

NOVARTIS AG
Form 6-K
October 22, 2007

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 19, 2007

(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on September 5, 2006 (File No. 333-137112) and on October 1, 2004 (File No. 333-119475), in each case to the extent not superseded by documents or reports subsequently filed by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, in each case as amended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:

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Form 20-F: Form 40-F:

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

Yes: No:

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

Yes: No:

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

Yes: No:

Enclosure: **Novartis AG Announces Results for the Third Quarter of 2007**

Novartis International AG

Novartis Global Communications

CH-4002 Basel

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<http://www.novartis.com>

QUARTERLY REPORT • RAPPORT TRIMESTRIEL • QUARTALSBERICHT

Novartis delivers record earnings in first nine months of 2007 thanks to strong operational performance and divestment gains

Strong operational performance for Group continuing operations:

Nine-month net sales up 13% to USD 28.1 billion (+9% local currencies) driven by all divisions, particularly Vaccines and Diagnostics and Sandoz

Operating income rises 9% to USD 6.5 billion, excluding a one-time incremental environmental provision of USD 590 million to cover worldwide remediation plans

14 positive US and EU regulatory decisions so far in 2007; launches underway for Tekturna/Rasilez, Exforge, Lucentis, Galvus, Exelon Patch, Aclasta/Reclast and Tasigna

To expand management experience and provide fresh impetus, Joe Jimenez becomes CEO of Pharmaceuticals and Thomas Ebeling named as CEO of Consumer Health

Group net income for first nine months doubles to USD 11.1 billion thanks to after-tax gains of USD 5.2 billion from Medical Nutrition and Gerber divestments

Novartis now focused solely on healthcare

Group on track for record operating and net income from continuing operations in 2007 (excluding environmental provision)

Elimination of 1,260 positions in US Pharma marketing and sales organization to adapt to new product portfolio, generating annual savings of USD 230 million

Group key figures Nine months to September 30

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| | YTD 2007 | | YTD 2006 | | % change | |
|---|----------|----------------|----------|----------------|----------|----|
| | USD m | % of net sales | USD m | % of net sales | USD | lc |
| Continuing operations: | | | | | | |
| Net sales | 28 141 | | 24 995 | | 13 | 9 |
| Operating income excl. environmental charge | 6 474 | 23.0 | 5 917 | 23.7 | 9 | |
| Net income | 5 609 | 19.9 | 5 229 | 20.9 | 7 | |
| Net income Discontinued operations | 5 446 | | 310 | | | |
| Net income Total | 11 055 | | 5 539 | | 100 | |
| Basic earnings per share | | | | | | |
| Continuing operations | USD 2.40 | | USD 2.23 | | 8 | |
| Basic earnings per share Total | USD 4.74 | | USD 2.36 | | 101 | |

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

Group key figures Third quarter

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| | Q3 2007 | | Q3 2006 | | % change | |
|---|----------|----------------|----------|----------------|----------|----|
| | USD m | % of net sales | USD m | % of net sales | USD | lc |
| Continuing operations: | | | | | | |
| Net sales | 9 613 | | 8 821 | | 9 | 5 |
| Operating income excl. environmental charge | 2 042 | 21.2 | 1 979 | 22.4 | 3 | |
| Net income | 1 574 | 16.4 | 1 792 | 20.3 | -12 | |
| Net income Discontinued operations | 5 294 | | 78 | | | |
| Net income Total | 6 868 | | 1 870 | | 267 | |
| Basic earnings per share | | | | | | |
| Continuing operations | USD 0.68 | | USD 0.77 | | -12 | |
| Total | USD 2.97 | | USD 0.80 | | 271 | |

Basel, October 18, 2007 Commenting on the results, Dr. Daniel Vasella, Chairman and CEO of Novartis said: *Following the successful divestments of the Medical Nutrition and Gerber businesses we are now strategically focused on healthcare products. Despite the anticipated weak quarter in Pharmaceuticals, we showed a strong operational performance driven by our other businesses. I am especially pleased that Vaccines and Diagnostics and Sandoz grew dynamically and improved profitability. This demonstrates that our focused diversification at least partially balances the risks recently seen in the pharmaceutical industry with heightened FDA demands and a more aggressive and risk-taking generics industry in the US. After losing several products to generics, Pharmaceuticals succeeded in launching many new medicines, including Lucentis, Exforge, Tekturna/Rasilez, Exelon Patch, Tasigna, Galvus and Aclasta/Reclast, creating the foundation for a new growth phase that will be visible starting in the second half of 2008. Our overall objective to bring new medicines to patients is reflected in the 14 positive US and European regulatory decisions already received in 2007. The announced changes at the divisional leadership level will not just broaden management experience but also bring fresh impetus and efficiency after a long and strong growth period.*

Nine months to September 30

Net sales

| | YTD 2007 | YTD 2006 | % change | |
|---------------------------------------|----------|----------|----------|-----|
| | USD m | USD m | USD | lc |
| Pharmaceuticals | 17 873 | 16 527 | 8 | 5 |
| Vaccines and Diagnostics | 1 054 | 501 | 110 | 108 |
| Sandoz | 5 198 | 4 306 | 21 | 15 |
| Consumer Health continuing operations | 4 016 | 3 661 | 10 | 6 |
| Net sales from continuing operations | 28 141 | 24 995 | 13 | 9 |

Group

All divisions particularly Vaccines and Diagnostics and Sandoz supported the expansion in Group net sales from continuing operations. Higher net sales volumes represented seven percentage points of growth, while acquisitions provided two percentage points and currency translation

four percentage points. Price changes had no impact.

Pharmaceuticals

Europe, Latin America and key emerging markets all delivered strong growth, with the Oncology and Neuroscience franchises growing at double-digit rates and many of the top 10 brands maintaining No.1 leadership positions in their therapeutic areas. *Diovan* (USD 3.7 billion, +17% lc) and *Gleevec/Glivec* (USD 2.2 billion, +14% lc) both generated good growth, while the new brands *Tekturna/Rasilez*, *Exforge*, *Exjade*, *Lucentis*, and *Xolair* expanded rapidly. US net sales fell 3% as growth from many brands were offset by the *Zelnorm* suspension in March as well as generic competition for *Lotrel*, *Lamisil* and *Famvir*.

Vaccines and Diagnostics

Strong deliveries of vaccines for seasonal influenza to the US as well as vaccines for tick-borne encephalitis and pediatric vaccine components drove growth. On a comparable basis, net sales rose 49% (including net sales from Chiron before April 2006 acquisition).

Sandoz

Dynamic performance thanks mainly to the US and supported by recent launches of difficult-to-make generics, strong growth of the base portfolio and the *Lotrel* authorized generic. Several other countries contributed to growth, benefiting from initiatives in emerging growth markets and Western Europe.

Consumer Health continuing operations

OTC and Animal Health each delivered double-digit gains thanks to a focus on strategic brands, new product launches and expansion in emerging markets and Japan. CIBA Vision net sales rose as contact lens deliveries were resumed in 2007 following recent product shortages.

Operating income Nine months to September 30

| | YTD 2007 | | YTD 2006 | | Change |
|---|--------------|----------------|----------|----------------|--------|
| | USD m | % of net sales | USD m | % of net sales | In % |
| Pharmaceuticals | 5 161 | 28.9 | 5 082 | 30.7 | 2 |
| Vaccines and Diagnostics | 179 | 17.0 | -28 | -5.6 | |
| Sandoz | 789 | 15.2 | 532 | 12.4 | 48 |
| Consumer Health continuing operations | 727 | 18.1 | 687 | 18.8 | 6 |
| Corporate income & expense, net | -382 | | -356 | | 7 |
| Operating income from continuing operations excluding environmental charge | 6 474 | 23.0 | 5 917 | 23.7 | 9 |
| Corporate environmental provision increase | -590 | | | | |
| Operating income from continuing operations | 5 884 | | 5 917 | | -1 |

Group

Excluding the Corporate expense of USD 590 million to increase environmental provisions, operating income from continuing operations rose 9%.

Pharmaceuticals

Major investments in new product launches and late-stage clinical trials as well as lost US operating income from *Lotrel*, *Zelnorm* and *Lamisil* were among the factors leading to an only modest increase in operating income and a decline in the operating margin to 28.9 % of net sales. R&D investments were up 20% and represented 20.4% of net sales, up 1.9 percentage points from the 2006 period. Marketing & Sales expenses as a percentage of net sales rose 0.9 percentage points to support the new brands *Exjade*, *Lucentis*, *Exforge*, *Tekturna/Rasilez* and *Aclasta/Reclast*. Cost of Goods Sold was negatively impacted by an intangible asset impairment charge of USD 320 million following the start of US generic competition for *Famvir*. However, Other Income & Expense improved from one-time gains mainly related to the sale of equity investments and a launch provision reversal for *Tekturna/Rasilez*. Excluding exceptional items and the amortization of intangible assets in both periods, adjusted operating income rose 5% and the operating margin was 31.6%.

Vaccines and Diagnostics

The strong expansion, particularly in seasonal influenza vaccines, led to operating income of USD 179 million. Adjusting for legal settlement gains of USD 83 million as well as for restructuring charges and acquisition-related amortization of intangible assets resulted in adjusted operating income of USD 323 million.

Sandoz

Advancing sharply faster than net sales growth, operating income benefited from ongoing improvements in sales volumes thanks to new product launches and efficiency improvements throughout the division, with the operating margin rising to 15.2%. Excluding exceptional items and the amortization of intangible assets in both periods, adjusted operating income rose 19% and the adjusted operating margin was 20.8%.

Consumer Health continuing operations

On the back of a solid performance, significant investments were made throughout the division in R&D and marketing to support new product launches and geographic expansion.

Third quarter**Net sales**

| | Q3 2007 | Q3 2006 | % change | |
|--|--------------|--------------|-----------|-----------|
| | USD m | USD m | USD | lc |
| Pharmaceuticals | 5 885 | 5 776 | 2 | -2 |
| Vaccines and Diagnostics | 572 | 374 | 53 | 52 |
| Sandoz | 1 783 | 1 425 | 25 | 18 |
| Consumer Health continuing operations | 1 373 | 1 246 | 10 | 6 |
| Net sales from continuing operations | 9 613 | 8 821 | 9 | 5 |

Group

Sandoz, Vaccines and Diagnostics and Consumer Health all delivered strong growth, helping to offset the decline in Pharmaceuticals in the US market. The expansion in Group net sales from continuing operations came from five percentage points of higher sales volumes, while acquisitions added one percentage point and currency translation had a positive impact of four percentage points. Net price changes led to a decline of one percentage point.

Pharmaceuticals

Strong growth in key regions – particularly in Europe, Latin America and emerging growth markets – was offset by the loss of *Zelnorm*, *Lotrel*, *Lamisil* and *Famvir* in the US, where net sales declined 17%. The leading brands *Diovan* (USD 1.3 billion, +14% lc), *Gleevec/Glivec* (USD 783 million, +14% lc), *Sandostatin* and *Femara* were supported by increasing contributions from new products including *Tekturna/Rasilez*, *Exforge*, *Exjade*, *Lucentis*, and *Xolair*, had combined net sales of about USD 300 million in the quarter.

Vaccines and Diagnostics

Seasonal influenza vaccine deliveries occurred earlier for the 2007/2008 flu season and were sharply higher for the current season than in the year-ago period. Diagnostics delivered growth from market share expansion in Europe and the West Nile Virus test.

Sandoz

Dynamic expansion driven by recently launched products in the US increasing at a fast pace. Key US contributors were authorized versions of *Lotrel* and ondansetron (*Zofran*)⁽¹⁾ as well as generics of the difficult-to-make products metoprolol succinate ER (*Toprol-XL*)⁽¹⁾ and cefdinir (*Omnicef*)⁽¹⁾. Other top regions were Eastern Europe, Asia and Latin America.

Consumer Health continuing operations

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OTC and Animal Health both delivered robust growth, leading to the overall double-digit expansion. The start of the cough and cold season in the US underpinned OTC, while new product launches in Europe and recent entry in Japan further supported the performance. Animal Health benefited from the integration of Sankyo Lifetech.

(1) Zofran® is a registered trademark of GlaxoSmithKline, Toprol-XL® is a registered trademark of AstraZeneca and Omnicef® is a registered trademark of Abbott Laboratories

Operating income Third quarter

| | Q3 2007 | | Q3 2006 | | Change |
|---|--------------|----------------|---------|----------------|--------|
| | USD m | % of net sales | USD m | % of net sales | In % |
| Pharmaceuticals | 1 541 | 26.2 | 1 779 | 30.8 | -13 |
| Vaccines and Diagnostics | 172 | 30.1 | 10 | 2.7 | |
| Sandoz | 228 | 12.8 | 87 | 6.1 | 162 |
| Consumer Health continuing operations | 244 | 17.8 | 241 | 19.3 | 1 |
| Corporate income & expense, net | -143 | | -138 | | 4 |
| Operating income from continuing operations excluding environmental charge | 2 042 | 21.2 | 1 979 | 22.4 | 3 |
| Corporate environmental provision increase | -590 | | | | |
| Operating income from continuing operations | 1 452 | | 1 979 | | |

Group

Operating income from continuing operations rose 3% when excluding the USD 590 million one-time increase in Corporate environmental liability provisions.

