NOVARTIS AG
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated January 27, 2011

(Commission File No. 1-15024)

Novartis AG

(Name of Registrant)

Lichtstrasse 35

4056 Basel

Switzerland

(Address of Principal Executive Offices)

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

Form 20-F: x Form 40-F: o

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

Yes: o **No**: **x**

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FINANCIAL REPORT • RAPPORT FINANCIER • FINANZBERICHT

Innovation drives Novartis to double-digit growth for 2010

- Novartis achieved strong financial results in 2010

  - Net sales up 14% (+14% in constant currencies, or cc) to USD 50.6 billion

  - Operating income up 15% (+17% cc); core operating income up 22% (+24% cc); core operating income margin up by 1.9 percentage points to 27.7% of net sales

  - EPS up 16% to USD 4.28; core EPS up 14% to USD 5.15

  - Free cash flow before dividends up 31% to USD 12.3 billion

  - 14th consecutive dividend increase; CHF 2.20 per share proposed for 2010

- Solid sales growth in fourth quarter, operating income impacted by one-offs and A(H1N1) pandemic flu vaccine sales in the prior year

  - Net sales up 10% (+11% cc) to USD 14.2 billion

  - Operating income declined 6% (-3% cc) to USD 2.5 billion; core operating income decreased 1% (+2% cc) to USD 3.2 billion

  - EPS down 6% (-2% cc) to USD 0.95

- Pipeline and recently launched products deliver sustained growth momentum

  - Continued rejuvenation of Group's portfolio with recently launched products contributing 21% of net sales (USD 10.4 billion) in 2010

  - Industry leading pharmaceutical pipeline with 16 major submissions in 2010 in the US, EU and Japan, including, in the fourth quarter, ACZ885 in gouty arthritis (EU), Lucentis in retinal vein occlusion (EU), SOM230 in Cushing’s disease (EU), and Afinitor in advanced neuroendocrine tumors (EU, US); in addition, we filed our meningococcal B vaccine Bexsero (EU)

  - 13 major approvals gained in Pharmaceuticals in 2010 in the US, EU and Japan, including fourth quarter approvals for Tasigna in first-line chronic myeloid leukemia (EU, Switzerland, Japan), for Lucentis in diabetic macular edema

(EU), and for Afinitor in subependymal giant cell astrocytomas associated with tuberous sclerosis (US)

Key figures

	FY 2010 USD m	FY 2009 USD m	% change USD	% change cc	Q4 2010 USD m	Q4 2009 USD m	% change USD	% change cc
Net sales	50 624	44 267	14	14	14 199	12 926	10	11
Operating income	11 526	9 982	15	17	2 467	2 637	-6	-3
Net income	9 969	8 454	18	20	2 265	2 323	-2	2
EPS (USD)	4.28	3.70	16	17	0.95	1.01	-6	-2
Free cash flow (before dividends)	12 346	9 446	31		4 180	3 349	25	
Core1								
Operating income	14 006	11 437	22	24	3 166	3 204	-1	2
Net income	12 029	10 267	17	18	2 803	2 892	-3	0
EPS (USD)	5.15	4.50	14	15	1.14	1.26	-10	-6

1 See page 52 for further information and definition of core results

Basel, January 27, 2011 — Commenting on the results, Joseph Jimenez, CEO of Novartis, said:
“Novartis achieved excellent results in 2010 as all divisions contributed to above-market growth. I am proud that Novartis continues to lead the industry in innovation, with 13 key product approvals and 16 major filings in Pharmaceuticals in 2010, including our breakthrough multiple sclerosis therapy, Gilenya, which has been launched in the US. We also filed Bexsero, our meningococcal B vaccine, in the EU. In addition, our agreed 100% merger with Alcon, which should complete in the first half of 2011 following shareholder approval, will give us an important new growth pillar and the opportunity to meet some of the most urgent eye care needs of the global aging population."

GROUP REVIEW

Full year
Net sales rose 14% (+14% cc) to USD 50.6 billion driven by strong growth in all businesses, including USD 2.4 billion from the consolidation of Alcon, Inc. (Alcon). Recently launched products provided USD 10.4 billion of net sales in the 2010 period, representing 21% of net sales compared to 16% in the 2009 period (excluding Alcon). Pharmaceuticals sales expanded 7% (+6% cc) to USD 30.6 billion driven by 8 percentage points of volume expansion. Recently launched products contributed 21% of Pharmaceuticals sales, up from 16% in 2009. Sandoz achieved double-digit sales growth in 2010 (USD 8.5 billion, +14%, +15% cc) supported by strong growth in US retail generics, biosimilars (+46% cc) and emerging markets such as Middle East, Turkey and Africa (+22% cc). Vaccines and Diagnostics grew to USD 2.9 billion (+25% cc), including USD 1.3 billion of A(H1N1) pandemic flu vaccines. Excluding A(H1N1) pandemic flu vaccines, the business grew 16%. Consumer Health grew 7% (+6% cc) to USD 6.2 billion, with all three business units delivering solid growth in their respective markets.

Operating income rose 15% (+17% cc) to USD 11.5 billion on the volume-driven sales expansion. Unfavorable currency movements negatively impacted operating income by two percentage points. Operating income margin improved 0.3 percentage points to 22.8% of net sales. One-off items arising in the year totaled a net USD 1.3 billion, comprising: impairments (USD 1.0 billion), legal settlements (USD 240 million), restructuring costs (USD 198 million), and Alcon-related costs (USD 596 million), partially offset by divestment and pension curtailment gains (USD 690 million).

Core operating income rose 22% (+24% cc) to USD 14 billion; the core operating income margin rose 1.9 percentage points to 27.7% of net sales. Included in the core operating margin improvement of 1.9 percentage points were a benefit from Alcon of 0.4 percentage points and higher A(H1N1) pandemic flu vaccine sales of 0.5 percentage points, resulting in the increase in the underlying margin of 1.0 percentage points.

Net income advanced 18% (+20% cc) to USD 10.0 billion ahead of operating income growth due to higher income from associated companies (+173% cc), offset by higher financial expenses from the Alcon financing. Earnings per share (EPS) rose 16% (+17% cc) to USD 4.28 from USD 3.70 in the 2009 period. Core net income grew 17% (+18% cc) to USD 12.0 billion, while core EPS was up 14% (+15% cc) to USD 5.15 from USD 4.50 in the year-ago period.

The Board proposes a dividend payment of CHF 2.20 per share for 2010, up 5% from CHF 2.10 per share in 2009, representing the 14th consecutive dividend increase since the creation of Novartis in December 1996. Shareholders will vote on this and other proposals at the 2010 Annual General Meeting scheduled for February 22, 2011.

Fourth quarter
Net sales rose 10% (+11% cc) to USD 14.2 billion. Alcon sales were USD 1.8 billion for the quarter. Unfavorable currency movements depressed the result by 1 percentage point (excluding Alcon). Recently launched products provided USD 2.5 billion of net sales in the 2010 period, which represent 20% of total sales (excluding Alcon).

Pharmaceuticals sales grew 3% (+4% cc) to USD 8.0 billion driven by 7 percentage points of volume expansion, offset by 3 percentage points of price erosion. Recently launched products contributed 23% of Pharmaceuticals sales, up from 18% in 2009. Sandoz maintained its strong growth (USD 2.4 billion, +10%, +14% cc) versus prior year, with 21 percentage points of volume expansion from new product launches, including gemcitabine (generic Gemzar®) and enoxaparin (generic Lovenox®). Vaccines and Diagnostics declined 74% (-73% cc) versus previous year to

USD 361 million as a result of USD 1.0 billion of A(H1N1) pandemic flu vaccine sales in the fourth quarter of 2009 that were not repeated in the 2010 quarter and shipment delays resulting from production issues at one of our vaccines plants. Consumer Health growth (USD 1.6 billion, 0%, +1% cc) was suppressed by a high year-ago base due to the Prevacid24HR launch and initial stocking in the OTC business unit. Excluding the launch impact of Prevacid24HR in 2009, Consumer Health growth in the fourth quarter of 2010 was 5% (+6% cc).

Operating income decreased 6% (-3% cc). Currency had a negative impact of 3 percentage points. Alcon contributed operating income of USD 222 million. One-off items in the quarter included charges totaling USD 789 million, partially offset by a gain of USD 392 million from the divestment of Enablex. These charges include Pharmaceuticals USD 253 million (mainly ASA404 impairment USD 120 million and US restructuring costs USD 85 million), Sandoz USD 49 million (German restructuring), Vaccines and Diagnostics USD 75 million (manufacturing restructuring USD 52 million and financial asset impairment USD 23 million), Alcon USD 383 million (fair value revaluation of inventory USD 372 million, costs resulting from the change in majority ownership USD 11 million) and Corporate charges of USD 24 million.

Excluding these one-time items and acquisition-related items, core operating income increased 2% in constant currencies to USD 3.2 billion. Core operating income margin decreased 2.5 percentage points to 22.3% of net sales. Included in the core operating margin decline of 2.5 percentage points was a benefit of 1.8 percentage points from Alcon while the absence of A(H1N1) pandemic flu vaccine sales in 2010 decreased the margin by 4.4 percentage points. Underlying margin excluding these two items was broadly flat.

Net income declined 2% to USD 2.3 billion. The decline was lower than operating income primarily as a result of a low tax charge stemming from the consolidation of Alcon and a true-up of the underlying Novartis tax rate to 16.3%, offset by higher Alcon-related financing costs and a decrease in income from associated companies (no Alcon equity accounting and inclusion of USD 89 million of Roche restructuring costs). Core net income was flat in constant currencies compared to 2009 at USD 2.8 billion.

Earnings per share (EPS) declined 6% (-2% cc) to USD 0.95 from USD 1.01 in the 2009 period, while core EPS was down 10% (-6% cc) in the fourth quarter to USD 1.14 from USD 1.26 in the year-ago period.

Delivering innovation, growth and productivity

The long-term Novartis growth strategy is based on our focused, diversified portfolio. Following the expected completion of the merger with Alcon, the portfolio would be comprised of five divisions: Pharmaceuticals, Sandoz, Vaccines and Diagnostics, Consumer Health, and Alcon (eye care). The breadth of our portfolio focused on healthcare allows us to capture the most promising opportunities of the healthcare marketplace while at the same time mitigating the impact of challenges in particular sectors.

Our ability to execute this strategy – delivering world-class healthcare solutions on a global scale, across all of our divisions – comes from a commitment to three core priorities: (1) extending our lead in innovation through the research and development of new offerings and the expansion of applications for current offerings; (2) accelerating growth across all divisions with new launches and a greater presence in emerging markets; and (3) enhancing productivity through efficiency initiatives that free up resources for our R&D investment. By focusing on these priorities, we are able to sustain above-market growth, deliver value for investors, and improve healthcare outcomes for patients through new innovative solutions.

Extending our lead in innovation resulting in 13 approvals and 16 submissions in Pharmaceuticals

2010 was a landmark year for Novartis innovation, which resulted in 13 major approvals and 16 submissions in our Pharmaceuticals Division in the US, EU and Japan for the year, maintaining our productivity at the top end of the industry. Our pipeline remains strong: we currently have 147 projects in our Pharmaceuticals development pipeline;

our early pipeline in Vaccines is progressing rapidly; and the Sandoz development organization is committed to investing in biosimilars and respiratory opportunities. Our unrivalled record in innovation allows us to maintain a high level of investment in R&D, enabling Novartis to make continuous progress in addressing areas of unmet patient need.

Novartis achieved important breakthroughs in 2010 in our continuing efforts to address unmet patient need. Among the most prominent of these accomplishments was the launch of Gilenya in the US, a first-line oral therapy for relapsing multiple sclerosis that has shown superior efficacy over standard of care, and Menveo, a new vaccine offering protection against four major serogroups of meningococcal disease, which infect more than a half million people each year. Sandoz demonstrated our ability to leverage innovation in order to create complex, cost-effective alternatives to branded drugs with the launch of enoxaparin and the significant progress in our biosimilar and respiratory portfolio.

In the fourth quarter, several of our products were approved for critical new uses: Afinitor was approved in the US for patients with subependymal giant cell astrocytoma, a benign brain tumor associated with tuberous sclerosis; Tasigna gained approval in Europe, Japan and Switzerland as a first-line treatment for patients with newly diagnosed chronic myeloid leukemia (CML); and on January 6, 2011, Lucentis was approved in the EU for treatment of patients with diabetic macular edema, a major cause of blindness in the working-age population in most developed countries.

In the fourth quarter, a number of compounds in our pipeline took another step toward potential launch. Our 4CMenB vaccine candidate Bexsero was submitted for approval in the EU based on Phase III data from more than 7,500 subjects, which support the use of Bexsero in infants two months of age and older, as well as adolescents and adults. In Pharmaceuticals, the human monoclonal antibody ACZ885 was submitted in the EU for the treatment of gouty arthritis; Lucentis was submitted in the EU for the treatment of visual impairment due to retinal vein occlusion, in which the blood flow from the retina is interrupted; SOM230 was submitted in the EU for the treatment of Cushing's disease, a debilitating hormonal disorder for which there are currently no approved medicines; and Afinitor was submitted in the EU and the US for use in advanced neuroendocrine tumors, for which there are also currently no approved treatments.

Many of our medicines showed promise for expanded uses in addressing patient need. During the fourth quarter, a Phase II study of Afinitor suggested its application in the treatment of advanced breast cancer. An update of a longer-term Phase III study of Tasigna continued to show its superiority over Gleevec/Glivec, the long-time standard, in treating patients newly diagnosed with CML.

Phase III data of our oral Janus kinase (JAK) inhibitor INC424 showed significant clinical benefit in patients with myelofibrosis, an uncommon and debilitating blood cancer. Phase II data related to our oral investigational drug LBH589 suggested anticancer activity in some Hodgkin’s lymphoma patients. Interim results of the AZURE trial for use of Zometa in treating women with early breast cancer did not meet its primary endpoint, so we withdrew our applications.

A Phase III study of our influenza vaccine, Fluad, suggests efficacy in preventing influenza in young children. Based on successful clinical trial data supporting the immunogenicity and tolerability profile of Menveo in infants starting at two months of age, a supplemental Biologics License Application was submitted to the FDA for the use of Menveo in this age group.

Accelerating growth with recently launched products as key driver
Our strategy of rejuvenating our portfolio with new medicines continued to progress. Throughout 2010, recently launched products were a key driver of overall growth and an important factor in our ability to offset future patent expiries. In 2010, recently launched products accounted for USD 10.4 billion, or 21% of net sales; in the fourth quarter, they accounted for USD 2.5 billion, or 20% of net sales.

In 2010, Pharmaceuticals grew 7% (+6% cc) to USD 30.6 billion. Our strong momentum in innovation underpinned this growth with recently launched Pharmaceuticals products contributing USD 6.6 billion of net sales for the year, representing 21% of net sales compared to 16% in 2009. Europe, our largest region, had a strong year, growing 7% in

constant currencies in spite of various government price cuts, harnessing recently launched products to drive 28% of net sales.

Sandoz delivered solid growth of 14% (+15% cc) in 2010, underpinned by strong results in US retail generics and biosimilars (+46% cc), which benefitted from the successful execution of first-to-market launches including enoxaparin, tacrolimus and losartan. Sandoz continues to lead in biosimilars with total 2010 sales of USD 185 million (+63% cc), based on key launches in the oncology indications of Binocrit (epoetin alfa) and Zarzio (filgrastim), as well as continued growth in Omnitrope (human growth hormone).

We were also successful in 2010 in the expansion of our presence in emerging markets. In 2010, sales (excluding Alcon) in our top six emerging markets, which include China, Russia, Brazil, India, South Korea and Turkey, were USD 4.6 billion growing 12% over the previous year. In the fourth quarter, sales were USD 1.2 billion, an increase of 1% over the year-ago period with A(H1N1) pandemic flu vaccine sales. We are committed to further expanding in these growing markets in order to meet patient and customer needs specific to these regions. In Russia, we demonstrated our commitment to becoming the government's leading healthcare partner, confirming our intent to build a new full-scale pharmaceutical manufacturing plant in St. Petersburg. This investment is part of an overall USD 500 million commitment in local infrastructure and collaborative healthcare initiatives planned over a five-year period.

Driving productivity with programs across all businesses

Productivity is an essential component of performance and remains a consistent focus. All parts of the business have extensive productivity programs to generate operating leverage. This provides the foundation for improved profitability while enabling investment for the future.

In the fourth quarter, we undertook a number of important measures to improve future productivity, incurring restructuring and impairment charges of USD 388 million. We realigned our US Pharmaceuticals field force, allowing us to become more adaptive to customer needs and focus on promising opportunities for growth in Specialty Care and other areas. We discontinued the ASA404 clinical trial program, allowing us to devote more resources to other cancer compounds in our pipeline, resulting in an impairment charge of USD 120 million. We also announced a restructuring of our Sandoz organization in Germany to adapt to the negative trend in the German generics market. Finally, in Vaccines and Diagnostics, we began an implementation of a rationalization of our manufacturing facilities.

For the year 2010, core operating income margin increased 1.9 percentage points to 27.7%. The increase in sales of A(H1N1) pandemic flu vaccine over 2009 contributed 0.5 percentage points and Alcon 0.4 percentage points since it was consolidated from August 25, 2010. Of the balance of the margin increase of 1.0 percentage points, Marketing & Sales contributed 0.7 percentage points, R&D, General & Administration and Other Income and Expense a total of 0.7 percentage points, offset by a reduction in the gross margin of 0.4 percentage points. The underlying margin improvement was generated through continuing productivity initiatives that affect all four of the divisions – in aggregate, productivity initiatives generated the equivalent of approximately 4 percentage points of margin improvement, enabling us to absorb most of the impact of price reductions on gross margin and to make investments to support recently launched products and future growth opportunities.

For the fourth quarter, core operating income margin decreased by 2.5 percentage points to 22.3%. Excluding the impact of Alcon (+1.8 percentage points) and sales of A(H1N1) pandemic flu vaccines in 2009 (-4.4 percentage points), core margin for the quarter increased by 0.1 percentage points. Gross productivity improvements in the quarter generated benefits equivalent to 4.4 percentage points of margin improvement. This benefit was absorbed by gross margin, mainly COGS (1.6 percentage points), with the balance reinvested in research and development and in support of the growth products.

Alcon

In the fourth quarter, the Novartis and Alcon Boards of Directors agreed on a merger, which we expect to be completed in the first half of 2011, which would raise our stake from 77% to 100%. Following the completion of the merger, Novartis will become the global leader in eye care, and add a fifth, high-growth division to its focused, diversified portfolio. The 100% ownership of Alcon would create new opportunities for immediate synergies between the two organizations, as Alcon would be able to benefit from the Novartis global scale while adding their eye care development and commercial expertise to the Group's capabilities.

Integration planning has started and the implementation steps necessary to create the new Alcon Division (which will include CIBA Vision and certain ophthalmic pharmaceutical products) and to realize the expected synergy benefits will commence after clearance of a registration statement by the US Securities and Exchange Commission, two-thirds approval by the shareholders of each of Novartis and Alcon voting at their respective meetings and other customary closing conditions.

Cash flow and net indebtedness

The sustainability of our strategy lies with the generation of cash flow that provides the resources for reinvestment and creates shareholder return. Free cash flow before dividends generated USD 12.3 billion for the year 2010, rising 31% over the previous year, and in the fourth quarter totaled USD 4.2 billion, an increase of 25% over the previous period. The full year cash flow benefitted from A(H1N1) pandemic flu vaccine sales where cash was in excess of 2010 sales, while the fourth quarter cash generation included a number of one-off cash benefits.

Cash flow is driven by a continued focus on the cash conversion cycle and operational cash flow improvements. Cash flow from operating activities increased by USD 1.9 billion to USD 14.1 billion for 2010 (28% of net sales), and for the fourth quarter increased to USD 4.6 billion (32% of net sales).

Following the acquisition of a 77% majority stake in Alcon, the company moved from a net cash position to a net debt position. As of December 31, 2010, net debt stood at USD 14.9 billion, with USD 3.8 billion outstanding on the US commercial paper program, a reduction of USD 4.6 billion since the acquisition to date. The long-term credit rating for the company continues to be double-A (Moody’s Aa2; Standard & Poor’s AA-; Fitch AA).

2011 Group outlook

(Barring unforeseen events)

Group constant currency sales growth is expected to be around the double-digit mark.

Pharmaceuticals is expected to deliver sales growth in low- to mid-single-digits. Continued growth in recently launched products and emerging markets is expected to drive strong volume growth around the high-single-digit mark. Reported sales growth will be lower as a result of the combined effect of price reductions seen in 2010, the full impact of healthcare reform in the US and generic competition. Femara’s patent will expire in the US in June 2011 and Diovan patents begin to expire in Europe in February 2011.

For Sandoz, sales growth of around mid-single-digits is expected. The aggressive launch program for new products and expansion in emerging markets is expected to continue. The exceptional sales growth experienced in 2010 in the US is unlikely to be maintained as exclusivity periods expire and if enoxaparin faces additional competitors. In addition, the healthcare cost-containment measures in Germany, experienced in the second half of 2010, are likely to be fully felt throughout 2011.

Alcon, Inc. has announced that it expects to increase sales at a high-single-digit rate in 2011.

With the continuing drive to generate productivity improvements across the Group, we aim to improve constant currency core operating income margin while absorbing price cuts, generic competition, the loss of sales from the A(H1N1) pandemic flu vaccine and investing for the future.

In 2011, we expect the full effect of Alcon acquisition accounting to result in amortization of intangible assets of approximately USD 2.0 billion.

From January 1, 2011, research costs of USD 195 million, currently included in Corporate expenses, will be recorded in Pharmaceuticals.

Annual General Meeting

Election of Members to the Novartis Board of Directors
At the Annual General Meeting scheduled for February 22, 2011, the Novartis Board of Directors proposes the re-election of Mr. Pierre Landolt, Dr. Ulrich Lehner and Mrs. Ann Fudge, each for a three-year term. In addition, Alexandre Jetzer-Chung and Hans-Joerg Rudloff will retire from the Board as they have reached the statutory age limit. The Board and management team of Novartis thank Mr. Jetzer-Chung and Mr. Rudloff for their many years of distinguished services on the Novartis Board of Directors.

