. In the fourth quarter, also due to Alcon financing, interest expenses exceeded financial income by USD 18 million, with the 2007 quarter providing net financial income of USD 184 million.

Taxes

The tax rate for continuing operations (taxes as a percentage of pre-tax income) rose to 14.1% in 2008 from the unusually low level of 12.6% in 2007. In the fourth quarter, the tax rate for continuing operations fell to 14.3%, largely in line with the full-year tax rate, from an unusually high 21.4% in the 2007 quarter.

Net income from continuing operations

Net income from continuing operations rose 25% to USD 8.2 billion. Excluding the after-tax impact of USD 788 million for the two exceptional charges taken in 2007, net income rose 11%.

Basic earnings per share from continuing operations

Basic earnings per share (EPS) from continuing operations rose 28% to USD 3.59 in 2008 from USD 2.81 in 2007, at a faster pace than net income due to fewer outstanding shares. In the fourth quarter, basic EPS rose 61% to USD 0.66 from USD 0.41 in the year-ago quarter, largely in line with the advance in net income.

Net income from discontinued operations

The 2007 results include net proceeds of USD 5.4 billion from the divestments of Medical Nutrition (as of July 1, 2007) and Gerber (as of September 1, 2007) along with the contributions of these businesses before their divestments. Results for 2008 include modest income from various adjustments to accruals related to these divestments.

Balance sheet

Total assets rose to USD 78.3 billion at December 31, 2008, from USD 75.5 billion at the end of 2007. Non-current assets were USD 57.4 billion at the end of 2008, an increase of USD 9.4 billion mainly from the acquisition of the 25% Alcon stake. At the same time, costs for Alcon and other acquisitions during 2008 led to a reduction of USD 7.1 billion in cash and marketable securities.

The Group s equity improved by USD 1.0 billion to USD 50.4 billion at the end of 2008 compared to USD 49.4 billion at the end of 2007. Recognized income and expense totaled USD 4.3 billion in 2008, as net income of USD 8.2 billion more than offset USD 2.1 billion in actuarial losses on pension plans, USD 1.1 billion in currency translation losses and USD 0.7 billion of negative fair value adjustments on financial instruments and other factors (including USD 0.3 billion of hedging costs deferred due to probable debt financing in 2009). A total of USD 0.4 billion in treasury shares were repurchased in 2008, of which USD 0.3 billion were on the second trading line for Novartis shares before the program was suspended in April following the announcement of the Alcon transaction. The dividend payment made in 2008 amounted to USD 3.3 billion, a 29% increase from the 2007 level in US dollars.

The year-end debt/equity ratio increased to 0.15:1 in 2008 from 0.12:1 in 2007 following the launch of significant financing programs in 2008. Two Swiss franc bond issues totaling CHF 1.5 billion were successfully completed during the second quarter of 2008, while the Commercial Paper programs provided USD 0.6 billion in additional financing. At the end of 2008, financial debt of USD 7.4 billion consisted of USD 5.2 billion in current and USD 2.2 billion in non-current liabilities to banks and financial institutions.

Credit agencies reduced their ratings for Novartis in April 2008, citing expected financing requirements for Alcon while supporting the transaction s strategic intentions. Moody s rated the Group as Aa2 for long-term maturities and P-1 for short-term maturities and Standard & Poor s had a rating of AA- and A-1+, for long-term and short-term maturities, respectively. Fitch had a long-term rating of AA and a short-term rating of F1+. These agencies maintained a stable outlook.

Cash flow

Cash flow from continuing operating activities rose 6% to USD 9.8 billion. The additional cash flow generated by the solid business expansion was partially offset by higher tax and Forward restructuring payments.

Cash outflows used for investing activities rose 66% to USD 10.4 billion in 2008, mainly on the acquisitions involving Alcon, Speedel, Protez and the Nektar pulmonary business totaling USD 11.5 billion as well as USD 2.1 billion of investments in property, plant & equipment. These outflows were partially offset by USD 3.3 billion in net proceeds from the sale of marketable securities. Cash outflows used for financing activities were USD 2.6 billion as the dividend payment made in 2008 of USD 3.3 billion and USD 0.5 billion related to treasury share transactions were partially offset by cash inflows of USD 1.3 billion related to net additions to financial debt.