Pharmaceuticals

Operating income was heavily impacted by the loss of contributions from *Zelnorm*, *Lotrel* and *Lamisil* in the US and the USD 320 million impairment charge for *Famvir* as well as investments in new launches and late-stage development compounds. Marketing & Sales investments rose 1.1 percentage points as a percentage of net sales over the 2006 quarter to support investments in *Tekturna/Rasilez*, *Exforge* and *Aclasta/Reclast*. R&D expenses were up 1.2 percentage points as a percentage of net sales for late-stage trials, including QAB149, FTY720, *Galvus*, AGO178 and MFF258. Other Income & Expense contributed 2.9 percentage points, thanks to USD 166 million in gains from the sale of Tanox shares and product divestments. Excluding exceptional items and the amortization of intangible assets in both periods, operating income fell 3% and the operating margin was 31.4%.

Vaccines and Diagnostics

Underlying operating income of USD 246 million reflected the dynamic increase in sales of seasonal influenza vaccines to the US and shipments occurring earlier than in 2006. Reported operating income includes USD 74 million in restructuring and acquisition-related amortization charges.

Sandoz

Excellent underlying improvement thanks to ongoing volume growth and new product launches. Operational improvements in manufacturing and efficiencies in Marketing & Sales further supported growth. Excluding exceptional items and amortization of intangible assets in both periods, operating income rose 28% and the adjusted operating margin was 19.2%.

Consumer Health continuing operations

Investments for several new product launches and expansion into emerging markets and Japan led to operating income growing at a slower rate than net sales.

Corporate

First nine months

| | YTD 2007 | YTD 2006 | Change | % change |
|---|---------------|--------------|--------------|------------|
| | USD m | USD m | USD m | |
| Operating income from continuing operations excluding environmental charge | 6 474 | 5 917 | 557 | 9 |
| Corporate environmental provision increase | -590 | | -590 | |
| Income from associated companies | 308 | 193 | 115 | 60 |
| Financial income | 286 | 259 | 27 | 10 |
| Interest expense | -176 | -209 | 33 | -16 |
| Taxes | -693 | -931 | 238 | -26 |
| Net income from continuing operations | 5 609 | 5 229 | 380 | 7 |
| Net income from discontinued Consumer Health operations | 5 446 | 310 | 5 136 | |
| Total net income | 11 055 | 5 539 | 5 516 | 100 |

Third quarter

| | Q3 2007 | Q3 2006 | Change | % change |
|---|--------------|--------------|--------------|------------|
| | USD m | USD m | USD m | |
| Operating income from continuing operations excluding environmental charge | 2 042 | 1 979 | 63 | 3 |
| Corporate environmental provision increase | -590 | | -590 | |
| Income from associated companies | 116 | 88 | 28 | 32 |
| Financial income | 109 | 72 | 37 | 51 |
| Interest expense | -66 | -76 | 10 | -13 |
| Taxes | -37 | -271 | 234 | -86 |
| Net income from continuing operations | 1 574 | 1 792 | -218 | -12 |
| Net income from discontinued Consumer Health operations | 5 294 | 78 | 5 216 | |
| Total net income | 6 868 | 1 870 | 4 998 | 267 |

Income from associated companies

In the third quarter, income from associated companies was USD 116 million, up 32% from USD 88 million in the year-ago period. The Roche investment contributed USD 113 million, representing an anticipated share of USD 144 million from Roche's 2007 third quarter net income, which was offset by USD 31 million for amortization of intangible assets. In the first nine months, income was USD 308 million compared to USD 193 million in the 2006 period, which included one-time charges for the Chiron acquisition.

Financial income, net

Net financial income in the third quarter was USD 43 million compared to a loss of USD 4 million in the 2006 third quarter, reflecting good currency management in challenging conditions and additional returns from increased liquidity due to divestitures. In the first nine months, net financial income was USD 110 million, more than double the income from the 2006 period.

Taxes

Group continuing operations for the first nine months of 2007 had a tax rate of 11.0%, down from 15.1% in the prior-year period due to factors that included reduced profits in the US, the environmental liability provision, a reduction of the German corporate tax rate from 37.5% to 28.5% and the deferred tax impact of legal restructurings for the Chiron acquisition. Many of these one-time factors occurred in the 2007 third quarter, leading to a tax rate of 2.3% for the period.

Net income from discontinued operations

Net income from discontinued operations was USD 5.4 billion, which reflects the pre-tax divestment gain of USD 5.8 billion (USD 5.2 billion after taxes) from the sale of Medical Nutrition and Gerber as well as net income before their divestment.

Balance sheet

The Group's equity rose to USD 49.5 billion at September 30, 2007, from USD 41.3 billion at December 31, 2006. The increase reflected nine-month net income of USD 11.1 billion, actuarial gains from employee benefit plans of USD 0.9 billion, share-based compensation of USD 0.4 billion and USD 1.4 billion in currency translation gains that more than offset the dividend payment of USD 2.6 billion and net share repurchases of USD 3.3 billion.

Thanks to the divestment proceeds, net liquidity rose to USD 7.3 billion from net debt of USD 0.7 billion at the end of 2006. The debt/equity ratio improved to 0.15:1 compared to 0.18:1 at the end of 2006. Utilizing these proceeds and the Group's strong free cash flow, Novartis plans to complete the repurchase of up to USD 4 billion of shares by the next Annual General Meeting in February 2008. Shares worth USD 3.0 billion were repurchased in the first nine months of 2007, including USD 2.2 billion during the third quarter, via a second trading line on the SWX Swiss Exchange.

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

Cash flow

For the first nine months, cash flow from continuing operating activities rose USD 0.3 billion to USD 6.2 billion. Net cash used in financing activities from continuing operating activities was USD 6.2 billion, mainly the result of the USD 2.6 billion dividend payment and USD 3.1 billion for the net purchase of treasury shares. For continuing operations in the first nine months, free cash flow after dividends was USD 1.7 billion, down from USD 2.4 billion in the 2006 period mainly due to the higher dividend and higher working capital requirements to support the business expansion.

Increase of provisions for worldwide environmental liabilities

Novartis has increased its provisions for worldwide environmental liabilities linked mostly to previously owned businesses by USD 590 million following a review completed in the 2007 third quarter. This increase in Corporate provisions includes the creation of a Swiss foundation with capital of CHF 200 million to finance the Novartis-related share of any potential remediation costs including landfills in the Basel region (including Switzerland, France and Germany). Assessments are expected to be completed shortly in coordination with various governments, which are responsible for the supervision and decision-making process for any remediation actions. This new foundation underscores the commitment of Novartis to sustainable and appropriate solutions.

Laying the foundation for future growth

Consumer Health continuing operations

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The Pharmaceuticals division is proceeding with a reorganization of its Development organization, aiming to strengthen project focus, integrating decision making at the therapeutic franchise level and simplifying the development governance.

In a second initiative, Novartis Biologics is being established as a focused unit to accelerate and optimize the potential of research and development of innovative biologic medicines. This unit will unify and expand the expertise within Novartis by bringing together the key elements necessary for fast and high-quality R&D activities and to help attract top talent. Biologics comprise 25% of the pre-clinical research pipeline at Novartis and are increasingly a priority in R&D activities.

In the US, immediate actions are underway to strengthen and streamline the pharmaceuticals organization. These include a reduction of about 240 positions in headquarters functions, while the US sales force will be reduced by approximately 510 Novartis and 510 third-party representatives. The majority of these reductions will be accomplished by not filling vacant positions, while all reductions will be handled in a socially responsible manner. This initiative will lead to cost savings of approximately USD 230 million in 2008.

On a Group-wide level, the organization will be delayed and simplified; decision making will be decentralized wherever appropriate and shared functions centralized, such as in procurement and IT infrastructure. Over a period of two years, this will result in significant savings. These actions will enhance the Group's competitiveness and its ability to move rapidly to best meet the needs of patients and customers in a rapidly evolving environment.

Management changes

To expand experience at the top management level and to provide fresh impetus, Thomas Ebeling will now lead the Consumer Health Division and Joe Jimenez will lead the Pharmaceuticals Division. Thomas Ebeling, who has done an excellent job in managing Pharmaceuticals to high levels of performance, will now take over the challenge of developing the Consumer Health business into a world-class leader and a more significant part of the Group's broad healthcare portfolio. Joe Jimenez will, in turn, take over responsibility of transforming Pharmaceuticals as the business adapts to new market conditions. These changes are effective immediately.

Group outlook

(Continuing operations, excludes exceptional divestment gains and environmental provision increase. Barring any unforeseen events)

Novartis has made significant progress during 2007 to focus on its strategic healthcare portfolio as well as gain regulatory approvals and launch new medicines. Strong growth prospects for the Group's portfolio are expected to underpin a new growth phase starting to become visible in the second half of 2008 and positioning Novartis for further years of record results.

The Pharmaceuticals Division's net sales are negatively impacted during 2007 and the first half of 2008 by the suspension of *Zelnorm* as well as US generic competition for *Lotrel*, *Lamisil*, *Famvir* and *Trileptal*. Combined annual US net sales in 2006 for these products were approximately USD 3.1 billion. As a result, Novartis expects mid-single-digit growth in 2007 net sales for Group continuing operations and low-single-digit growth in the Pharmaceuticals Division, both in local currencies.

Novartis reaffirms expectations for record operating and net income from continuing operations in 2007 (excluding exceptional divestment gains and Corporate environmental provision increase).

Pharmaceuticals product performance and pipeline update

Novartis has a highly competitive industry position thanks to the ongoing dynamic growth of *Diovan* and *Gleevec/Glivec* as well as approvals for several new brands and one of the most respected pipelines with 139 projects in clinical development.

A total of 14 positive regulatory decisions have been achieved to date in 2007 in the US and Europe. These include US/EU approvals for *Tekturna/Rasilez* and *Exforge* (hypertension), *Exelon Patch* (Alzheimer's) and *Aclasta/Reclast* (osteoporosis). EU approvals were also received for *Lucentis* (age-related macular degeneration) and *Tyzeka/Sebivo* (hepatitis B).

During the third quarter, European regulators approved *Galvus* as a new oral therapy for patients with type 2 diabetes, while European approval is expected by the end of the year for *Eucreas* as a single-tablet combination of *Galvus* and metformin.

Following a positive opinion in September from European regulators, European Union approval is expected by the end of the year for *Tasigna*, a new therapy for chronic myeloid leukemia patients not responding to *Gleevec/Glivec*. Swiss approval was also granted this year. A decision on the US submission is expected by the end of 2007.

Several late-stage development compounds are on target toward regulatory submissions. These include **FTY720** (multiple sclerosis), **QAB149** (respiratory diseases), **AGO178** (depression), **RAD001** (cancer), **ABF656** (hepatitis C) and **SOM 230** (Cushing's disease).

Pharmaceuticals products

Note: All net sales growth figures refer to year-to-date worldwide performance in local currencies

Diovan (USD 3.7 billion, +17% lc) maintained its strong growth profile as the world's No. 1 branded high blood pressure medicine thanks to double-digit net sales growth in the US, Japan and Latin America. *Diovan* has achieved a 40% share of its market segment in the US among angiotensin receptor blockers (ARBs) and has been growing faster than the US anti-hypertensive market. *Co-Diovan/Diovan HCT*, a single-tablet combination with a diuretic, is now the No. 1 branded antihypertension combination therapy in the US and has benefited worldwide from increasing use of multiple therapies to help patients reach treatment goals.

Gleevec/Glivec (USD 2.2 billion, +14% lc), a targeted therapy for certain forms of chronic myeloid leukemia (CML) and gastrointestinal stromal tumors (GIST), expanded net sales based on improved survival rates for patients, expansion of the GIST market and use in rare diseases. Competition has also expanded the CML market, but it had little impact on underlying demand. During the third quarter, the FDA approved updated labeling that includes five years of data demonstrating an estimated overall survival rate of 89.4% in CML patients, confirming the generally well-tolerated safety profile in these patients.

Zometa (USD 954 million, -2% lc), an intravenous bisphosphonate therapy for patients with cancer that has spread to the bones, has been affected by overall slowing growth for this class of medicines due to patients receiving less frequent treatments and for a shorter course of therapy. However, use in patients with lung and prostate cancers continues to rise.