The Board further recommends the election of Dr. Enrico Vanni to the Novartis Board of Directors for a three year term. Dr. Vanni, a Swiss citizen, has more than 30 years of healthcare management experience. He is a chemical engineer and graduated from the Federal Polytechnic School of Lausanne, Switzerland and holds a PhD (Doctorate in Science) from the University of Lausanne. His background also includes an MBA from INSEAD in Fontainebleau, France. Dr. Vanni managed the Geneva Office of McKinsey&Company from 1988 to 2004. His consulting activities mostly covered companies in the pharmaceutical, consumer and finance sectors. He was head of the European pharmaceutical practice for McKinsey&Company and served as member of the Partner review committee of the firm. Since 2008, he is an independent consultant and member of several company boards of directors, including Alcon.

Consultative Vote on the Novartis Compensation System
At last year’s Annual General Meeting, Novartis shareholders approved the proposal by the Board of Directors to introduce a consultative vote on the compensation system in the Articles of incorporation (a so called “say on pay“-vote). The upcoming Annual General Meeting, to be held on February 22, 2011, will provide shareholders an opportunity to express their views on the compensation system of Novartis through a consultative vote. Subsequently, non-binding votes will be held before every significant change in the compensation system, but at a minimum at every third Annual General Meeting.

HEALTHCARE BUSINESS REVIEW

Pharmaceuticals

	Q4 2010 USD m	Q4 2009 USD m	% change USD	cc	FY 2010 USD m	FY 2009 USD m	% change USD	cc
Net sales	8 032	7 773	3	4	30 558	28 538	7	6
Operating income	2 290	1 906	20	25	8 798	8 392	5	6
As % of net sales	28.5	24.5			28.8	29.4		
Core operating income	2 274	2 215	3	7	9 909	9 068	9	10
As % of net sales	28.3	28.5			32.4	31.8		

Full year

Net sales
Net sales expanded 7% (+6% cc) to USD 30.6 billion driven by 8 percentage points of volume expansion, partly offset by a negative pricing impact of 2 percentage points. Recently launched products provided USD 6.6 billion of net sales in the 2010 period, representing 21% of net sales compared to 16% in the 2009 period.

Europe remained the largest region (USD 10.9 billion, +7% cc) particularly benefiting from recently launched products generating 28% of its net sales. The US (USD 10.0 billion, +5% cc), as well as Latin America and Canada (USD 2.9 billion, +14% cc), maintained solid growth rates. Japan's performance (USD 3.3 billion, 0% cc) was flat versus prior year due to the bi-annual price cuts and ARB market slowdown. The top six emerging markets (USD 2.9 billion, +9% cc) were led by double-digit growth from India, Russia, South Korea and China, partly offset by the impact of cost-containment measures in Turkey.

Operating income
Operating income grew 5% (+6% cc) to USD 8.8 billion. The operating income margin of 28.8% of net sales was mainly impacted by R&D impairments of USD 896 million, litigation charges of USD 181 million and restructuring expenses of USD 111 million, partly offset by divestment income of USD 425 million and the Famvir settlement with Teva.

Core operating income grew 9% (+10% cc) ahead of sales to USD 9.9 billion. The core operating income margin of 32.4% of net sales improved 0.6 percentage points. Cost of Goods Sold remained broadly stable, while total functional costs improved 0.8 percentage points due to continuing productivity improvements. Other Income and Expense increased 0.2 percentage points mainly due to higher pre-launch inventory provisions.

Fourth quarter

Net sales
Net sales grew 3% (+4% cc) to USD 8.0 billion, driven by 7 percentage points volume growth, partly offset by a negative pricing impact of 3 percentage points (mainly due to European government cost-containment measures and the bi-annual price cut in Japan). Products launched since 2007 generated USD 1.8 billion of net sales, growing 34%

cc over the same period last year. These recently launched products – which include Lucentis, Exforge, Exelon Patch, Exjade, Reclast/Aclasta, Tekturna/Rasilez, Tasigna, Afinitor, Onbrez Breezhaler, Ilaris, Fanapt and Gilenya – now comprise 23% of division sales compared to 18% in the 2009 quarter.

Recently launched products benefited all regions, particularly Europe (USD 2.9 billion, +5% cc), which generated 30% of its net sales from these products. Volume growth in Europe was 12 percentage points with a negative price effect of 7 percentage points due to recent government cost-containment measures. The US (USD 2.5 billion, +2% cc) showed modest growth, while Latin America and Canada (USD 0.8 billion, +13% cc) maintained solid growth rates. Japan's sales (USD 1.0 billion, -1% cc) declined slightly versus the same period last year due to the bi-annual price cuts and the angiotensin II receptor blocker (ARB) market slowdown. The top six emerging markets (USD 769 million, +6% cc) were led by particularly strong growth in India, Russia and South Korea, more than compensating for slower growth in Turkey and China due to cost-containment measures and stock-in-trade effects, respectively.

All strategic franchises contributed to the business expansion. Oncology (USD 2.7 billion, +10% cc), the largest franchise, was led by the sustained growth of Gleevec/Glivec (USD 1.1 billion, +6% cc), Sandostatin (USD 351 million, +12% cc) and Femara (USD 351 million, +5% cc). Recently launched Oncology products made important contributions: Tasigna (USD 126 million, +89% cc), Afinitor (USD 80 million, +164% cc) and Exjade (USD 209 million, +14% cc). The Cardiovascular and Metabolism franchise (USD 2.1 billion, +5% cc) maintained solid momentum supported by hypertension medicines (USD 2.0 billion, +4% cc) and the continued strong uptake of Galvus (USD 124 million, +96% cc). The Neuroscience and Ophthalmics franchise (USD 1.0 billion, +5% cc) saw solid growth from Lucentis (USD 394 million, +8% cc), Extavia (USD 40 million, +83% cc), and the recently launched Gilenya, which is off to a good start in the US.

Operating income

Operating income increased 20% (+25% cc) to USD 2.3 billion, primarily due to the US legal provision for Trileptal in the same period last year and the Enablex divestment income of USD 392 million in 2010, partly offset by the ASA404 impairment charges of USD 120 million and restructuring charges of USD 85 million.

Core operating income grew 3% (+7% cc) ahead of sales to USD 2.3 billion. The core operating income margin of 28.3% of net sales decreased slightly by 0.2 percentage points compared to the same period last year as currency fluctuations negatively impacted the operating income margin by 1.0 percentage points. Gross margin improved by 1.6 percentage points due to production productivity improvements. R&D increased 1.3 percentage points of net sales mainly driven by the phasing of clinical trial activities, while Marketing & Sales and General & Administration expenses improved 0.3 percentage points, benefiting from continued productivity efforts and despite increased investments in new launches. Other Income and Expense increased 0.7 percentage points mainly due to the phasing of one-time items and higher pre-launch inventory provisions.

Pharmaceuticals product review

Cardiovascular and Metabolism

	Q4 2010 USD m	Q4 2009 USD m	% change USD	% change cc	FY 2010 USD m	FY 2009 USD m	% change USD	% change cc
Hypertension medicines								
Diovan	1 576	1 614	-2	-3	6 053	6 013	1	0
Exforge	251	196	28	31	904	671	35	35
Tekturna/Rasilez	133	88	51	54	438	290	51	53
Subtotal	1 960	1 898	3	4	7 395	6 974	6	5
Galvus	124	66	88	96	391	181	116	122
Lotrel	42	78	-46	-45	266	322	-17	-18
Total strategic products	2 126	2 042	4	5	8 052	7 477	8	7
Established medicines (Lescol included)	267	322	-17	-17	1 103	1 319	-16	-17
Total	2 393	2 364	1	0	9 155	8 796	4	4

All comments below focus on fourth quarter movements.

Our broad cardiovascular and metabolic portfolio continued to grow with larger contributions from Tekturna and Galvus/Eucreas offsetting slightly declining Diovan sales in the fourth quarter of 2010. Overall, the franchise recorded sales growth of 4% cc versus previous year.

Diovan Group (USD 1.6 billion, -3% cc; FY 2010 USD 6.1 billion, 0% cc) worldwide sales declined 3% in constant currencies in the fourth quarter versus 2009, but maintained its sales performance for the full year 2010 despite the introduction of generic losartan. In the US, the Diovan Group achieved sales of USD 648 million (0% cc) in the quarter, maintaining its leadership in the ARB segment with a 41.5% share in November year-to-date 2010 (+2.1 percentage points compared to November year-to-date 2009; source: IMS Health). We anticipate increased generic competition as the patent on valsartan, the active ingredient in Diovan Group products, expires in the major countries of the EU during 2011.

Exforge Group (USD 251 million, +31% cc; FY 2010 USD 904 million, +35% cc) showed strong worldwide growth fueled by continued prescription demand in the EU, US and other key regions, as well as ongoing Exforge HCT launches in European and Latin American markets. Exforge, a single-pill combination of Diovan (valsartan) and the calcium channel blocker amlodipine, has delivered sustained growth across world markets since its launch in 2007. Exforge HCT, the first modern triple hypertension medication that adds a diuretic in a single pill, was introduced in the US in 2009 and has gained approvals in over 20 countries worldwide.

Tekturna/Rasilez (USD 133 million, +54% cc; FY 2010 USD 438 million, +53% cc) maintained its strong growth driven by excellent performance in the EU, especially in France and Germany. In December, the FDA approved Amturnide, a single-pill combination of aliskiren, amlodipine and hydrochlorothiazide, with EU review of this treatment ongoing. Amturnide will be launched in the US in January 2011.

Galvus Group (USD 124 million, +96% cc; FY 2010 USD 391 million, +122% cc), oral treatments for type 2 diabetes, continued to deliver strong growth. This was driven mainly by combination treatment Eucreas/Galvusmet, which contributed 71% of total sales and grew at 95% in constant currencies during the fourth quarter versus the prior year. Growth across the Galvus group of products was driven by France, Germany, Portugal and Spain. Further growth is expected in Japan following an agreement with Sanofi-Aventis K.K. in November to co-promote Galvus, known as Equa in Japan.

Oncology

	Q4 2010 USD m	Q4 2009 USD m	% change USD	% change cc	FY 2010 USD m	FY 2009 USD m	% change USD	% change cc
Bcr-Abl Franchise								
Gleevec/Glivec	1 143	1 086	5	6	4 265	3 944	8	7
Tasigna	126	68	85	89	399	212	88	89
Subtotal	1 269	1 154	10	11	4 664	4 156	12	11
Zometa	395	392	1	1	1 511	1 469	3	2
Femara	351	341	3	5	1 376	1 266	9	9
Sandostatin	351	316	11	12	1 291	1 155	12	11
Exjade	209	183	14	14	762	652	17	16
Afinitor	80	32	nm	nm	243	70	nm	nm
Other	37	51	-27	-28	181	231	-22	-23
Total	2 692	2 469	9	10	10 028	8 999	11	11

nm – not meaningful

Our Bcr-Abl franchise, consisting of Gleevec/Glivec and Tasigna, continued to grow strongly, reaching USD 1.3 billion (+11% cc) in the fourth quarter (FY 2010 USD 4.7 billion, 11% cc).

Gleevec/Glivec (USD 1.1 billion, +6% cc; FY 2010 USD 4.3 billion, +7% cc), a targeted therapy, has sustained growth through continued expansion in Philadelphia chromosome-positive chronic myeloid leukemia (Ph+ CML) as well as adjuvant (post-surgery) treatment of gastrointestinal stromal tumors (GIST). Gleevec/Glivec was approved in 2009 for use in adjuvant treatment of patients following complete gross resection of GIST and has since received approvals for this indication in 57 countries.

Tasigna (USD 126 million, +89% cc; FY 2010 USD 399 million, +89% cc) has been growing rapidly as a next generation targeted therapy for newly diagnosed CML patients supported by approvals in several key markets,

increased share in the imatinib resistant/intolerant CML market, as well as geographic and market expansion. Tasigna is now approved in the US, EU, Japan, Switzerland and other countries for the treatment of adult patients with newly diagnosed Ph+ CML in chronic phase. Regulatory submissions in the first-line indication have also been submitted to other countries around the world.

Zometa (USD 395 million, +1% cc; FY 2010 USD 1.5 billion, +2% cc) is a leading treatment to reduce or delay skeletal-related events in patients with bone metastases (cancer that has spread to the bones) from solid tumors and multiple myeloma. The AZURE trial, to investigate the potential use of Zometa as adjuvant therapy in premenopausal and postmenopausal women with early breast cancer, did not meet its primary endpoint in the overall patient population. However, in a predefined subgroup of women with well-established menopause, an improvement in disease-free survival and overall survival was shown in the Zometa arm. Regulatory filings in the

US and EU for the potential use of Zometa for adjuvant breast cancer treatment have been withdrawn, and Novartis will discuss future regulatory plans with health authorities worldwide based on these data. Zoledronic acid, the active ingredient in Zometa (4 mg), is also available under the trade names Reclast/Aclasta (5 mg) for use in non-oncology indications with different dosing. Zometa is facing new competition from denosumab, a product of Amgen.

Femara (USD 351 million, +5% cc; FY 2010 USD 1.4 billion, +9% cc), a treatment for early stage or advanced breast cancer in postmenopausal women, achieved strong sustained growth in key markets. We anticipate new generic competition in the US in the first half of 2011 and later in the year in Europe's major markets.

Sandostatin (USD 351 million, +12% cc; FY 2010 USD 1.3 billion, +11% cc) benefited from the increasing use of Sandostatin LAR in treating symptoms of patients with neuroendocrine tumors.

Exjade (USD 209 million, +14% cc; FY 2010 USD 762 million, +16% cc) continued to expand with strong growth based on new patients, expanded access and increased dosing in the US and key markets around the world. Exjade is currently approved in more than 100 countries as the only once-daily oral therapy for transfusional iron overload.

Afinitor (USD 80 million; FY 2010 USD 243 million), an oral inhibitor of the mTOR pathway used across multiple diseases, expanded its indications in the US with an accelerated FDA approval for the treatment of patients with subependymal giant cell astrocytoma (SEGA), a benign brain tumor associated with tuberous sclerosis, who require therapeutic intervention but are not candidates for curative surgical resection. The effectiveness of Afinitor is based on a 28-patient Phase II study. A Phase III study to further explore the clinical benefits of Afinitor for patients with SEGA associated with tuberous sclerosis has completed enrollment. We have also filed regulatory submissions in the EU for this indication under the trade name Votubia. Afinitor is also an approved treatment for advanced renal cell carcinoma (kidney cancer) following VEGF-targeted therapy. We have filed Afinitor for the treatment of advanced neuroendocrine tumors (NET) in the US and EU. Submissions for the treatment of patients with advanced NET are also underway in other countries. Everolimus, the active ingredient in Afinitor, is also available under the trade names Zortress/Certican for use in non-oncology indications. Everolimus is exclusively licensed to Abbott and sublicensed to Boston Scientific for use in drug-eluting stents.

Neuroscience and Ophthalmics

	Q4 2010 USD m	Q4 2009 USD m	% change USD	% change cc	FY 2010 USD m	FY 2009 USD m	% change USD	% change cc
Lucentis	394	374	5	8	1 533	1 232	24	24
Exelon/Exelon Patch	256	267	-4	-1	1 003	954	5	6
Comtan/Stalevo	157	152	3	4	600	554	8	8
Extavia	40	23	74	83	124	49	nm	nm
Other	114	116	-2	0	457	459	0	-1
Total strategic products	961	932	3	5	3 717	3 248	14	14
Established medicines	148	149	-1	-4	567	575	-1	-4
Total	1 109	1 081	3	3	4 284	3 823	12	11

nm – not meaningful

Lucentis (USD 394 million, +8% cc; FY 2010 USD 1.5 billion, +24% cc) maintained its strong growth this year as the only approved medicine to significantly improve vision in patients with wet age-related macular degeneration (AMD).

Growth in the fourth quarter was negatively impacted by a one-time provision. Lucentis is approved in more than 85 countries for the treatment of wet AMD. The European Commission granted Novartis a new indication for Lucentis for the treatment of visual impairment due to diabetic macular edema. Novartis also filed an application in the EU in the fourth quarter of 2010 for the treatment of visual impairment due to macular edema secondary to retinal vein occlusion. Genentech holds the rights for Lucentis in the US.

Exelon/Exelon Patch (USD 256 million, -1% cc; FY 2010 USD 1 billion, +6% cc) sales growth declined versus the previous year as a consequence of healthcare cost-containment measures in various markets, but achieved 2,% volume growth in the quarter and 7% volume growth for the full year. Due to increasing demand, Exelon Patch, the transdermal form of the medicine, generated more than 74% of total Exelon sales in the fourth quarter compared to 58% in the same period in 2009. Exelon Patch is approved for the treatment of mild-to-moderate Alzheimer's disease

dementia in more than 75 countries, including more than 20 countries where it is also approved for dementia associated with Parkinson's disease.

Extavia (USD 40 million, +83% cc; FY 2010 USD 124 million) continued to grow within key markets, notably Germany, Russia, Italy and Spain. Extavia, the Novartis-branded version of Betaferon®/Betaseron® for relapsing forms of multiple sclerosis, was launched in the EU and US in 2009, and has been approved in over 30 countries.

Gilenya (USD 11 million; FY 2010 USD 15 million) has been launched as a first-line treatment for relapsing forms of multiple sclerosis in the US and for relapsing-remitting multiple sclerosis in Russia. It was also approved as a first-line treatment for relapsing forms of multiple sclerosis in Australia, Switzerland and the United Arab Emirates. In January 2011, Gilenya received a positive opinion from Europe's Committee for Medicinal Products for Human Use (CHMP) as a disease modifying therapy in patients with highly active relapsing-remitting multiple sclerosis (RRMS) despite treatment with beta interferon, or in patients with rapidly evolving severe RRMS. Gilenya is currently under regulatory review in other countries around the world, including Canada, Turkey and Brazil. Initial sales uptake in the US has been in line with expectations, with sales of USD 13 million since its launch in October 2010.

Respiratory

	Q4 2010 USD m	Q4 2009 USD m	% change USD	% change cc	FY 2010 USD m	FY 2009 USD m	% change USD	% change cc
Xolair	102	120	-15	-11	369	338	9	12
TOBI	72	81	-11	-11	279	300	-7	-7
Onbrez Breezhaler	17	1	nm	nm	33	1	nm	nm
Total strategic products	191	202	-5	-3	681	639	7	9
Established medicines	48	55	-13	-9	174	190	-8	-10
Total	239	257	-7	-5	855	829	3	4

nm – not meaningful

Xolair (USD 102 million, -11% cc; FY 2010 USD 369 million, +12% cc), a biotechnology drug for severe persistent allergic asthma in Europe and for moderate-to-severe persistent allergic asthma in the US, continued to show strong growth in major European and Latin American markets. Fourth quarter growth was impacted by Genentech's order patterns. Xolair is approved in more than 85 countries, and a Phase III trial is progressing to support registration in China. Xolair Liquid, a new formulation in pre-filled syringes to enable easier administration than with the conventional lyophilized formulation, is expected to launch in Europe in 2011.

Onbrez Breezhaler (USD 17 million; FY 2010 USD 33 million) has demonstrated strong sales growth since its approval in the EU in November 2009 as a once-daily long-acting beta-2 agonist for adults with chronic obstructive pulmonary disease. Onbrez Breezhaler is now approved in more than 40 countries and is available in 13 European markets, with additional launches planned in 2011. The application for US approval (under the trade name Arcapta Neohaler) is expected to be reviewed by an FDA Advisory Committee in March 2011.

Integrated Hospital Care

	Q4 2010	Q4 2009	% change	FY 2010	FY 2009	% change

	USD m	USD m	USD	cc	USD m	USD m	USD	cc
Neoral/Sandimmun	235	244	-4	-4	871	919	-5	-7
Reclast/Aclasta	171	147	16	18	579	472	23	23
Myfortic	114	97	18	19	444	353	26	23
Zortress/Certican	39	36	8	13	144	118	22	25
Ilaris	10	2	nm	nm	26	3	nm	nm
Other	79	70	13	15	293	235	25	24
Total strategic products	648	596	9	10	2 357	2 100	12	11
Established medicines	229	235	-3	-5	890	941	-5	-7
Total	877	831	6	3	3 247	3 041	7	5

nm – not meaningful

Reclast/Aclasta (USD 171 million, +18% cc; FY 2010 USD 579 million, +23% cc), the once-yearly osteoporosis therapy, continued to show sustained growth in the fourth quarter and throughout the year driven by key countries including the US, France and Australia and by recent launches such as Turkey. Aclasta is approved in over 90 countries for up to six indications across a broad spectrum of patients, including those with early bone loss to patients with more severe forms of this metabolic bone disease. Six-year data from a pivotal fracture trial reinforced the long-term efficacy and safety profile of Aclasta. Zoledronic acid, the active ingredient in Reclast/Aclasta, is also available in a number of countries in a different dosage for use in oncology indications under the trade name Zometa.

Zortress/Certican (USD 39 million, +13% cc; FY 2010 USD 144 million, +25% cc), available in more than 80 countries to prevent organ rejection in adult kidney and heart transplantation, continues to generate solid growth, including the US launch in April 2010 for adult kidney transplantation under the trade name Zortress. Recent two-year data from a large Phase III registration study showed that everolimus, the active ingredient in Zotress/Certican, maintained efficacy and renal function with a mean dose of cyclosporine reduced by 60% versus the standard of care in kidney transplant recipients. Phase III development of everolimus for liver transplantation is ongoing. Everolimus is also available under the trade name Afinitor for use in certain oncology indications, and is exclusively licensed to Abbott and sublicensed to Boston Scientific for use in drug-eluting stents.

Ilaris (USD 10 million; FY 2010 USD 26 million) is a fully human monoclonal antibody that selectively binds and neutralizes IL-1 , a pro-inflammatory cytokine. Since 2009, Ilaris has been approved in over 40 countries for the treatment of adults and children aged four years and older suffering from cryopyrin-associated periodic syndrome, a group of rare auto-inflammatory disorders that affect approximately one out of one million people. ACZ885 (Ilaris, canakinumab) has been filed in Europe for the treatment of gouty arthritis attacks based on data from two Phase III registration studies that met their primary endpoints.

Vaccines & Diagnostics

	Q4 2010 USD m	Q4 2009 USD m	% change USD	% change cc	FY 2010 USD m	FY 2009 USD m	% change USD	% change cc
Net sales	361	1 387	-74	-73	2 918	2 424	20	25
Operating income	-253	583	nm	nm	612	372	65	87
As % of net sales	-70.1	42.0			21.0	15.3		
Core operating income	-121	653	nm	nm	1 066	719	48	58
As % of net sales	-33.5	47.1			36.5	29.7		

nm – Not meaningful

Full year

Net sales
Net sales were USD 2.9 billion for the full year 2010 (+25% cc) compared to USD 2.4 billion for the year-ago period. Deliveries for supply contracts with governments around the world for A(H1N1) pandemic flu vaccines and adjuvants generated net sales of USD 1.3 billion, significantly driving the increase over the year-ago period. Excluding the A(H1N1) pandemic flu, the business experienced strong growth (+16% cc) driven by the strong seasonal flu season, the expansion of the vaccines business in emerging markets and the launch of Menveo.