Overall liquidity fell to USD 6.1 billion at the end of 2008 from USD 13.2 billion at the end of 2007. Taking into account additional debt raised in 2008, net liquidity at the end of 2007 of USD 7.4 billion swung to net debt of USD 1.2 billion at the end of 2008.

PHARMACEUTICALS PRODUCT REVIEW

Notes: *Net sales growth data refer to 2008 worldwide performance in local currencies. Growth rates are not provided for some recently launched products since they are not meaningful.*

Diovan (USD 5.7 billion, +10% lc), the world s top-selling branded medicine for high blood pressure, grew steadily in all key markets worldwide, with areas outside the US now accounting for about 58% of net sales and delivering 10% lc growth. US sales also 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 3.7 billion, +15% lc), a targeted therapy for certain forms of chronic myeloid leukemia (CML) and gastrointestinal stromal tumors (GIST), sustained solid double-digit growth in 2008 based on strong clinical data and its status as the leading therapy for these and other life-threatening forms of cancer. In December 2008, *Gleevec* became the first FDA-approved treatment for use after GIST surgery (adjuvant setting). Similar submissions were made in the EU, Switzerland and other countries, with additional launches for this indication expected in 2009. Data from the landmark IRIS study at the American Society of Hematology meeting showed nearly 90% of CML patients in the study were still alive seven years after diagnosis when treated with *Gleevec*, demonstrating the longest overall survival observed to date in this disease area.

Zometa (USD 1.4 billion, +3% lc), an intravenous bisphosphonate therapy for patients with cancer that has spread to the bones, returned to growth thanks to improved compliance for existing indications and new data showing significant anticancer benefits of this therapy. A 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 beyond benefits achieved with hormone therapy alone. Other new data in 2008 showed the addition of *Zometa* to standard chemotherapy before breast cancer surgery reduced the size of breast tumors more effectively than chemotherapy alone in women with early-stage disease. More studies are underway to review potential anticancer benefits of *Zometa*.

Femara (USD 1.1 billion, +17% lc), an oral therapy for women with hormone-sensitive breast cancer, continued with strong growth. New data from the BIG 1-98 trial suggested a reduced risk of death for patients taking *Femara* instead of tamoxifen in initial adjuvant treatment. Although the results did not meet statistical significance, these were the first data to suggest this survival benefit for an aromatase inhibitor versus tamoxifen in the monotherapy setting immediately following surgery. The entry of generic competition in some markets, including some European

countries, had a modest negative impact on global growth.

Sandostatin (USD 1.1 billion, +6% lc), for acromegaly and symptoms associated with carcinoid syndrome, benefited from growth of *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 in this segment had a minimal impact on *Sandostatin LAR* sales in 2008.

Lucentis (USD 886 million, +122% lc), a biotechnology eye therapy now approved in more than 70 countries, has delivered dynamic growth since its first European 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. It has been judged as cost-effective by various government health agencies, including the UK National Institute for Health and Clinical Excellence (NICE) in 2008. Genentech holds the US rights.

Exelon/Exelon **Patch** (USD 815 million, +24% lc), a therapy for mild to moderate forms of Alzheimer s disease dementia and also dementia linked with Parkinson s disease, has experienced renewed growth following the introduction of the once-daily *Exelon* Patch formulation in late 2007 that quickly gained broad acceptance by patients and caregivers.

Exjade (USD 531 million, +45% lc), the first and only once-daily oral therapy for transfusional iron overload, a potentially fatal condition linked to certain blood disorders, had dynamic growth in 2008 and is now available in more than 90 countries.

Exforge (USD 406 million), a single-pill combination of the angiotensin receptor blocker *Diovan* (valsartan) with the calcium channel blocker amlodipine, has set new standards since its launch in late 2007 for the introduction of a high blood pressure combination therapy. The US approved *Exforge* in July 2008 as a first-line therapy, providing a new growth opportunity.

Lotrel (USD 386 million, 48% lc, only in the US), a single-pill combination therapy for high blood pressure, fell sharply after an at risk launch in mid-2007 by a generic competitor despite a US patent valid until 2017. Sales in 2008 came from higher-dose formulations that still have market exclusivity.