Sandostatin (USD 749 million, +8% 1c), for patients with acromegaly and various tumors, has delivered consistent growth amid increasing use of the long-acting-release *Sandostatin LAR* version, which accounts for about 85% of the brand's worldwide net sales. New competition in acromegaly is expected to start in the US in the 2007 fourth quarter.

Neoral/Sandimmun (USD 700 million, -1% lc), for organ transplantation, has maintained stable worldwide net sales despite ongoing generic competition in the US thanks to its pharmacokinetic profile and reliability.

Femara (USD 679 million, +27% lc), an oral treatment for women with hormone-sensitive breast cancer, delivered ongoing dynamic growth primarily thanks to expanded use in the early adjuvant indication in the US and Europe as well as from the 2006 launch in Japan. *Femara* has been outpacing competitors and gaining market share in the aromatase inhibitor segment due to its unique clinical benefits. More than 50 countries have approved *Femara* for the early adjuvant treatment of women immediately following breast cancer surgery.

Lotrel (USD 660 million, -34% lc, only in US) has been negatively affected since May 2007 following the at risk launch of a generic copy by Teva Pharmaceuticals despite a valid US patent until 2017. Sandoz has launched an authorized generic version of this high blood pressure medicine. A trial date has not been set for the ongoing lawsuit against Teva, which risks potentially significant damages if Novartis prevails.

Trileptal (USD 594 million, +10% lc), a treatment for epilepsy seizures, has continued to generate growth but is now facing US generic competition.

Lamisil (USD 529 million, -31% lc), a treatment for fungal nail infections, was negatively impacted by the start of US generics in July. Generic competition also affected sales in Europe and Japan.

Exelon (USD 461 million, +14%), for mild to moderate forms of Alzheimer's disease and dementia associated with Parkinson's disease, maintained excellent growth. *Exelon Patch* was launched in the US and approved in Europe in the third quarter. The constant delivery of *Exelon* through the patch showed equivalent efficacy at the target dose to the highest doses of capsules but with three times fewer reports of nausea or vomiting.

Exjade (USD 255million, +167% lc) has delivered dynamic growth particularly in Europe and the Middle East since its first launch in 2005 based on its status as the first once-daily oral iron chelator for the treatment of chronic iron overload due to blood transfusion. Over 85 countries have approved *Exjade*, which is used to treat iron overload in patients with various blood disorders that require blood transfusion support. In June, it was submitted in Japan for approval a year ahead of schedule.

Lucentis (USD 223 million), for the eye disease wet age-related macular degeneration (AMD), was launched in the first European markets after approval in January and has experienced rapid growth, especially in Germany, France and Switzerland. *Lucentis* is the only treatment proven in clinical trials to maintain and improve vision in these patients, the leading cause of blindness in people over age 50. Genentech holds the US rights.

Xolair (USD 100 million), for moderate to severe allergic asthma, did particularly well in France, Spain and Greece. Novartis co-promotes *Xolair* with Genentech in the US and shares a portion of operating income. *Xolair* had nine-month US net sales of USD 352 million.

Zelnorm/Zelmac (USD 83 million, 80% lc), for irritable bowel syndrome and chronic constipation, continued to be negatively affected by the suspension of marketing and sales in March 2007 in the US while complying with the FDA's request to review cardiovascular safety data. It has also been suspended or withdrawn in several other countries. A treatment access

program was started in the US to provide *Zelnorm* to appropriate patients. Novartis continues to believe that *Zelnorm/Zelmac* offers important benefits to appropriate patients, and discussions continue with health authorities.

Prexige (USD 81 million), an oral COX-2 inhibitor for osteoarthritic pain, is available in 30 countries. It was recently withdrawn in Australia and Canada, and suspended in Turkey, based on post-marketing reports of serious liver side effects associated with long-term use of high doses. In September, a 100 mg dose received a not approvable letter from the FDA despite it being one of the most studied COX-2 inhibitors with a favorable benefit/risk profile. Novartis believes *Prexige* continues to be a valuable therapy option for appropriate patients, particularly those at risk of serious gastrointestinal complications, and will continue discussions with the FDA and other health authorities.

Exforge (USD 52 million), a single tablet combining the angiotensin receptor blocker valsartan (*Diovan*) and the calcium channel blocker amlodipine, has outpaced the US and European launches of other high blood pressure combination medicines due to its unique combination that involves two of the most prescribed high blood pressure medicines.

Tekturna/Rasilez (USD 20 million), the first new type of high blood pressure medicine in more than a decade, has performed well in a competitive US marketplace following its approval and launch in March. European Union approval was received in August, and initial launches are underway. Known as *Tekturna* in the US and as *Rasilez* in other markets, key drivers have been broad clinical data showing its efficacy and safety, recognition of the need for new high blood pressure medicines and increasing US formulary reimbursement coverage. This medicine was discovered by Novartis and developed in collaboration with Speedel.

Aclasta/Reclast was launched in September in the US as a 15-minute, once-yearly infusion for women with postmenopausal osteoporosis. Approved in the EU in October, the initial launches were started in Germany and the UK. *The New England Journal of Medicine* published in September the results of the first-ever clinical study involving more than 2,100 men and women with osteoporosis who had suffered a hip fracture, showing that *Aclasta/Reclast* reduces the risk of further fractures and death in the studied population.

Research & Development update

Tasigna (nilotinib) received a positive opinion recommending European approval and Swiss approval in the third quarter as a therapy for patients with a certain form of chronic myeloid leukemia (CML) resistant or intolerant to treatment with *Gleevec/Glivec* (imatinib). A decision on the US submission is expected in 2007, while a submission for Japanese approval was completed this year. Phase III studies are underway in newly diagnosed CML patients and patients responding sub-optimally to other therapies. A registration study is also underway in gastrointestinal stromal tumors (GIST). *Tasigna* and *Gleevec/Glivec* inhibit Bcr-Abl, the cause of Philadelphia chromosome-positive chronic myeloid leukemia (Ph+ CML). *Tasigna* was designed to be a more selective inhibitor of Bcr-Abl and its mutations.

Galvus (vildagliptin), a new oral once-daily treatment for type 2 diabetes, received European Union approval in September, while a single-tablet combination with the oral anti-diabetes medicine metformin with the brand name **Eucreas** also received a positive regulatory opinion in September recommending European Union approval. In the US, Novartis is continuing discussions with the FDA on steps needed for approval after having received an approvable letter in February 2007 that included a request for additional data from clinical trials.

FTY720 (fingolimod) has completed enrollment in the pivotal Phase III trials for relapsing forms of multiple sclerosis (MS). These are the FREEDOMS trial, a two-year placebo-controlled trial measuring reductions in relapse frequency and disability progression in MS patients and the one-year TRANSFORMS trial comparing FTY720 with interferon beta-1a (Avonex®). The extension of a Phase II trial has shown sustained clinical benefits, indicating FTY720 could provide an important new option for the estimated 2.5 million people worldwide with this disabling neurological disease. Submission is on track for 2009.

RAD001 (everolimus), a once-daily oral inhibitor of the mTOR pathway that has demonstrated broad clinical activity in multiple tumors, achieved an important milestone in the third quarter by completing enrollment in the metastatic renal cell carcinoma registration trial. Registration trials are also underway in chemotherapy-refractory pancreatic islet cell tumors (pICT) in the first- and second-line setting and for chemo-refractory carcinoid tumors. RAD001 acts by directly inhibiting tumor cell growth and metabolism as well as the formation of new blood vessels (angiogenesis). First submissions could be as early as 2008.

QAB149 (indacaterol), a once-daily long-acting beta-agonist with 24-hour bronchodilation and a fast onset of action, has completed enrollment in a pivotal Phase III monotherapy trial in chronic obstructive pulmonary disease (COPD). QAB149 is being developed with other respiratory medicines and development compounds for COPD and asthma.

ABF656 (Albuferon®) (albumin interferon alpha-2b) has completed enrollment and initial dosing ahead of schedule in ACHIEVE 1, the first of two pivotal Phase III trials for this long-acting interferon for use in combination with ribavirin in treatment-naïve patients with the liver disease chronic hepatitis C. Phase II results suggest it may offer efficacy at least comparable to peginterferon alfa-2a, with improved dosing convenience, comparable safety and possibly less impairment of quality of life. Novartis and Human Genome Sciences will co-promote Albuferon in the US, while Novartis will have exclusive rights in the rest of the world. The first regulatory submission is planned for 2009.

Disclaimer

This release contains certain forward-looking statements relating to the Group's business, which can be identified by the use of forward-looking terminology such as outlook, expected, will, on track, set, intends, prospects, expectations, anticipated, potential, may, plan, believes, pending, promising, pipeline, approvable, plans, could, can, or similar expressions, or by express or implied discussions regarding potential future revenues from any particular products, or potential future sales or earnings of the Novartis Group or any of its divisions or business units; potential new products, or potential new indications for existing products, or regarding potential future revenues from any such products; or by discussions of strategy, plans, expectations or intentions. Such statements reflect the current views of management with respect to future events and are subject to certain known and unknown risks, uncertainties, assumptions 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 particular products will reach any particular sales levels. Neither can there be any guarantees that the Novartis Group, or any of its divisions or business units, will achieve any particular financial results. Nor can there be any 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 they will achieve any particular revenue levels. In particular, management's expectations could be affected by, among other things, uncertainties involved in the development of new pharmaceutical products; unexpected clinical trial results,

including additional analysis of existing clinical data or unexpected new clinical data; unexpected regulatory actions or delays or government regulation generally; the Group's ability to obtain or maintain patent or other proprietary intellectual property protection, including the uncertainties involved in the US litigation process; competition in general; government, industry, and general public pricing and other political pressures; and other risks and factors referred to in the Novartis Group'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 this press release as of this date and does not undertake any obligation to update any forward-looking statements contained in this press release as a result of new information, future events or otherwise.

About Novartis

Novartis AG (NYSE: NVS) is a world leader in offering medicines to protect health, cure disease and improve well-being. Our goal is to discover, develop and successfully market innovative products to treat patients, ease suffering and enhance the quality of life. We are strengthening our medicine-based portfolio, which is focused on strategic growth platforms in innovation-driven pharmaceuticals, high-quality and low-cost generics, human vaccines and leading self-medication OTC brands. Novartis is the only company with leadership positions in these areas. In 2006, the Group's businesses achieved net sales of USD 37.0 billion and net income of USD 7.2 billion. Approximately USD 5.4 billion was invested in R&D. Headquartered in Basel, Switzerland, Novartis Group companies employ approximately 100,000 associates and operate in over 140 countries around the world. For more information, please visit <http://www.novartis.com>.

Further important dates

| | |
|-------------------|--|
| January 17, 2008 | Full-year and fourth quarter 2007 results |
| February 26, 2008 | Annual General Meeting |
| April 21, 2008 | First quarter 2008 results |
| July 17, 2008 | Second quarter and first half 2008 results |
| October 20, 2008 | Third quarter and first nine months 2008 results |

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statements (unaudited)

Nine months to September 30

| | YTD 2007 USD m | YTD 2006 USD m | Change USD m | % |
|--|-------------------|-------------------|-----------------|------------|
| Net sales from continuing operations | 28 141 | 24 995 | 3 146 | 13 |
| Other revenues | 635 | 456 | 179 | 39 |
| Cost of Goods Sold | -8 019 | -6 734 | -1 285 | 19 |
| <i>Of which amortization and impairments of product and patent rights and trademarks</i> | <i>-1 079</i> | <i>-540</i> | <i>-539</i> | <i>100</i> |
| Gross profit | 20 757 | 18 717 | 2 040 | 11 |
| Marketing & Sales | -8 081 | -7 188 | -893 | 12 |
| Research & Development | -4 583 | -3 781 | -802 | 21 |
| General & Administration | -1 499 | -1 289 | -210 | 16 |
| Other Income & Expense | -120 | -542 | 422 | -78 |
| Operating income from continuing operations excluding environmental charge | 6 474 | 5 917 | 557 | 9 |
| Corporate environmental provision increase | -590 | | -590 | |
| Operating income from continuing operations | 5 884 | 5 917 | -33 | -1 |
| Income from associated companies | 308 | 193 | 115 | 60 |
| Financial income | 286 | 259 | 27 | 10 |
| Interest expense | -176 | -209 | 33 | -16 |
| Income before taxes from continuing operations | 6 302 | 6 160 | 142 | 2 |
| Taxes | -693 | -931 | 238 | -26 |
| Net income from continuing operations | 5 609 | 5 229 | 380 | 7 |
| Net income from discontinued Consumer Health operations | 5 446 | 310 | 5 136 | |
| Total net income | 11 055 | 5 539 | 5 516 | 100 |
| <i>Attributable to:</i> | | | | |
| <i>Equity holders of Novartis AG</i> | <i>11 042</i> | <i>5 521</i> | <i>5 521</i> | <i>100</i> |
| <i>Minority interests</i> | <i>13</i> | <i>18</i> | <i>-5</i> | <i>-28</i> |
| Average number of shares outstanding Basic (million) | 2 331.0 | 2 344.1 | -13.1 | -1 |
| Basic earnings per share (USD)⁽¹⁾ | | | | |
| Total | 4.74 | 2.36 | 2.38 | 101 |
| Continuing operations | 2.40 | 2.23 | 0.17 | 8 |
| Discontinued operations | 2.34 | 0.13 | 2.21 | |
| Average number of shares outstanding Diluted (million) | 2 343.1 | 2 359.4 | -16.3 | -1 |
| Diluted earnings per share (USD)⁽¹⁾ | | | | |
| Total | 4.71 | 2.34 | 2.37 | 101 |
| Continuing operations | 2.39 | 2.21 | 0.18 | 8 |
| Discontinued operations | 2.32 | 0.13 | 2.19 | |