Operating income
Operating income in the period was USD 612 million compared to USD 372 million in the year-ago period, driven substantially by the increased contribution of A(H1N1) pandemic flu vaccines.

We continued to invest heavily in the development of our late stage pipeline and increased marketing resources to successfully launch Menveo globally. Full year operating income was additionally impacted by a USD 98 million impairment charge related to a financial asset, USD 52 million in restructuring charges related to the consolidation of our manufacturing facilities, and a USD 45 million legal settlement expense.

Despite heavy investment in R&D and Marketing & Sales, core operating income increased by 48% (+58% cc) to USD 1.1 billion, after adjusting for the impairment charges, restructuring charges and legal settlement noted above, as well as the amortization of intangible assets.

Fourth quarter

Net sales
Net sales were USD 361 million for the fourth quarter of 2010 (-73% cc) compared to USD 1.4 billion in the prior period. The primary driver of net sales variance against the prior year period was USD 1.0 billion of A(H1N1) pandemic flu vaccine sales in the fourth quarter of 2009 that were not repeated in the same period in 2010.

Excluding the impact of the A(H1N1) pandemic flu in both years, there was strong growth in the quarter in our meningococcal disease franchise offset by shipment delays resulting from production issues at one of our vaccines plants.

Operating income

Operating loss was USD 253 million for the quarter compared to an operating income of USD 583 million for the same period in 2009. In addition to the amortization of intangible assets, operating income included restructuring efforts to better align our manufacturing facilities worldwide, which resulted in a USD 52 million charge in the fourth quarter of 2010. In addition, the quarter included an impairment charge of USD 23 million related to a financial asset.

Core operating loss for the period was USD 121 million compared to an operating income of USD 653 million for the year-ago period. This was largely due to the operating income associated with the A(H1N1) pandemic flu vaccine sales from the prior year quarter not being repeated in the fourth quarter of 2010 and the impact of the shipment delays noted above.

In the quarter, our 4CMenB vaccine candidate Bexsero was submitted for approval in the EU. Menveo, our breakthrough vaccine for meningococcal disease, was submitted to the FDA for use in infants two months of age and older. In addition, our adjuvanted seasonal influenza vaccine Fluad was submitted for approval in the EU for use in young children.

Sandoz

	Q4 2010 USD m	Q4 2009 USD m	% change USD	% change cc	FY 2010 USD m	FY 2009 USD m	% change USD	% change cc
Net sales	2 367	2 143	10	14	8 518	7 493	14	15
Operating income	258	221	17	14	1 272	1 071	19	18
As % of net sales	10.9	10.3			14.9	14.3		
Core operating income	379	356	6	6	1 685	1 395	21	21
As % of net sales	16.0	16.6			19.8	18.6		

Full year

Net sales
Sandoz achieved double-digit sales growth in 2010 (USD 8.5 billion, +14%, +15% cc) versus prior year driven by strong growth in US retail generics and biosimilars (+46% cc) and emerging markets. Volume expanded 22 percentage points due to new product launches, the inclusion of EBEWE Pharma's specialty generics business (contributing 4 percentage points) and continued strong results from biosimilars which together more than compensated for price erosion of 7 percentage points. German retail generics and biosimilars declined by USD 100 million (-6% cc) as the market was impacted by numerous healthcare reforms.

US sales growth in 2010 was driven by successful execution of new product launches including enoxaparin (USD 462 million), tacrolimus (USD 184 million), losartan (USD 145 million), lansoprazole (USD 123 million) and gemcitabine (USD 58 million). Sandoz's enoxaparin exclusivity in the US could change at any time, whereas lansoprazole ODT and gemcitabine will face increased competition in the US in April and May 2011, respectively.

Biosimilar sales expanded rapidly (+63% cc) to USD 185 million.

Operating income
Operating income grew 19% (+18% cc) versus prior year to USD 1.3 billion. The operating income margin increased 0.6 percentage points to 14.9% of net sales, an all-time high for Sandoz. The operating income margin increase of 0.6 percentage points includes acquisition-related charges for the integration of EBEWE Pharma, one-time charges for the termination of a co-development agreement, provisions for legal settlements and higher levels of restructuring charges than in the prior year, totalling -0.6 percentage points.

Core operating income rose 21% (+21% cc) to USD 1.7 billion, as the core operating income margin improved by 1.2 percentage points to 19.8% of net sales. There were lower sales to other divisions and other revenues (-0.4 percentage points) and higher Cost of Goods Sold (-1.2 percentage points). These impacts were more than offset by a number of positive factors, including: Marketing & Sales costs, which were lower by 0.7 percentage points due to productivity improvements partly offset by investments in growth areas; R&D costs, which decreased (+0.7 percentage points) as reduced investments in standard generics and productivity savings (+1.4 percentage points) funded increasing investment in the development of differentiated generics (-0.6 percentage points); General & Administration costs, which decreased (+1.0 percentage points) due to ongoing cost reduction measures; and Other Income and Expense, which were positive at 0.2 percentage points due to lower legal fees.

Fourth quarter

Net sales
Sandoz grew strongly (USD 2.4 billion, +10%, +14% cc) versus prior year with 21 percentage points of volume expansion from new product launches, including a successful gemcitabine launch (generic Gemzar®); continued enoxaparin exclusivity (generic Lovenox®); strong performance in the US, Russia, UK, Turkey and Japan; and accelerating biosimilars growth, which more than offset the price erosion of 7 percentage points.

US retail generics and biosimilars (+44% cc) continued to deliver excellent growth due to the successful execution of first-to-market launches including enoxaparin (USD 170 million), gemcitabine, tacrolimus and lansoprazole oral dispersible tablets (ODT). Sandoz's enoxaparin exclusivity in the US could change at any time, whereas lansoprazole ODT and gemcitabine will face increased competition in the US in April and May 2011, respectively.

German retail generics and biosimilars declined by USD 38 million (-9% cc) compared to the prior year, though by less than the estimated negative net market decline of 22% in the quarter driven by the impact of statutory health insurance tenders and new lower reference prices. Western Europe retail generics and biosimilars (+8% cc) grew positively despite various government price cuts. Emerging markets growth was strong in the Middle East, Turkey and Africa (+30% cc), Asia-Pacific (+13% cc), and Central and Eastern Europe (+13% cc). Sandoz sustained its leading global position in biosimilars (+72% cc) with good momentum based on key launches in the oncology indications of Binocrit (epoetin alfa) and Zarzio (filgrastim), as well as continued growth in Omnitrope (human growth hormone).

Operating income

Operating income grew 17% (+14 cc) to USD 258 million, as the operating income margin improved 0.6 percentage points to 10.9% of net sales. This increase includes 1.1 percentage points of benefits from the impact of EBEWE Pharma acquisition-related charges in 2009 partly offset by higher charges for the restructuring in Germany in 2010 (USD 49 million).

Core operating income rose 6% (+6% cc) to USD 379 million, with a decline in core operating income margin by 0.6 percentage points to 16.0% of net sales. Gross profit margin decreased 2.1 percentage points mainly due to a significantly different sales mix than in the prior year quarter, which particularly reflects higher low-margin sales in the US and lower high-margin sales in Germany. Marketing & Sales (16.9% of net sales, +1.6 percentage points) improved core operating income margin due to higher productivity, while fully funding investments in growing businesses. R&D costs increased (8.4% of net sales, -0.3 percentage points) due to continued investment in the development of differentiated generics (-1.1 percentage points) such as biosimilars and respiratory products partly offset by reduced investment and productivity savings elsewhere (+0.8 percentage points). General & Administration costs (4.0% of net sales, +1.1 percentage points) decreased due to ongoing cost-containment measures. Other Income and Expense increased (2.1% of net sales, -0.9 percentage points) mainly due to the cost of litigation and legal settlements.

Consumer Health

	Q4 2010 USD m	Q4 2009 USD m	% change USD	cc	FY 2010 USD m	FY 2009 USD m	% change USD	cc
Net sales	1 630	1 623	0	1	6 204	5 812	7	6
Operating income	209	207	1	10	1 153	1 016	13	17
As % of net sales	12.8	12.8			18.6	17.5		
Core operating income	237	248	-4	3	1 253	1 118	12	15
As % of net sales	14.5	15.3			20.2	19.2		

Full year

Net sales
Sales grew 7% (+6% cc) to USD 6.2 billion and all Consumer Health businesses delivered growth ahead of their respective markets for the full year.

All regions contributed to sales growth in OTC (+5% cc), supported by double-digit growth of the key brands Voltaren, Nicotinell and Excedrin. Pantoloc Control was successfully launched in 14 European markets in 2010 and is expected to continue to support growth in the gastrointestinal franchise. Retail sales of Prevacid24HR have driven the Novartis OTC business in the US to be the fastest growing in its peer group, while Excedrin established itself as a top four brand in its category and as the second fastest growing brand among its competitors.

CIBA Vision (+6% cc) continues to show robust growth in the growing contact lens and lens care markets on the strength of AirOptix across all regions. AirOptix Aqua Multifocal lens continues to grow after becoming the number one lens for presbyopic users in April 2010, less than 12 months after its launch. Launches of FreshLook Illuminate in Asia and Japan contributed to 2010 growth, and ClearCare, CIBA Vision's leading peroxide-based lens disinfectant solution, experienced its third year of double-digit growth as users continue to migrate to its clinically proven one-bottle regimen.

Animal Health growth (+7% cc) was led mainly by the strong performance of Interceptor and Sentinel in the US and Milbemax in Europe, as well as by the robust growth of cattle vaccines in the US livestock market. Overall, the cattle and sheep brands in key markets, including the US and Australia, and the companion animal parasiticides fueled the high-single-digit business growth in 2010.

The US business grew 6%, supported by a double-digit growth rate in CIBA Vision and a high-single digit growth rate in Animal Health. Net sales in the top six emerging markets experienced solid growth (USD 0.5 billion, +10% cc), with Russia, Turkey, India and South Korea standing out with double-digit growth rates.

Operating income
Operating income rose 13% (+17% cc) to USD 1.2 billion, with the operating income margin improving over full year 2009 by 1.1 percentage points, to 18.6% of net sales for 2010.

Excluding the impact of currency movements, the division showed a strong operating leverage by growing operating income 17% in constant currencies, at nearly three times the rate of sales growth.

Core operating income rose 12% (+15% cc) to USD 1.3 billion, with strong operating leverage driving the core operating income margin up 1.0 percentage points to 20.2% of net sales versus 2009. Gross margin improvements (+1.3 percentage points), productivity gains, and income from an OTC US non-core brand divestment (Other Income and Expense +0.2 percentage points) have been the key growth drivers, partially offsetting higher investments in Marketing & Sales (-0.8 percentage points) to support new product launches and geographic expansion.

Fourth quarter

Net sales
The three Consumer Health businesses – OTC, Animal Health and CIBA Vision – together delivered flat net sales in the fourth quarter of 2010 (USD 1.6 billion, 0%, +1% cc). Comparative

performance in the quarter was affected by the Prevacid24HR launch in the OTC business unit in November 2009.

Excluding the launch impact of Prevacid24HR in the prior year, Novartis Consumer Health fourth quarter sales reflected continued growth in line with prior quarters (+5%, +6% cc). Key brands in all three businesses continued to make market share gains in the quarter.

Pain medicines were key contributors in OTC, again led by Voltaren, which has been a key business driver, and Excedrin, which gained significant share in the market segment in the quarter. Voltaren delivered 16% growth in the quarter and maintained its position in Germany as the country's largest self-medication brand. Prevacid24HR maintained a 20% market share in the large and growing US proton pump inhibitor heartburn market. In the fourth quarter, Prevacid24HR became the number two Novartis OTC brand in the US for the year, behind Excedrin, and established itself as one of the top twenty OTC brands.

CIBA Vision experienced continued robust growth from its key brand AirOptix, which grew rapidly in the period in all regions. US, Latin America, Russia and Turkey, with double-digit sales growth in the period, were key contributors for the business.

Several Animal Health markets, particularly in Asia-Pacific, Latin America, and Eastern and Northern Europe, delivered strong growth. The US continued to gain market share with key contributions from Interceptor and Sentinel. Milbemax grew rapidly in Europe, and a strong and early endo- and ecto-parasite season in Australia drove performance of Zolvix, Vetrazin and CLiK in the farm animal market.

Operating income
Operating income rose 1% (+10% cc) to USD 209 million, with the operating income margin stable in the fourth quarter of 2010 at 12.8% of net sales. Currency effect reduced the reported operating profit by 9 percentage points due to the high concentration of production in Switzerland and South Asia. As in prior years, the margin reflects the typically higher advertising, promotional and trade spending behind seasonal brands mainly in the OTC business during the final quarter of the year.

The Prevacid24HR launch in the fourth quarter of 2009 has a significant effect on operating income comparisons for Consumer Health between the fourth quarters of 2009 and 2010.

Core operating income fell 4% (+3% cc) to USD 237 million, heavily impacted by the appreciation of the Swiss franc versus the prior year period. The core gross margin (67.7% of net sales, +1.6 percentage points) improved as a result of product mix and productivity gains. Marketing & Sales expenses (39.8% of net sales; -1.9 percentage points) increased to support marketing and sales investments. R&D (6.1% of net sales; +0.1 percentage points) continues to support new product development. Other Income and Expense (0.1% of net sales; -0.6 percentage points) declined due to a one-time benefit in the year-ago period.

Alcon, Inc.

	Q4 2010 USD m	FY 2010 USD m
Net sales	1 809	2 426
Operating income	222	323
As % of net sales	12.3	13.3
Core operating income	630	852
As % of net sales	34.8	35.1

On August 25, 2010, Novartis acquired an additional 52% of Alcon, Inc. (Alcon), raising its interest to a majority ownership of 77%, and thereafter consolidated Alcon's financial results. Prior to August 25, 2010, the Novartis share of Alcon's financial results was accounted in "Income from associated companies."

Full year (Consolidated from August 25, 2010)

Net sales
Alcon's sales consolidated into Novartis Group results for the full year since August 25, 2010 totaled USD 2.4 billion. US sales of USD 1.0 billion accounted for 42% of total net sales, while non-US sales of USD 1.4 billion were 58% of total net sales. Sales in emerging markets continued to be strong, as they contributed USD 0.5 billion or 20% of total net sales. Pharmaceutical sales were USD 1.0 billion, Surgical sales were USD 1.1 billion and Consumer sales were USD 0.3 billion. Key product contributors to sales were the TRAVATAN® and Azopt® families of glaucoma products, Vigamox® for eye infections, Patanol® for eye allergies, AcrySof® intraocular lenses for cataract patients, and OPTI-FREE®, EXPRESS®, and Replenish® contact lens disinfecting solutions.

Operating income
Alcon has contributed USD 323 million to Novartis operating income since the consolidation of the controlling interest on August 25, 2010.

This amount includes an additional charge of USD 467 million relating to the estimated fair value revaluation of inventory as of the change in majority ownership date; USD 32 million for amortization of intangible assets; and USD 30 million of costs resulting from the change in majority ownership.

Excluding these items, Alcon's core operating income totaled USD 852 million.

Fourth quarter

Net sales
Alcon's fourth quarter net sales were USD 1.8 billion. US sales of USD 0.8 billion accounted for 42% of total net sales, while non-US sales of USD 1.0 billion were 58% of total net sales. Alcon saw strong sales in emerging markets, which contributed USD 366 million or 20% of total net sales. Pharmaceutical sales were USD 740 million, Surgical sales were USD 858 million and Consumer sales were USD 211 million. Key products that contributed to these results were the TRAVATAN® ophthalmic solution and Azopt® ophthalmic suspension families of glaucoma products, Vigamox® ophthalmic solution for eye infections, Patanol® ophthalmic solution for eye allergies, AcrySof® intraocular lenses for cataract patients, and OPTI-FREE®, EXPRESS® and Replenish® multi-purpose contact lens disinfecting solutions.

Operating income
Alcon contributed USD 222 million to Novartis operating income.

This amount includes an additional charge of USD 372 million relating to the estimated fair value revaluation of inventory as of the change in majority ownership date; USD 25 million for amortization of intangible assets; and USD 11 million of costs resulting from the change in majority ownership.

Excluding these items, Alcon’s core operating income totaled USD 630 million.

FINANCIAL REVIEW

Fourth quarter and full year

	Q4 2010 USD m	Q4 2009 USD m	% change USD	% change cc	FY 2010 USD m	FY 2009 USD m	% change USD	% change cc
Net sales	14 199	12 926	10	11	50 624	44 267	14	14
Divisional operating income	2 726	2 917	-7	-3	12 158	10 851	12	13
Corporate income & expense, net	-259	-280	-8	-10	-632	-869	27	30
Group operating income	2 467	2 637	-6	-3	11 526	9 982	15	17
as % of net sales	17.4	20.4			22.8	22.5		
Income from associated companies	175	107	64	62	804	293	174	173
Financial income	-26	104	nm	nm	64	198	-68	-68
Interest expense	-196	-156	26	25	-692	-551	26	25
Taxes	-155	-369	-58	-56	-1 733	-1 468	18	18
Net income	2 265	2 323	-2	2	9 969	8 454	18	20
EPS (USD)	0.95	1.01	-6	-2	4.28	3.70	16	17
Core operating income	3 166	3 204	-1	2	14 006	11 437	22	24
as % of net sales	22.3	24.8			27.7	25.8		
Core net income	2 803	2 892	-3	0	12 029	10 267	17	18
Core EPS (USD)	1.14	1.26	-10	-6	5.15	4.50	14	15

nm – Not meaningful

Full year

Net sales

Net sales rose 14% (+14% cc) to USD 50.6 billion driven by strong growth in all businesses, including USD 2.4 billion from the consolidation of Alcon. Recently launched products provided USD 10.4 billion of net sales in the 2010 period, representing 21% of net sales compared to 16% in the 2009 period (excluding Alcon).

Corporate income & expense, net

Corporate income & expense includes the costs of Group headquarters and costs for corporate research. These net expenses of USD 632 million are 27% less than the prior year primarily due to the impact of an exceptional pension curtailment gain of USD 265 million arising from changing the conditions of the Swiss pension plan offset by USD 99 million of stamp duty and transaction expenses related to the acquisition of the additional 52% interest in Alcon.

Excluding these, corporate income & expense fell 8% compared to the prior year. From January 1, 2011, corporate research will be reported under the Pharmaceuticals Division. These research costs totaled USD 195 million in 2010.

Group operating income

Operating income rose 15% (+17% cc) to USD 11.5 billion on the volume-driven sales expansion. Unfavorable currency movements negatively impacted by two percentage points. The operating income margin improved 0.3 percentage points to 22.8% of net sales. One-off items arising in the year totaled a net USD 1.3 billion, comprising: impairments (USD 1.0 billion), legal settlements (USD 240 million), restructuring costs (USD 198 million), and Alcon-related costs (USD 596 million), offset by divestment and pension curtailment gains (USD 690 million). Core operating income grew 24% in constant currencies.

Income from associated companies

The income from associated companies for the full year 2010 increased from USD 293 million to USD 804 million. The increase is attributable to higher contributions from the Alcon and Roche investments due to exceptional charges incurred in the prior year period as well as the net revaluation gain to the estimated fair value of the initial 25% Alcon interest acquired on July 7, 2008 of USD 335 million. The following is a summary of the individual components included in the income from associated companies:

	Q4 2010 USD m	Q4 2009 USD m	FY 2010 USD m	FY 2009 USD m
Share of estimated Roche reported net income	168	132	648	593
Catch-up for actual Roche previous year net income				-40
Restructuring impact (2010 includes USD 43 million for 2009)	-89		-132	-97
Amortization of intangible assets	-35	-37	-136	-135
Net income effect from Roche	44	95	380	321
Share of Alcon, Inc. reported net income		125	385	493
Catch-up for actual Alcon previous year net income			2	5
Revaluation of initial 25% interest to deemed fair value	174		378	
Recycling of losses accumulated in comprehensive income from July 7, 2008 to August 25, 2010	-43		-43	
Intangible asset impairment charge				-92
Amortization of intangible assets		-108	-289	-434
Net income effect from Alcon (in 2010 up to August 25, 2010)	131	17	433	-28
Net income from other associated companies		-5	-9	
Income from associated companies	175	107	804	293

Core results for associated companies, excluding the exceptional charges due to the Genentech restructuring for Roche and the intangible asset impairment charge and revaluation gain for Alcon as well as the amortization of intangible assets for both investments, decreased slightly by USD 10 million over the year.

Financial income and interest expense
Financial income decreased by 68% from USD 198 million to USD 64 million. Interest expense increased by 26% to USD 692 million from USD 551 million in the prior year period as a result of the issuance of US dollar bonds in February 2009 and March 2010, a euro bond in June 2009 and the increase of short-term debts through the commercial paper program.

Taxes
The tax rate (taxes as percentage of pre-tax income) remained unchanged compared to the prior year at 14.8%.

Excluding the impact of consolidating Alcon, the Group’s full year tax rate would have been 16.3%, which is higher than 2009 as it reflects the impact of sales from A(H1N1) pandemic flu vaccines and other sales being recorded in higher tax jurisdictions.

Net income
Net income advanced 18% (+20% cc) to USD 10.0 billion ahead of operating income growth. Core net income grew 17% (+18% cc) to USD 12.0 billion.

Earnings per share
Earnings per share (EPS) rose 16% (+17% cc) to USD 4.28 from USD 3.70 in 2009, while core EPS grew 14% (+15% cc) to USD 5.15 from USD 4.50. The average number of shares outstanding in 2010 rose 1% to 2,285.7 million from 2,267.9 million in the year-ago period, while a total of 2,289.4 million shares were outstanding at December 31, 2010.

Balance sheet

The full consolidation of Alcon has had a significant impact on the Group's consolidated balance sheet. Non-current assets have increased by USD 34.8 billion since December 31, 2009, of which the major items resulted from the consolidation of Alcon from August 25 and the related purchase price allocation, which increased identified intangible assets by USD 24.5 billion and goodwill by USD 17.9 billion. Furthermore, this also reduced the amount of investments in associated companies (included in financial and other non-current assets) by USD 10.0 billion. Current assets decreased by USD 7.0 billion mainly due to USD 9.3 billion lower cash and marketable securities as these funds were used to acquire the additional 52% interest in Alcon. Trade accounts receivable, inventories and other current assets increased by USD 2.3 billion also mainly due to the consolidation of Alcon. As a result of the consolidation of Alcon and other factors, total assets

amounted to USD 123.3 billion at December 31, 2010, an increase of USD 27.8 billion compared to the end of 2009.

