

NOVARTIS AG  
Form 6-K  
July 17, 2009

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 6-K

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

Report on Form 6-K dated July 16, 2009

(Commission File No. 1-15024)

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on September 5, 2006 (File No. 333-137112) and on October 1, 2004 (File No. 333-119475), in each case to the extent not superseded by documents or reports subsequently filed by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, in each case as amended*

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**Novartis AG**

(Name of Registrant)

Lichtstrasse 35

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**4056 Basel**

**Switzerland**

(Address of Principal Executive Offices)

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

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

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

Yes:  No:

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Yes:  No:

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

Yes:  No:

Enclosure: **Novartis AG Announces Results for the First Half of 2009**

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**Novartis International AG**  
Novartis Global Communications  
CH-4002 Basel  
Switzerland

<http://www.novartis.com>

**FINANCIAL REPORT • RAPPORT TRIMESTRIEL • QUARTALSBERICHT**

**Novartis delivers strong operational performance in the first half of 2009 driven by sustained Pharmaceuticals innovation**

- *Pharmaceuticals an industry growth leader: Net sales up 12% (local currencies) in first half of 2009 on contributions from new products and expansion in all regions*
- *R&D maintains momentum: Anti-cancer therapy Afinitor introduced in the US, awaiting EU approval; new biologic Ilaris and OTC brand Prevacid 24HR gain US approvals; clinical trials set to start in July for A(H1N1) pandemic flu vaccine*
- *H1 2009 operating results advance well, but impacted negatively by currencies:*
- *Net sales of USD 20.3 billion grow 8% in local currencies (lc), decline 2% in US dollars*
- *Operating income of USD 4.7 billion up 11% in constant currencies and excluding exceptional items in both periods, down 5% in US dollars*
- *Free cash flow before dividends advances 33% to USD 3.4 billion*
- *Net income of USD 4.0 billion falls 12%, includes negative currency impact and Alcon financing costs*
- *Basic EPS: USD 1.76 in first half of 2009 vs. USD 2.01 in 2008 period*
- *Novartis reaffirms expectations for strong operational performance in 2009 and record earnings in constant currencies*

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**Key figures**   **Continuing operations**

*First half*

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	H1 2009		H1 2008		% change	
	USD m	% of net sales	USD m	% of net sales	USD	lc
<b>Net sales</b>	<b>20 255</b>		20 635		2	8
<b>Operating income</b>	<b>4 711</b>	23.3	4 949	24.0	5	
<b>Net income</b>	<b>4 019</b>	19.8	4 574	22.2	12	
<b>Basic earnings per share</b>	<b>USD 1.76</b>		USD 2.01		12	

*Second quarter*

	Q2 2009		Q2 2008		% change	
	USD m	% of net sales	USD m	% of net sales	USD	lc
<b>Net sales</b>	<b>10 546</b>		10 726		2	8
<b>Operating income</b>	<b>2 364</b>	22.4	2 461	22.9	4	
<b>Net income</b>	<b>2 044</b>	19.4	2 266	21.1	10	
<b>Basic earnings per share</b>	<b>USD 0.90</b>		USD 0.99		9	

**Basel, July 16, 2009** Commenting on the results, Dr. Daniel Vasella, Chairman and CEO of Novartis, said: *I am pleased that our pharmaceuticals business continues to deliver double-digit underlying growth, driven by the strong momentum of our recently launched products. Our pipeline continues to deliver a steady stream of innovative medicines. In the first six months of 2009 we have introduced our new anti-cancer therapy Afinitor in the US and gained first approval for Ilaris as a new biologic therapy for auto-inflammatory diseases. We are advancing well in our efforts to rapidly produce and commercialize a vaccine against the H1N1 virus, with clinical trials set to begin in July. We continue to expect record underlying results in constant currencies based on innovation and productivity initiatives.*

## OVERVIEW

### First half

Pharmaceuticals delivered strong and sustained growth to lead the Group's healthcare portfolio. The division's net sales rose 12% in local currencies (+3% in US dollars) thanks to rapid expansion of recently launched products such as *Lucentis*, *Exforge*, *Exjade*, *Exelon Patch*, *Reclast/Aclasta*, *Tasigna*, *Tekturna/Rasilez* and *Galvus* and growth in all therapeutic franchises and regions. R&D highlights included the US launch of the anti-cancer medicine *Afinitor*, which is awaiting EU approval. US approvals were also granted for the biologic therapy *Ilaris* for some auto-inflammatory conditions and the OTC product *Prevacid 24HR*.

Challenging global economic conditions dampened growth in Consumer Health (+1% lc), while Sandoz (+4% lc) achieved greatly improved performances in many key markets outside the US.

Group net sales rose 8% in local currencies, but declined 2% in US dollars to USD 20.3 billion. Solid operational gains were offset by 10 percentage points from the negative impact of the stronger US dollar. Higher sales volumes contributed seven percentage points over the 2008 period, while net price changes provided one percentage point.

Operating income fell 5% to USD 4.7 billion, but rose 11% when adjusted for the impact of currency movements, exceptional items and the amortization of intangible assets in both periods. Significant productivity gains in production, marketing and selling, and administrative areas helped to finance R&D projects involving many novel and potentially first-in-class compounds as well as rapid expansion in high-growth markets.