(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 2007 USD m | Q3 2006 USD m | Change USD m | % |
|--|------------------|------------------|-----------------|------------|
| Net sales from continuing operations | 9 613 | 8 821 | 792 | 9 |
| Other revenues | 205 | 203 | 2 | 1 |
| Cost of Goods Sold | -3 034 | -2 529 | -505 | 20 |
| <i>Of which amortization and impairments of product and patent rights and trademarks</i> | <i>-597</i> | <i>-227</i> | <i>-370</i> | <i>163</i> |
| Gross profit | 6 784 | 6 495 | 289 | 4 |
| Marketing & Sales | -2 682 | -2 478 | -204 | 8 |
| Research & Development | -1 552 | -1 404 | -148 | 11 |
| General & Administration | -499 | -446 | -53 | 12 |
| Other Income & Expense | -9 | -188 | 179 | -95 |
| Operating income from continuing operations excluding environmental charge | 2 042 | 1 979 | 63 | 3 |
| Corporate environmental provision increase | -590 | | -590 | |
| Operating income from continuing operations | 1 452 | 1 979 | -527 | -27 |
| Income from associated companies | 116 | 88 | 28 | 32 |
| Financial income | 109 | 72 | 37 | 51 |
| Interest expense | -66 | -76 | 10 | -13 |
| Income before taxes from continuing operations | 1 611 | 2 063 | -452 | -22 |
| Taxes | -37 | -271 | 234 | 86 |
| Net income from continuing operations | 1 574 | 1 792 | -218 | -12 |
| Net income from discontinued Consumer Health operations | 5 294 | 78 | 5 216 | |
| Total net income | 6 868 | 1 870 | 4 998 | 267 |
| <i>Attributable to:</i> | | | | |
| <i>Equity holders of Novartis AG</i> | <i>6 865</i> | <i>1 867</i> | <i>4 998</i> | <i>268</i> |
| <i>Minority interests</i> | <i>3</i> | <i>3</i> | | |
| Average number of shares outstanding Basic (million) | 2 312.1 | 2 347.5 | -35.4 | -2 |
| Basic earnings per share (USD)⁽¹⁾ | | | | |
| Total | 2.97 | 0.80 | 2.17 | 271 |
| Continuing operations | 0.68 | 0.77 | -0.09 | -12 |
| Discontinued operations | 2.29 | 0.03 | 2.26 | |
| Average number of shares outstanding Diluted (million) | 2 322.4 | 2 361.9 | -39.5 | -2 |
| Diluted earnings per share (USD)⁽¹⁾ | | | | |
| Total | 2.96 | 0.79 | 2.17 | 274 |
| Continuing operations | 0.68 | 0.76 | -0.08 | -11 |
| Discontinued operations | 2.28 | 0.03 | 2.25 | |

(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**

| | YTD 2007 USD m | YTD 2006 USD m | change USD m |
|--|-------------------|-------------------|-----------------|
| Net income from continuing operations | 5 609 | 5 229 | 380 |
| Fair value adjustments on financial instruments | -11 | 4 | -15 |
| Actuarial gains from defined benefit plans, net | 944 | -150 | 1 094 |
| Novartis share of equity recognized by associated companies | 113 | -67 | 180 |
| Revaluation of initial minority interests in Chiron | 55 | 609 | -554 |
| Translation effects | 1 411 | 870 | 541 |
| Amounts related to discontinued operations | 5 584 | 329 | 5 255 |
| Recognized income and expense | 13 705 | 6 824 | 6 881 |

Consolidated statement of recognized income and expense (unaudited)**Third quarter**

| | Q3 2007 USD m | Q3 2006 USD m | change USD m |
|--|------------------|------------------|-----------------|
| Net income from continuing operations | 1 574 | 1 792 | -218 |
| Fair value adjustments on financial instruments | -27 | 41 | -68 |
| Actuarial gains from defined benefit plans, net | -194 | -432 | 238 |
| Novartis share of equity recognized by associated companies | 21 | -58 | 79 |
| Revaluation of initial minority interests in Chiron | | -54 | 54 |
| Translation effects | 1 107 | -171 | 1 278 |
| Amounts related to discontinued operations | 5 435 | 123 | 5 312 |
| Recognized income and expense | 7 916 | 1 241 | 6 675 |

Condensed consolidated balance sheets

| | Sept 30, 2007 (unaudited) USD m | Dec 31, 2006 USD m | Change USD m | Sept 30, 2006 (unaudited) USD m |
|--|--|--------------------------|-----------------|---------------------------------------|
| Assets | | | | |
| Non-current assets | | | | |
| Property, plant & equipment | 12 029 | 10 945 | 1 084 | 10 241 |
| Intangible assets | 21 106 | 21 230 | -124 | 21 706 |
| Financial and other non-current assets | 15 119 | 14 429 | 690 | 13 942 |
| Total non-current assets | 48 254 | 46 604 | 1 650 | 45 889 |
| Current assets | | | | |
| Inventories | 5 268 | 4 498 | 770 | 4 610 |
| Trade accounts receivable | 6 813 | 6 161 | 652 | 6 087 |
| Other current assets | 2 069 | 2 054 | 15 | 1 746 |
| Cash, short-term deposits and marketable securities | 14 532 | 7 955 | 6 577 | 8 530 |
| Total current assets from continuing operations | 28 682 | 20 668 | 8 014 | 20 973 |
| Assets related to discontinued operations | | 736 | -736 | |
| Total current assets | 28 682 | 21 404 | 7 278 | 20 973 |
| Total assets | 76 936 | 68 008 | 8 928 | 66 862 |
| Equity and liabilities | | | | |
| Total equity | 49 493 | 41 294 | 8 199 | 38 590 |
| Non-current liabilities | | | | |
| Financial debts | 667 | 656 | 11 | 1 963 |
| Other non-current liabilities | 9 275 | 9 824 | -549 | 9 994 |
| Total non-current liabilities | 9 942 | 10 480 | -538 | 11 957 |
| Current liabilities | | | | |
| Trade accounts payable | 2 725 | 2 487 | 238 | 2 113 |
| Financial debts and derivatives | 6 576 | 6 643 | -67 | 7 258 |
| Other current liabilities | 8 200 | 6 897 | 1 303 | 6 944 |
| Total current liabilities from continuing operations | 17 501 | 16 027 | 1 474 | 16 315 |
| Liabilities related to discontinued operations | | 207 | -207 | |
| Total current liabilities | 17 501 | 16 234 | 1 267 | 16 315 |
| Total liabilities | 27 443 | 26 714 | 729 | 28 272 |
| Total equity and liabilities | 76 936 | 68 008 | 8 928 | 66 862 |

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

| | YTD 2007 USD m | YTD 2006 USD m | change USD m |
|--|-------------------|-------------------|-----------------|
| Consolidated equity at January 1 | 41 294 | 33 164 | 8 130 |
| Recognized income and expense | 13 705 | 6 824 | 6 881 |
| Purchase/sale of treasury shares, net | -3 310 | 290 | -3 600 |
| Share-based compensation | 430 | 372 | 58 |
| Dividends | -2 598 | -2 049 | -549 |
| Changes in minority interests | -28 | -11 | -17 |
| Consolidated equity at September 30 | 49 493 | 38 590 | 10 903 |

Third quarter

| | Q3 2007 USD m | Q3 2006 USD m | Change USD m |
|--|------------------|------------------|-----------------|
| Consolidated equity at July 1 | 43 664 | 37 164 | 6 500 |
| Recognized income and expense | 7 916 | 1 241 | 6 675 |
| Purchase/sale of treasury shares, net | -2 215 | 69 | -2 284 |
| Share-based compensation | 137 | 128 | 9 |
| Changes in minority interests | -9 | -12 | 3 |
| Consolidated equity at September 30 | 49 493 | 38 590 | 10 903 |

Condensed consolidated cash flow statements (unaudited)

Nine months to September 30

| | YTD 2007 USD m | YTD 2006 USD m | Change USD m |
|---|-------------------|-------------------|-----------------|
| Net income from continuing operations | 5 609 | 5 229 | 380 |
| Reversal of non-cash items | | | |
| Taxes | 693 | 931 | -238 |
| Depreciation, amortization and impairments | 2 073 | 1 399 | 674 |
| Change in provisions and other non-current liabilities | 972 | 275 | 697 |
| Net financial income | -110 | -50 | -60 |
| Other | -101 | 98 | -199 |
| Net income adjusted for non-cash items | 9 136 | 7 882 | 1 254 |
| Interest and other financial receipts | 401 | 398 | 3 |
| Interest and other financial payments | -124 | -122 | -2 |
| Taxes paid | -1 618 | -1 408 | -210 |
| Cash flow before working capital changes | 7 795 | 6 750 | 1 045 |
| Restructuring payments and other cash payments out of provisions | -228 | -198 | -30 |
| Change in net current assets and other operating cash flow items | -1 320 | -617 | -703 |
| Cash flow from operating activities of continuing operations | 6 247 | 5 935 | 312 |
| Investments in property, plant & equipment | -1 795 | -1 117 | -678 |
| Acquisitions of subsidiaries | -52 | -4 508 | 4 456 |
| Increase in marketable securities, intangible and financial assets | -2 716 | -138 | -2 578 |
| Cash flow from investing activities of continuing operations | -4 563 | -5 763 | 1 200 |
| Cash flow from financing activities of continuing operations | -6 162 | -3 028 | -3 134 |
| Cash flow from discontinued operations | 7 976 | 503 | 7 473 |
| Translation effect on cash and cash equivalents | 97 | 45 | 52 |
| Change in cash and cash equivalents from discontinued operations | 4 | | 4 |
| Change in cash and cash equivalents from continuing operations | 3 599 | -2 308 | 5 907 |
| Cash and cash equivalents from continuing operations at January 1 | 3 815 | 6 321 | -2 506 |
| Cash and cash equivalents from continuing operations at September 30 | 7 414 | 4 013 | 3 401 |

Condensed consolidated cash flow statements (unaudited)

Third quarter

| | Q3 2007 USD m | Q3 2006 USD m | Change USD m |
|---|------------------|------------------|-----------------|
| Net income from continuing operations | 1 574 | 1 792 | -218 |
| Reversal of non-cash items | | | |
| Taxes | 37 | 271 | -234 |
| Depreciation, amortization and impairments | 953 | 563 | 390 |
| Change in provisions and other non-current liabilities | 820 | 44 | 776 |
| Net financial income | -43 | 4 | -47 |
| Other | -171 | 41 | -212 |
| Net income adjusted for non-cash items | 3 170 | 2 715 | 455 |
| Interest and other financial receipts | 101 | 97 | 4 |
| Interest and other financial payments | -43 | -39 | -4 |
| Taxes paid | -645 | -360 | -285 |
| Cash flow before working capital changes | 2 583 | 2 413 | 170 |
| Restructuring payments and other cash payments out of provisions | -85 | -75 | -10 |
| Change in net current assets and other operating cash flow items | -171 | 1 | -172 |
| Cash flow from operating activities of continuing operations | 2 327 | 2 339 | -12 |
| Investments in property, plant & equipment | -650 | -476 | -174 |
| Acquisitions of subsidiaries | -218 | 218 | |
| Increase in marketable securities, intangible and financial assets | -1 938 | 280 | -2 218 |
| Cash flow from investing activities of continuing operations | -2 588 | -414 | -2 174 |
| Cash flow from financing activities of continuing operations | -2 873 | -475 | -2 398 |
| Cash flow from discontinued operations | 7 808 | 125 | 7 683 |
| Translation effect on cash and cash equivalents | 73 | -12 | 85 |
| Change in cash and cash equivalents from discontinued operations | 55 | | 55 |
| Change in cash and cash equivalents from continuing operations | 4 802 | 1 563 | 3 239 |
| Cash and cash equivalents from continuing operations at July 1 | 2 612 | 2 450 | 162 |
| Cash and cash equivalents from continuing operations at September 30 | 7 414 | 4 013 | 3 401 |