Trileptal (USD 332 million, 53% lc), for epilepsy seizures, has been negatively impacted by generic competition for tablet formulations in key markets, including the US, following the end of patent protection in late 2007.

Aclasta/Reclast (USD 254 million), the first once-yearly infusion therapy for various forms of osteoporosis, has now been used in more than 350,000 patients and has experienced consistent growth since its launch to treat postmenopausal osteoporosis in late 2007. New indications approved in 2008 have broadened the use of *Aclasta* in Europe and the US (known as *Reclast)* to include treatment of osteoporosis in men. *Aclasta* has been shown to reduce the risk of new fractures in patients who have recently suffered a low-trauma hip fracture, and in the same patient group to reduce all-cause mortality by 28% vs. placebo.

Xolair (USD 211 million, +42% lc, only Novartis sales), a biotechnology therapy for moderate to severe allergic asthma that targets a root cause of this disease, is now available in over 50 countries worldwide. *Xolair* Liquid, a new formulation that will ease administration, received a positive EU opinion in November 2008 supporting approval. In December 2008, *Xolair* was submitted for use in children from six to less than 12 years of age in the EU and by Genentech in the US. Novartis co-promotes *Xolair* with Genentech in the US and shares a portion of operating income. Genentech s *Xolair* US sales were USD 517 million in 2008.

Tekturna/Rasilez (USD 144 million), the first new type of high blood pressure medicine in more than a decade, showed consistent growth in the US and Europe in a competitive market environment in 2008. Positive data from the ALOFT (heart failure) and AVOID (kidney disease) clinical studies, which are part of the ASPIRE HIGHER cardio-renal

outcomes program, were added to European product information. *Rasilez HCT,* a single-pill combination with a diuretic, received EU approval in January 2009, while a decision in Switzerland is expected in 2009. This medicine is already approved in the US as *Tekturna HCT.* A single-pill combination with *Diovan* was also submitted for approval in the US.

Tasigna (USD 89 million) has gained quickly as a new therapy in the second-line setting for patients with a certain form of chronic myeloid leukemia (CML) resistant or intolerant to prior therapy, including *Gleevec/Glivec*. *Tasigna* shows potential to become a leading treatment for certain newly diagnosed CML patients based on new data at the American Society of Hematology meeting in December. A Phase III trial comparing *Tasigna* and *Gleevec/Glivec* in newly diagnosed CML patients has completed recruitment.

R&D UPDATE

Pharmaceuticals

Extavia (interferon beta-1b) was launched in Germany and Denmark in January 2009 to start the European rollout of this medicine for patients with certain forms of multiple sclerosis (MS). *Extavia* is the same medicine as Betaferon®/Betaseron®, which is marketed by Bayer Schering and was the first beta interferon treatment for MS. Novartis gained rights to its own branded version in agreements with Bayer Schering reached after Novartis fully acquired Chiron. Novartis plans to launch *Extavia* in the US in 2009.

Afinitor (everolimus, **RAD001**), an oral inhibitor of the mTOR pathway, is currently expected to receive a regulatory decision for patients with advanced kidney cancer from the FDA in the first quarter of 2009 after the action date was extended by three months in late 2008 (no request for additional studies). Regulatory submissions have also been made in the EU and Switzerland, and other filings are planned. *Afinitor* is also being studied in multiple cancer types including neuroendocrine tumors, lymphoma, hepatocarcinoma as well as gastric, non-small cell lung and breast cancer. Data from two early clinical studies presented at the CTRC-San Antonio Breast Cancer Symposium showed the potential of *Afinitor* to reverse resistance to Herceptin® in women with metastatic breast cancer.

QAB149 (indacaterol) was submitted for US and EU approvals in December 2008 as a 24-hour bronchodilator for chronic obstructive pulmonary disease (COPD), an incurable condition in which the lungs have been damaged, usually from smoking. Initial data from the Phase III program with over 4,200 patients in 30 countries suggest a good efficacy/safety profile. QAB149 is planned to form the cornerstone for potential combinations such as QMF149 (indacaterol with the corticosteroid mometasone) in COPD and asthma and QVA149 (indacaterol with the anti-muscarinic NVA237) in COPD.