Similarly, the consolidation of Alcon and related financing for the additional 52% interest has had a significant impact on the Group's liabilities and equity. Financial debts increased by USD 9.0 billion. A portion of this was used to fund the Alcon acquisition. In addition, we raised funds through our commercial paper program, the proceeds from which were used for general corporate purposes of the Novartis Group, as well as for intercompany financing purposes in connection with the acquisition of the 52% interest in Alcon. Other current and non-current liabilities increased by USD 6.5 billion of which USD 3.3 billion are additional deferred tax liabilities primarily related to the Alcon identified intangible assets. Principally due to these factors, total liabilities increased by USD 15.5 billion to USD 53.5 billion at December 31, 2010. The Group's equity rose by USD 12.3 billion since the prior year-end to USD 69.8 billion at December 31, 2010, which includes the net income of USD 10.0 billion as well as an additional USD 6.3 billion related to the 23% non-controlling interests in Alcon, Inc. and USD 0.9 billion from net sales of treasury shares and share-based compensation as well as favorable currency translation effects which contributed USD 0.6 billion. This increase was partially offset by the dividend payment for 2009 of USD 4.5 billion and actuarial losses of USD 0.7 billion, and net movements related to non-controlling interests and associated companies of USD 0.3 billion.

The Group's debt/equity ratio rose to 0.33:1 at December 31, 2010, compared to 0.24:1 at the end of 2009, reflecting the higher financial debt for the funding of the Alcon acquisition. The Group's financial debt of USD 23.0 billion consisted of USD 8.6 billion in current and USD 14.4 billion in non-current liabilities. Overall liquidity, including USD 3.8 billion consolidated with Alcon, decreased to USD 8.1 billion from USD 17.4 billion at the end of 2009. Net debt at December 31, 2010 was USD 14.9 billion compared to net liquidity of USD 3.5 billion at the end of the previous year.

Cash flow

Cash flow from operating activities was USD 14.1 billion in 2010, a 15.4% increase from USD 12.2 billion in 2009. The additional cash flow of USD 1.9 billion generated by the strong business expansion and lower working capital requirements was partially offset by higher taxes and payments in connection with the resolution of certain legal matters.

The net cash outflow used for investing activities in 2010 amounted to USD 15.8 billion, USD 1.5 billion above the prior-year amount. The cash used for acquisition was USD 26.7 billion. This amount is comprised of USD 26.1 billion (net of USD 2.2 billion cash acquired) for the purchase of the additional 52% investment in Alcon and of USD 0.5 billion for the acquisition of Corthera and Oriel, as well as for deferred payments related to the EBEWE acquisition. The net cash used for investments in property, plant & equipment, intangible and other assets amounted to USD 1.7 billion. These outflows were partially offset by the net proceeds of marketable securities of USD 12.6 billon.

Net cash provided by financing activities increased by USD 1.3 billion to USD 4.1 billion in 2010 compared to USD 2.8 billion in 2009. The USD 8.3 billion proceeds from the bonds and commercial paper programs as well as other net inflows totaling USD 0.3 billion were partially offset by the payment of the 2009 dividend of USD 4.5 billion in 2010.

Free cash flow for 2010 was USD 7.9 billion, which represents an increase of 42.8% over 2009. Free cash flow before dividends for 2010 was USD 12.3 billion, an increase of 31% compared to 2009.

Fourth quarter

Net sales

Net sales rose 10% (+11% cc) to USD 14.2 billion. Alcon sales were USD 1.8 billion for the quarter. Unfavorable currency movements depressed the result by 1 percentage point (excluding Alcon). Recently launched products provided USD 2.5 billion of net sales, which represent 20% of total sales (excluding Alcon).

Corporate income & expense, net
Corporate income & expense, which includes the costs of the Group headquarters and costs for corporate research, was USD 21 million less in the fourth quarter compared to the prior year, principally due to higher pension income.

Group operating income
Operating income decreased 6% (-3% cc). Currency had a negative impact of 3 percentage points. Alcon contributed operating income of USD 222 million. One-off items in the quarter included charges totaling USD 789 million, partially offset by a gain of USD 392 million from the divestment of Enablex. These charges include Pharmaceuticals USD 253 million (mainly ASA404 impairment USD 120 million and US restructuring costs USD 85 million), Sandoz USD 49 million (German restructuring), Vaccines and Diagnostics USD 75 million (manufacturing restructuring USD 52 million and financial asset impairment USD 23 million), and Alcon USD 383 million (fair value revaluation of inventory USD 372 million and costs resulting from the change in majority ownership USD 11 million). Core operating income was unchanged in constant currencies at USD 2.8 billion.

Income from associated companies
The income from associated companies in the fourth quarter of 2010 increased to USD 175 million from USD 107 million in 2009. Alcon, Inc., accounted for as an associated company until August 25, 2010, and thereafter fully consolidated. A final revaluation of the initial 25% interest in Alcon in the quarter contributed a net of USD 131 million. 2009 included amortization charges of USD 108 million. The Roche investment contributed USD 44 million in the fourth quarter including an estimated charge of USD 89 million for the Novartis share of the recently announced Roche restructuring.

Core results for associated companies for the fourth quarter, which exclude exceptional items and the amortization of intangible assets in both periods, decreased from USD 252 million in the 2009 fourth quarter to USD 168 million in the current year quarter.

Financial income and interest expense
Financial income decreased from USD 104 million income in the fourth quarter of 2009 to net financial expense of USD 26 million in the current fourth quarter due to lower returns on financial investments and a negative currency result, mainly attributable to a devaluation loss in Venezuela. Interest expense increased from USD 156 million to USD 196 million due to the additional fund-raising in relation to Alcon.

Taxes
The tax rate (taxes as a percentage of pre-tax income) was an exceptionally low 6.4% in the fourth quarter compared to 13.7% in the 2009 period, principally due to the true up of the Novartis tax rate to 16.3% and the impact of the consolidation of Alcon, which has a lower tax rate than the rest of the Novartis Group, and the deferred tax effects of the Alcon inventory-related fair value adjustment.

Net income
Net income declined 2% (+2% cc) to USD 2.3 billion. Core net income declined 3% (0% cc) to USD 2.8 billion.

Earnings per share
Earnings per share (EPS) declined 6% (-2% cc) to USD 0.95 from USD 1.01 in the 2009 period and core EPS was down 10% (-6% cc) to USD 1.14 from USD 1.26 in the year-ago period. The decrease in EPS is greater than the decrease in net income because 23% of the net income of Alcon is related to Alcon non-controlling interests and therefore excluded from the EPS calculation.

The average number of shares outstanding in the fourth quarter rose 1% to 2,289.8 million from 2,272.8 million in the year-ago period while a total of 2,289.4 million shares were outstanding at December 31, 2010.

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INNOVATION REVIEW

Novartis has one of the industry's most competitive pipelines with 147 projects in pharmaceutical clinical development, of which 63 involve new molecular entities.

Among developments in the fourth quarter of 2010:

- The FDA approved Afinitor (everolimus) tablets for subependymal giant cell astrocytoma, a benign brain tumor associated with tuberous sclerosis, in patients who require therapeutic intervention but are not candidates for curative surgical resection. The regulatory submission in the EU is currently under review with the trade name Votubia. Separately, we have filed Afinitor for the treatment of patients with advanced neuroendocrine tumors in the US and EU.

- The FDA approved Amturnide (aliskiren, amlodipine and hydrochlorothiazide) tablets, a triple-combination pill for the treatment of hypertension in patients whose blood pressure cannot be adequately controlled with any two of its individual components. Clinical trial data showed that Amturnide provided significantly greater reduction in blood pressure compared to all dual combinations of its components.

- In December, the EMA and Japan's Ministry of Health, Labour and Welfare granted marketing authorization to Tasigna (nilotinib) for the treatment of adult patients with newly diagnosed Philadelphia chromosome-positive chronic myeloid leukemia in chronic phase. Tasigna was approved for this indication earlier in 2010 in the US and Switzerland.

- In January 2011, the European Commission approved Lucentis (ranibizumab) for the treatment of patients with visual impairment due to diabetic macular edema, a leading cause of blindness in the working-age population in most developed countries. Data from pivotal trials had shown that Lucentis is superior to laser therapy, the current standard of care, in providing rapid and sustained visual acuity gain.

- In January 2011, the European Medicines Agency's Committee for Medicinal Products for Human Use (CHMP) adopted a positive opinion for Gilenya (fingolimod) 0.5 mg daily as a disease modifying therapy in patients with highly active relapsing-remitting multiple sclerosis (MS) despite treatment with beta interferon, or in patients with rapidly evolving severe relapsing-remitting MS. The EU application included data showing Gilenya 0.5 mg reduced relapses by 52% ($P<0.001$) at one year compared with interferon beta-1a IM (Avonex®), one of the most commonly prescribed treatments for MS.

- Lucentis was submitted in October for EU approval to treat visual impairment due to macular edema secondary to retinal vein occlusion (RVO). The filing is based on results from two separate Phase III studies in central RVO and branch RVO (CRUISE and BRAVO, both conducted by our licensing partner Genentech) in which Lucentis showed significant improvement versus sham injection at 6 and 12 months of treatment.

- In December, Novartis filed for European regulatory approval of ACZ885 (Ilaris, canakinumab) for the treatment of gouty arthritis based on data from two Phase III registration studies that met their primary endpoints. US submission is on track for the first quarter of 2011. Novartis is also pursuing other diseases in which IL-1 is believed to play an important role, such as systemic juvenile idiopathic arthritis and cardiovascular indications. Select subsets of patients with these diseases would be eligible for treatment with canakinumab, if approved.

- A dossier for EU approval of SOM230 (pasireotide) in patients suffering from Cushing's disease was filed in December. In a Phase III trial, SOM230 demonstrated significant efficacy in reducing urinary and free cortisol levels in patients suffering from this debilitating and potentially fatal hormonal disorder.

- The Phase III COMFORT-I trial met its primary endpoint demonstrating that INC424 significantly reduced spleen size in patients with primary myelofibrosis, post-polycythemia vera myelofibrosis or post-essential thrombocythemia myelofibrosis. Full results from the trial will be presented at an upcoming medical congress and worldwide regulatory filings are planned for 2011. Novartis licensed INC424 from Incyte for development and potential commercialization outside the US.

- Results from a blinded Phase III head-to-head study (INTENSITY) comparing once-daily Onbrez Breezhaler with tiotropium, an established therapy for chronic obstructive pulmonary disease (COPD), showed that Onbrez Breezhaler is as effective as tiotropium in improving lung function in patients with COPD, while providing greater clinical benefits in terms of reduced breathlessness, lower use of rescue medication, and improved overall health status. While the trial met its primary endpoint and these secondary endpoints relating to key patient outcomes, it did not meet the secondary endpoint of superiority to tiotropium in terms of lung function.

- The interim results from a Phase III trial examining ASA404 (valdimezan) for second line treatment of non-small cell lung cancer failed to meet the primary endpoint of extending survival in these patients. The project was discontinued and resources were reallocated to other compounds in the Oncology pipeline.

- At the San Antonio Breast Cancer Symposium, results were presented from the second interim analysis of the Phase III AZURE trial, which showed that Zometa did not demonstrate a disease-free survival advantage when added to standard adjuvant (post-surgery) chemotherapy and/or hormonal therapy in pre- and postmenopausal women with early breast cancer. However, a preplanned analysis of women with well-established menopause showed an improvement in disease-free survival and overall survival for patients in the Zometa treatment arm. Current applications in the US and EU for adjuvant treatment in early breast cancer have been withdrawn and Novartis will evaluate future plans based on these new data after discussions with health authorities worldwide.

- Novartis did not proceed with the US submission for everolimus in heart transplant. The results of the latest heart transplant phase III study are consistent with a safe and effective use of everolimus when administered according to approved labels in those countries where everolimus is registered for heart transplantation. Results associated with additional investigational use of everolimus are planned to be discussed with the FDA.

Q4 2010 selected major approvals: US, Europe and Japan

Product	Active ingredient	Indication	Approval date
Afinitor	everolimus	Subependymal giant cell astrocytomas associated with tuberous sclerosis	US-October
Amturnide	aliskiren, amlodipine and hydrochlorothiazide	Hypertension	US-December
Lucentis	ranibizumab	Diabetic macular edema	EU-January 2011
Tasigna	nilotinib	Newly diagnosed chronic myeloid leukemia	EU-December Japan-December

Selected projects awaiting regulatory decisions

		Completed submissions			
Product	Indication	US	EU	Japan	News update
ACZ885	Gouty arthritis		Q4 2010		- EU filing achieved in December - US submission planned in Q1 2011
Afinitor	Subependymal giant cell astrocytomas associated with tuberous sclerosis	Approved	Q3 2010		- FDA approval received in October - Phase II data published in New England Journal of Medicine in November

	Neuroendocrine tumors	Q4 2010	Q4 2010	Q4 2010	- US, EU and Japan filing completed
Exelon Patch	Alzheimer’s disease dementia	Approved	Approved	Q1 2010	- New drug application in Japan is under review. Pharmaceuticals and Medical Devices Agency decision expected in coming months

		Completed submissions			
Product	Indication	US	EU	Japan	News update
Gilenya	Multiple sclerosis	Approved	Q4 2009	Q4 2010	- FDA approval received in September with first-line indication for relapsing forms of multiple sclerosis. Additional approvals received in Russia, Switzerland, Australia and the United Arab Emirates - In January 2011, we received positive CHMP opinion for use in patients with highly active relapsing-remitting multiple sclerosis (MS) despite treatment with beta interferon, or in patients with rapidly evolving severe relapsing-remitting MS
LBH589	Hodgkin's lymphoma	Q4 2010			- US filing achieved in December - Phase II pivotal study data presented at the American Society of Hematology in December
Lucentis	Retinal vein occlusion		Q4 2010		- EU filing achieved in October
Onbrez Breezhaler	Chronic obstructive pulmonary disease	Q4 2008	Approved	Q3 2010	- Clinical trials completed in Q3 2010 to address FDA complete response letter (October 2009); data generated from these trials were submitted to the FDA in late September - The application for US approval (under the trade name Arcapta Neohaler) is due to be reviewed by an FDA Advisory Committee in March 2011
SOM230	Cushing's disease		Q4 2010		- EU filing achieved in October - US filing expected in H1 2011
Tekamlo	Hypertension	Approved	Q4 2009		- FDA approval received in August - EU CHMP opinion expected in Q1 2011
Amturnide	Hypertension	Approved	Q2 2010		- FDA approval received in December - EU submission achieved in May 2010
TOBI Podhaler	Cystic fibrosis		Q4 2009		- Positive CHMP opinion received in September
Zometa	Adjuvant breast cancer	Q4 2009	Q4 2009		- Phase III AZURE trial of Zometa for potential new use in early breast cancer did not meet primary endpoint in overall study population. In subgroup of women with well-established menopause, an improvement in disease-free survival and overall survival was shown in Zometa arm - Current marketing applications have been withdrawn in the US and EU

	while Novartis reviews AZURE trial results - Novartis will discuss with health authorities the next steps based on the subgroup analysis

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Selected pharmaceutical pipeline projects

Project/ Compound	Potential indication/ Disease area	Planned submissions	Current Phase	News update
ACZ885	Systemic onset juvenile idiopathic arthritis	2011	III	- On track for 2011 submission
	Secondary prevention of cardiovascular events	≥2015	II	- Phase III start planned in 2011
	Type 2 diabetes	≥2015		
AEB071	Prevention of organ rejection	2014	II	
	Psoriasis	≥2015	II	
Afinitor	Tuberous sclerosis complex angiomyolipoma	2011	III	
	ER+ breast cancer	2012	III	- Phase II TAM-RAD trial evaluating the effect of the addition of everolimus (Afinitor) to the hormonal therapy tamoxifen in patients with advanced metastatic breast cancer presented at San Antonio Breast Cancer Symposium in December
	HER2+ breast cancer 1st line	2013	III	
	HER 2+ve breast cancer 2nd/3rd line	2013	III	
	Advanced gastric cancer	2012	III	
	Hepatocellular cancer	2013	III	
	Diffuse large B cell lymphoma	≥2015	III	
AFQ056	Fragile X syndrome	2012	II	- Adult pivotal study started in November 2010
	Parkinson's disease-L-dopa induced dyskinesia	2013	II	
AG0178	Major depressive disorder	2012	III	
AIN457	Psoriasis	2013	II	
	Rheumatoid arthritis	2013	II	- Phase III start planned for 2011
	Non-infectious uveitis	2013	III	- Phase III study examining AIN457 for non-infectious uveitis in patients with Behcet's disease did not meet its primary endpoint and the data do not support submission of AIN457 for this indication
BAF312	Multiple sclerosis	≥2015	II	- Phase II data expected in Q1 2011
BEZ235	Solid tumors	2014	I	
BKM120	Solid tumors	2014	I	
CAD106	Alzheimer's disease	≥2015	II	
DEB025	Hepatitis C	2013	II	- Following a positive End-of-Phase II meeting with the FDA and positive feedback from the EMA, both endorsing the Phase III program, the

				Phase III clinical trial with DEB025 (Alisporivir) is planned to start in Q1 2011 - This study will investigate DEB025 in combination with peg-interferon and ribavirin in HCV G1 treatment-naive patients
Exjade	Non-transfusion-dependent thalassemia	2011	II	
HCD122	Hematological tumors	≥2015	I	

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Project/ Compound	Potential indication/ Disease area	Planned submissions	Current Phase	News update
INC424	Myelofibrosis	2011	III	- Phase III COMFORT-I trial top-line results show study met primary endpoint; INC424 provided significant clinical improvement in patients with myelofibrosis as measured by spleen size reduction. Full results to be presented at major medical congress in 2011 - First interpretable results (FIR) of Phase III COMFORT-2 data expected in Q1 2011
	Polycythemia vera	2014	III	- First US patient dosed in global Phase III RESPONSE study; first ex-US patient study expected to start in Q1 2011 - Phase II data in PV presented at the American Society of Hematology in December
LBH589	Multiple myeloma	2013	III	
	Hematological tumors	≥2015	II	
LCQ908	Metabolic diseases	2014	II	
LCZ696	Heart failure	2014	III	- Phase II data published in Lancet and presented at the American College of Cardiology in March 2010. The study demonstrated blood pressure lowering and supports heart failure potential - Phase III morbidity and mortality study in heart failure ongoing since December 2009
	Hypertension	2014	II	
LDE225	Gorlin's syndrome	2012	II	
	Solid tumors	2014	I	
Lucentis	Pathological myopia	2012	III	- Phase III started in Oct 2010
NVA237	Chronic obstructive pulmonary disease	2011	III	- On track for 2011 submission - Phase III (Glow 1,Glow 2 and Glow 3) data expected in 2011
PKC412	Aggressive systemic mastocytosis	2013	II	
	Acute myeloid leukemia	2014	III	
PRT128	Acute coronary syndrome, chronic coronary heart disease	≥2015	II	- Results from INNOVATE-PCI Phase II study were presented at the European Society of Cardiology congress in August 2010 - Phase III clinical development program to be initiated in 2011
PTK796	Acute bacterial skin and skin structure infections, community-acquired	2012	III	

	bacterial pneumonia			
QGE031	Allergic diseases	2014	I	
QMF149	Chronic obstructive pulmonary disease	2014	II	- Currently in Phase II with filing in ex-US regions planned for 2014 - At this time we do not intend to develop QMF149 for the US market
	Asthma	2014	II	- Filing in EU planned for 2014 - US development activities will not be initiated
QTI571 (Imatinib)	Pulmonary arterial hypertension	2011	III	- On track for 2011 submission - Data expected in H2 2011
QVA149	Chronic obstructive pulmonary disease	2012	III	

Project/ Compound	Potential indication/ Disease area	Planned submissions	Current Phase	News update
RLX030	Acute heart failure	2013	III	
SMC021	Osteoarthritis	2011	III	- First Phase III study did not meet first of three co-primary endpoints; second Phase III study ongoing
	Osteoporosis	2011	III	- Phase III pivotal study (Study 2303) is continuing following the two-year interim analysis in Q4 2010. Three-year results are expected in Q3 2011
SOM230	Acromegaly	2011	III	
	Refractory / resistant carcinoid syndrome	2012	III	
Tasigna	cKIT melanoma	2012	III	
	Gastrointestinal stromal tumor	2014	III	
TKI258	Solid tumors	2013	II	
Xolair	Chronic idiopathic urticaria	2013	II	- Phase III planned to start in Q1 2011
Zortress/ Certican	Prevention of organ rejection – liver	2011	III	- On track for submission in 2011

Selected vaccine pipeline projects

Project/ Compound	Potential indication/ Disease area	Planned submissions	Current Phase	News update
Menveo	Prevention of meningococcal disease (serogroups A, C, Y and W-135) in infants	2011	III	- US filing achieved in November - EU filing expected in 2011
Optaflu	Seasonal influenza (cell culture subunit vaccine)	2011	III	- On track for submission in the US in 2011
Fluad	Seasonal influenza (subunit vaccine with MF59 adjuvant)	2012	III	- EU filing for pediatric population achieved in 2010 - Phase III study underway - US filing for elderly population planned in 2012
Bexsero	Multi-component vaccine for prevention of meningococcal disease (serogroup B)	≥2013	II	- EU filed in 2010 - Filing in US planned for ≥2013
MenABCWY	Prevention of meningococcal disease (serogroups A, B, C, Y and W-135)	≥2013	II	
Group B streptococcus	Prevention of group B streptococcus	≥2013	I	

Disclaimer

These materials contain forward-looking statements that can be identified by terminology such as “proposed,” “pipeline,” “momentum,” “should,” “will,” “opportunity,” “proposes,” “strategy,” “expected,” “would,” “promising,” “opportunities,” “committed,” “opportunities,” “potential,” “priority review,” “promise,” “suggested,” “intent,” “planned,” “expect,” “outlook” “likely,” “plan,” “expects,” “seek,” “strategic,” “anticipate,” “expectations,” “launch,” “on track,” “pursuing,” “set,” “due,” similar expressions, or by express or implied discussions regarding potential new products, potential new indications for existing products, or regarding potential future revenues from any such products; or regarding potential growth opportunities from the acquisition of a 77% majority ownership in Alcon, Inc. or regarding the expected merger with Alcon, or the potential impact on Alcon or Novartis of the expected merger; or regarding potential future sales or earnings of the Novartis Group or any of its divisions as a result of the expected merger or otherwise, or of Alcon, or any potential synergies, strategic benefits or opportunities as a result of the expected merger; or by discussions of strategy, plans, expectations or intentions. You should not place undue reliance on these statements. Such forward-looking statements reflect the current views of the Group regarding future events, and involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. There can be no guarantee that any new products will be approved for sale in any market, or that any new indications will be approved for existing products in any market, or that such products will achieve any particular revenue levels. Nor can there be any guarantee that the expected merger with Alcon will be completed in the expected form or within the expected time frame or at all. Nor can there be any guarantee that Novartis will be able to realize any of the potential synergies, strategic benefits or opportunities as a result of either Novartis' acquisition of a 77% majority ownership in Alcon, Inc., or as a result of the expected merger with Alcon. Nor can there be any guarantee that the Novartis Group, or any of its divisions, or Alcon will achieve any particular financial results, whether as a result of the merger or otherwise. In particular, management's expectations could be affected by, among other things, unexpected regulatory actions or delays or government regulation generally; unexpected clinical trial results, including additional analyses of existing clinical data or unexpected new clinical data; the Group's ability to obtain or maintain patent or other proprietary intellectual property protection; disruptions from the Alcon 77% implementation and the expected merger making it more difficult to maintain business and operational relationships, and relationships with key employees; unexpected product manufacturing issues; uncertainties regarding actual or potential legal proceedings, including, among others, litigation seeking to prevent the merger from taking place, product liability litigation, litigation regarding sales and marketing practices, government investigations and intellectual property disputes; competition in general; government, industry, and general public pricing and other political pressures; uncertainties regarding the after-effects of the recent global financial and economic crisis; uncertainties regarding future global exchange rates and uncertainties regarding future demand for our products; uncertainties involved in the development of new pharmaceutical products; the impact that the foregoing factors could have on the values attributed to the Group's assets and liabilities as recorded in the Group's consolidated balance sheet; and other risks and factors referred to in Novartis AG's current Form 20-F on file with the US Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. Novartis is providing the information in these materials as of this date and does not undertake any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

About Novartis

Novartis provides healthcare solutions that address the evolving needs of patients and societies. Focused solely on healthcare, Novartis offers a diversified portfolio to best meet these needs: innovative medicines, cost-saving generic pharmaceuticals, preventive vaccines, diagnostic tools and consumer health products. Novartis is the only company with leading positions in these areas. In 2010, the Group’s continuing operations achieved net sales of USD 50.6 billion, while approximately USD 9.1 billion (USD 8.1 billion excluding impairment and amortization charges) was invested in R&D throughout the Group. Headquartered in Basel, Switzerland, Novartis Group companies employ approximately 119,000 full-time-equivalent associates (including 16,700 Alcon associates) and operate in more than

140 countries around the world. For more information, please visit http://www.novartis.com.