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Consolidated income statements Nine months to September 30 Divisional segmentation (unaudited)

| | Pharmaceuticals | | Vaccines and Diagnostics | | Sandoz | | Consumer Health continuing operations | | Corporate | | Total continuing operations | | Discontinued Consumer Health operations | | Total Group | |
|--|----------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|--|----------------------|----------------------|----------------------|-----------------------------------|----------------------|--|----------------------|----------------------|----------------------|
| | YTD 2007 USD m | YTD 2006 USD m | YTD 2007 USD m | YTD 2006 USD m | YTD 2007 USD m | YTD 2006 USD m | YTD 2007 USD m | YTD 2006 USD m | YTD 2007 USD m | YTD 2006 USD m | YTD 2007 USD m | YTD 2006 USD m | YTD 2007 USD m | YTD 2006 USD m | YTD 2007 USD m | YTD 2006 USD m |
| Net sales to third parties | 17 873 | 16 527 | 1 054 | 501 | 5 198 | 4 306 | 4 016 | 3 661 | | | 28 141 | 24 995 | 1 728 | 1 972 | 29 869 | 26 967 |
| Sales to other Divisions | 137 | 120 | 18 | 14 | 178 | 112 | 29 | 33 | -362 | -279 | | | | | | |
| Sales of Divisions | 18 010 | 16 647 | 1 072 | 515 | 5 376 | 4 418 | 4 045 | 3 694 | -362 | -279 | 28 141 | 24 995 | 1 728 | 1 972 | 29 869 | 26 967 |
| Other revenues | 294 | 264 | 301 | 150 | 15 | 18 | 25 | 24 | | | 635 | 456 | 7 | 7 | 642 | 463 |
| Cost of Goods Sold | -3 336 | -2 824 | -716 | -439 | -2 954 | -2 487 | -1 378 | -1 278 | 365 | 294 | -8 019 | -6 734 | -903 | -1 051 | -8 922 | -7 785 |
| <i>Of which amortization and impairments of product and patent rights and trademarks</i> | <i>-591</i> | <i>-151</i> | <i>-207</i> | <i>-104</i> | <i>-223</i> | <i>-226</i> | <i>-58</i> | <i>-59</i> | | | <i>-1 079</i> | <i>-540</i> | | <i>-9</i> | <i>-1 079</i> | <i>-549</i> |
| Gross profit | 14 968 | 14 087 | 657 | 226 | 2 437 | 1 949 | 2 692 | 2 440 | 3 | 15 | 20 757 | 18 717 | 832 | 928 | 21 589 | 19 645 |
| Marketing & Sales | -5 609 | -5 043 | -142 | -73 | -874 | -747 | -1 456 | -1 325 | | | -8 081 | -7 188 | -399 | -501 | -8 480 | -7 689 |
| Research & Development | -3 649 | -3 052 | -190 | -86 | -396 | -342 | -215 | -178 | -133 | -123 | -4 583 | -3 781 | -26 | -30 | -4 609 | -3 811 |
| General & Administration | -550 | -485 | -121 | -48 | -252 | -215 | -266 | -251 | -310 | -290 | -1 499 | -1 289 | -77 | -90 | -1 576 | -1 379 |
| Other Income & Expense | 1 | -425 | -25 | -47 | -126 | -113 | -28 | 1 | 58 | 42 | -120 | -542 | 5 850 | 126 | 5 730 | -416 |
| <i>Of which amortization and impairments of capitalized intangibles included in function costs</i> | <i>-63</i> | <i>-65</i> | <i>-8</i> | | <i>-28</i> | <i>-26</i> | <i>-9</i> | <i>-6</i> | <i>-3</i> | <i>-7</i> | <i>-111</i> | <i>-104</i> | <i>-6</i> | <i>-24</i> | <i>-117</i> | <i>-128</i> |
| Operating income before environmental provision increase | 5 161 | 5 082 | 179 | -28 | 789 | 532 | 727 | 687 | -382 | -356 | 6 474 | 5 917 | 6 180 | 433 | 12 654 | 6 350 |
| Environmental provision increase | | | | | | | | | -590 | -356 | -590 | | | | -590 | |
| Operating income | 5 161 | 5 082 | 179 | -28 | 789 | 532 | 727 | 687 | -972 | -356 | 5 884 | 5 917 | 6 180 | 433 | 12 064 | 6 350 |
| Income from associated companies | | | | | | | | | | | 308 | 193 | | | 308 | 193 |
| Financial income | | | | | | | | | | | 286 | 259 | | | 286 | 259 |
| Interest expense | | | | | | | | | | | -176 | -209 | | | -176 | -209 |
| Income before taxes | | | | | | | | | | | 6 302 | 6 160 | 6 180 | 433 | 12 482 | 6 593 |

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| | | | | | | | | | | | | | | | | |
|---|-------|-----|-----|----|-----|-----|-----|-----|----|----|--------------|--------------|--------------|------------|---------------|--------------|
| Taxes | | | | | | | | | | | -693 | -931 | -734 | -123 | -1 427 | -1 054 |
| Net income | | | | | | | | | | | 5 609 | 5 229 | 5 446 | 310 | 11 055 | 5 539 |
| <i>Additions to:</i> | | | | | | | | | | | | | | | | |
| <i>Property, plant and equipment⁽¹⁾</i> | 1 059 | 700 | 166 | 63 | 394 | 175 | 146 | 120 | 48 | 67 | 1 813 | 1 125 | 32 | 25 | 1 845 | 1 150 |
| <i>Goodwill and other intangibles⁽¹⁾</i> | 311 | 277 | 208 | | 34 | 13 | 2 | 105 | 4 | | 559 | 395 | 83 | 56 | 642 | 451 |

(1) Excluding impact of business acquisitions

Consolidated income statements Third quarter Divisional segmentation (unaudited)

| | Pharmaceuticals | | | Vaccines and Diagnostics | | Sandoz | | Consumer Health continuing operations | | Corporate | | Total continuing operations | | Discontinued Consumer Health operations | | Total Group | |
|--|------------------------|------------------------|------------------------|-----------------------------|------------------------|------------------------|------------------------|--|------------------------|------------------------|------------------------|-----------------------------------|------------------------|--|------------------------|------------------------|------------------------|
| | Q3 2007 USD m | Q3 2006 USD m | Q3 2007 USD m | Q3 2006 USD m | Q3 2007 USD m | Q3 2006 USD m | Q3 2007 USD m | Q3 2006 USD m | Q3 2007 USD m | Q3 2006 USD m | Q3 2007 USD m | Q3 2006 USD m | Q3 2007 USD m | Q3 2006 USD m | Q3 2007 USD m | Q3 2006 USD m | Q3 2007 USD m |
| Net sales to third parties | 5 885 | 5 776 | 572 | 374 | 1 783 | 1 425 | 1 373 | 1 246 | | | 9 613 | 8 821 | 315 | 663 | 9 928 | 9 484 | |
| Sales to other Divisions | 51 | 41 | 12 | 14 | 56 | 37 | 9 | 10 | -128 | -102 | | | | | | | |
| Sales of Divisions | 5 936 | 5 871 | 584 | 388 | 1 839 | 1 462 | 1 382 | 1 256 | -128 | -102 | 9 613 | 8 821 | 315 | 663 | 9 928 | 9 484 | |
| Other revenues | 105 | 100 | 88 | 89 | 4 | 7 | 8 | 7 | | | 205 | 203 | 1 | 3 | 206 | 206 | |
| Cost of Goods Sold | -1 | | | | -1 | | | | | | -3 | -2 | | | -3 | -2 | |
| | 312 | -989 | -315 | -321 | 049 | -875 | -493 | -440 | 135 | 96 | 034 | 529 | -153 | -359 | 187 | 888 | |
| <i>Of which amortization and impairments of product and patent rights and trademarks</i> | -412 | -60 | -68 | -79 | -97 | -69 | -20 | -19 | | | -597 | -227 | 6 | -3 | -591 | -230 | |
| Gross profit | 4 729 | 4 928 | 357 | 156 | 794 | 594 | 897 | 823 | 7 | -6 | 6 784 | 6 495 | 163 | 307 | 6 947 | 6 802 | |
| Marketing & Sales | -1 | -1 | | | | | | | | | -2 | -2 | | | -2 | -2 | |
| | 841 | 746 | -51 | -46 | -303 | -254 | -487 | -432 | | | 682 | 478 | -49 | -157 | 731 | 635 | |
| Research & Development | -1 | -1 | | | | | | | | | -1 | -1 | | | -1 | -1 | |
| | 219 | 127 | -65 | -49 | -145 | -120 | -77 | -63 | -46 | -45 | 552 | 404 | -4 | -11 | 556 | 415 | |
| General & Administration | -182 | -164 | -43 | -29 | -88 | -79 | -82 | -82 | -104 | -92 | -499 | -446 | -15 | -27 | -514 | -473 | |
| Other Income & Expense | 54 | -112 | -26 | -22 | -30 | -54 | -7 | -5 | | 5 | -9 | -188 | 5 848 | -3 | 5 839 | -191 | |
| <i>Of which amortization and impairments of capitalized intangibles included in function costs</i> | -23 | -50 | -4 | | -10 | -6 | -6 | -4 | | -3 | -43 | -63 | 13 | -8 | -30 | -71 | |
| Operating income before environmental provision increase | 1 541 | 1 779 | 172 | 10 | 228 | 87 | 244 | 241 | -143 | -138 | 2 042 | 1 979 | 5 943 | 109 | 7 985 | 2 088 | |
| Environmental provision increase | | | | | | | | | | -590 | -590 | | | | -590 | | |
| Operating income | 1 541 | 1 779 | 172 | 10 | 228 | 87 | 244 | 241 | -733 | -138 | 1 452 | 1 979 | 5 943 | 109 | 7 395 | 2 088 | |
| Income from associated companies | | | | | | | | | | | 116 | 88 | | 116 | 88 | | |
| Financial income | | | | | | | | | | | 109 | 72 | | 109 | 72 | | |
| Interest expense | | | | | | | | | | | -66 | -76 | | -66 | -76 | | |
| Income before taxes | | | | | | | | | | | 1 611 | 2 063 | 5 943 | 109 | 7 554 | 2 172 | |
| Taxes | | | | | | | | | | | -37 | -271 | -649 | -31 | -686 | -302 | |
| Net income | | | | | | | | | | | 1 574 | 1 792 | 5 294 | 78 | 6 868 | 1 870 | |
| <i>Additions to:</i> | | | | | | | | | | | | | | | | | |
| <i>Property, plant and equipment⁽¹⁾</i> | 369 | 301 | 74 | 36 | 143 | 62 | 56 | 51 | 16 | 28 | 658 | 478 | 9 | 9 | 667 | 487 | |
| <i>Goodwill and other intangibles⁽¹⁾</i> | 90 | 6 | 208 | | 19 | 2 | | 2 | | | 317 | 10 | 12 | 23 | 329 | 33 | |

(1) Excluding impact of business acquisitions

Notes to the Condensed Interim Consolidated Financial Statements for the nine months ended September 30, 2007 (unaudited)

1. Basis of preparation

The condensed consolidated financial statements for the nine-month period ended September 30, 2007, were prepared in accordance with International Accounting Standard 34 Interim Financial Reporting and accounting policies set out in the 2006 Annual Report, which was published on January 18, 2007.

2. Business combinations and other significant transactions

The following significant transactions occurred during 2007 and 2006:

2007

Pharmaceuticals Betaseron® agreement related to Chiron acquisition

On September 14, Novartis and Bayer Schering Pharma AG completed an agreement related to the regulatory, development, manufacturing and supply agreements for the multiple sclerosis medicine Betaseron®. The agreement was reached following the April 2006 acquisition of Chiron. As part of this agreement with Bayer Schering, Novartis received a one-time payment of approximately USD 200 million as well as the rights to market its own branded version of Betaseron® starting in 2009 (pending regulatory approvals). As a result of this transaction, a final reassessment was made of the related assets from the Chiron acquisition as of April 20, 2006. This resulted in an increase of USD 235 million in identified net assets, which was adjusted in the 2007 first quarter. After taking this into account, final Pharmaceutical division goodwill for the Chiron acquisition at September 30, 2007, amounted to USD 1.9 billion.

Vaccines and Diagnostics Intercell agreement

On September 28, Novartis completed a strategic alliance with Intercell, an Austrian biotechnology company, focused on vaccines development. Under the agreement, Novartis acquired USD 207 million (EUR 146 million) of intangible assets in Intercell and paid an additional USD 176 million (EUR 124 million) to acquire an additional 4.8 million shares, which increased the Novartis investment in Intercell to 15.9%. The accounting for this transaction is still preliminary.