ACZ885 (canakinumab) is a new treatment for a group of rare, but potentially life-threatening, auto-inflammatory diseases called Cryopyrin-Associated Periodic Syndromes (CAPS), which includes Muckle-Wells Syndrome. The first submissions were previously planned for 2009, but were accelerated to December 2008 after data from two clinical studies showed adults and children achieved rapid and long-lasting clinical remission of symptoms of these diseases. Orphan drug status has already been granted to ACZ885 in the EU, Switzerland and US for treating CAPS, and in the US and EU for Systemic Juvenile Idiopathic Arthritis (SJIA), the most severe form of arthritis in children. Studies are underway in other potential therapeutic areas.

FTY720 (fingolimod), a novel oral development therapy for multiple sclerosis, showed superior efficacy compared to interferon beta-1a (Avonex®) in preliminary data from the

Phase III TRANSFORMS study made public in December. FTY720 met its primary endpoint in the trial, and the initial analysis suggested a safety profile in line with previous experience. Further results from TRANSFORMS are planned to be presented at a congress in 2009. Regulatory submissions remain on track for the end of 2009.

Vaccines and Diagnostics

Menveo (MenACWY-CRM) was submitted in August for US approval and in October for EU approval as a new vaccine to protect against four common types of meningococcal meningitis known as A, C, W-135 and Y for this often-fatal bacterial infection. The first submission was made for ages 11-55. The Phase III program for use of this vaccine from age two months to 10 years is ongoing, and it will be expanded by 1,500 additional infants following recent discussions with the FDA. As a result of this new requirement, the US submission of *Menveo* for use in infants is now expected in 2011.

Disclaimer

This release contains certain forward-looking statements relating to the Group s business, which can be identified by terminology such as momentum, proposed, expected, strategic, anticipates, to achieve, set, optional, can, potential, priority review, future, expectations, proposal, will, if approved, outlook, expects, suggest, planned, potentially, on track, or similar expressions, or by 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 2008, the Group s continuing operations achieved net sales of USD 41.5 billion and net income of USD 8.2 billion. Approximately USD 7.2 billion was invested in R&D activities throughout the Group. Headquartered in Basel, Switzerland, Novartis Group companies employ approximately 96,700 full-time-equivalent associates and operate in more than 140 countries around the world. For more information, please visit http://www.novartis.com.

Important dates

February 24, 2009	Annual General Meeting (Basel)
April 23, 2009	First quarter 2009 results
July 16, 2009	Second quarter and first half 2009 results
October 22, 2009	Third quarter and first nine months 2009 results

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statements (audited)

Full year

	2008 USD m	2007 USD m	Change USD m	Change %
Net sales from continuing operations	**41 459**	**38 072**	**3 387**	**9**
Other revenues	1 125	875	250	29
Cost of Goods Sold	11 439	11 032	407	4
Of which amortization and impairments of product and patent rights and trademarks	*998*	*1 329*	*331*	*25*
Gross profit	**31 145**	**27 915**	**3 230**	**12**
Marketing & Sales	11 852	11 126	726	**7**
Research & Development	7 217	6 430	787	**12**
General & Administration	2 245	2 133	112	**5**
Other Income & Expense, net	867	1 445	578	40
Operating income from continuing operations(1)	**8 964**	**6 781**	**2 183**	32
Income from associated companies	**441**	412	29	**7**
Financial income	**384**	531	147	**28**
Interest expense	**290**	237	53	**22**
Income before taxes from continuing operations	9 499	**7 487**	**2 012**	27
Taxes	**1 336**	947	389	41
Net income from continuing operations(1)	8 163	**6 540**	**1 623**	**25**
Net income from discontinued Consumer Health operations	**70**	5 428	5 358	
Total net income(1)	8 233	**11 968**	**3 735**	**31**
Attributable to:				
Shareholders of Novartis AG	***8 195***	*11 946*	*3 751*	*31*
Minority interests	***38***	*22*	*16*	*73*
Average number of shares outstanding Basic (million)	**2 265.5**	**2 317.5**	**52**	**2**
Basic earnings per share (USD)(2)				
Continuing operations	**3.59**	**2.81**	**0.78**	**28**
Discontinued operations	**0.03**	**2.34**	**2.31**	**99**
Total	**3.62**	**5.15**	**1.53**	**30**
Average number of shares outstanding Diluted (million)	2 284.2	2 328.9	44.7	2
Diluted earnings per share (USD)(2)				
Continuing operations	3.56	2.80	0.76	27
Discontinued operations	0.03	2.33	2.30	99
Total	3.59	5.13	1.54	30

(1) Operating and net income in 2007 include exceptional charges of USD 1 034 million (USD 788 million after tax) for Corporate environmental provision increase (Q3: USD 590 million) and Forward restructuring (Q4: USD 444 million). Q4 2007 results only include the Forward restructuring charge (USD 325 million after tax).