Net income fell 12% to USD 4.0 billion, also impacted by financing costs for the 25% Alcon stake acquired in mid-2008. Basic earnings per share (EPS) declined to USD 1.76 in the first half of 2009 from USD 2.01 in the year-ago period.

### Second quarter

Net sales rose 8% in local currencies, but fell 2% to USD 10.5 billion from the loss of 10 percentage points of growth to currency movements. The dynamic business expansion in Pharmaceuticals (+11% lc) led the performance ahead of Sandoz (+4% lc) and Consumer Health (+2% lc). Vaccines and Diagnostics ( - 15% lc) was hampered by comparison to the prior year that included deliveries of H5N1 pandemic flu vaccines.

Operating income fell 4% to USD 2.4 billion, but rose 13% when adjusted for the impact of adverse currency movements, exceptional items and the amortization of intangible assets in both periods.

Net income fell 10% to USD 2.0 billion, affected by currency changes and higher financing costs, which included a EUR 1.5 billion bond issued in the second quarter of 2009. Basic earnings per share (EPS) declined to USD 0.90 from USD 0.99 in the year-ago period.

### Delivering sustainable growth by meeting broad healthcare needs

Results in the first half of 2009 confirm the Group's strong operational performance as Novartis continues to focus on delivering long-term sustainable growth from a portfolio that addresses broad healthcare needs. The Group is selectively strengthening its businesses, stepping up investments in innovation and expanding in high-growth markets while improving organizational efficiency.

In **Pharmaceuticals**, ongoing dynamic growth of recently launched products (+91% lc) provided USD 2.0 billion of net sales in the first half of 2009, which represented 15% of net sales compared to 9% in the first half of 2008. These contributions have made Novartis one of the fastest-growing pharmaceutical companies in 2009 in terms of local currency net sales. New products emerging from the **R&D pipeline**, led by the anti-cancer medicine *Afinitor*, are expected to further support the expansion underway in all therapeutic areas. Top emerging markets also continue to deliver robust growth.

**Vaccines and Diagnostics** is making good progress in creating a vaccine against the new strain of influenza A(H1N1). Novartis has started large-scale antigen production at all sites in Europe, using both traditional egg-based manufacturing as well as its faster cell-based vaccine production capacity to maximize the potential vaccine supply. Using cell-culture technology, first batches have been successfully produced for both the wild virus strain and the reassortant seed modified virus recommended by the WHO and health authorities. Clinical trials will start in July for this vaccine. Novartis has secured several orders for H1N1 vaccines amid discussions with more than 35 governments. The US government has now awarded Novartis two contracts totaling USD 979 million for future purchase of H1N1 bulk vaccine and the Group's proprietary MF59 adjuvant, while contracts have also been received from other countries.

**Sandoz**, a world leader in generics, is growing rapidly in selected key markets and taking actions to broaden its product portfolio. Sandoz agreed in May to acquire the generic oncology injectables business of EBWE Pharma for EUR 925 million (USD 1.3 billion), which will create a new global growth platform and improve access to oncology medicines. Sandoz is also addressing FDA concerns about the Wilson manufacturing site in the US. An FDA inspection is anticipated for the 2009 third quarter.



**Consumer Health** continues to focus on maximizing the value of its trusted brands and expanding geographically, led by sustained growth in CIBA Vision from the rollout of new

contact lens products. In the second quarter of 2009, *Prevacid 24HR* earned US regulatory approval as the first OTC (over-the-counter) version of this proton pump inhibitor for frequent heartburn; launch in the US is set for later in 2009.

Expansion in targeted **high-growth markets** continues. Net sales in the top six emerging markets rose 20% to USD 1.8 billion in the first half of 2009, with only limited signs to date of an adverse impact from global economic conditions.

Forward, an initiative for **greater productivity, increased efficiency and speed**, is progressing rapidly ahead of schedule with USD 631 million of incremental savings in the first half of 2009, which are being partially reinvested to bolster growth. Forward has now achieved cumulative cost savings of USD 1.7 billion and exceeded the 2010 goal of USD 1.6 billion (compared to 2007) 18 months ahead of plan.

### **Group outlook**

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

Novartis reaffirms expectations for strong underlying momentum in 2009, with Group net sales growing at a mid-single-digit rate in local currencies. Pharmaceuticals net sales are now expected to expand at a minimum high-single-digit rate in 2009, also in local currencies. Underlying growth in operating and net income to record levels in 2009, however, could be more than offset in reported results by currency-related losses.

**BUSINESS REVIEW****First half****Net sales**

	H1 2009	H1 2008	% change	
	USD m	USD m		lc
			USD	
<b>Pharmaceuticals</b>	<b>13 548</b>	13 192	3	12
<b>Vaccines and Diagnostics</b>	<b>494</b>	602	18	9
<b>Sandoz</b>	<b>3 500</b>	3 854	9	4
<b>Consumer Health continuing operations</b>	<b>2 713</b>	2 987	9	1
<b>Net sales from continuing operations</b>	<b>20 255</b>	20 635	2	8

**Pharmaceuticals: USD 13.5 billion (+3%, +12% lc)**

Dynamic local currency growth driven by double-digit advances in all regions, particularly Europe (USD 4.9 billion, +12% lc) and the US (USD 4.6 billion, +11%), and also Japan (USD 1.5 billion, +10% lc) following the launches of four newly approved medicines in early 2009. The six targeted emerging markets of Brazil, China, India, Russia, South Korea and Turkey (USD 1.2 billion, +22% lc) maintained a rapid expansion pace.