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Novartis has issued its annual report today, and it is available on its website at www.novartis.com. Novartis will also today file its annual report on Form 20-F with the US Securities and Exchange Commission, and will post this document on www.novartis.com. Novartis shareholders may receive a hard copy of either of these documents, each of which contain our complete audited financial statements, free of charge, upon request.

Important dates

February 22, 2011	Annual General Meeting
April 19, 2011	First quarter results 2011
July 19, 2011	Second quarter and half year results 2011
October 25, 2011	Third quarter and nine month results 2011

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statements

Fourth quarter (unaudited)

	Q4 2010 USD m	Q4 2009 USD m	Change USD m	Change %
Net sales	**14 199**	**12 926**	**1 273**	**10**
Other revenues	265	219	46	21
Cost of Goods Sold	-4 524	-3 667	-857	23
Gross profit	**9 940**	**9 478**	**462**	**5**
Marketing & Sales	-3 990	-3 476	-514	15
Research & Development	-2 592	-2 148	-444	21
General & Administration	-794	-692	-102	15
Other income	568	361	207	57
Other expense	-665	-886	221	-25
Operating income	**2 467**	**2 637**	**-170**	**-6**
Income from associated companies	175	107	68	64
Financial income	-26	104	-130	-125
Interest expense	-196	-156	-40	26
Income before taxes	**2 420**	**2 692**	**-272**	**-10**
Taxes	-155	-369	214	-58
Net income	**2 265**	**2 323**	**-58**	**-2**
Attributable to:				
Shareholders of Novartis AG	*2 169*	*2 305*	*-136*	*-6*
Non-controlling interests	*96*	*18*	*78*	*433*
Average number of shares outstanding – Basic (million)	**2 289.8**	**2 272.8**	**17.0**	**1**
Basic earnings per share (USD)[1]	**0.95**	**1.01**	**-0.06**	**-6**
Average number of shares outstanding – Diluted (million)	2 307.0	2 286.7	20.3	1
Diluted earnings per share (USD)[1]	0.94	1.01	-0.07	-7

[1] Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Novartis AG
nm - not meaningful

Consolidated income statements

Full Year (audited)

	2010 USD m	2009 USD m	Change USD m	Change %
Net sales	**50 624**	**44 267**	**6 357**	**14**
Other revenues	937	836	101	12
Cost of Goods Sold	-14 488	-12 179	-2 309	19
Gross profit	**37 073**	**32 924**	**4 149**	**13**
Marketing & Sales	-13 316	-12 050	-1 266	11
Research & Development	-9 070	-7 469	-1 601	21
General & Administration	-2 481	-2 281	-200	9
Other income	1 234	782	452	58
Other expense	-1 914	-1 924	10	-1
Operating income	**11 526**	**9 982**	**1 544**	**15**
Income from associated companies	804	293	511	174
Financial income	64	198	-134	-68
Interest expense	-692	-551	-141	26
Income before taxes	**11 702**	**9 922**	**1 780**	**18**
Taxes	-1 733	-1 468	-265	18
Net income	**9 969**	**8 454**	**1 515**	**18**
Attributable to:				
Shareholders of Novartis AG	*9 794*	*8 400*	*1 394*	*17*
Non-controlling interests	*175*	*54*	*121*	*224*
Average number of shares outstanding – Basic (million)	**2 285.7**	**2 267.9**	**17.8**	**1**
Basic earnings per share (USD)[1]	**4.28**	**3.70**	**0.58**	**16**
Average number of shares outstanding – Diluted (million)	2 300.8	2 276.6	24.2	1
Diluted earnings per share (USD)[1]	4.26	3.69	0.57	15

[1] Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Novartis AG

Consolidated statements of comprehensive income

Fourth quarter (unaudited)

	Q4 2010 USD m	Q4 2009 USD m	Change USD m
Net income	**2 265**	**2 323**	**-58**
Fair value adjustments on financial instruments, net of taxes	-52	-67	15
Net actuarial gains from defined benefit plans, net of taxes	752	1 737	-985
Novartis share of other items recorded in comprehensive income recognized by associated companies, net of taxes	-7	6	-13
Translation effects	427	-110	537
Comprehensive income	**3 385**	**3 889**	**-504**
Attributable to:			
Shareholders of Novartis AG	*3 299*	*3 871*	*-572*
Non-controlling interests	*86*	*18*	*68*

Full Year (audited)

	2010 USD m	2009 USD m	Change USD m
Net income	**9 969**	**8 454**	**1 515**
Fair value adjustments on financial instruments, net of taxes	-33	93	-126
Net actuarial (losses)/gains from defined benefit plans, net of taxes	-685	949	-1 634
Novartis share of other items recorded in comprehensive income recognized by associated companies, net of taxes	-94	-43	-51
Translation effects	554	789	-235
Comprehensive income	**9 711**	**10 242**	**-531**
Attributable to:			
Shareholders of Novartis AG	*9 524*	*10 180*	*-656*
Non-controlling interests	*187*	*62*	*125*

Condensed consolidated balance sheets (audited)

	Dec 31, 2010 USD m	Dec 31, 2009 USD m	Change USD m
Assets			
Non-current assets			
Property, plant & equipment	15 840	14 075	1 765
Goodwill	29 692	12 039	17 653
Intangible assets other than goodwill	35 231	10 331	24 900
Financial and other non-current assets	15 870	25 369	-9 499
Total non-current assets	**96 633**	**61 814**	**34 819**
Current assets			
Inventories	6 093	5 830	263
Trade receivables	9 873	8 310	1 563
Other current assets	2 585	2 102	483
Cash, short-term deposits and marketable securities	8 134	17 449	-9 315
Total current assets	**26 685**	**33 691**	**-7 006**
Total assets	**123 318**	**95 505**	**27 813**
Equity and liabilities			
Total equity	**69 769**	**57 462**	**12 307**
Non-current liabilities			
Financial debts	14 360	8 675	5 685
Other non-current liabilities	14 531	9 898	4 633
Total non-current liabilities	**28 891**	**18 573**	**10 318**
Current liabilities			
Trade payables	4 788	4 012	776
Financial debts and derivatives	8 627	5 313	3 314
Other current liabilities	11 243	10 145	1 098
Total current liabilities	**24 658**	**19 470**	**5 188**
Total liabilities	**53 549**	**38 043**	**15 506**
Total equity and liabilities	**123 318**	**95 505**	**27 813**

Condensed consolidated changes in equity

Fourth quarter (unaudited)

	Q4 2010 USD m	Q4 2009 USD m	Change USD m
Consolidated equity at October 1	**66 218**	**53 313**	**12 905**
Comprehensive income	3 385	3 889	-504
(Purchase)/sale of treasury shares, net	-82	145	-227
Equity-based compensation	174	185	-11
Impact of change of ownership of consolidated entities	-74		-74
Excess of the purchase price for acquiring non-controlling interests compared to the recorded amounts	-96		-96
Changes in non-controlling interests	244	-70	314
Consolidated equity at December 31	**69 769**	**57 462**	**12 307**

Full Year (audited)

	2010 USD m	2009 USD m	Change USD m
Consolidated equity at January 1	**57 462**	**50 437**	**7 025**
Comprehensive income	9 711	10 242	-531
Sale of treasury shares, net	342	225	117
Equity-based compensation	599	635	-36
Dividends	-4 486	-3 941	-545
Impact of change of ownership of consolidated entities	-74		-74
Excess of the purchase price for acquiring non-controlling interests compared to the recorded amounts	-96		-96
Changes in non-controlling interests	6 311	-136	6 447
Consolidated equity at December 31	**69 769**	**57 462**	**12 307**

Condensed consolidated cash flow statements

Fourth quarter (unaudited)

	Q4 2010 USD m	Q4 2009 USD m	Change USD m
Net income	**2 265**	**2 323**	**-58**
Reversal of non-cash items			
Taxes	155	369	-214
Depreciation, amortization and impairments	914	629	285
Change in provisions and other non-current liabilities	381	595	-214
Net financial income	222	52	170
Other	-365	7	-372
Net income adjusted for non-cash items	**3 572**	**3 975**	**-403**
Interest and other financial receipts	22	23	-1
Interest and other financial payments	-232	-156	-76
Taxes paid	-530	-406	-124
Cash flows before working capital changes	**2 832**	**3 436**	**-604**
Payments out of provisions and other net cash movements in non-current liabilities	-570	-168	-402
Change in net current assets and other operating cash flow items	2 315	1 198	1 117
Cash flows from operating activities	**4 577**	**4 466**	**111**
Purchase of property, plant & equipment	-673	-619	-54
Purchase of intangible, financial and other non-current assets	-210	-613	403
Proceeds from sales of property, plant & equipment, intangible, financial and other non-current assets	486	115	371
Acquisitions of businesses		-35	35
Change in marketable securities	-190	-3 041	2 851
Cash flows used in investing activities	**-587**	**-4 193**	**3 606**
Change in current and non-current financial debts	-3 979	-271	-3 708
Treasury share transactions	-38	144	-182
Other financing cash flows	-43	-14	-29
Cash flows used in financing activities	**-4 060**	**-141**	**-3 919**
Translation effect on cash and cash equivalents	3	-11	14
Change in cash and cash equivalents	**-67**	**121**	**-188**
Cash and cash equivalents at October 1	5 386	2 773	2 613
Cash and cash equivalents at December 31	**5 319**	**2 894**	**2 425**

Condensed consolidated cash flow statements

Full Year (audited)

	2010 USD m	2009 USD m	Change USD m
Net income	**9 969**	**8 454**	**1 515**
Reversal of non-cash items			
Taxes	1 733	1 468	265
Depreciation, amortization and impairments	3 577	2 341	1 236
Change in provisions and other non-current liabilities	802	1 031	-229
Net financial income	628	353	275
Other	-578	255	-833
Net income adjusted for non-cash items	**16 131**	**13 902**	**2 229**
Interest and other financial receipts	741	613	128
Interest and other financial payments	-670	-654	-16
Taxes paid	-2 616	-1 623	-993
Cash flows before working capital changes	**13 586**	**12 238**	**1 348**
Payments out of provisions and other net cash movements in non-current liabilities	-1 281	-735	-546
Change in net current assets and other operating cash flow items	1 762	688	1 074
Cash flows from operating activities	**14 067**	**12 191**	**1 876**
Purchase of property, plant & equipment	-1 678	-1 887	209
Purchase of intangible, financial and other non-current assets	-693	-1 084	391
Proceeds from sales of property, plant & equipment, intangible, financial and other non-current assets	650	226	424
Acquisitions and divestments of businesses	-26 666	-925	-25 741
Change in marketable securities	12 631	-10 549	23 180
Cash flows used in investing activities	**-15 756**	**-14 219**	**-1 537**
Change in current and non-current financial debts	8 279	6 539	1 740
Dividends paid to shareholders of Novartis AG	-4 486	-3 941	-545
Treasury share transactions	400	224	176
Other financing cash flows	-77	-13	-64
Cash flows from financing activities	**4 116**	**2 809**	**1 307**
Translation effect on cash and cash equivalents	-2	75	-77
Change in cash and cash equivalents	**2 425**	**856**	**1 569**
Cash and cash equivalents at January 1	2 894	2 038	856
Cash and cash equivalents at December 31	**5 319**	**2 894**	**2 425**

Notes to the Condensed Consolidated Financial Statements for the three- and twelve-month periods ended December 31, 2010

1. Basis of preparation

These Condensed Consolidated Financial Statements for the three- and twelve-month periods ended December 31, 2010, were prepared in accordance with International Accounting Standard 34 *InterimFinancial Reporting* and accounting policies set out in the 2010 Annual Report published on January 27, 2011.

2. Selected critical accounting policies

The Group's principal accounting policies are set out in note 1 to the Consolidated Financial Statements in the 2010 Annual Report and conform with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The presentation of financial statements requires management to make subjective and complex judgments that affect the reported amounts. Because of the inherent uncertainties, actual outcomes and results may differ from management's assumptions and estimates. In particular, as discussed in notes 4 and 11 of the 2010 Annual Report, investments in associated companies and intangible assets (including goodwill and acquired In-Process Research & Development projects) are reviewed for impairment at least annually, or whenever an event or decision occurs that raises concern about their balance sheet carrying value. The amount of investments in associated companies, goodwill and other intangible assets on the Group's consolidated balance sheet has risen significantly in recent years, primarily from recent acquisitions. Impairment testing under IFRS may lead to potentially significant impairment charges in the future that could have a materially adverse impact on the Group's financial results. The determination of the contingent consideration in respect of acquisitions made during 2010 also requires management to make assumptions on the probability and amount of potential payments due to previous owners. If actual payments are different to the estimated amounts recorded for contingent consideration there could be a significant impact, either positive or negative, on the Group's financial results. This accounting policy was applied for the first time in the second quarter of 2010 for the Corthera Inc., and Oriel Therapeutics Inc., acquisitions discussed in note 3 below.

3. Acquisitions, divestments and significant transactions

The following significant transactions occurred during 2010 and 2009:

Acquisitions in 2010

Corporate – Alcon, Inc.
Novartis acquired an initial 25% Alcon stake from Nestlé for USD 10.4 billion or USD 143 per share in July 2008. On January 4, 2010 Novartis announced that it had exercised its call option to acquire Nestlé's remaining 52% Alcon interest for approximately USD 28.3 billion or USD 180 per share. On August 25, Novartis completed the acquisition of a further 52% interest in Alcon, Inc. This increases the interest in Alcon to a 77% majority ownership.

The overall purchase price of USD 38.7 billion includes certain adjustments for dividends and interest up to the August 25, 2010 closing date. Sources of financing for the 77% majority ownership, including the initial 25% interest purchased in mid-2008, were USD 17.0 billion of available cash, and USD 13.5 billion from bonds raised in March 2010 as well as in 2008 and 2009. In addition, during 2010, we raised funds through our commercial paper program, which was used for general corporate purposes of the Novartis Group, as well as for intercompany financing purposes in connection with the acquisition of the 52% interest in Alcon.

A summary of the financial impact of consolidating Alcon from August 25, using final estimates of the fair value of identified assets and liabilities is as follows:

	USD billions	USD billions
Purchase price for acquiring initial 25% of Alcon		10.4
Purchase price for additional 52% of Alcon		28.3
Total purchase price		**38.7**
Equity adjustments since acquiring the initial 25% interest		-0.4
Revaluation gain on initial 25% interest		0.4
Investment value on date of change of majority ownership		**38.7**
Net assets reported by Alcon (excluding its goodwill but including any US GAAP / IFRS differences)	5.9	
Estimated fair value adjustments		
- property, plant and equipment	0.1	
- intangible assets	24.5	
- inventory	0.5	
- other liabilities	-0.1	
- deferred tax liabilities, net	-3.8	
Fair value of net assets acquired		27.1
Less fair value attributed to 23% non-controlling interest		-6.3
Residual goodwill		**17.9**

The fair value of the net identified assets is final, except for any matters that may arise following 100% ownership.

The residual goodwill is attributable to a number of factors such as the future growth platform and synergies that can be achieved. None of the goodwill is currently expected to be deductible for tax purposes. Divestments required from regulatory decisions are expected to occur in the first quarter of 2011. These divestments vary by market and had 2010 sales of approximately USD 100 million.

For business combinations achieved in stages, IFRS requires that any previously held interest of an acquirer in an acquiree is adjusted to its fair value through the income statement as of the acquisition date. The agreement that Novartis entered into with Nestlé in 2008 specified an average price of up to USD 168 per share for all of the approximately 77% interest in Alcon held by Nestlé, including USD 143

per share for the initial 25% interest acquired by Novartis in 2008, and a maximum of USD 181 per share for the remaining 52%, including a premium for the change of majority ownership.

Novartis has re-assessed the fair value of the initial 25% non-controlling interest in Alcon it acquired from Nestlé in 2008 as follows:

	USD millions
Fair value of all the approximate 77% interest in Alcon acquired from Nestlé valued at USD 168 per share	38 663
Amount paid for the approximate 52% interest in Alcon on August 25, 2010 (including the premium for gaining majority ownership)	-28 343
Estimated fair value for initial approximately 25% interest in Alcon as of August 25, 2010	**10 320**
Carrying value of 25% interest in Alcon as of August 25, 2010	-9 942
Excess of fair value over carrying value	**378**
Recycling of losses accumulated in comprehensive income from July 7, 2008 to August 25, 2010	-43
Gain recorded as of August 25, 2010 as a result of fair valuing the initial approximately 25% interest in Alcon	**335**

Novartis determined the fair value of approximately USD 38.7 billion for the total interest in Alcon currently owned by Novartis based on a price of USD 168 per Alcon share, which is the per share value of the proposed acquisition of the outstanding non-controlling interests and also the approximate average price per share paid by Novartis for the total interest acquired from Nestlé.

On December 15, Novartis announced that it has entered into a definitive agreement to merge Alcon into Novartis for Novartis shares and a Contingent Value Amount (CVA). Under the terms of the agreement, the merger consideration will include up to 2.8 Novartis shares and a CVA to be settled in cash that will in aggregate equal USD 168 per share. If the value of 2.8 Novartis shares is more than USD 168 the number of Novartis shares will be reduced accordingly. The total merger consideration for the non-controlling minority interest will be USD 12.9 billion, comprising of up to 215 million Novartis shares and a potential CVA to be settled in cash.

The merger is currently expected to be completed during the first half of 2011 and is conditional on clearance of a registration statement by the US Securities and Exchange Commission, two-thirds approval by the shareholders of each of Novartis and Alcon voting at their respective meetings and other customary closing conditions.

The proposed acquisition of the remaining outstanding non-controlling interests in Alcon via the merger is considered to be a separate transaction following the previous acquisition of majority ownership in Alcon by Novartis. It will change the Novartis ownership in Alcon but will not result in a change of control, so it will be accounted for as an equity transaction as required by IAS 27R, meaning assets and liabilities are not revalued as of the date of the acquisition of the outstanding non-controlling interests via the merger, goodwill does not arise and any excess of the consideration paid to acquire the outstanding non-controlling interest over the proportionate share of the outstanding non-controlling interests' net assets is recognized against equity.

Pharmaceuticals – Corthera
On February 3, Novartis completed the 100% acquisition (announced on December 23, 2009) of the privately held US based Corthera Inc., gaining worldwide rights to relaxin for the treatment of acute decompensated heart failure and assumed full responsibility for development and commercialization for a total purchase consideration of USD 327

million. This amount consists of an initial cash payment of USD 120 million and USD 207 million of deferred contingent consideration. The deferred contingent consideration is the net present value of the additional milestone payments due to Corthera's previous shareholders which they are eligible to receive contingent upon the achievement of specified development and commercialization milestones. The final purchase price allocation resulted in net

identified assets of USD 309 million and goodwill of USD 18 million. Results of operations since the acquisition date were not material.

Sandoz – Oriel Therapeutics
On June 1, Sandoz completed the 100% acquisition of the privately held US based Oriel Therapeutics Inc., to broaden its portfolio of projects in the field of respiratory drugs for a total purchase consideration of USD 332 million. This amount consists of an initial cash payment of USD 74 million and USD 258 million of deferred contingent consideration. Oriel's previous shareholders are eligible to receive milestone payments, which are contingent upon the company achieving future development steps, regulatory approvals and market launches, and sales royalties. The total USD 258 million of deferred contingent consideration represents the net present value of expected milestone and royalty payments. The final purchase price allocation, including the valuation of the contingent payment elements of the purchase price, resulted in identified net assets of USD 281 million and goodwill of USD 51 million. Results of operations since the acquisition date were not material.

Acquisitions in 2009

Sandoz – EBEWE Pharma
On May 20, Novartis announced a definitive agreement for Sandoz to acquire 100% of the specialty generic injectables business of EBEWE Pharma for EUR 925 million (USD 1.3 billion) in cash, to be adjusted for any cash or debt assumed at closing. This transaction was completed on September 22, 2009. The first payment of EUR 600 million (USD 0.9 billion) was made in 2009, with the balance paid in 2010. Based on a final purchase price allocation, EBEWE's identified net assets were USD 0.7 billion, which resulted in goodwill of USD 0.5 billion. Results of operations from this acquisition, which were not material in 2009, were included from the completion date of this transaction.