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

Consolidated income statements

Fourth quarter (unaudited)

	Q4 2008 USD m	Q4 2007 USD m	Change USD m	Change %
Net sales from continuing operations	**10 077**	**9 931**	**146**	**1**
Other revenues	271	240	31	13
Cost of Goods Sold	2 834	3 013	179	6
Of which amortization and impairments of product and patent rights and trademarks	*228*	*250*	*22*	*9*
Gross profit	**7 514**	**7 158**	**356**	**5**
Marketing & Sales	**3 054**	3 045	9	0
Research & Development	**1 834**	1 847	13	1
General & Administration	**629**	634	5	1
Other Income & Expense, net	317	735	418	57
Operating income from continuing operations(1)	**1 680**	**897**	**783**	**87**
Income from associated companies	**97**	104	7	7
Financial income	**58**	245	187	76
Interest expense	**76**	61	15	25
Income before taxes from continuing operations	1 759	**1 185**	**574**	**48**
Taxes	**252**	254	2	1
Net income from continuing operations(1)	1 507	**931**	**576**	**62**
Net income from discontinued Consumer Health operations	**42**	18	60	
Total net income(1)	1 549	**913**	**636**	**70**
Attributable to:				
Shareholders of Novartis AG	***1 539***	*904*	*635*	*70*
Minority interests	***10***	*9*	*1*	*11*
Average number of shares outstanding Basic (million)	**2 264.9**	**2 278.0**	**13.1**	**1**
Basic earnings per share (USD)(2)				
Continuing operations	**0.66**	**0.41**	**0.25**	**61**
Discontinued operations	**0.02**	**0.01**	**0.03**	
Total	**0.68**	**0.40**	**0.28**	**70**
Average number of shares outstanding Diluted (million)	2 282.6	2 287.2	4.6	0
Diluted earnings per share (USD)(2)				
Continuing operations	0.66	0.41	0.25	61
Discontinued operations	0.01	0.01	0.02	
Total	0.67	0.40	0.27	68

(1) Operating and net income in the 2007 fourth quarter include a USD 444 million (USD 325 million after tax) restructuring charge for the Forward initiative (Pharmaceuticals: USD 307 million, Consumer Health: USD 97 million and Corporate: USD 40 million)

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

Consolidated statement of recognized income and expense

Full year (audited)

	2008 USD m	2007 USD m	Change USD m
Net income from continuing operations	8 163	6 540	1 623
Fair value adjustments on financial instruments	510	1	511
Actuarial losses/gains from defined benefit plans, net	2 140	450	2 590
Novartis share of equity recognized by associated companies	201	150	351
Revaluation of initial minority interests in Speedel (2008) and Chiron (2007)	38	55	17
Translation effects	1 122	2 188	3 310
Amounts related to discontinued operations	70	5 446	5 376
Recognized income and expense	**4 298**	**14 830**	**10 532**

Fourth quarter (unaudited)

	Q4 2008 USD m	Q4 2007 USD m	Change USD m
Net income from continuing operations	1 507	931	576
Fair value adjustments on financial instruments	212	10	202
Actuarial losses from defined benefit plans, net	1 192	591	601
Novartis share of equity recognized by associated companies	12	37	49
Revaluation of initial minority interest in Speedel	2		2
Translation effects	542	776	1 318
Amounts related to discontinued operations	42	18	60
Recognized income and expense	**407**	**1 125**	**1 532**

Condensed consolidated balance sheets (audited)

	Dec 31, 2008 USD m	Dec 31, 2007 USD m	Change USD m
Assets			
Non-current assets			
Property, plant & equipment			