New launches and the rollout of new products led by *Lucentis*, *Exforge*, *Exjade*, *Exelon Patch*, *Reclast/Aclasta* and *Tekturna/Rasilez* contributed USD 2.0 billion of net sales in the 2009 period. This represented 15% of division net sales compared to 9% in the first half of 2008. Product launches also contributed eight percentage points of the division's local currency net sales growth of 12% lc.

All therapeutic franchises expanded at double-digit rates. Oncology (USD 4.2 billion, +15% lc), the largest franchise, kept up a strong pace thanks to *Gleevec/Glivec* (USD 1.9 billion, +15% lc), *Femara* (USD 596 million, +15% lc) and *Exjade* (USD 295 million, +35% lc). The strategic Cardiovascular franchise (USD 3.6 billion, +14% lc) showed solid growth, helped by the new high blood pressure medicines *Exforge* (USD 304 million) and *Tekturna/Rasilez* (USD 119 million) that contributed more than seven percentage points of incremental growth. *Diovan* (USD 2.9 billion, +6% lc) showed double-digit gains in Japan and solid advances in Europe and the US. Neuroscience and Ophthalmics (USD 2.1 billion, +11% lc) was driven by *Lucentis* (USD 523 million, +42% lc) and *Exelon Patch* (USD 214 million) as well as initial contributions from *Extavia* (USD 12 million).

**Vaccines and Diagnostics: USD 494 million ( -18%, -9% lc)**

Higher deliveries of seasonal flu vaccines to the Southern Hemisphere as well as for pediatric vaccine components and rabies vaccines in the 2009 period more than offset a decline in TBE (tick-borne encephalitis) vaccines, which reflected markets reaching the end of the catch-up phase in central Europe. The absence of H5N1 pandemic flu vaccine sales weighed on the 2009 performance compared to the 2008 period.

**Second quarter**

**Sandoz: USD 3.5 billion ( 9%, +4% lc)**

Solid sales growth in local currencies was seen in all regions outside the US, led by Central and Eastern Europe (+12% lc) and Asia-Pacific (+26% lc). Also contributing were the three approved Sandoz biosimilars (+62% lc). Market share gains were seen in Germany (+3% lc) in a declining market. Sales in the US (-1% lc) fell mostly due to price erosion as well as limited new product launches and the impact of ongoing lost sales from remediation of the Wilson manufacturing site.

**Consumer Health: USD 2.7 billion ( 9%, +1% lc)**

CIBA Vision benefited from solid expansion and market share gains for new contact lens products. Animal Health was largely unchanged as the farm animal business recovered from

2008, but reduced consumer spending affected the companion animal business. Despite adverse global market conditions, OTC net sales (1c) were in line with the 2008 period.

### Operating income

	H1 2009	H1 2008		Change	
	USD m	% of net sales	USD m		% of net sales
<b>Pharmaceuticals</b>	<b>4 275</b>	31.6	4 274	32.4	0
<b>Vaccines and Diagnostics</b>	<b>234</b>		128		
<b>Sandoz</b>	<b>538</b>	15.4	591	15.3	9
<b>Consumer Health continuing operations</b>	<b>506</b>	18.7	566	18.9	11
Corporate Income & Expense, net	374		354		
<b>Operating income from continuing operations</b>	<b>4 711</b>	23.3	4 949	24.0	5

#### Pharmaceuticals: USD 4.3 billion (+0%)

Reported operating income was affected by the negative impact of currencies ( 11 percentage points) and lower favorable exceptional items ( 4 percentage points). Excluding these effects, underlying operating income advanced 15% thanks to the double-digit sales expansion and productivity savings, outpacing the 12% 1c net sales expansion. Adjusted for intangible asset charges and exceptional items, the operating margin was 33.0% in the 2009 period compared to 32.6% in 2008. Cost of Goods Sold was steady at 16.7% of net sales, while other revenues fell 0.9 percentage points following the end of Betaseron® royalty receipts in late 2008. R&D investments rose to 20.5% of net sales from 20.2% in the 2008 period. Marketing & Sales expenses fell to 29.6% in 2009 from 30.4% in the first half of 2008. Productivity gains of USD 458 million enabled both underlying margin improvements and significant investments to support launches and hypergrowth plans in Oncology and targeted emerging markets.

#### Vaccines and Diagnostics: USD 234 million

The adjusted operating loss, which excludes exceptional items and the amortization of intangible assets, rose to USD 35 million compared to a loss of USD 4 million in the year-ago period. Results for the 2009 period included a USD 45 million legal charge, while the 2008 first half included a USD 49 million exceptional gain for a diagnostics license fee.

#### Sandoz: USD 538 million ( 9%)

Volume expansion in many key markets and ongoing productivity gains were more than offset by lower contributions from the US and negative currency movements of about 13 percentage points. Marketing & Sales and R&D both fell as a percentage of net sales despite continued expansion in growth markets and new product development. Cost of Goods Sold rose on changes in product mix due to a lack of major US product launches.

**Consumer Health: USD 506 million ( 11%)**

In constant currencies, operating income improved 7% over the year-ago period on the strength of business expansion and supply chain productivity gains in CIBA Vision.

**Corporate Income & Expense, net**

The increase in net corporate expenses was due mainly to higher pension expenses.