Vaccines and Diagnostics – Zhejiang Tianyuan
On November 4, Novartis announced a definitive agreement to acquire an 85% stake in the Chinese vaccines company Zhejiang Tianyuan Bio-Pharmaceutical Co., Ltd. Terms call for Novartis to purchase an 85% majority interest for approximately USD 125 million in cash. The transaction, which is expected to be completed in 2011, is subject to certain closing conditions, including receipt of government and regulatory approvals in China.

Other Significant Transactions in 2010

Corporate – Issuance of bond in US dollars
On March 9, Novartis issued a three-tranche bond totaling USD 5.0 billion registered with the US Securities and Exchange Commission as part of a shelf registration statement filed by Novartis in 2008. A 1.9% three-year tranche totaling USD 2.0 billion, a 2.9% five-year tranche totaling USD 2.0 billion and a 4.4% 10-year tranche totaling USD 1.0 billion were issued by the Group's US entity, Novartis Capital Corp. All tranches are unconditionally guaranteed by Novartis AG.

Corporate – Change of pension plan in Switzerland
On April 23, the Board of Trustees of the Novartis Swiss Pension Fund agreed to amend the conditions and insured benefits of the current Swiss pension plan with effect from January 1, 2011. These amendments do not have an impact on existing pensions in payment or on plan members born before January 1, 1956. Under the previous rules, benefits from the plan are primarily linked to the level of salary in the years prior to retirement while under the new rules benefits are also partially linked to the level of contributions made by the members during their active service period up to their retirement. This has led to changes, recorded in the second quarter of 2010, in the amounts that need to be included in the Group's consolidated financial statements prepared using IFRS in respect of the Swiss Pension Fund.

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As part of this change, Novartis, supported by the Swiss Pension Fund, will make transitional payments, which vary according to the member's age and years of service. As a result, it is estimated that additional payments will be made over a ten-year period of up to approximately USD 481 million (CHF 453 million) depending on whether or not all current members affected by the change remain in the plan over this ten-year period.

The accounting consequence of this change in the Swiss pension plan rules results in the Group's consolidated financial statements prepared under IFRS reflecting a net pre-tax curtailment gain of USD 265 million (CHF 283 million) in the second quarter of 2010. This calculation only takes into account the discounted value of transition payments of USD 202 million (CHF 219 million) attributed to already completed years of service of the affected plan members as calculated in accordance with IFRS requirements. It does not take into account any amount for transitional payments related to their future years of service.

Other significant transactions in 2009

Corporate – Issuance of bond in US dollars
On February 5, Novartis issued a two-tranche bond totaling USD 5 billion registered with the US Securities and Exchange Commission as part of a shelf registration statement filed by Novartis in 2008. A 4.125% five-year tranche totaling USD 2 billion was issued by the Group's US entity, Novartis Capital Corp., while a 5.125% 10-year tranche totaling USD 3 billion was issued by the Group's Bermuda unit, Novartis Securities Investment Ltd. Both tranches are unconditionally guaranteed by Novartis AG.

Corporate – Issuance of bond in euros
On June 2, Novartis issued a EUR 1.5 billion bond (approximately USD 2.1 billion) with a coupon of 4.25% under its EUR 15 billion Euro Medium Term Note Programme. The seven-year bond, issued by Novartis Finance S.A., Luxembourg, has a maturity date of June 15, 2016, and is guaranteed by Novartis AG.

Corporate – Novartis India Ltd.
On June 8, Novartis completed a tender offer to acquire additional shares from public shareholders and increased its stake in the majority-owned Indian subsidiary, Novartis India Ltd., to 76.4% from 50.9% for approximately INR 3.8 billion (USD 80 million). Almost all large institutional investors and quasi-institutional shareholders participated in the offer. This transaction resulted in USD 57 million of goodwill.

Pharmaceuticals – Idenix
On August 5, Novartis did not participate in an underwritten public offering by Idenix Pharmaceuticals, which reduced the Group's stake to 47% from the pre-offering level of 53%. As a result of this offering, Novartis no longer controls this company, so Idenix was deconsolidated with effect from September 1. Idenix has been accounted for on an equity basis since this date, which had no material impact on the Group's consolidated income statement.

4. Principal currency translation rates

Fourth quarter

	Average rates Q4 2010 USD	Average rates Q4 2009 USD	Period-end rates Dec 31, 2010 USD	Period-end rates Dec 31, 2009 USD
1 CHF	**1.027**	0.980	**1.063**	0.965
1 EUR	**1.359**	1.478	**1.324**	1.436
1 GBP	**1.581**	1.634	**1.552**	1.591
100 JPY	**1.212**	1.115	**1.227**	1.086

Full Year

	Average rates 2010 USD	Average rates 2009 USD	Period-end rates Dec 31, 2010 USD	Period-end rates Dec 31, 2009 USD
1 CHF	**0.961**	0.923	**1.063**	0.965
1 EUR	**1.327**	1.393	**1.324**	1.436
1 GBP	**1.546**	1.564	**1.552**	1.591
100 JPY	**1.141**	1.070	**1.227**	1.086

5. Consolidated income statements – Segmentation – Fourth quarter (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Alcon, Inc.	Corporate (incl. eliminations)		Total Group	
	Q4 2010 USD m	Q4 2009 USD m	Q4 2010 USD m	Q4 2009 USD m	Q4 2010 USD m	Q4 2009 USD m	Q4 2010 USD m	Q4 2009 USD m	Q4 2010 USD m	Q4 2010 USD m	Q4 2009 USD m	Q4 2010 USD m	Q4 2009 USD m
Net sales to third parties	**8 032**	**7 773**	**361**	**1 387**	**2 367**	**2 143**	**1 630**	**1 623**	**1 809**			**14 199**	**12 926**
Sales to other segments	42	38	11	20	68	74	7	13		-128	-145		
Net sales of segments	**8 074**	**7 811**	**372**	**1 407**	**2 435**	**2 217**	**1 637**	**1 636**	**1 809**	**-128**	**-145**	**14 199**	**12 926**
Other revenues	119	93	121	108	6	2	18	16	2	-1		265	219
Cost of Goods Sold	-1 461	-1 382	-393	-552	-1 389	-1 253	-580	-614	-826	125	134	-4 524	-3 667
Gross profit	**6 732**	**6 522**	**100**	**963**	**1 052**	**966**	**1 075**	**1 038**	**985**	**-4**	**-11**	**9 940**	**9 478**
Marketing & Sales	-2 401	-2 356	-90	-109	-400	-396	-648	-615	-453	2		-3 990	-3 476
Research & Development	-1 901	-1 632	-138	-199	-203	-172	-99	-102	-194	-57	-43	-2 592	-2 148
General & Administration	-280	-261	-42	-61	-95	-109	-120	-120	-105	-152	-141	-794	-692
Other income	470	169	8	6	23	86	11	29		56	71	568	361
Other expense	-330	-536	-91	-17	-119	-154	-10	-23	-11	-104	-156	-665	-886
Operating income	**2 290**	**1 906**	**-253**	**583**	**258**	**221**	**209**	**207**	**222**	**-259**	**-280**	**2 467**	**2 637**
as % of net sales	*28.5%*	*24.5%*	*-70.1%*	*42.0%*	*10.9%*	*10.3%*	*12.8%*	*12.8%*	*12.3%*			*17.4%*	*20.4%*
Income from associated companies		-8	7		1	2				167	113	175	107
Financial income												-26	104
Interest expense												-196	-156
Income before taxes												**2 420**	**2 692**
Taxes												-155	-369
Net income												**2 265**	**2 323**
Additions to:													
– Property, plant and equipment [1]	*312*	*309*	*41*	*143*	*127*	*104*	*71*	*66*	*50*	*56*	*28*	*657*	*650*
– Other intangible	*108*	*527*	*3*		*9*	*7*	*3*	*21*	*4*	*2*	*7*	*129*	*562*

assets[1]

[1] Excluding impact of business acquisitions

Consolidated income statements – Segmentation – Full Year (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Alcon, Inc. [1]	Corporate (incl. eliminations)		Total Group	
	2010 USD m	2009 USD m	2010 USD m	2009 USD m	2010 USD m	2009 USD m	2010 USD m	2009 USD m	2010 USD m	2010 USD m	2009 USD m	2010 USD m	2009 USD m
Net sales to third parties	**30 558**	**28 538**	**2 918**	**2 424**	**8 518**	**7 493**	**6 204**	**5 812**	**2 426**			**50 624**	**44 267**
Sales to other segments	157	175	60	46	267	264	49	44		-533	-529		
Net sales of segments	**30 715**	**28 713**	**2 978**	**2 470**	**8 785**	**7 757**	**6 253**	**5 856**	**2 426**	**-533**	**-529**	**50 624**	**44 267**
Other revenues	422	377	433	390	16	10	65	59	3	-2		937	836
Cost of Goods Sold	-5 361	-4 955	-1 551	-1 415	-4 854	-4 201	-2 173	-2 111	-1 082	533	503	-14 488	-12 179
Gross profit	**25 776**	**24 135**	**1 860**	**1 445**	**3 947**	**3 566**	**4 145**	**3 804**	**1 347**	**-2**	**-26**	**37 073**	**32 924**
Marketing & Sales	-8 694	-8 369	-338	-297	-1 449	-1 330	-2 238	-2 054	-600	3		-13 316	-12 050
Research & Development	-7 081	-5 840	-523	-508	-658	-613	-359	-346	-254	-195	-162	-9 070	-7 469
General & Administration	-919	-870	-149	-176	-350	-385	-402	-376	-140	-521	-474	-2 481	-2 281
Other income	687	414	35	27	77	105	48	72		387	164	1 234	782
Other expense	-971	-1 078	-273	-119	-295	-272	-41	-84	-30	-304	-371	-1 914	-1 924
Operating income	**8 798**	**8 392**	**612**	**372**	**1 272**	**1 071**	**1 153**	**1 016**	**323**	**-632**	**-869**	**11 526**	**9 982**
as % of net sales	*28.8%*	*29.4%*	*21.0%*	*15.3%*	*14.9%*	*14.3%*	*18.6%*	*17.5%*	*13.3%*			*22.8%*	*22.5%*
Income from associated companies	-16	-14	7		3	7				810	300	804	293
Financial income												64	198
Interest expense												-692	-551
Income before taxes												**11 702**	**9 922**
Taxes												-1 733	-1 468
Net income												**9 969**	**8 454**
Additions to:													
– Property, plant and equipment[2]	*777*	*922*	*159*	*437*	*307*	*282*	*150*	*164*	*107*	*153*	*78*	*1 653*	*1 883*
– Other intangible assets[2]	*414*	*809*	*9*	*12*	*32*	*35*	*14*	*101*	*20*	*6*	*10*	*495*	*967*

[1] Alcon, Inc. is consolidated from August 25, 2010
[2] Excluding impact of business acquisitions

6. Legal proceedings update

A number of Novartis subsidiaries are, and will likely continue to be, subject to various legal proceedings that arise from time to time. As a result, the Group may become subject to substantial liabilities that may not be covered by insurance. Litigation is inherently unpredictable and large verdicts sometimes do occur. As a result, Novartis may in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its results of operations or cash flow. See note 20 in the Group's Consolidated Financial Statements in the 2010 Annual Report for a summary of major legal proceedings. The following is a non-exhaustive list relating to some cases reported in the 2010 Annual Report and includes information as of January 26, 2011:

Governmental investigations
In 2005, the US Attorney's Office for the Eastern District of Pennsylvania (EDPA) served an administrative subpoena pursuant to the Health Insurance Portability and Accountability Act on Novartis Pharmaceuticals Corporation (NPC). NPC has been cooperating with parallel civil and criminal investigations by the EDPA into allegations of potential off-label marketing and promotion of the epilepsy therapy *Trileptal* as well as certain payments made to healthcare providers in connection with this medicine. NPC has also been cooperating with an investigation by the EDPA regarding potential off-label marketing and promotion as well as payments made to healthcare providers in connection with five other products, i.e. *Diovan*, *Exforge*, *Sandostatin*, *Tekturna* and *Zelnorm* (Five Products). On September 30, 2010, NPC reached a global settlement bringing the EDPA's investigations into *Trileptal* and the Five Products to a close. As part of the settlement, NPC agreed to plead guilty to one misdemeanor violation of misbranding under the US Food, Drug and Cosmetic Act and to pay a fine of USD 185 million for *Trileptal*. NPC also resolved civil allegations under the False Claims Act relating to *Trileptal* and the Five Products and agreed to pay USD 237.5 million. Moreover, NPC entered into a Corporate Integrity Agreement (CIA) with the Office of the Inspector General of the US Department of Health and Human Services. Under the terms of the CIA, which has a fixed term of five years, NPC will implement additional compliance-related measures. The entry of NPC's guilty plea took place on November 2, 2010, at a hearing in the US Federal District Court for the EDPA. The sentencing hearing in the same court is currently expected to take place on January 28, 2011. The total overall settlement amount of USD 422.5 million was fully provisioned for as of the end of the second quarter of 2010.

In Q42010, NPC became aware of an investigation by the US Attorney's Office for the Western District of New York into informed consent issues relating to clinical trials in China and into marketing practices of a number of Novartis products. NPC is cooperating with the investigation which is civil in nature.

On January 12, 2010, the European Commission (EC) addressed a request for information to certain pharmaceutical companies, including Novartis International AG and Sandoz International GmbH, asking them to submit copies of all of their patent settlement agreements as well as copies of all annexes, related agreements and amendments. The request covered patent settlement agreements concluded between originator and generic pharmaceutical companies in the period from July 1, 2008, to December 31, 2009, and relating to the European Union/European Economic Area. On February 12, 2010, both Novartis entities submitted their respective responses to the EC. On January 17, 2011, the two Novartis entities received a second request for information which covers the period from January 1, 2010, to December 31, 2010.

Zometa/Aredia product liability litigation
NPC together with other Novartis subsidiaries are defendants in approximately 692 cases brought in US courts in which plaintiffs claim to have experienced osteonecrosis of the jaw after treatment with *Zometa* or *Aredia*, which are used to treat patients whose cancer has spread to the bones. All purported class actions have been dismissed. A trial that began in Montana in October 2009 resulted in a plaintiff's verdict which NPC appealed to the Montana Supreme Court. On December 30, 2010, the Montana Supreme Court affirmed the trial court's verdict. On October 6, 2010, after a trial in New Jersey state court, the jury returned a verdict in favor of NPC, which is currently on appeal. Another

trial took place in November 2010 in North Carolina federal court and resulted in a plaintiffs' verdict. NPC filed post-trial motions and will, if necessary, file an appeal against this latest verdict. Two trials are currently scheduled for April and for July 2011, respectively.

Zelnorm product liability litigation
NPC together with other Novartis subsidiaries are defendants in approximately 135 cases brought in US and Canadian courts in which plaintiffs claim to have experienced cardiovascular injuries after being treated with *Zelnorm*, a medicine for irritable bowel syndrome and chronic constipation. A purported national class action was filed against a Novartis subsidiary in Canada. A statement to defend was filed in this action. In May 2010, NPC reached a tentative agreement to settle 124 cases, which is contingent on obtaining consents from the individual plaintiffs. NPC is still waiting for such consents. One trial is currently scheduled for April 2010.

Contact lenses patent litigation
Johnson & Johnson (J&J) and CIBA Vision (CV) reached a settlement agreement effective January 1, 2011, ending the previously disclosed patent litigation regarding CV's silicone hydrogel patents in the US and in all European countries but the United Kingdom (UK) where CV filed a petition to the UK Supreme Court to hear its appeal of the invalidity rulings by the lower courts.

Wage and Hour litigation
Certain pharmaceutical sales representatives filed suit in a state court in California and in the US Federal District Court for the Southern District of New York (SDNY) against NPC alleging that NPC violated wage and hour laws by misclassifying the pharmaceutical sales representatives as "exempt" employees, and by failing to pay overtime compensation. These lawsuits were consolidated and certified as a class action. They are part of a number of actions pending against pharmaceutical companies that challenge the industry's long-term practice of treating pharmaceutical sales representatives as salaried employees. In January 2009, the SDNY held that the pharmaceutical sales representatives were not entitled to overtime pay under the federal Fair Labor Standards Act and corresponding state wage and hour laws. Plaintiffs appealed that judgment to the US Court of Appeals for the Second Circuit (Second Circuit). Amicus briefs supporting the plaintiffs' position were filed by the National Employment Lawyers Association and by the US Department of Labor, and the US Chamber of Commerce filed a brief in support of NPC. On July 6, 2010, the Second Circuit vacated the judgment of the SDNY and remanded the case to the SDNY for further proceedings. On August 2, 2010, the remand mandate was stayed because NPC had decided to appeal the Second Circuit's opinion to the US Supreme Court. On October 4, 2010, NPC filed its petition for a writ of certiorari with the US Supreme Court. Amicus briefs in support of NPC's certiorari petition were filed on November 5, 2010, by the US Chamber of Commerce and Pharmaceutical Research and Manufacturers of America (PhRMA). The conference during which the US Supreme Court is expected to decide whether to grant or deny NPC's petition is currently expected to take place on February 18, 2011.

Gender discrimination litigation
In November 2004, certain female pharmaceutical sales representatives brought a class action lawsuit in the SDNY against NPC, Novartis Corporation and a Novartis executive alleging claims of gender discrimination. Novartis Corporation and the Novartis executive were subsequently dismissed from the lawsuit. The trial against NPC began in April 2010. On May 17 and 19, 2010, the jury rendered a liability verdict and awarded USD 3.4 million in individual compensatory damages to the class members testifying at trial and USD 250 million in punitive damages. On July 14, 2010, the SDNY preliminarily approved a class action settlement agreement between NPC and the plaintiffs to end the ongoing proceedings. On September 8, 2010, notice of the settlement was sent to all class members. The fairness hearing in the SDNY took place on November 19, 2010, and on November 30, 2010, the SDNY issued an order granting final approval of the settlement, dismissing the class action with prejudice and therefore concluding this case.

According to the class action settlement agreement NPC will make monetary payments to eligible class members for backpay and compensatory damages in the amount of up to USD 152.5 million and will fund, over three years, improvements to policies and programs valued at an estimated USD 22.5 million. As part of the measures, NPC will enhance many of its ongoing commitments to all employees and will add additional programs and initiatives to further strengthen its commitment to a diverse and inclusive environment. NPC will for example revise its sexual harassment

policy and training, strengthen its complaint process to ensure employees can safely raise concerns and that those concerns will be addressed in a timely and thorough fashion, retain an external specialist to conduct adverse impact analyses aimed at identifying and remedying, with recommendations from plaintiffs'

counsel, unjustified gender disparities and it will revise its performance management process to ensure it is fair to all employees.

Alcon minority shareholder litigation
Beginning on January 7, 2010, shareholder class action complaints relating to the Alcon transactions announced on January 4, 2010, were filed against Novartis AG and others by minority shareholders of Alcon, Inc. These actions were filed in the SDNY, in the US Federal District Courts for the Eastern District of New York (EDNY) and the Northern District of Texas (NDTX) and in several Texas state courts. The case in the EDNY was voluntarily dismissed without prejudice by the plaintiffs on March 18, 2010. The case in the NDTX was transferred to the SDNY and formally consolidated with the actions pending there on June 25, 2010. In the SDNY, Novartis AG's motion to dismiss all cases pending there based on the doctrine of forum non conveniens (FNC) was granted on May 24, 2010, and the case was formally dismissed on July 2, 2010. On July 14, 2010, plaintiffs appealed this decision to the Second Circuit. On January 5, 2011, plaintiffs moved to dismiss this appeal. On January 6, 2011, the Second Circuit granted plaintiffs' motion and dismissed this appeal. The actions pending in Texas state courts were consolidated for pre-trial proceedings in a Multi District Litigation on April 16, 2010. Novartis AG's motion to dismiss the consolidated Texas state court actions based on FNC was filed on June 30, 2010. On November 17, 2010, Novartis AG's motion was granted and all Texas state court class actions were dismissed. On December 17, 2010, plaintiffs appealed this decision to the Texas Fifth District Court of Appeals.

7. Subsequent events

Settlement of litigation
On January 3, 2011, Novartis and Johnson & Johnson signed an agreement to settle all litigations related to the silicone hydrogel patents (JUMP patents) referred to above. Under the agreement, Novartis will receive a settlement payment and each party will grant to the other party a fully paid up, irrevocable, worldwide non-exclusive license with no right to sub-license under the respective patent rights. Novartis will record the resulting income in the first quarter of 2011.

Tender offer for Genoptix, Inc. (Genoptix)
On January 24, 2011, Novartis announced that it has entered into a definitive agreement to acquire Genoptix, Inc. (NASDAQ: GXDX), a specialized laboratory providing personalized diagnostic services to community-based hematologists and oncologists.

In accordance with the terms of the agreement, Novartis is to commence a tender offer for all outstanding shares of common stock of Genoptix at USD 25.00 per share in cash. This represents a total equity value of USD 470 million and an enterprise value of USD 330 million. The Novartis offer represents a premium of 39% over Genoptix's unaffected share price of USD 17.98 on December 13, 2010. It also implies a 27% premium over the closing price of USD 19.76 on January 21, 2011.

The Genoptix Board of Directors has unanimously approved the transaction and agreed to recommend that Genoptix stockholders tender their shares. The transaction is conditional upon the tender of at least a majority of the shares of Genoptix in the tender offer, receipt of regulatory approvals and other customary closing conditions. The transaction is expected to close within the first half of 2011.

Supplementary information

Non-IFRS disclosures

Net debt and free cash flow are non-IFRS financial measures, which means they should not be interpreted as measures determined under IFRS. Net debt is presented as additional information because management believes it is a useful supplemental indicator of the Group's ability to meet financial commitments and to invest in new strategic opportunities, including strengthening its balance sheet. Free cash flow is presented as additional information because management believes it is a useful supplemental indicator of the Group's ability to operate without reliance on additional borrowing or usage of existing cash. Free cash flow is a measure of the net cash generated that is available for debt repayment and investment in strategic opportunities. Novartis uses free cash flow in internal comparisons of results from the Group's divisions. Free cash flow of the divisions uses the same definition as for the Group. No dividends, tax or financial receipts or payments are included in the division calculations. The definition of free cash flow used by Novartis does not include amounts related to changes in investments in associated companies nor related to acquisitions or divestments of subsidiaries. Free cash flow is not intended to be a substitute measure for cash flow from operating activities as determined under IFRS.