Consumer Health Gerber business unit divestment

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

Consumer Health Medical Nutrition business unit divestment

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

The Gerber and Medical Nutrition business units (which included the Nutrition & Santé business divested in February 2006) are disclosed as discontinued operations in all periods in the Group's consolidated financial statements. These businesses together had 2007 net sales of USD 1.7 billion and operating income of USD 330 million before their divestment.

2006

Corporate Chiron acquisition

On April 19, Chiron shareholders approved the acquisition of the remaining 56% of the shares of Chiron Corporation that Novartis did not already own for USD 48.00 per share. The amount paid for the shares, related options of associates and transaction costs totaled approximately USD 5.7 billion. The transaction was completed on April 20. Novartis created a new division called Vaccines and Diagnostics with two activities: human vaccines named Novartis Vaccines and a diagnostics activity that retained Chiron as its name. Chiron's biopharmaceuticals activities were integrated into the Pharmaceuticals Division.

For the period from January 1 to the date of acquisition, the prior 44% interest in Chiron has been accounted for using the equity method. From its date of acquisition Chiron has been fully consolidated with its identifiable assets and liabilities being revalued to their fair value at the date of acquisition. The Group's initial 44% interest in Chiron also was revalued directly into equity by USD 0.6 billion.

Pharmaceuticals

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

On July 14, 2006, Novartis announced that its offer for the UK biopharmaceutical company NeuTec Pharma plc specialized in hospital anti-infectives, became unconditional and the company has been consolidated from this date. Novartis paid a total consideration of USD 606 million to fully acquire the company. NeuTec Pharma plc has had no post-acquisition sales, although expenses and cash flows were consolidated from the acquisition date. Goodwill at September 30, 2007, amounted to USD 138 million.

Vaccines and Diagnostics

Since the Chiron acquisition, the income statement and cash flows from the vaccines and diagnostics activities comprise the Division's results. Goodwill on this transaction at September 30, 2007, amounted to USD 1.1 billion.

3. Principal currency translation rates

Nine months to September 30

| | Average rates YTD 2007 | Average rates YTD 2006 | Period-end rates Sept 30, 2007 | Period-end rates Sept 30, 2006 |
|---------|---------------------------|---------------------------|-----------------------------------|-----------------------------------|
| | USD | USD | USD | USD |
| 1 CHF | 0.821 | 0.794 | 0.853 | 0.800 |
| 1 EUR | 1.344 | 1.244 | 1.417 | 1.268 |
| 1 GBP | 1.987 | 1.817 | 2.022 | 1.871 |
| 100 JPY | 0.839 | 0.863 | 0.868 | 0.848 |

Third quarter

| | Average rates Q3 2007 | Average rates Q3 2006 | Period-end rates Sept 30, 2007 | Period-end rates Sept 30, 2006 |
|---------|--------------------------|--------------------------|-----------------------------------|-----------------------------------|
| | USD | USD | USD | USD |
| 1 CHF | 0.834 | 0.808 | 0.853 | 0.800 |
| 1 EUR | 1.374 | 1.274 | 1.417 | 1.268 |
| 1 GBP | 2.020 | 1.874 | 2.022 | 1.871 |
| 100 JPY | 0.850 | 0.860 | 0.868 | 0.848 |

4. Legal proceedings update

A number of our subsidiaries are the subject of various legal proceedings that arise from time to time in the ordinary course of business. While we do not believe that any of them will have a material adverse effect on our consolidated financial position, litigation is inherently unpredictable and excessive verdicts do occur. As a consequence, we may in the future incur judgments or enter into settlements of claims that could have a material adverse effect on our consolidated results of operations in any particular period. Please consult the 2006 Annual Report (note 19 to the Group's consolidated financial statements) for a summary of major legal proceedings. The following non-exhaustive list reflects recent developments in legal proceedings:

Product liability litigation

Zometa/Aredia

A Novartis subsidiary is now a defendant in approximately 331 cases brought in US courts by approximately 388 plaintiffs who claim to have experienced osteonecrosis of the jaw after treatment with *Zometa/Aredia*. Two of these cases purport to be class actions. In October 2007, a US district court denied a motion by the plaintiffs for certification of a dental monitoring class.

Gender discrimination

Certain female pharmaceutical sales representatives brought a lawsuit against, among others, several US Novartis subsidiaries, alleging that they were discriminated against because of their gender. The district court granted, in part, a plaintiffs' motion for class certification against one of the US Novartis subsidiaries. The court dismissed all other US Novartis defendants from the case. The remaining US Novartis subsidiary has appealed the decision regarding class certification.

Patent litigation

Famvir

Famvir, a therapy for viral infections, is the subject of patent litigation in the US. The active ingredient is covered by a compound patent that expires in 2010 in the US and in 2008 in Europe, but expired in Canada in 2006. Various method-of-use patents expire in 2014 and 2015. Novartis initiated litigation against Teva for infringement of the compound patent. In August 2007, Teva Pharmaceuticals received final FDA approval for its generic version, which did not impact the validity of these patents and immediately started to ship its generic version. Novartis continues to vigorously defend its intellectual property rights.

Contact lenses

Rembrandt Vision Technologies filed a patent infringement suit against CIBA Vision in October 2005 in the US District Court for the Eastern District of Texas. The lawsuit involves CIBA Vision's QOPTIX and NIGHT & DAY contact lens products. The case is scheduled to be heard in

a jury trial by this US court before the end of the year. Novartis continues to vigorously defend its intellectual property rights for these products.

5. Significant differences between IFRS and US Generally Accepted Accounting Principles (US GAAP)

The Group's consolidated financial statements have been prepared in accordance with IFRS, which, as applied by the Group, differ in certain significant respects from US GAAP. The effects of the application of US GAAP to net income and equity are set out in the tables below.

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For further comments regarding the nature of these adjustments, please consult note 33 in the Novartis 2006 Annual Report.

| | YTD 2007 USD m | YTD 2006 USD m |
|--|-------------------|-------------------|
| Net income from continuing operations under IFRS | 5 609 | 5 229 |
| US GAAP adjustments: | | |
| Available-for-sale securities | 99 | -71 |
| Inventory | -76 | 94 |
| Intangible assets | -680 | -712 |
| Property, plant and equipment | 23 | 48 |
| Pensions and other post-employment benefits | -135 | -129 |
| Deferred taxes | 57 | -180 |
| Share-based compensation | -1 | -3 |
| Currency translation | | -4 |
| Minority interests | -13 | -18 |
| Other | -196 | |
| Net income from continuing operations under US GAAP | 4 687 | 4 254 |
| Net income from discontinued operations under US GAAP | 2 798 | 241 |
| Net income under US GAAP | 7 485 | 4 495 |
| Basic earnings per share under US GAAP (USD) | | |
| Total | 3.21 | 1.92 |
| Continuing operations | 2.01 | 1.82 |
| Discontinued operations | 1.20 | 0.10 |
| Diluted earnings per share under US GAAP (USD) | | |
| Total | 3.19 | 1.91 |
| Continuing operations | 2.00 | 1.81 |
| Discontinued operations | 1.19 | 0.10 |

| | Sept 30, 2007 USD m | Sept 30, 2006 USD m |
|---|------------------------|------------------------|
| Equity under IFRS | 49 493 | 38 590 |
| US GAAP adjustments: | | |
| Available-for-sale securities | -35 | -23 |
| Inventory impairment reversal | -87 | -20 |
| Associated companies | -319 | -299 |
| Intangible assets | -2 485 | 2 194 |
| Property, plant and equipment | -438 | -389 |
| Pensions and other post-employment benefits | 13 | 3 139 |
| Deferred taxes | 221 | -937 |
| Share-based compensation | -140 | -136 |
| Minority interests | -175 | -181 |
| Other | -44 | |
| Total US GAAP adjustments | -3 489 | 3 348 |
| Equity under US GAAP | 46 004 | 41 938 |

Supplementary information (unaudited)

Condensed consolidated change in liquidity

Nine months to September 30

| | YTD 2007 USD m | YTD 2006 USD m | Change USD m |
|---|-------------------|-------------------|-----------------|
| Change in cash and cash equivalents | 3 599 | -2 308 | 5 907 |
| Change in marketable securities, financial debt and financial derivatives | 3 034 | -862 | 3 896 |
| Change in net liquidity | 6 633 | -3 170 | 9 803 |
| Net liquidity at January 1 | 656 | 2 479 | -1 823 |
| Net liquidity/debt at September 30 | 7 289 | -691 | 7 980 |

Third quarter

| | Q3 2007 USD m | Q3 2006 USD m | Change USD m |
|---|------------------|------------------|-----------------|
| Change in cash and cash equivalents | 4 802 | 1 563 | 3 239 |
| Change in marketable securities, financial debt and financial derivatives | 2 390 | -138 | 2 528 |
| Change in net liquidity | 7 192 | 1 425 | 5 767 |
| Net liquidity/debt at July 1 | 97 | -2 116 | 2 213 |
| Net liquidity/debt at September 30 | 7 289 | -691 | 7 980 |

Free cash flow**Nine months to September 30**

| | YTD 2007 USD m | YTD 2006 USD m | Change USD m |
|--|-------------------|-------------------|-----------------|
| Cash flow from operating activities of continuing operations | 6 247 | 5 935 | 312 |
| Purchase of property, plant & equipment | -1 795 | -1 117 | -678 |
| Purchase of intangible and financial assets | -684 | -615 | -69 |
| Sale of property, plant & equipment, intangible and financial assets | 559 | 205 | 354 |
| Dividends | -2 598 | -2 049 | -549 |
| Free cash flow from continuing operations | 1 729 | 2 359 | -630 |
| Free cash flow from discontinued operations | 53 | 306 | -253 |
| Total free cash flow | 1 782 | 2 665 | -883 |

Third quarter

| | Q3 2007 USD m | Q3 2006 USD m | Change USD m |
|--|------------------|------------------|-----------------|
| Cash flow from operating activities of continuing operations | 2 327 | 2 339 | -12 |
| Purchase of property, plant & equipment | -650 | -476 | -174 |
| Purchase of intangible and financial assets | -362 | -142 | -220 |
| Sale of property, plant & equipment, intangible and financial assets | 303 | 34 | 269 |
| Free cash flow from continuing operations | 1 618 | 1 755 | -137 |
| Free cash flow from discontinued operations | -58 | 114 | -172 |
| Total free cash flow | 1 560 | 1 869 | -309 |

Share information

| | September 30, 2007 | September 30, 2006 |
|--|--------------------|--------------------|
| Number of shares outstanding (million) | 2 295.2 | 2 348.7 |
| Registered share price (CHF) | 64.25 | 73.00 |
| ADS price (USD) | 54.96 | 58.44 |
| Market capitalization (USD billion) | 125.8 | 137.2 |
| Market capitalization (CHF billion) | 147.5 | 171.5 |

Impact of intangible asset charges and significant exceptional items Nine months to September 30

| | Pharmaceuticals | | Vaccines and Diagnostics | | Sandoz | | Consumer Health continuing operations | | Corporate | | Total continuing operations | |
|---|-----------------|--------------|-----------------------------|-------------|--------------|-------------|---|-------------|-------------|-------------|--------------------------------|--------------|
| | YTD 2007 | YTD 2006 | YTD 2007 | YTD 2006 | YTD 2007 | YTD 2006 | YTD 2007 | YTD 2006 | YTD 2007 | YTD 2006 | YTD 2007 | YTD 2006 |
| | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m |
| Reported operating income | 5 161 | 5 082 | 179 | -28 | 789 | 532 | 727 | 687 | -972 | -356 | 5 884 | 5 917 |
| Recurring amortization | 311 | 177 | 215 | 104 | 214 | 206 | 64 | 64 | 3 | 7 | 807 | 558 |
| Impairments | 343 | 39 | | | 37 | 46 | 3 | 1 | | | 383 | 86 |
| Intangible asset charges | 654 | 216 | 215 | 104 | 251 | 252 | 67 | 65 | 3 | 7 | 1 190 | 644 |
| Impairment charges on property, plant & equipment | | -2 | | | 20 | 7 | | | | | 20 | 5 |
| Impact of increasing acquisition-related inventory to selling price less distribution margin | | 81 | | 93 | | | 6 | | | | 6 | 174 |
| Restructuring and acquisition-related integration expenses, net | | 113 | 12 | 29 | 13 | 54 | 3 | | | | 28 | 196 |
| Exceptional restructuring and acquisition related integration expenses, net | | 192 | 12 | 122 | 33 | 61 | 9 | | | | 54 | 375 |
| Exceptional gains from divesting brands, subsidiaries and financial investments | -166 | -87 | | | | | | | | | -166 | -87 |
| Impairment of financial assets | 22 | 25 | | | 10 | 10 | | | 7 | 3 | 39 | 38 |
| Environmental provision increase | | | | | | | | | 590 | | 590 | |
| Litigation and other settlements | | | -83 | | | | | | | | -83 | |
| Suspension of <i>Zelnorm</i> | 87 | | | | | | | | | | 87 | |
| <i>Tekturna/Rasilez</i> inventory provision | -107 | | | | | | | | | | -107 | |
| Release of Tricare revenue deduction accrual | | -62 | | | | | | | | | | -62 |
| France accounting irregularity | | | | | | 58 | | | | | | 58 |
| Other exceptional items | 2 | -37 | -83 | | 10 | 68 | | | 597 | 3 | 526 | 34 |
| Total adjustments | 490 | 284 | 144 | 226 | 294 | 381 | 76 | 65 | 600 | 10 | 1 604 | 966 |
| Operating income excluding above items | 5 651 | 5 366 | 323 | 198 | 1 083 | 913 | 803 | 752 | -372 | -346 | 7 488 | 6 883 |
| Income from associated companies | | | | | | | | | | | 308 | 193 |
| Exceptional associated companies/ Chiron-related acquisition charges | | | | | | | | | | | | 53 |
| Net financial income | | | | | | | | | | | 110 | 50 |
| Taxes (adjusted for above items) | | | | | | | | | | | -1 147 | -1 254 |
| Adjusted net income from continuing operations | | | | | | | | | | | 6 759 | 5 925 |
| Adjusted net income attributable to shareholders | | | | | | | | | | | 6 746 | 5 907 |