**Second quarter****Net sales**

	Q2 2009	Q2 2008	% change	
	USD m	USD m	USD	lc
<b>Pharmaceuticals</b>	<b>7 115</b>	6 928	3	11
<b>Vaccines and Diagnostics</b>	<b>247</b>	322	23	15
<b>Sandoz</b>	<b>1 774</b>	1 948	9	4
<b>Consumer Health continuing operations</b>	<b>1 410</b>	1 528	8	2
<b>Net sales from continuing operations</b>	<b>10 546</b>	10 726	2	8

**Pharmaceuticals: USD 7.1 billion (+3%, +11% lc)**

Continuing the strong momentum of the 2009 first quarter, all regions showed double-digit underlying net sales growth. Europe (USD 2.6 billion, +12% lc), the division's largest region, had strong incremental growth from recently launched products. The US (USD 2.4 billion, +9%) also benefited from expansion of the rejuvenating product portfolio. In addition, Canada and Latin America (USD 607 million, +12% lc) delivered strong performances. The six targeted emerging markets of Brazil, China, India, Russia, South Korea and Turkey (USD 651 million, +25% lc) all advanced rapidly and were led by Russia, Turkey and China.

Recently launched products delivered USD 1.1 billion of net sales in the second quarter of 2009, representing 16% of the division's net sales compared to 10% in the 2008 quarter. These new products also provided eight percentage points of the 11% lc net sales growth in the 2009 period.

All therapeutic franchises delivered improvements in underlying sales, led by Oncology (USD 2.2 billion, +17% lc) benefiting from broad advances and the US launch of *Afinitor*. The strategic Cardiovascular franchise (USD 1.9 billion, +14% lc) was helped by *Exforge* and *Tekturma/Rasilez*. Neuroscience and Ophthalmics (USD 1.1 billion, +10% lc) saw rapid gains for *Lucentis* and *Exelon Patch*.

**Vaccines and Diagnostics: USD 247 million (-23%, -15% lc)**

Lower sales of TBE (tick-borne encephalitis) vaccines and the lack of H5N1 vaccine sales led to the decline. No sales were booked in the 2009 quarter for initial orders of H1N1 pandemic flu vaccines.

**Sandoz: USD 1.8 billion (-9%, +4% lc)**

Maintaining the pace of the 2009 first quarter, top markets achieved strong performances and were led by Asia-Pacific (+24% lc), Central and Eastern Europe (+6% lc) and Germany (+4% lc). The US (+2% lc) returned to year-on-year quarterly growth for the first time since the fourth quarter of 2007.

**Consumer Health: USD 1.4 billion (-8%, +2% lc)**

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New contact lens product launches underpinned local currency growth and market share gains for CIBA Vision. The Animal Health farm business and OTC expanded in North America ahead of their respective markets, while the overall businesses continued to suffer from reduced consumer spending and wholesaler destocking due to credit pressures.



**Operating income**

	Q2 2009	Q2 2008		% of net sales	Change %
	USD m	% of net sales	USD m		
<b>Pharmaceuticals</b>	<b>2 213</b>	31.1	2 178	31.4	2
<b>Vaccines and Diagnostics</b>	<b>167</b>		75		
<b>Sandoz</b>	<b>247</b>	13.9	246	12.6	0
<b>Consumer Health continuing operations</b>	<b>271</b>	19.2	304	19.9	11
Corporate Income & Expense, net	200		192		
<b>Operating income from continuing operations</b>	<b>2 364</b>	22.4	2 461	22.9	4

**Pharmaceuticals: USD 2.2 billion (+2%)**

Operating income improved while absorbing the negative impact of currencies ( - 10 percentage points) and reduced favorable exceptional items ( - 5 percentage points). Excluding these effects, underlying operating income advanced 17% thanks to the strong business expansion and increased productivity gains, outpacing the 11% net sales growth. The adjusted operating margin rose 1.1 percentage points to 32.7% of net sales in 2009 compared to 31.6% in 2008. The end of Betaseron® royalty receipts in late 2008 led to a decline of 0.9 percentage points in other revenues. Cost of Goods Sold improved by 0.7 percentage points to 16.6% of net sales mainly from product mix. R&D investments rose 0.7 percentage points to 20.3% of net sales to support late-stage projects and biologics. Marketing & Sales fell 0.8 percentage points to 29.6% of net sales. Productivity savings enabled both underlying margin improvements and significant investments to bolster growth.

**Vaccines and Diagnostics: USD 167 million**

Excluding exceptional items and amortization of intangible assets, the adjusted operating loss was USD 46 million in the second quarter of 2009 compared to adjusted operating income of USD 16 million in the 2008 period.

**Sandoz: USD 247 million (+0%)**

The operating margin rose 1.3 percentage points to 13.9% from the 2008 quarter as focused efforts on productivity gains, including reductions in Cost of Goods Sold and total function costs, helped maintain profitability at the prior-year level despite negative currency movements ( - 12 percentage points) and lower contributions from the US.

**Consumer Health: USD 271 million ( - 11%)**

Significant R&D investments across all businesses were financed by productivity gains in marketing, general and administrative expenses. Operating income grew 5% over the year-ago period in constant currencies.

**Corporate Income & Expense, net**

Net corporate expenses in the second quarter of 2009, which were slightly higher than the year-ago period, included higher pension expenses.