Condensed consolidated changes in net debt/liquidity (unaudited)

Fourth quarter

	Q4 2010 USD m	Q4 2009 USD m	Change USD m
Change in cash and cash equivalents	**-67**	**121**	**-188**
Change in marketable securities, financial debt and financial derivatives	4 182	3 540	642
Change in net debt/liquidity	**4 115**	**3 661**	**454**
Net debt/liquidity at October 1	-18 968	-200	-18 768
Net debt/liquidity at December 31	**-14 853**	**3 461**	**-18 314**

Full Year

	2010 USD m	2009 USD m	Change USD m
Change in cash and cash equivalents	**2 425**	**856**	**1 569**
Change in marketable securities, financial debt and financial derivatives	-20 739	3 852	-24 591
Change in net debt/liquidity	**-18 314**	**4 708**	**-23 022**
Net debt/liquidity at January 1	3 461	-1 247	4 708
Net debt/liquidity at December 31	**-14 853**	**3 461**	**-18 314**

Free cash flow (unaudited)

Fourth quarter

	Q4 2010 USD m	Q4 2009 USD m	Change USD m
Cash flows from operating activities	**4 577**	**4 466**	**111**
Purchase of property, plant & equipment	-673	-619	-54
Purchase of intangible, financial and other non-current assets	-210	-613	403
Proceeds from sales of property, plant & equipment, intangible, financial and other non-current assets	486	115	371
Free cash flow	**4 180**	**3 349**	**831**

Full Year

	2010 USD m	2009 USD m	Change USD m
Cash flows from operating activities	**14 067**	**12 191**	**1 876**
Purchase of property, plant & equipment	-1 678	-1 887	209
Purchase of intangible, financial and other non-current assets	-693	-1 084	391
Proceeds from sales of property, plant & equipment, intangible, financial and other non-current assets	650	226	424
Free cash flow before dividends	**12 346**	**9 446**	**2 900**
Dividends	-4 486	-3 941	-545
Free cash flow	**7 860**	**5 505**	**2 355**

Share information (unaudited)

	Dec 31, 2010	Dec 31, 2009
Number of shares outstanding (million)	**2 289.4**	2 274.4
Registered share price (CHF)	**54.95**	56.50
ADS price (USD)	**58.95**	54.43
Market capitalization (USD billion)	**133.7**	124.0
Market capitalization (CHF billion)	**125.8**	128.5

Core results

The Group's core results – including core operating income, core net income and core earnings per share – exclude the amortization of intangible assets, impairment charges, expenses relating to the integration of acquisitions as well as other items that are, or are expected to accumulate to be, over a USD 25 million threshold that management deems exceptional. Novartis believes investor understanding of the Group's performance is enhanced by disclosing these supplemental performance measures.

Novartis uses these core measures as important factors in assessing the Group's performance in conjunction with other performance metrics. The following are examples of how these core measures are utilized:

• In addition to monthly reports containing financial information prepared under International Financial Reporting Standards (IFRS), senior management receives a monthly analysis incorporating these core measures.

• Annual budgets are prepared that include targets for both IFRS and core measures.

Despite the use of these measures by management in setting goals and measuring the Group's performance, these are non-IFRS measures that have no standardized meaning prescribed by IFRS. As a result, they have limits in usefulness to investors. Because of their non-standardized definitions, the core measures (unlike IFRS measures) may not be comparable to the calculation of similar measures of other companies. These core measures are presented solely to permit investors to more fully understand how the Group's management assesses underlying performance. These core measures are not, and should not be viewed as, a substitute for IFRS measures.

As an internal measure of Group performance, these core measures have limitations, and the performance management process is not solely restricted to these metrics. A limitation of the core measures is that they provide a view of the Group's operations without including all events during a period, such as the effects of an acquisition or amortization of purchased intangible assets.

CORE RESULTS
Reconciliation from IFRS results to core results – Group – Fourth quarter (unaudited)

	Q4 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items[3] USD m	Exceptional items[4] USD m	Q4 2010 Core results USD m	Q4 2009 Core results[7] USD m
Gross profit	**9 940**	**276**	**7**	**372**	**2**	**10 597**	**9 628**
Operating income	**2 467**	**302**	**216**	**386**	**-205**	**3 166**	**3 204**
Income before taxes	**2 420**	**337**	**216**	**255**	**-116**	**3 112**	**3 404**
Taxes[5]	-155					-309	-512
Net income	**2 265**					**2 803**	**2 892**
EPS (USD)[6]	**0.95**					**1.14**	**1.26**
The following are adjustments to arrive at Core Gross Profit							
Cost of Goods Sold	-4 524	276	7	372	2	-3 867	-3 489
The following are adjustments to arrive at Core Operating Income							
Research & Development	-2 592	22	141			-2 429	-2 082
General & Administration	-794	4				-790	-692
Other income	568		-7		-394	167	296
Other expense	-665		75	14	187	-389	-470
The following are adjustments to arrive at Core Income before taxes							
Income from associated companies	175	35		-131	89	168	252

[1] Amortization of intangible assets: Cost of Goods Sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms; General & Administration includes the recurring amortization of intangible assets; Income from associated companies includes the recurring amortization of the purchase price allocation related to intangible assets, primarily for the investment in Roche in 2010 and 2009 and Alcon in 2009.
[2] Impairments: Cost of Goods Sold includes impairment charges for acquired rights to in-market products and other production-related impairment charges; Research & Development includes write-offs related to in-process Research & Development, thereof a USD 120 million charge for the discontinuation of the ASA404 development project in

Pharmaceuticals; Other income includes reversals of impairments, primarily for property, plant & equipment; Other expense includes impairments, primarily for financial assets.

[3] Acquisition-related restructuring and integration items: Cost of Goods Sold includes charges of USD 372 million related to the required inventory step-up to estimated fair value in Alcon; Other expense includes charges of USD 11 million mainly related to the change of majority ownership of Alcon; Income from associated companies includes a USD 174 million revaluation gain on the initial 25% interest in Alcon as well as a USD 43 million charge for the recycling of losses accumulated in comprehensive income related to Alcon since its inclusion as an associated company in 2008.

[4] Exceptional items: Cost of Goods Sold includes charges related to inventory write-off in Vaccines and Diagnostics; Other income mainly includes a divestment gain of USD 392 million for the divestment of *Enablex* in Pharmaceuticals; Other expense mainly includes charges of USD 172 million for restructuring programs in Pharmaceuticals, Vaccines and Diagnostics, and Sandoz; Income from associated companies reflects an estimated charge of USD 89 million for the Novartis share of Roche's restructuring that was recently announced.

[5] Taxes on the adjustments between IFRS and core results take into account, for each individual item included in the adjustment, the tax rate that is applicable to the item in the jurisdiction where the adjustment arises. Generally this results in amortization of intangible assets and acquisition-related restructuring and integration items having a full tax impact whereas tax impacts on impairments can only be taken into account if the changes in value in the underlying asset are tax deductible in the respective jurisdiction where the asset is recorded. There is usually a tax impact on exceptional items although this is not the case for items arising from criminal settlements in certain jurisdictions. Adjustments related to income from associated companies are recorded net of any related tax effect. Due to these factors and the differing effective tax rates in the various jurisdictions, the tax on the total adjustments of USD 692 million to arrive at the core results before tax amounts to USD 154 million. This results in the average tax rate on the adjustments being 22.3%.

[6] Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Novartis AG.

[7] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

CORE RESULTS
Reconciliation from IFRS results to core results – Group – Full Year (unaudited)

	FY 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items[3] USD m	Exceptional items[4] USD m	FY 2010 Core results USD m	FY 2009 Core results[7] USD m
Gross profit	**37 073**	**1 061**	**-90**	**471**	**2**	**38 517**	**33 783**
Operating income	**11 526**	**1 135**	**981**	**600**	**-236**	**14 006**	**11 437**
Income before taxes	**11 702**	**1 560**	**981**	**280**	**-104**	**14 419**	**12 135**
Taxes[5]	-1 733					-2 390	-1 868
Net income	**9 969**					**12 029**	**10 267**
EPS (USD)[6]	**4.28**					**5.15**	**4.50**
The following are adjustments to arrive at Core Gross Profit							
Cost of Goods Sold	-14 488	1 061	-90	471	2	-13 044	-11 292
The following are adjustments to arrive at Core Operating Income							
Marketing & Sales	-13 316	1				-13 315	-12 050
Research & Development	-9 070	69	903		18	-8 080	-7 287
General & Administration	-2 481	4				-2 477	-2 281
Other income	1 234		-10		-739	485	717
Other expense	-1 914		178	129	483	-1 124	-1 445
The following are adjustments to arrive at Core Income before taxes							
Income from associated companies	804	425		-320	132	1 041	1 051

[1] Amortization of intangible assets: Cost of Goods Sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Marketing & Sales includes the recurring amortization of intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms; General & Administration includes the recurring amortization of intangible assets; Income from associated companies includes the recurring amortization of the purchase price allocation related to intangible assets, primarily for the Roche and Alcon investments.
[2] Impairments: Cost of Goods Sold includes impairment charges for acquired rights to in-market products and production-related impairment charges, including an additional reversal of USD 100 million in Pharmaceuticals for an

impairment charge taken in 2007 for *Famvir*; Research & Development includes write-offs related to in-process Research & Development, mainly charges totalling USD 856 million for the discontinuation of *Mycograb*, albinterferon alfa-2b, PTZ601 and ASA404 development projects; Other income includes the reversal of impairments, primarily for property, plant & equipment; Other expense includes impairments, primarily for financial assets, thereof USD 45 million in Pharmaceuticals, USD 98 million in Vaccines and Diagnostics and USD 20 million in Corporate as well as USD 14 million in Vaccines and Diagnostics for property, plant & equipment.

[3] Acquisition-related restructuring and integration items: Cost of Goods Sold includes mainly charges of USD 467 million related to the required inventory step-up to estimated fair value in Alcon; Other expense includes charges in Corporate of USD 99 million related to the acquisition of Alcon and USD 30 million recorded in Alcon related to the change of majority ownership of Alcon; Income from associated companies includes a USD 378 million revaluation gain on the initial 25% interest in Alcon, a USD 43 million charge for the recycling of losses accumulated in comprehensive income related to Alcon since its inclusion as an associated company in 2008, and a USD 15 million charge for the change of majority ownership.

[4] Exceptional items: Cost of Goods Sold includes charges related to inventory write-off in Vaccines and Diagnostics due to a restructuring program; Research & Development includes an expense of USD 18 million for termination of a co-development contract in Sandoz; Other income includes a divestment gain of USD 392 million for the divestment of *Enablex* in Pharmaceuticals, proceeds of USD 42 million from a legal settlement in Pharmaceuticals with Teva regarding *Famvir*, a divestment gain of USD 33 million for *Tofranil* in Pharmaceuticals and a Swiss pension curtailment gain of USD 265 million in Corporate; Other expense includes mainly a USD 152.5 million provision for a gender discrimination case in the US in Pharmaceuticals, charges of USD 203 million for restructuring programs in Pharmaceuticals, Vaccines and Diagnostics, and Sandoz, a USD 25.5 million provision in connection with a government investigation in the US in Pharmaceuticals, USD 45 million for a legal settlement in Vaccines and Diagnostics, and a USD 38 million charge for a legal settlement in Sandoz; Income from associated companies reflects an additional charge of USD 43 million for the Novartis share of Roche's restructuring charges for Genentech taken in the second half of 2009 but recorded by Novartis in 2010 as well as an estimated charge of USD 89 million for the Novartis share of Roche's restructuring that was recently announced.

[5] Taxes on the adjustments between IFRS and core results take into account, for each individual item included in the adjustment, the tax rate that is applicable to the item in the jurisdiction where the adjustment arises. Generally this results in amortization of intangible assets and acquisition-related restructuring and integration items having a full tax impact whereas tax impacts on impairments can only be taken into account if the changes in value in the underlying asset are tax deductible in the respective jurisdiction where the asset is recorded. There is usually a tax impact on exceptional items although this is not the case for items arising from criminal settlements in certain jurisdictions. Adjustments related to income from associated companies are recorded net of any related tax effect. Due to these factors and the differing effective tax rates in the various jurisdictions, the tax on the total adjustments of USD 2.7 billion to arrive at the core results before tax amounts to USD 657 million. This results in the average tax rate on the adjustments being 24.2%.

[6] Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Novartis AG.

[7] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

CORE RESULTS – Reconciliation from IFRS results to core results – Pharmaceuticals (unaudited)

Fourth quarter

	Q4 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items USD m	Exceptional items[3] USD m	Q4 2010 Core results USD m	Q4 2009 Core results[4] USD m
Gross profit	**6 732**	**112**				**6 844**	**6 498**
Operating income	**2 290**	**123**	**165**		**-304**	**2 274**	**2 215**
The following are adjustments to arrive at Core Gross Profit							
Cost of Goods Sold	-1 461	112				-1 349	-1 406
The following are adjustments to arrive at Core Operating Income							
Research & Development	-1 901	11	141			-1 749	-1 592
Other income	470		-4		-394	72	104
Other expense	-330		28		90	-212	-178

[1] Amortization of intangible assets: Cost of Goods Sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms.
[2] Impairments: Research & Development includes write-offs related to in-process Research & Development, thereof a USD 120 million charge for the discontinuation of the ASA404 development project; Other income includes reversals of impairments, primarily for property, plant & equipment; Other expense includes impairments, primarily for financial assets.
[3] Exceptional items: Other income includes a gain of USD 392 million for the divestment of *Enablex*; Other expense includes a charge of USD 87 million for a restructuring program in the US.
[4] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

CORE RESULTS – Reconciliation from IFRS results to core results – Pharmaceuticals (unaudited)

Full Year

	FY 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items USD m	Exceptional items[3] USD m	FY 2010 Core results USD m	FY 2009 Core results[4] USD m
Gross profit	**25 776**	**421**	**-100**			**26 097**	**24 365**
Operating income	**8 798**	**453**	**833**		**-175**	**9 909**	**9 068**
The following are adjustments to arrive at Core Gross Profit							
Cost of Goods Sold	-5 361	421	-100			-5 040	-4 725
The following are adjustments to arrive at Core Operating Income							
Research & Development	-7 081	32	896			-6 153	-5 715
Other income	687		-8		-474	205	349
Other expense	-971		45		299	-627	-692

[1] Amortization of intangible assets: Cost of Goods Sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms.
[2] Impairments: Cost of Goods Sold includes impairment charges for acquired rights to in-market products and other production-related impairment charges, including an additional reversal of USD 100 million for an impairment charge taken in 2007 for *Famvir*; Research & Development includes write-offs related to in-process Research & Development, mainly a total of USD 704 million charge for the discontinuation of *Mycograb* (USD 356 million), albinterferon alfa-2b (USD 228 million) and ASA404 (USD 120 million) development projects and a net pre-tax impairment charge of USD 152 million (USD 250 million related to the value of the intangible asset offset by a release of a USD 98 million liability related to the estimated value of a contingent milestone consideration) for termination of the PTZ601 development project; Other income includes the reversal of impairments, primarily for property, plant & equipment; Other expense includes impairments, primarily for financial assets.
[3] Exceptional items: Other income includes a divestment gain of USD 392 million for the divestment of *Enablex*, proceeds of USD 42 million from a legal settlement with Teva regarding *Famvir* and a divestment gain of USD 33 million for *Tofranil*; Other expense includes a USD 152.5 million provision for a gender discrimination case in the US, a USD 111 million charge for restructuring in the US as well as a USD 25.5 million provision in connection with a government investigation in the US.
[4] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

CORE RESULTS – Reconciliation from IFRS results to core results – Vaccines and Diagnostics (unaudited)

Fourth quarter

	Q4 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items USD m	Exceptional items[3] USD m	Q4 2010 Core results USD m	Q4 2009 Core results[4] USD m
Gross profit	**100**	**53**			**2**	**155**	**1 008**
Operating income	**-253**	**57**	**37**		**38**	**-121**	**653**
The following are adjustments to arrive at Core Gross Profit							
Cost of Goods Sold	-393	53			2	-338	-479
The following are adjustments to arrive at Core Operating Income							
Research & Development	-138	4				-134	-174
Other expense	-91		37		36	-18	-17

[1] Amortization of intangible assets: Cost of Goods Sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms.
[2] Impairments: Other expense relates to a charge of USD 23 million for an impairment of a financial asset and a charge of USD 14 million for impairments for property, plant & equipment due to a restructuring program in the UK.
[3] Exceptional items: Cost of Goods Sold includes charges related to inventory write-off due to a restructuring program; Other expense relates to a USD 36 million expense for a restructuring program in the UK.
[4] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

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CORE RESULTS – Reconciliation from IFRS results to core results – Vaccines and Diagnostics (unaudited)

Full Year

	FY 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items USD m	Exceptional items[3] USD m	FY 2010 Core results USD m	FY 2009 Core results[4] USD m
Gross profit	**1 860**	**242**			**2**	**2 104**	**1 704**
Operating income	**612**	**259**	**112**		**83**	**1 066**	**719**
The following are adjustments to arrive at Core Gross Profit							
Cost of Goods Sold	-1 551	242			2	-1 307	-1 128
The following are adjustments to arrive at Core Operating Income							
Research & Development	-523	17				-506	-465
Other expense	-273		112		81	-80	-74

[1] Amortization of intangible assets: Cost of Goods Sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms.
[2] Impairments: Other expense relates to a charge of USD 98 million for an impairment of a financial asset and a charge of USD 14 million for impairments for property, plant & equipment due to a restructuring program in the UK.
[3] Exceptional items: Cost of Goods Sold includes charges related to inventory write-off due to a restructuring program; Other expense relates to a USD 45 million expense for a legal settlement and to a USD 36 million expense for a restructuring program in the UK.
[4] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

CORE RESULTS – Reconciliation from IFRS results to core results – Sandoz (unaudited)

Fourth quarter

	Q4 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items USD m	Exceptional items[3] USD m	Q4 2010 Core results USD m	Q4 2009 Core results[4] USD m
Gross profit	**1 052**	**69**	**1**			**1 122**	**1 060**
Operating income	**258**	**73**	**-1**		**49**	**379**	**356**
The following are adjustments to arrive at Core Gross Profit							
Cost of Goods Sold	-1 389	69	1			-1 319	-1 159
The following are adjustments to arrive at Core Operating Income							
Research & Development	-203	4				-199	-173
Other income	23		-2			21	86
Other expense	-119				49	-70	-112

[1] Amortization of intangible assets: Cost of Goods Sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms.
[2] Impairments: Cost of Goods Sold includes impairment charges for acquired rights to in-market products and other production-related impairment charges; Other income includes impairment reversals, primarily for property, plant & equipment.
[3] Exceptional items: Other expense represents a USD 49 million charge for a restructuring program in Germany.
[4] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

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CORE RESULTS – Reconciliation from IFRS results to core results – Sandoz (unaudited)

Full Year

	FY 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items[3] USD m	Exceptional items[4] USD m	FY 2010 Core results USD m	FY 2009 Core results[5] USD m
Gross profit	**3 947**	**278**	**4**	**4**		**4 233**	**3 840**
Operating income	**1 272**	**293**	**11**	**4**	**105**	**1 685**	**1 395**
The following are adjustments to arrive at Core Gross Profit							
Cost of Goods Sold	-4 854	278	4	4		-4 568	-3 927
The following are adjustments to arrive at Core Operating Income							
Research & Development	-658	15	7		18	-618	-603
Other income	77		-1			76	105
Other expense	-295		1		87	-207	-232

[1] Amortization of intangible assets: Cost of Goods Sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms.
[2] Impairments: Cost of Goods Sold includes impairment charges for acquired rights to in-market products and other production-related impairment charges; Research & Development includes write-offs related to in-process Research & Development; Other income includes impairment reversals, primarily for property, plant & equipment; Other expense includes impairments, primarily for property, plant & equipment.
[3] Acquisition-related restructuring and integration items: Cost of Goods Sold includes charges of USD 4 million related to business acquisitions.
[4] Exceptional items: Research & Development includes an expense for termination of a co-development contract; Other expense includes a USD 49 million charge for a restructuring program in Germany and a USD 38 million charge for a legal settlement in the US.
[5] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

CORE RESULTS – Reconciliation from IFRS results to core results – Consumer Health (unaudited)

Fourth quarter

	Q4 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items USD m	Exceptional items USD m	Q4 2010 Core results USD m	Q4 2009 Core results[3] USD m
Gross profit	**1 075**	**22**	**6**			**1 103**	**1 073**
Operating income	**209**	**22**	**6**			**237**	**248**
The following are adjustments to arrive at Core Gross Profit							
Cost of Goods Sold	-580	22	6			-552	-579

[1] Amortization of intangible assets: Cost of Goods Sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets.
[2] Impairments: Cost of Goods Sold includes impairment charges for acquired rights to in-market products and other production-related impairment charges.
[3] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

Full Year

	FY 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items USD m	Exceptional items USD m	FY 2010 Core results USD m	FY 2009 Core results[3] USD m
Gross profit	**4 145**	**93**	**6**			**4 244**	**3 900**
Operating income	**1 153**	**94**	**6**			**1 253**	**1 118**
The following are adjustments to arrive at Core Gross Profit							
Cost of Goods Sold	-2 173	93	6			-2 074	-2 015
The following are adjustments to arrive at Core Operating Income							
Marketing & Sales	-2 238	1				-2 237	-2 054

[1] Amortization of intangible assets: Cost of Goods Sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Marketing & Sales includes the recurring amortization of intangible assets.
[2] Impairments: Cost of Goods Sold includes impairment charges for acquired rights to in-market products and other production-related impairment charges.
[3] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

CORE RESULTS – Reconciliation from IFRS results to core results – Alcon, Inc. (unaudited)

Fourth quarter

	Q4 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments USD m	Acquisition-related restructuring and integration items[2] USD m	Exceptional items USD m	Q4 2010 Core results USD m
Gross profit	**985**	**20**		**372**		**1 377**
Operating income	**222**	**25**		**383**		**630**
The following are adjustments to arrive at Core Gross Profit						
Cost of Goods Sold	-826	20		372		-434
The following are adjustments to arrive at Core Operating Income						
Research & Development	-194	1				-193
General & Administration	-105	4				-101
Other expense	-11			11		

[1] Amortization of intangible assets: Cost of Goods Sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms; General & Administration includes the recurring amortization of intangible assets.
[2] Acquisition-related restructuring and integration items: Cost of Goods Sold includes charges of USD 372 million related to the required inventory step-up to estimated fair value; Other expense includes charges of USD 11 million related to the change of majority ownership.