Adjusted basic earnings
per share from continuing
operations

2.89

2.52

Impact of intangible asset charges and significant exceptional items Third quarter

| | Pharmaceuticals | | Vaccines and Diagnostics | | Sandoz | Consumer Health continuing operations | | Corporate | Total continuing operations | | | |
|---|-----------------|--------------|-----------------------------|------------|------------|--|------------|------------|-----------------------------------|-------------|--------------|--------------|
| | Q3 2007 | Q3 2006 | Q3 2007 | Q3 2006 | Q3 2007 | Q3 2006 | Q3 2007 | Q3 2006 | Q3 2007 | Q3 2006 | Q3 2006 | Q3 2006 |
| | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m |
| Reported operating income | 1 541 | 1 779 | 172 | 10 | 228 | 87 | 244 | 241 | -733 | -138 | 1 452 | 1 979 |
| Recurring amortization | 106 | 78 | 72 | 79 | 70 | 68 | 23 | 23 | | 3 | 271 | 251 |
| Impairments | 329 | 32 | | | 37 | 7 | 3 | | | | 369 | 39 |
| Intangible asset charges | 435 | 110 | 72 | 79 | 107 | 75 | 26 | 23 | | 3 | 640 | 290 |
| Impairment charges on property, plant & equipment | | | | | 2 | | | | | | 2 | |
| Impact of increasing acquisition-related inventory to selling price less distribution margin | | 37 | | 70 | | | 3 | | | | 3 | 107 |
| Restructuring and acquisition-related integration expenses, net | | 24 | 2 | 10 | 6 | 37 | | | | | 8 | 71 |
| Exceptional restructuring and acquisition related integration expenses, net | | 61 | 2 | 80 | 8 | 37 | 3 | | | | 13 | 178 |
| Exceptional gains from divesting brands, subsidiaries and financial investments | -166 | | | | | | | | | | -166 | |
| Impairment of financial assets | 19 | 6 | | | | 10 | | | 3 | 1 | 22 | 17 |
| Environmental provision increase | | | | | | | | | 590 | | 590 | |
| <i>Zelnorm</i> suspension | 16 | | | | | | | | | | 16 | |
| Release of Tricare revenue deduction accrual | | -62 | | | | | | | | | | -62 |
| France accounting irregularity | | | | | | 58 | | | | | | 58 |
| Other exceptional items | 35 | -56 | | | | 68 | | | 593 | 1 | 628 | 13 |
| Total adjustments | 304 | 115 | 74 | 159 | 115 | 180 | 29 | 23 | 593 | 4 | 1 115 | 481 |
| Operating income excluding above items | 1 845 | 1 894 | 246 | 169 | 343 | 267 | 273 | 264 | -140 | -134 | 2 567 | 2 460 |
| Income from associated companies | | | | | | | | | | | 116 | 88 |
| Net financial income | | | | | | | | | | | 43 | -4 |
| Taxes (adjusted for above items) | | | | | | | | | | | -313 | -415 |
| Adjusted net income from continuing operations | | | | | | | | | | | 2 413 | 2 129 |
| Adjusted net income attributable to shareholders | | | | | | | | | | | 2 410 | 2 126 |
| Adjusted basic earnings per share from continuing operations | | | | | | | | | | | 1.04 | 0.91 |

Supplementary tables: Nine months to September 30, 2007 Net sales of top 20 pharmaceutical products(unaudited)

| Brands | Therapeutic area | US | | Rest of world | | Total | | % change in local currencies | % change in local currencies |
|-------------------------------|--|--------------|------------------------------|---------------|------------------------------|---------------|-----------------|------------------------------|------------------------------|
| | | USD m | % change in local currencies | USD m | % change in local currencies | USD m | % change in USD | | |
| <i>Diovan/Co-Diovan</i> | Hypertension | 1 633 | 21 | 2 024 | 14 | 3 657 | 19 | 17 | |
| <i>Gleevec/Glivec</i> | Chronic myeloid leukemia | 513 | 12 | 1 691 | 15 | 2 204 | 19 | 14 | |
| <i>Zometa</i> | Cancer complications | 481 | -8 | 473 | 6 | 954 | 1 | -2 | |
| <i>Sandostatin (group)</i> | Acromegaly | 300 | 12 | 449 | 5 | 749 | 12 | 8 | |
| <i>Neoral/Sandimmun</i> | Transplantation | 82 | -13 | 618 | 1 | 700 | 3 | -1 | |
| <i>Femara</i> | Breast cancer | 304 | 24 | 375 | 30 | 679 | 32 | 27 | |
| <i>Lotrel</i> | Hypertension | 660 | -34 | | | 660 | -34 | -34 | |
| <i>Trileptal</i> | Epilepsy | 452 | 12 | 142 | 5 | 594 | 12 | 10 | |
| <i>Voltaren (group)</i> | Inflammation/pain | 7 | 17 | 545 | 4 | 552 | 8 | 4 | |
| <i>Lamisil (group)</i> | Fungal infections | 269 | -40 | 260 | -17 | 529 | -30 | -31 | |
| Top ten products total | | 4 701 | -2 | 6 577 | 10 | 11 278 | 7 | 4 | |
| <i>Lescol</i> | Cholesterol reduction | 158 | -19 | 344 | -7 | 502 | -8 | -11 | |
| <i>Exelon</i> | Alzheimer s disease | 157 | 14 | 304 | 14 | 461 | 19 | 14 | |
| <i>Tegretol (incl. CR/XR)</i> | Epilepsy | 94 | 7 | 210 | 0 | 304 | 6 | 2 | |
| <i>Comtan/Stalevo (group)</i> | Parkinson s disease | 131 | 13 | 172 | 24 | 303 | 23 | 19 | |
| <i>Ritalin (group)</i> | Attention deficit/hyperactive disorder | 216 | 17 | 55 | 8 | 271 | 16 | 15 | |
| <i>Foradil</i> | Asthma | 17 | 70 | 250 | 2 | 267 | 12 | 5 | |
| <i>Exjade (group)</i> | Iron chelator | 132 | 61 | 123 | NM | 255 | 174 | 167 | |
| <i>Lucentis</i> | Age-related macular degeneration | | | 223 | NM | 223 | NM | NM | |
| <i>Miacalcic</i> | Osteoporosis | 114 | -25 | 97 | -13 | 211 | -18 | -20 | |
| <i>Famvir</i> | Viral infections | 130 | 8 | 71 | -14 | 201 | 2 | 0 | |
| Top 20 products total | | 5 850 | -1 | 8 426 | 12 | 14 276 | 10 | 7 | |
| Rest of portfolio | | 911 | -15 | 2 686 | 5 | 3 597 | 3 | -1 | |
| Total Division sales | | 6 761 | -3 | 11 112 | 10 | 17 873 | 8 | 5 | |

NM Not meaningful

Supplementary tables: Third quarter 2007 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 | 564 | 14 | 703 | 13 | 1 267 | 16 | 14 |
| <i>Gleevec/Glivec</i> | Chronic myeloid leukemia | 180 | 7 | 603 | 16 | 783 | 20 | 14 |
| <i>Zometa</i> | Cancer complications | 162 | -5 | 156 | 0 | 318 | 0 | -3 |
| <i>Sandostatin (group)</i> | Acromegaly | 102 | 7 | 156 | 8 | 258 | 12 | 8 |
| <i>Neoral/Sandimmun</i> | Transplantation | 26 | -16 | 217 | 4 | 243 | 6 | 1 |
| <i>Femara</i> | Breast cancer | 105 | 17 | 135 | 27 | 240 | 27 | 22 |
| <i>Lotrel</i> | Hypertension | 66 | -81 | | | 66 | -81 | -81 |
| <i>Trileptal</i> | Epilepsy | 152 | 12 | 46 | -1 | 198 | 10 | 9 |
| <i>Voltaren (group)</i> | Inflammation/pain | 5 | 0 | 191 | 5 | 196 | 12 | 7 |
| <i>Lamisil (group)</i> | Fungal infections | 7 | -96 | 90 | -23 | 97 | -64 | -65 |
| Top ten products total | | 1 369 | -19 | 2 297 | 9 | 3 666 | -1 | -4 |
| <i>Lescol</i> | Cholesterol reduction | 51 | -32 | 112 | -8 | 163 | -14 | -18 |
| <i>Exelon</i> | Alzheimer s disease | 59 | 9 | 105 | 8 | 164 | 15 | 9 |
| <i>Tegretol (incl. CR/XR)</i> | Epilepsy | 31 | 7 | 69 | -2 | 100 | 5 | 0 |
| <i>Comtan/Stalevo (group)</i> | Parkinson s disease | 44 | 2 | 59 | 19 | 103 | 16 | 11 |
| <i>Ritalin (group)</i> | Attention deficit/hyperactive disorder | 59 | -6 | 19 | 17 | 78 | -1 | -2 |
| <i>Foradil</i> | Asthma | 7 | 133 | 80 | 2 | 87 | 16 | 7 |
| <i>Exjade (group)</i> | Iron chelator | 47 | 31 | 51 | 686 | 98 | 128 | 123 |
| <i>Lucentis</i> | Age-related macular degeneration | | | 122 | NM | 122 | NM | NM |
| <i>Miacalcic</i> | Osteoporosis | 36 | -23 | 32 | -8 | 68 | -13 | -17 |
| <i>Famvir</i> | Viral infections | 35 | -20 | 24 | -12 | 59 | -14 | -17 |
| Top 20 products total | | 1 738 | -17 | 2 970 | 14 | 4 708 | 3 | 0 |
| Rest of portfolio | | 279 | -21 | 898 | -3 | 1 177 | -4 | -8 |
| Total Division sales | | 2 017 | -17 | 3 868 | 9 | 5 885 | 2 | -2 |

NM Not meaningful

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

| | YTD 2007 USD m | YTD 2006 USD m | % change USD |
|--|-------------------|-------------------|-----------------|
| Cardiovascular | | | |
| <i>Diovan</i> | 3 657 | 3 071 | 19 |
| <i>Lotrel</i> | 660 | 998 | -34 |
| <i>Exforge</i> | 52 | 7 | NM |
| <i>Tekturma/Rasilez</i> | 20 | | NM |
| Other | 4 | | NM |
| Total strategic franchise products | 4 393 | 4 076 | 8 |
| Mature products (including <i>Lescol</i>) | 1 118 | 1 144 | -2 |
| Total Cardiovascular products | 5 511 | 5 220 | 6 |
| Oncology | | | |
| <i>Gleevec/Glivec</i> | 2 204 | 1 852 | 19 |
| <i>Zometa</i> | 954 | 944 | 1 |
| <i>Sandostatin (group)</i> | 749 | 670 | 12 |
| <i>Femara</i> | 679 | 515 | 32 |
| <i>Exjade</i> | 255 | 93 | 174 |
| Other | 206 | 221 | -7 |
| Total Oncology products | 5 047 | 4 295 | 18 |
| Neuroscience | | | |
| <i>Trileptal</i> | 594 | 532 | 12 |
| <i>Exelon</i> | 461 | 387 | 19 |
| <i>Tegretol</i> | 304 | 287 | 6 |
| <i>Comtan (group)</i> | 303 | 247 | 23 |
| <i>Ritalin (group)</i> | 271 | 234 | 16 |
| Other | 319 | 241 | 32 |
| Total strategic franchise products | 2 252 | 1 928 | 17 |
| Mature products | 315 | 330 | -5 |
| Total Neuroscience products | 2 567 | 2 258 | 14 |
| Respiratory | | | |
| <i>Foradil</i> | 267 | 239 | 12 |
| <i>TOBI/Tobramycin⁽¹⁾</i> | 201 | 107 | 88 |
| <i>Xolair</i> | 100 | 67 | 49 |
| Other | 60 | 50 | 20 |
| Total strategic franchise products | 628 | 463 | 36 |
| Mature products | 70 | 77 | 9 |
| Total Respiratory products | 698 | 540 | 29 |
| Ophthalmics/Dermatology/Gastrointestinal/Urology (ODGU) | | | |
| <i>Lucentis</i> | 223 | 8 | NM |
| <i>Elidel</i> | 133 | 132 | 1 |
| <i>Zelnorm/Zelmac</i> | 83 | 408 | -80 |
| <i>Enablex/Emselex</i> | 128 | 76 | 68 |
| Other | 460 | 546 | -16 |
| Total strategic franchise products | 1 027 | 1 170 | -12 |
| Mature products (including <i>Lamisil</i>) | 615 | 838 | -27 |
| Total ODGU products | 1 642 | 2 008 | -18 |
| Arthritis/Bone/Pain | | | |