**FINANCIAL REVIEW****First half and second quarter**

	H1 2009 USD m	H1 2008 USD m	Change %	Q2 2009 USD m	Q2 2008 USD m	Change %
<b>Operating income from continuing operations</b>	<b>4 711</b>	<b>4 949</b>	<b>5</b>	<b>2 364</b>	<b>2 461</b>	<b>4</b>
Income from associated companies	207	256	19	124	119	4
Financial income	43	233	82	91	85	7
Interest expense	222	118	88	136	61	123
Taxes	720	746	3	399	338	18
<b>Net income from continuing operations</b>	<b>4 019</b>	<b>4 574</b>	<b>12</b>	<b>2 044</b>	<b>2 266</b>	<b>10</b>
Net income from discontinued operations		9			6	
<b>Total net income</b>	<b>4 019</b>	<b>4 583</b>	<b>12</b>	<b>2 044</b>	<b>2 260</b>	<b>10</b>

**Income from associated companies**

The decline in income from associated companies in the first half of 2009 resulted mainly from reduced contributions from the Roche stake, which included a negative adjustment of USD 40 million since Roche's reported 2008 results were lower than anticipated. However, income from associated companies rose 4% in the second quarter of 2009 to USD 124 million on increased contributions from both the Roche and Alcon investments.

**Financial result, net**

Average net debt in the 2009 first half amounted to USD 2.3 billion compared to average net liquidity of USD 5.9 billion in 2008, reflecting the mid-2008 purchase of the Alcon stake. As a result, and also due to currency losses and lower financial yields, financial income in the first half fell by USD 190 million to USD 43 million. Also in the first half of 2009, interest expense rose to USD 222 million, which included an additional expense of USD 136 million in the 2009 period for the US dollar and Euro bonds issued in the first half of 2009 and the Swiss franc bonds issued in mid-2008. In the second quarter of 2009, financial income was up 7% over the year-ago period, but interest expenses more than doubled due to the issuance of debt.

**Taxes**

The tax rate (taxes as a percentage of pre-tax income) was 15.2% in the first half of 2009 compared to 14.0% in the year-ago period based on a reassessment of the Group's anticipated full-year tax rate. This resulted in a substantial increase in the tax rate to 16.3% for the second quarter of 2009 compared to 13.0% in the year-ago period.

**Net income from continuing operations**

Among factors for the 12% decline in net income to USD 4.0 billion in the first half of 2009 were reduced contributions from the operating businesses and associated companies as well as higher financial charges. These same factors also weighed on net income in the second quarter of 2009, which fell 10% to USD 2.0 billion.

**Basic earnings per share**

Basic earnings per share (EPS) from continuing operations were USD 1.76 per share in the first half of 2009, down from USD 2.01 in the 2008 period, in line with the decline in net income. For the second quarter, basic EPS also fell in line with net income, declining 9% to USD 0.90 per share from USD 0.99 in the prior-year quarter.

## Balance sheet

Total assets increased to USD 84.3 billion at the end of the first half of 2009 compared to USD 78.3 billion at the end of 2008, mainly reflecting proceeds from recent bond issues that are held as cash and marketable securities.

The Group's equity was largely unchanged at USD 50.5 billion at the end of the first half of 2009 compared to USD 50.4 billion at the end of 2008 as net income of USD 4.0 billion in the 2009 period was largely offset by the dividend payment in the 2009 first quarter amounting to USD 3.9 billion, an 18% increase in US dollars from the 2008 dividend payment of USD 3.3 billion.

The Group's debt/equity ratio rose to 0.27:1 at the end of the first half of 2009 from 0.15:1 at the end of 2008, reflecting the successful issuance of a USD 5 billion bond (two tranches) in the US in the first quarter and the launch of a EUR 1.5 billion bond in the second quarter. At the end of the first half of 2009, financial debt of USD 13.9 billion consisted of USD 4.7 billion in current and USD 9.2 billion in non-current liabilities.

Overall liquidity increased to USD 11.8 billion at June 30, 2009, from USD 6.1 billion at the end of 2008. Taking into account the debt raised in 2009, net debt increased to USD 2.1 billion at June 30, 2009, from USD 1.2 billion at December 31, 2008, and net liquidity of USD 5.5 billion at June 30, 2008.

Credit agencies maintained their ratings of Novartis debt during the first half of 2009. Moody's rated the Group as Aa2 for long-term maturities and P-1 for short-term maturities and Standard & Poor's had a rating of AA- and A-1+, for long-term and short-term maturities, respectively. Fitch had a long-term rating of AA and a short-term rating of F1+. These agencies maintained a stable outlook.

## Cash flow

Cash flow from operating activities from continuing operations rose 29% to USD 4.6 billion in the first half of 2009 compared to the year-ago period as a result of improved working capital management as well as lower financial and tax payments in the first six months of 2009 compared to the prior-year period. Operating cash flow in the first half of 2008 also included restructuring payments for the Forward productivity initiative.

A substantial portion of proceeds from the US dollar and euro bond issues in the first half of 2009 were reinvested into marketable securities, resulting in an outflow of USD 5.6 billion in cash flow from investing activities in the first half of 2009 compared to an inflow of USD 4.5 billion in the year-ago period. Cash inflows from financing activities were a net USD 2.5 billion in the 2009 first half, composed of a combined USD 7.1 billion of proceeds from the bond issues that were partially offset by the dividend payment for 2008 of USD 3.9 billion and other items totaling USD 0.7 billion.