Full Year

	FY 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments USD m	Acquisition-related restructuring and integration items[2] USD m	Exceptional items USD m	FY 2010 Core results USD m
Gross profit	**1 347**	**27**		**467**		**1 841**
Operating income	**323**	**32**		**497**		**852**
The following are adjustments to arrive at Core Gross Profit						
Cost of Goods Sold	-1 082	27		467		-588

The following are adjustments to arrive at Core Operating Income				
Research & Development	-254	1		-253
General & Administration	-140	4		-136
Other expense	-30		30	

[1] Amortization of intangible assets: Cost of Goods Sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; Research & Development includes the recurring amortization of acquired rights for technology platforms; General & Administration includes the recurring amortization of intangible assets.
[2] Acquisition-related restructuring and integration items: Cost of Goods Sold includes charges of USD 467 million related to the required inventory step-up to estimated fair value; Other expense includes charges of USD 30 million related to the change of majority ownership.

CORE RESULTS

Reconciliation of operating income to core operating income and net income – Fourth quarter (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Alcon, Inc.	Corporate		Total	
	Q4 2010 USD m	Q4 2009 USD m	Q4 2010 USD m	Q4 2009 USD m	Q4 2010 USD m	Q4 2009 USD m	Q4 2010 USD m	Q4 2009 USD m	Q4 2010 USD m	Q4 2010 USD m	Q4 2009 USD m	Q4 2010 USD m	Q4 2009 USD m
Operating income	**2 290**	**1 906**	**-253**	**583**	**258**	**221**	**209**	**207**	**222**	**-259**	**-280**	**2 467**	**2 637**
Amortization of intangible assets	**123**	**82**	**57**	**80**	**73**	**79**	**22**	**23**	**25**	**2**	**1**	**302**	**265**
Impairments													
Intangible assets	141	-66		18	1	-4	6	13				148	-39
Property, plant & equipment	-1	4	14		-2	2		5				11	11
Financial assets	25	36	23							9	11	57	47
Total impairment charges	**165**	**-26**	**37**	**18**	**-1**	**-2**	**6**	**18**		**9**	**11**	**216**	**19**
Acquisition-related restructuring and integration items (including acquisition-related accounting impact of inventory adjustments), net						**18**			**383**	**3**		**386**	**18**
Exceptional items													
Exceptional gains from divesting brands, subsidiaries and financial investments	-392	-65										-392	-65
Other restructuring expenses	85		38		49	40						172	40
Legal provisions, litigations and exceptional settlements	3	318		-28								3	290
Other exceptional items										12		12	
Total exceptional items	**-304**	**253**	**38**	**-28**	**49**	**40**				**12**		**-205**	**265**
Total adjustments	**-16**	**309**	**132**	**70**	**121**	**135**	**28**	**41**	**408**	**26**	**12**	**699**	**567**
Core operating income	**2 274**	**2 215**	**-121**	**653**	**379**	**356**	**237**	**248**	**630**	**-233**	**-268**	**3 166**	**3 204**
as % of net sales	*28.3%*	*28.5%*	*-33.5%*	*47.1%*	*16.0%*	*16.6%*	*14.5%*	*15.3%*	*34.8%*			*22.3%*	*24.8%*
		-8	6		1	2				168	113	175	107

Income from associated companies		
Recurring amortization, exceptional impairments and restructuring expenses related to income from associated companies, net of tax	-7	145
Financial income	-26	104
Interest expenses	-196	-156
Taxes (adjusted for above items)	-309	-512
Core net income	**2 803**	**2 892**
Core net income attributable to shareholders	**2 620**	**2 874**
Core EPS (USD)	**1.14**	**1.26**

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CORE RESULTS

Reconciliation of operating income to core operating income and net income – Full Year (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Alcon, Inc.	Corporate		Total	
	FY 2010 USD m	FY 2009 USD m	FY 2010 USD m	FY 2009 USD m	FY 2010 USD m	FY 2009 USD m	FY 2010 USD m	FY 2009 USD m	FY 2010 USD m	FY 2010 USD m	FY 2009 USD m	FY 2010 USD m	FY 2009 USD m
Operating income	**8 798**	**8 392**	**612**	**372**	**1 272**	**1 071**	**1 153**	**1 016**	**323**	**-632**	**-869**	**11 526**	**9 982**
Amortization of intangible assets	**453**	**366**	**259**	**312**	**293**	**260**	**94**	**84**	**32**	**4**	**3**	**1 135**	**1 025**
Impairments													
Intangible assets	796	-11		18	11	6	6	13				813	26
Property, plant & equipment	-4	4	14					5				10	9
Financial assets	41	37	98							19	3	158	40
Total impairment charges	**833**	**30**	**112**	**18**	**11**	**6**	**6**	**18**		**19**	**3**	**981**	**75**
Acquisition-related restructuring and integration items (including acquisition-related accounting impact of inventory adjustments), net					**4**	**18**			**497**	**99**		**600**	**18**
Exceptional items													
Exceptional gains from divesting brands, subsidiaries and financial investments	-425	-65										-425	-65
Other restructuring expenses	111		38		49	40						198	40
Legal provisions, litigations and exceptional settlements	139	345	45	17	56							240	362
Swiss pension curtailment gain										-265		-265	
Other exceptional items										16		16	
Total exceptional items	**-175**	**280**	**83**	**17**	**105**	**40**				**-249**		**-236**	**337**
Total adjustments	**1 111**	**676**	**454**	**347**	**413**	**324**	**100**	**102**	**529**	**-127**	**6**	**2 480**	**1 455**
Core operating income	**9 909**	**9 068**	**1 066**	**719**	**1 685**	**1 395**	**1 253**	**1 118**	**852**	**-759**	**-863**	**14 006**	**11 437**

as % of net sales	*32.4%*	*31.8%*	*36.5%*	*29.7%*	*19.8%*	*18.6%*	*20.2%*	*19.2%*	*35.1%*		*27.7%*	*25.8%*
Income from associated companies	-16	-14	7		3	7				810	300	804	293
Recurring amortization, exceptional impairments and restructuring expenses related to income from associated companies, net of tax												237	758
Financial income												64	198
Interest expenses												-692	-551
Taxes (adjusted for above items)												-2 390	-1 868
Core net income												**12 029**	**10 267**
Core net income attributable to shareholders												**11 767**	**10 213**
Core EPS (USD)												**5.15**	**4.50**

Supplementary tables: Fourth quarter 2010 – Net sales of top 20 pharmaceutical products (unaudited)

		US		Rest of world		Total		
Brands		USD m	% change in constant currencies	USD m	% change in constant currencies	USD m	% change in USD	% change in constant currencies
Diovan/Co–Diovan	Hypertension	648	0	928	-4	1 576	-2	-3
Gleevec/Glivec	Chronic myeloid leukemia	347	15	796	3	1 143	5	6
Lucentis	Age-related macular degeneration			394	8	394	5	8
Zometa	Cancer complications	183	1	212	2	395	1	1
Femara	Breast cancer	159	6	192	4	351	3	5
Sandostatin	Acromegaly	140	14	211	10	351	11	12
Exelon/Exelon Patch	Alzheimer's disease	89	-10	167	4	256	-4	-1
Exforge	Hypertension	73	16	178	38	251	28	31
Neoral/Sandimmun	Transplantation	20	-17	215	-3	235	-4	-4
Voltaren (excl. OTC)	Inflammation/pain		nm	205	-4	205	-7	-5
Top ten products total		**1 659**	**4**	**3 498**	**3**	**5 157**	**2**	**3**
Exjade	Iron Chelator	67	-1	142	23	209	14	14
Comtan/Stalevo	Parkinson’s disease	59	0	98	6	157	3	4
Reclast/Aclasta	Osteoporosis	115	15	56	24	171	16	18
Ritalin/Focalin	Attention Deficit/Hyperactivity Disorder	89	1	36	14	125	4	5
Myfortic	Transplantation	43	19	71	18	114	18	19
Tekturna/Rasilez	Hypertension	59	44	74	60	133	51	54
Lescol	Cholesterol reduction	24	-23	82	-26	106	-24	-25
Tasigna	Chronic myeloid leukemia	45	150	81	69	126	85	89
Galvus	Diabetes			124	96	124	88	96
Xolair	Asthma	5	-85	97	13	102	-15	-11
Top 20 products total		**2 165**	**5**	**4 359**	**6**	**6 524**	**5**	**6**
Rest of portfolio		362	-11	1 146	3	1 508	-2	-2
Total Division sales		**2 527**	**2**	**5 505**	**5**	**8 032**	**3**	**4**

Supplementary tables: Full Year – Net sales of top 20 pharmaceutical products (unaudited)

		US		Rest of world		Total		
Brands		USD m	% change in constant currencies	USD m	% change in constant currencies	USD m	% change in USD	% change in constant currencies
Diovan/Co–Diovan	Hypertension	2 520	1	3 533	-1	6 053	1	0
Gleevec/Glivec	Chronic myeloid leukemia	1 285	18	2 980	3	4 265	8	7
Lucentis	Age-related macular degeneration			1 533	24	1 533	24	24
Zometa	Cancer complications	721	0	790	4	1 511	3	2
Femara	Breast cancer	650	14	726	5	1 376	9	9
Sandostatin	Acromegaly	511	12	780	11	1 291	12	11
Exelon/Exelon Patch	Alzheimer's disease	379	5	624	6	1 003	5	6
Exforge	Hypertension	284	24	620	41	904	35	35
Neoral/Sandimmun	Transplantation	82	-9	789	-6	871	-5	-7
Voltaren (excl. OTC)	Inflammation/pain		nm	791	0	791	-1	-1
Top ten products total		**6 432**	**7**	**13 166**	**5**	**19 598**	**6**	**6**
Exjade	Iron Chelator	264	7	498	22	762	17	16
Comtan/Stalevo	Parkinson’s disease	231	6	369	8	600	8	8
Reclast/Aclasta	Osteoporosis	393	20	186	29	579	23	23
Ritalin/Focalin	Attention Deficit/Hyperactivity Disorder	339	-1	125	15	464	3	3
Myfortic	Transplantation	163	21	281	25	444	26	23
Tekturna/Rasilez	Hypertension	207	29	231	83	438	51	53
Lescol	Cholesterol reduction	97	-20	339	-25	436	-23	-24
Tasigna	Chronic myeloid leukemia	134	116	265	78	399	88	89
Galvus	Diabetes			391	122	391	117	122
Xolair	Asthma	24	-73	345	44	369	9	12
Top 20 products total		**8 284**	**7**	**16 196**	**9**	**24 480**	**9**	**8**
Rest of portfolio		1 759	-4	4 319	1	6 078	0	-1
Total Division sales		**10 043**	**5**	**20 515**	**7**	**30 558**	**7**	**6**

Pharmaceuticals Division net sales by therapeutic area – Fourth quarter (unaudited)

	Q4 2010 USD m	Q4 2009 USD m	% change USD	% change cc
Cardiovascular and Metabolism				
Hypertension medicines				
Diovan	1 576	1 614	-2	-3
Exforge	251	196	28	31
Tekturna/Rasilez	133	88	51	54
Subtotal	**1 960**	**1 898**	**3**	**4**
Galvus	124	66	88	96
Lotrel	42	78	-46	-45
Total strategic franchise products	**2 126**	**2 042**	**4**	**5**
Established medicines (*Lescol* included)	**267**	**322**	**-17**	**-17**
Total Cardiovascular and Metabolism products	**2 393**	**2 364**	**1**	**0**
Oncology				
BCR-Abl franchise				
Gleevec/Glivec	1 143	1 086	5	6
Tasigna	126	68	85	89
Subtotal	**1 269**	**1 154**	**10**	**11**
Zometa	395	392	1	1
Femara	351	341	3	5
Sandostatin	351	316	11	12
Exjade	209	183	14	14
Afinitor	80	32	nm	nm
Other	37	51	-27	-28
Total Oncology products	**2 692**	**2 469**	**9**	**10**
Neuroscience and Ophthalmics				
Lucentis	394	374	5	8
Exelon/Exelon Patch	256	267	-4	-1
Comtan/Stalevo	157	152	3	4
Extavia	40	23	74	83
Other	114	116	-2	0
Total strategic franchise products	**961**	**932**	**3**	**5**
Established medicines	**148**	**149**	**-1**	**-4**
Total Neuroscience and Ophthalmics products	**1 109**	**1 081**	**3**	**3**
Respiratory				
Xolair	102	120	-15	-11
TOBI	72	81	-11	-11
Onbrez Breezhaler	17	1	nm	nm
Total strategic franchise products	**191**	**202**	**-5**	**-3**
Established medicines	**48**	**55**	**-13**	**-9**
Total Respiratory products	**239**	**257**	**-7**	**-5**

Integrated Hospital Care (IHC)*				
Neoral/Sandimmun	235	244	-4	-4
Myfortic	114	97	18	19
Aclasta/Reclast	171	147	16	18
Zortress/Certican	39	36	8	13
Ilaris	10	2	nm	nm
Other	79	70	13	15
Total strategic franchise products	**648**	**596**	**9**	**10**
Established medicines	**229**	**235**	**-3**	**-5**
Total IHC products	**877**	**831**	**6**	**3**
Additional products				
Voltaren (excl. OTC)	204	220	-7	-5
Ritalin/Focalin	125	120	4	5
Tegretol	90	92	-2	-2
Foradil	93	93	0	2
Trileptal	64	68	-6	-3
Everolimus stent drug	43	32	34	28
Other	103	146	-29	-2
Total additional products	**722**	**771**	**-6**	**26**
Total strategic franchise products	**6 618**	**6 241**	**6**	**7**
Total established medicines and additional products	**1 414**	**1 532**	**-8**	**-8**
Total Division net sales	**8 032**	**7 773**	**3**	**4**

* includes Transplantation
nm – Not meaningful

Pharmaceuticals Division net sales by therapeutic area – Full Year (unaudited)

	2010 USD m	2009 USD m	% change USD	% change cc
Cardiovascular and Metabolism				
Hypertension medicines				
Diovan	6 053	6 013	1	0
Exforge	904	671	35	35
Tekturna/Rasilez	438	290	51	53
Subtotal	**7 395**	**6 974**	**6**	**5**
Galvus	391	181	116	122
Lotrel	266	322	-17	-18
Total strategic franchise products	**8 052**	**7 477**	**8**	**7**
Established medicines (*Lescol* included)	**1 103**	**1 319**	**-16**	**-17**
Total Cardiovascular and Metabolism products	**9 155**	**8 796**	**4**	**4**
Oncology				
BCR-Abl franchise				
Gleevec/Glivec	4 265	3 944	8	7
Tasigna	399	212	88	89
Subtotal	**4 664**	**4 156**	**12**	**11**
Zometa	1 511	1 469	3	2
Femara	1 376	1 266	9	9
Sandostatin	1 291	1 155	12	11
Exjade	762	652	17	16
Afinitor	243	70	nm	nm
Other	181	231	-22	-23
Total Oncology products	**10 028**	**8 999**	**11**	**11**
Neuroscience and Ophthalmics				
Lucentis	1 533	1 232	24	24
Exelon/Exelon Patch	1 003	954	5	6
Comtan/Stalevo	600	554	8	8
Extavia	124	49	nm	nm
Other	457	459	0	-1
Total strategic franchise products	**3 717**	**3 248**	**14**	**14**
Established medicines	**567**	**575**	**-1**	**-4**
Total Neuroscience and Ophthalmics products	**4 284**	**3 823**	**12**	**11**
Respiratory				
Xolair	369	338	9	12
TOBI	279	300	-7	-7
Onbrez Breezhaler	33	1	nm	nm
Total strategic franchise products	**681**	**639**	**7**	**9**
Established medicines	**174**	**190**	**-8**	**-10**
Total Respiratory products	**855**	**829**	**3**	**4**

Integrated Hospital Care (IHC)*				
Neoral/Sandimmun	871	919	-5	-7
Myfortic	444	353	26	23
Aclasta/Reclast	579	472	23	23
Zortress/Certican	144	118	22	25
Ilaris	26	3	nm	nm
Other	293	235	25	24
Total strategic franchise products	**2 357**	**2 100**	**12**	**11**
Established medicines	**890**	**941**	**-5**	**-7**
Total IHC products	**3 247**	**3 041**	**7**	**5**
Additional products				
Voltaren (excl. OTC)	791	797	-1	-1
Ritalin/Focalin	464	449	3	3
Tegretol	355	375	-5	-7
Foradil	353	357	-1	-1
Trileptal	253	295	-14	-14
Everolimus stent drug	240	215	12	7
Other	533	562	-5	-6
Total additional products	**2 989**	**3 050**	**-2**	**-3**
Total strategic franchise products	**24 835**	**22 463**	**11**	**10**
Total established medicines and additional products	**5 723**	**6 075**	**-6**	**-7**
Total Division net sales	**30 558**	**28 538**	**7**	**6**

* includes Transplantation
nm – Not meaningful

Net sales by region[1] (unaudited)

Fourth quarter

	Q4 2010 USD m	Q4 2009 USD m	% change USD	% change cc	Q4 2010 % of total	Q4 2009 % of total
Pharmaceuticals						
US	2 527	2 478	2	2	31	32
Europe	2 878	2 909	-1	5	36	37
Asia/Africa/Australasia	1 852	1 696	9	2	23	22
Canada and Latin America	775	690	12	13	10	9
Total	**8 032**	**7 773**	**3**	**4**	**100**	**100**
Vaccines and Diagnostics						
US	108	591	-82	-82	30	43
Europe	152	647	-77	-74	42	47
Asia/Africa/Australasia	72	127	-43	-38	20	9
Canada and Latin America	29	22	32	38	8	1
Total	**361**	**1 387**	**-74**	**-73**	**100**	**100**
Sandoz						
US	751	536	40	40	32	25
Europe	1 151	1 196	-4	3	48	56
Asia/Africa/Australasia	303	245	24	24	13	11
Canada and Latin America	162	166	-2	-4	7	8
Total	**2 367**	**2 143**	**10**	**14**	**100**	**100**
Consumer Health						
US	518	563	-8	-8	32	35
Europe	663	675	-2	3	41	41
Asia/Africa/Australasia	284	239	19	12	17	15
Canada and Latin America	165	146	13	10	10	9
Total	**1 630**	**1 623**	**0**	**1**	**100**	**100**
Novartis Group excluding Alcon, Inc.						
US	3 904	4 168	-6	-6	32	32
Europe	4 844	5 427	-11	-5	39	42
Asia/Africa/Australasia	2 511	2 307	9	3	20	18
Canada and Latin America	1 131	1 024	10	10	9	8
Total	**12 390**	**12 926**	**-4**	**-3**	**100**	**100**
Alcon, Inc.	**1 809**					
Group Total	**14 199**	**12 926**	**10**	**11**		

[1] Net sales from operations by location of third party customer

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Net sales by region[1] (unaudited)

Full Year

	2010 USD m	2009 USD m	% change USD	% change cc	2010 % of total	2009 % of total
Pharmaceuticals						
US	10 043	9 542	5	5	33	33
Europe	10 877	10 467	4	7	36	37
Asia/Africa/Australasia	6 720	6 079	11	4	22	21
Canada and Latin America	2 918	2 450	19	14	9	9
Total	**30 558**	**28 538**	**7**	**6**	**100**	**100**
Vaccines and Diagnostics						
US	1 184	973	22	22	41	40
Europe	784	1 083	-28	-22	27	45
Asia/Africa/Australasia	645	303	113	121	22	12
Canada and Latin America	305	65	369	387	10	3
Total	**2 918**	**2 424**	**20**	**25**	**100**	**100**
Sandoz						
US	2 630	1 847	42	42	31	25
Europe	4 273	4 271	0	3	50	57
Asia/Africa/Australasia	1 032	820	26	24	12	11
Canada and Latin America	583	555	5	-2	7	7
Total	**8 518**	**7 493**	**14**	**15**	**100**	**100**
Consumer Health						
US	2 006	1 892	6	6	32	33
Europe	2 624	2 541	3	5	42	44
Asia/Africa/Australasia	1 019	883	15	8	17	15
Canada and Latin America	555	496	12	5	9	8
Total	**6 204**	**5 812**	**7**	**6**	**100**	**100**
Novartis Group excluding Alcon, Inc.						
US	15 863	14 254	11	11	33	32
Europe	18 558	18 362	1	4	38	42
Asia/Africa/Australasia	9 416	8 085	16	11	20	18
Canada and Latin America	4 361	3 566	22	17	9	8
Total	**48 198**	**44 267**	**9**	**9**	**100**	**100**
Alcon, Inc.	**2 426**					
Group Total	**50 624**	**44 267**	**14**	**14**		

[1] Net sales from operations by location of third party customer

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Quarterly analysis (unaudited)

Key figures by quarter

	Q4 2010 USD m	Q3 2010 USD m	Change USD m	Change %
Net sales	**14 199**	12 578	1 621	13
Operating income	**2 467**	2 587	-120	-5
Financial income	**-26**	27	-53	nm
Interest expense	**-196**	-188	-8	4
Taxes	**-155**	-475	320	-67
Net income	**2 265**	2 319	-54	-2

Net sales by region

	Q4 2010 USD m	Q3 2010 USD m	Change USD m	Change %
US	**3 904**	4 201	-297	-7
Europe	**4 844**	4 410	434	10
Asia/Africa/Australasia	**2 511**	2 286	225	10
Canada and Latin America	**1 131**	1 064	67	6
Novartis Group excl. Alcon, Inc.	**12 390**	11 961	429	4
Alcon, Inc.	**1 809**	617	1 192	nm
Total Group	**14 199**	12 578	1 621	13

Net sales by segment

	Q4 2010 USD m	Q3 2010 USD m	Change USD m	Change %
Pharmaceuticals	**8 032**	7 565	467	6
Vaccines and Diagnostics	**361**	632	-271	-43
Sandoz	**2 367**	2 177	190	9
Consumer Health	**1 630**	1 587	43	3
Alcon, Inc.	**1 809**	617	1 192	nm
Total	**14 199**	12 578	1 621	13

Core operating income by segment

	Q4 2010 USD m	Q3 2010 USD m	Change USD m	Change %
Pharmaceuticals	**2 274**	2 568	-294	-11
Vaccines and Diagnostics	**-121**	126	-247	nm
Sandoz	**379**	492	-113	-23
Consumer Health	**237**	410	-173	-42
Alcon, Inc.	**630**	222	408	nm
Corporate Income & Expense, net	-233	-119	-114	96
Core operating income	**3 166**	3 699	-533	-14

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SIGNATURES

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

Novartis AG

Date: January 27, 2011

By: /s/ MALCOLM B. CHEETHAM

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