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| | | | |
|---|---------------|---------------|------------|
| <i>Prexige</i> | 81 | 29 | 179 |
| Other | 11 | 2 | 450 |
| Total strategic franchise products | 92 | 31 | 197 |
| Mature products (including <i>Voltaren</i>) | 1 068 | 1 066 | 0 |
| Total Arthritis/Bone/Pain products | 1 160 | 1 097 | 6 |
| Infectious Diseases, Transplantation & Immunology (IDTI) | | | |
| <i>Neoral/Sandimmun</i> | 700 | 678 | 3 |
| Other | 321 | 239 | 34 |
| Total strategic franchise products | 1 021 | 917 | 11 |
| Mature products | 227 | 192 | 18 |
| Total IDTI products | 1 248 | 1 109 | 13 |
| Total strategic franchise products | 14 460 | 12 880 | 12 |
| Total mature products | 3 413 | 3 647 | -6 |
| Total Division net sales | 17 873 | 16 527 | 8 |

(1) Acquired on April 20, 2006, through the purchase of Chiron

NM Not meaningful

Third quarter Pharmaceutical net sales by therapeutic area (unaudited)

| | Q3 2007 USD m | Q3 2006 USD m | % change USD |
|--|------------------|------------------|-----------------|
| Cardiovascular | | | |
| <i>Diovan</i> | 1 267 | 1 088 | 16 |
| <i>Lotrel</i> | 66 | 355 | -81 |
| <i>Exforge</i> | 25 | 3 | NM |
| <i>Tekturna/Rasilez</i> | 9 | | NM |
| Other | 2 | | NM |
| Total strategic franchise products | 1 369 | 1 446 | -5 |
| Mature products (including <i>Lescol</i>) | 369 | 389 | -5 |
| Total Cardiovascular products | 1 738 | 1 835 | -5 |
| Oncology | | | |
| <i>Gleevec/Glivec</i> | 783 | 653 | 20 |
| <i>Zometa</i> | 318 | 317 | 0 |
| <i>Sandostatin (group)</i> | 258 | 231 | 12 |
| <i>Femara</i> | 240 | 189 | 27 |
| <i>Exjade</i> | 98 | 43 | 128 |
| Other | 68 | 74 | 8 |
| Total Oncology products | 1 765 | 1 507 | 17 |
| Neuroscience | | | |
| <i>Trileptal</i> | 198 | 180 | 10 |
| <i>Exelon</i> | 164 | 143 | 15 |
| <i>Tegretol</i> | 100 | 95 | 5 |
| <i>Comtan (group)</i> | 103 | 89 | 16 |
| <i>Ritalin (group)</i> | 78 | 79 | -1 |
| Other | 104 | 102 | 2 |
| Total strategic franchise products | 747 | 688 | 9 |
| Mature products | 105 | 108 | -3 |
| Total Neuroscience products | 852 | 796 | 7 |
| Respiratory | | | |
| <i>Foradil</i> | 87 | 75 | 16 |
| <i>TOBI/Tobramycin⁽¹⁾</i> | 67 | 63 | 6 |
| <i>Xolair</i> | 36 | 26 | 38 |
| Other | 20 | 16 | 25 |
| Total strategic franchise products | 210 | 180 | 17 |
| Mature products | 18 | 21 | -14 |
| Total Respiratory products | 228 | 201 | 13 |
| Ophthalmics/Dermatology/Gastrointestinal/Urology (ODGU) | | | |
| <i>Lucentis</i> | 122 | 5 | NM |
| <i>Elidel</i> | 39 | 41 | -5 |
| <i>Zelnorm/Zelmac</i> | -8 | 145 | NM |
| <i>Enablex/Emselex</i> | 47 | 29 | 62 |
| Other | 142 | 159 | -11 |
| Total strategic franchise products | 342 | 379 | -10 |
| Mature products (including <i>Lamisil</i>) | 127 | 298 | -57 |
| Total ODGU products | 469 | 677 | -31 |
| Arthritis/Bone/Pain | | | |

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| | | | |
|---|--------------|---------------|------------|
| <i>Prexige</i> | 29 | 15 | 93 |
| Other | 6 | 1 | NM |
| Total strategic franchise products | 35 | 16 | 119 |
| Mature products (including <i>Voltaren</i>) | 366 | 355 | 3 |
| Total Arthritis/Bone/Pain products | 401 | 371 | 8 |
| Infectious Diseases, Transplantation & Immunology (IDTI) | | | |
| <i>Neoral/Sandimmun</i> | 243 | 229 | 6 |
| Other | 119 | 91 | 31 |
| Total strategic franchise products | 362 | 320 | 13 |
| Mature products | 70 | 69 | 1 |
| Total IDTI products | 432 | 389 | 11 |
| Total strategic franchise products | 4 830 | 4, 536 | 6 |
| Total mature products | 1 055 | 1 240 | -15 |
| Total Division net sales | 5 885 | 5 776 | 2 |

(1) Acquired on April 20, 2006, through the purchase of Chiron

NM Not meaningful

Net sales by region (unaudited)

Nine months to September 30

| | YTD 2007 | YTD 2006 | % change | | YTD 2007 | YTD 2006 |
|---------------------------------|---------------|---------------|------------|---------------------|------------|------------|
| | USD m | USD m | USD | local currencies | % of total | % of total |
| Pharmaceuticals | | | | | | |
| US | 6 761 | 6 951 | -3 | -3 | 38 | 42 |
| Rest of world | 11 112 | 9 576 | 16 | 10 | 62 | 58 |
| Total | 17 873 | 16 527 | 8 | 5 | 100 | 100 |
| Vaccines and Diagnostics | | | | | | |
| US | 448 | 232 | 93 | 93 | 43 | 46 |
| Rest of world | 606 | 269 | 125 | 121 | 57 | 54 |
| Total | 1 054 | 501 | 110 | 108 | 100 | 100 |
| Sandoz | | | | | | |
| US | 1 457 | 1 126 | 29 | 29 | 28 | 26 |
| Rest of world | 3 741 | 3 180 | 18 | 10 | 72 | 74 |
| Total | 5 198 | 4 306 | 21 | 15 | 100 | 100 |
| Consumer Health(1) | | | | | | |
| US | 2 499 | 2 642 | -5 | -5 | 44 | 47 |
| Rest of world | 3 245 | 2 991 | 8 | 3 | 56 | 53 |
| Total | 5 744 | 5 633 | 2 | -1 | 100 | 100 |
| Group(1) | | | | | | |
| US | 11 165 | 10 951 | 2 | 2 | 37 | 41 |
| Rest of world | 18 704 | 16 016 | 17 | 11 | 63 | 59 |
| Total | 29 869 | 26 967 | 11 | 7 | 100 | 100 |

(1) Includes both Consumer Health Division continuing and discontinued operations

Net sales by region (unaudited)

Third quarter

| | Q3 2007 | Q3 2006 | % change | | Q3 2007 | Q3 2006 |
|--------------------------------------|--------------|--------------|------------|------------------|------------|------------|
| | USD m | USD m | USD | local currencies | % of total | % of total |
| Pharmaceuticals | | | | | | |
| US | 2 017 | 2 441 | -17 | -17 | 34 | 42 |
| Rest of world | 3 868 | 3 335 | 16 | 9 | 66 | 58 |
| Total | 5 885 | 5 776 | 2 | -2 | 100 | 100 |
| Vaccines and Diagnostics | | | | | | |
| US | 302 | 186 | 62 | 62 | 53 | 50 |
| Rest of world | 270 | 188 | 44 | 41 | 47 | 50 |
| Total | 572 | 374 | 53 | 52 | 100 | 100 |
| Sandoz | | | | | | |
| US | 504 | 377 | 34 | 33 | 28 | 26 |
| Rest of world | 1 279 | 1 048 | 22 | 13 | 72 | 74 |
| Total | 1 783 | 1 425 | 25 | 18 | 100 | 100 |
| Consumer Health⁽¹⁾ | | | | | | |
| US | 700 | 881 | -21 | -21 | 41 | 46 |
| Rest of world | 988 | 1 028 | -4 | -10 | 59 | 54 |
| Total | 1 688 | 1 909 | -12 | -15 | 100 | 100 |
| Group⁽¹⁾ | | | | | | |
| US | 3 523 | 3 885 | -9 | -9 | 35 | 41 |
| Rest of world | 6 405 | 5 599 | 14 | 7 | 65 | 59 |
| Total | 9 928 | 9 484 | 5 | 1 | 100 | 100 |

(1) Includes both Consumer Health Division continuing and discontinued operations

Quarterly analysis

Key figures by quarter⁽¹⁾

| | Q3 2007 USD m | Q2 2007 USD m | Change USD m | % |
|------------------|------------------|------------------|-----------------|-----|
| Net sales | 9 928 | 10 122 | -194 | -2 |
| Operating income | 7 395 | 2 216 | 5 179 | 234 |
| Financial income | 109 | 90 | 19 | 21 |
| Interest expense | -66 | -57 | -9 | 16 |
| Taxes | -686 | -328 | -358 | 109 |
| Net income | 6 868 | 2 016 | 4 852 | 241 |

(1) Includes both Consumer Health Division continuing and discontinued operations

Net sales by region⁽¹⁾

| | Q3 2007 USD m | Q2 2007 USD m | Change USD m | % |
|---------------|------------------|------------------|-----------------|----|
| US | 3 523 | 3 742 | -219 | -6 |
| Europe | 3 994 | 4 010 | -16 | |
| Rest of world | 2 411 | 2 370 | 41 | 2 |
| Total | 9 928 | 10 122 | -194 | -2 |

(1) Includes both Consumer Health Division continuing and discontinued operations

Net sales by Division

| | Q3 2007 USD m | Q2 2007 USD m | Change USD m | % |
|---|------------------|------------------|-----------------|-----|
| Pharmaceuticals | 5 885 | 6 065 | -180 | -3 |
| Vaccines and Diagnostics | 572 | 251 | 321 | 128 |
| Sandoz | 1 783 | 1 719 | 64 | 4 |
| Consumer Health continuing operations | 1 373 | 1 365 | 8 | 1 |
| Net sales from continuing operations | 9 613 | 9 400 | 213 | 2 |
| Discontinued Consumer Health operations | 315 | 722 | -407 | -56 |
| Total | 9 928 | 10 122 | -194 | -2 |

Operating income by Division

| | Q3 2007 USD m | Q2 2007 USD m | Change USD m | % |
|---|------------------|------------------|-----------------|-----|
| Pharmaceuticals | 1 541 | 1 767 | -226 | -13 |
| Vaccines and Diagnostics | 172 | -20 | 192 | |
| Sandoz | 228 | 243 | -15 | -6 |
| Consumer Health continuing operations | 244 | 243 | 1 | |
| Corporate income & expense, net | -143 | -136 | -7 | 5 |
| Operating income from continuing operations excluding environmental charge | 2 042 | 2 097 | -55 | -3 |
| Corporate environmental provision increase | -590 | | -590 | |
| Operating income from continuing operations | 1 452 | 2 097 | -645 | |
| Discontinued Consumer Health operations | 5 943 | 119 | 5 824 | |
| Total | 7 395 | 2 216 | 5 179 | |

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 19, 2007 | By: | /s/ MALCOLM B. CHEETHAM |
| | | Name: | Malcolm B. Cheetham |
| | | Title: | Head Group Financial Reporting and Accounting |