## **PHARMACEUTICALS PRODUCT REVIEW**

*Note: Net sales growth data refer to year-to-date 2009 performance in local currencies.*

### **Strategic Cardiovascular franchise**

The strategic Cardiovascular franchise (USD 3.6 billion, +14% lc) showed solid growth on expansion of the high blood pressure medicines *Exforge* and *Tekturna/Rasilez*, providing more than seven percentage points of franchise net sales gains in the 2009 first half. *Diovan* underpinned the franchise with rising contributions in all markets, leading to overall gains in the US and global antihypertension market segments.

*Diovan* (USD 2.9 billion, +6% lc) benefited from double-digit growth in Japan, which now accounts for about 20% of net sales, and a solid performance in Europe ahead of the anticipated entry of generic versions as early as the second half of 2009 of losartan, another medicine in the angiotensin receptor blockers (ARB) segment. In the US, *Diovan* (+5%) continues to grow solidly despite generic versions of rival high blood pressure medicines in other classes.

*Exforge* (USD 304 million +96% lc), a single pill containing the angiotensin receptor blocker *Diovan* (valsartan) and the calcium channel blocker amlodipine, has been steadily outpacing the high blood pressure medicine market due to its differentiated efficacy profile. *Exforge HCT*, which includes the addition of a diuretic to this combination, received US regulatory approval in April 2009 as the only high blood pressure therapy with three medicines in one pill.

*Tekturna/Rasilez* (USD 119 million, +117% lc), the first new type of high blood pressure medicine in more than a decade, has accelerated its growth pace thanks to an increasing body of data affirming its ability to reduce blood pressure for more than 24 hours, its potential benefits for organ protection, and its consistent superiority in clinical trials over ramipril, a leading ACE inhibitor (another class of high blood pressure medicines). Data from the ASPIRE HIGHER outcomes program and various single-pill combinations with other medicines are expected to drive future growth. *Rasilez HCT*, a single-pill combination with a diuretic, has been launched in Europe after approval in January 2009. This combination is available in the US as *Tekturna HCT*. A single-pill combination with valsartan was also submitted for European approval in June 2009, matching a US submission in late 2008. Another combination with amlodipine is on track for US and EU submissions in 2009.

### **Oncology**

*Gleevec/Glivec* (USD 1.9 billion, +15% lc), a targeted therapy for certain forms of chronic myeloid leukemia (CML) and gastrointestinal stromal tumors (GIST), has achieved sustained double-digit growth based on its leadership position in treating these cancers backed by new clinical data and regulatory approvals. *Glivec* received European regulatory approval in May 2009 as a post-surgery (adjuvant setting) therapy for GIST following Swiss (February 2009) and US (December 2008) approvals.

*Tasigna* (USD 88 million), a second-line therapy for patients with a form of chronic myeloid leukemia (CML) resistant or intolerant to prior therapy, including *Gleevec/Glivec*, has been expanding quickly in the US, Germany and the UK while also demonstrating potential to become a leading therapy for newly diagnosed CML patients. Phase II data at the European Hematology Association meeting in June demonstrated that patients treated with *Tasigna* at 12 months had rapid responses and a deep reduction in the amount of the abnormal protein that causes CML. Results from a Phase III trial comparing *Tasigna* and *Gleevec/Glivec* are expected in 2010. A first-line study in GIST began enrollment in March.

*Zometa* (USD 701 million, +10% lc), an intravenous bisphosphonate therapy for patients with cancer that has spread to the bones, has been growing due to improved compliance and use in existing indications. Also supporting the broad expansion have been landmark data first presented in 2008, and published in early 2009 in *The New England Journal of Medicine*, that showed the significant anti-cancer benefit of *Zometa* in reducing the risk of cancer recurrence or death in premenopausal women with hormone-sensitive, early-stage breast cancer. Studies are underway to review the potential anti-cancer benefits of *Zometa* in other tumor types.

*Femara* (USD 596 million, +15% lc), an oral therapy for women with hormone-sensitive breast cancer, continued with strong growth in 2009 on the back of gains in the European initial post-surgery (adjuvant setting) segment. The entry of generic competition in some markets, however, had a modest impact on the positive performance.

*Sandostatin* (USD 539 million, +6% lc), for acromegaly and neuroendocrine tumors of the gastrointestinal tract and pancreas, benefited from increasing use of *Sandostatin LAR*, the once-monthly version that accounts for nearly 90% of net sales. Updated Phase III data presented at the American Society of Clinical Oncology (ASCO) meeting in May further demonstrated a significant delay in tumor progression in patients with metastatic neuroendocrine tumors of the midgut who were treated with *Sandostatin LAR*. These data formed the basis of the recent US National Comprehensive Cancer Network (NCCN) update on treatment guidelines for neuroendocrine tumors.

*Exjade* (USD 295 million, +35% lc), approved in more than 90 countries as the only once-daily oral therapy for transfusional iron overload, recently received regulatory approvals in Brazil, the US and Canada for a new dose of 40 mg/kg, which provides a new option for patients who require higher dose titration for iron chelation. This new dose was also approved in Switzerland in early 2009.

*Afinitor* (USD 12 million), an oral inhibitor of the mTOR pathway, was launched in the US after regulatory approval was granted in March as the first therapy for patients with advanced renal cell carcinoma (kidney cancer) after failure of treatment with sunitinib or sorafenib. European Union regulatory approval is anticipated soon, after the Committee for Medicinal Products (CHMP) issued a positive opinion in May supporting approval in renal cell carcinoma following progression on VEGF-targeted therapy. *Afinitor* is being studied in many cancer types: Phase III studies are underway in neuroendocrine tumors (NET), breast cancer, lymphoma and tuberous sclerosis complex (TSC), while Phase III trials are planned to be initiated in hepatocellular carcinoma (HCC) and gastric cancer. A Phase III trial in carcinoids (a type of NET) is ongoing and will continue through to final analysis, with regulatory submissions for this indication expected in 2010. Positive data have also recently been presented from early clinical studies in HCC and lymphoma. This product's active ingredient, everolimus, is the same as in the transplant therapy *Certican*.

#### **Other Pharmaceuticals products**

*Lucentis* (USD 523 million, +42% lc), a biotechnology eye therapy approved in more than 80 countries, generated ongoing dynamic growth in Europe, Latin America, Japan and key emerging markets based on its status as the only treatment proven to maintain and improve vision in patients with wet age-related macular degeneration, a leading cause of blindness in people over age 50. Genentech holds the US rights to this medicine.



**Exelon/Exelon Patch** (USD 436 million, +24% lc), a therapy for mild to moderate forms of Alzheimer's disease dementia and also dementia linked with Parkinson's disease, has seen dynamic growth in the US and Europe since the late 2007 launch of *Exelon Patch*, a novel skin patch, that accounts for about half of franchise net sales.

**Reclast/Aclasta** (USD 200 million, +105% lc), the first once-yearly infusion therapy for osteoporosis, has been fueled by increasing patient access to infusion centers in the US and Europe as well as a growing list of approved indications for use in a broad range of patients suffering from various types of this debilitating disease. *Reclast/Aclasta*, approved for five indications, gained additional US approval in May as the only therapy to prevent postmenopausal osteoporosis with convenient, less-frequent dosing, while European approval was granted in June for treatment of osteoporosis caused by steroid treatment in men and postmenopausal women, an indication already approved in the US.

**Xolair** (USD 140 million, +67% lc, Novartis sales), a biotechnology drug for moderate to severe persistent asthma in the US and allergic asthma in Europe, has grown strongly thanks to its approval in more than 60 countries, including the Japan launch in early 2009. Novartis co-promotes *Xolair* with Genentech in the US and shares a portion of operating income. Genentech's US sales were USD 277 million in the first half of 2009.

**Galvus/Eucreas** (USD 65 million), two oral treatments for type 2 diabetes, have grown strongly during the rollout since 2008 in many European, Latin American and Asia-Pacific markets. *Galvus* is approved in 60 countries, while *Eucreas* (a single-pill combination with the oral anti-diabetes medicine metformin) is now available in 21 countries.

**Extavia** (USD 12 million), for patients with some forms of multiple sclerosis (MS), has been prescribed for use by about 3,000 patients in Europe since the early 2009 launch that marks the entry of Novartis into this disease area. *Extavia* is the same medicinal product as Betaferon®/Betaseron®, which is marketed by Bayer Schering. Novartis gained rights to its own branded version in agreements with Bayer Schering after Novartis fully acquired Chiron. Novartis expects to launch *Extavia* in the US in 2009.

## **R&D UPDATE**

### **Pharmaceuticals**

**Ilaris** (canakinumab, formerly ACZ885), a human antibody targeting IL-1 beta, received US regulatory approval in June as a new therapy to treat children as young as four years old and adults with CAPS (Cryopyrin-Associated Periodic Syndromes), a group of serious life-long auto-inflammatory diseases. Decisions are pending on regulatory submissions in several countries, including Europe, Canada and Switzerland. Data from a one-year Phase III trial published in *The New England Journal of Medicine* in June confirmed that *Ilaris* offered rapid and long-term clinical remission in CAPS patients. Studies are underway in other disease areas believed to involve IL-1 beta, including some forms of gout, Systemic Juvenile Idiopathic Arthritis (SJIA), Chronic Obstructive Pulmonary Disease (COPD) and type 2 diabetes.

**Coartem** (artemether/lumefantrine), the leading artemisinin-based combination treatment for malaria, received US regulatory approval in April. Novartis has provided more than 250 million *Coartem* treatments to date for public-sector use in malaria-endemic regions.

**QAB149** (indacaterol), a bronchodilator in development for Chronic Obstructive Pulmonary Disease (COPD), has been shown in Phase III clinical trials to significantly improve lung function over the currently available treatments formoterol and tiotropium at three months of therapy. QAB149 also improved symptom control in COPD, a life-threatening lung condition affecting 210 million people worldwide. Further Phase III data will be presented at the European Respiratory Society meeting in September 2009. QAB149, which is expected to form the cornerstone of planned combination therapies in development against COPD, was submitted for US and European regulatory review in late 2008.



**FTY720** (fingolimod), a novel oral development therapy for multiple sclerosis, showed continued low relapse rates after four years in patients with relapsing-remitting MS in an open-label Phase II extension study. The data, presented at the American Academy of Neurology (AAN) meeting in April, also showed no significant change in the safety profile from three to four years. Data at AAN from TRANSFORMS, a one-year Phase III trial against interferon beta-1a (Avonex®), showed 80-83% of MS patients given FTY720 were relapse-free for one year compared to 69% of patients treated with Avonex® (p<0.001), with a safety profile for FTY720 in line with previous experience. US and European regulatory submissions are expected by the end of 2009. Initial results of the Phase III placebo-controlled FREEDOMS trials are also expected in the fourth quarter of 2009.

**Certican** (everolimus), an oral inhibitor of the mTOR pathway, was submitted for US regulatory approval in June for use in kidney transplant patients. Results of a one-year study, which was undertaken in response to "approvable letters" from the FDA, achieved primary efficacy and renal function targets and were also consistent with experience seen in 70 countries including in Europe where this medicine has been approved. Everolimus is also the active ingredient in the anti-cancer therapy *Afinitor*, which has been approved in the US.

**AGO178** (agomelatine), a once-daily investigational treatment for patients with major depression, will be studied in additional Phase III trials to further explore the benefit/risk and pharmacokinetic profile of this compound. A recent review of data from previous Phase III trials confirmed the known efficacy and safety profile of the drug. Submission for US regulatory approval, which had been anticipated in 2009, is now expected in 2012. The US rights to this compound were acquired in March 2006 from Servier.

#### **Vaccines and Diagnostics**

**Menveo**, which was submitted in 2008 for US regulatory approval as a new vaccine to protect against four common types of meningococcal meningitis in people age 11-55, has received a Complete Response letter from the FDA requesting additional information on the submission's clinical and CMC (Chemistry Manufacturing and Control) sections. No new clinical trials are required, and Novartis expects to respond to all questions fully in 2009. *Menveo* was also submitted in 2008 for regulatory approval in Europe for use in adolescents (from age 11) and adults. Clinical trials are underway in other age groups, including as young as from two months, to protect against the serogroups A, C, W-135 and Y found with this often-fatal bacterial infection.

#### **Sandoz**

**Omnitrope**, the pioneering biosimilar of the recombinant human growth hormone somatropin, has received regulatory approval as the first-ever biosimilar in Japan under the brand name *Somatropin BS S.C.* This approval paves the way for greater access to high-quality biopharmaceuticals in the world's second-largest pharmaceuticals market and comes about three months after Japanese authorities published guidelines for a biosimilar regulatory pathway, which is based on similar scientific principles already in place in the European Union. Sandoz pioneered the field of biosimilars with the approval and launch of *Omnitrope* in the US and Europe. *Omnitrope* was also approved in Canada in 2009. Sandoz is the only company with three approved biosimilars in Europe: *Omnitrope*, *Binocrit* (epoetin alfa) and *Zarzio* (filgrastim).

**OTC**

**Prevacid 24HR** (lansoprazole delayed-release capsules 15 mg), a once-daily proton pump inhibitor, received US regulatory approval in May as the first and only OTC (over-the-counter) version of this popular prescription medicine. The FDA granted three years of marketing exclusivity for the 15 mg OTC dose, meaning that no branded or private label competition is allowed before May 2012. *Prevacid 24HR* is expected to be available in the US later in 2009. Novartis gained the rights for OTC development and commercialization of *Prevacid*® from Takeda Pharmaceuticals North America, Inc.

**Disclaimer**

This release contains certain forward-looking statements relating to the Group's business, which can be identified by terminology such as momentum, awaiting, set, expectations, pipeline, expect, potentially, sustainable, expected, potential, will, planned, or expects, paves the way, may, or similar expressions, or by express or implied discussions regarding potential new products, potential new indications for existing products, or regarding potential future revenues from any such products, or potential future sales or earnings of the Novartis Group or any of its divisions or business units; or regarding the potential acquisition of any business by Novartis; or by discussions of strategy, plans, expectations or intentions. You should not place undue reliance on these statements. Such forward-looking statements reflect the current views of the Group regarding future events, and involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. There can be no guarantee that any new products will be approved for sale in any market, or that any new indications will be approved for existing products in any market, or that such products will achieve any particular revenue levels. Nor can there be any guarantee that the Novartis Group, or any of its divisions or business units, will achieve any particular financial results. Neither can there be any guarantee that the proposed acquisition of any business 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 the proposed acquisition. In particular, management's expectations could be affected by, among other things, the uncertain outcome and progress of the ongoing global financial and economic crisis, including uncertainties regarding future global exchange rates and uncertainties regarding future demand for our products; uncertainties involved in the development of new pharmaceutical products; unexpected clinical trial results, including additional analysis of existing clinical data or unexpected new clinical data; unexpected regulatory actions or delays or government regulation generally; the Group's ability to obtain or maintain patent or other proprietary intellectual property protection; uncertainties regarding actual or potential legal proceedings, including, among others, 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; 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 2008, the Group's continuing operations achieved net sales of USD 41.5 billion and net income of USD 8.2 billion. Approximately USD 7.2 billion was invested in R&D activities throughout the Group. Headquartered in Basel, Switzerland, Novartis Group companies employ approximately 99,000 full-time-equivalent associates and operate in more than 140 countries around the world. For more information, please visit <http://www.novartis.com>.

**Important dates**

October 22, 2009	Third quarter and first nine months 2009 results
December 9, 2009	Novartis investor event: Oncology and pipeline update (Basel)
January 2010	Fourth quarter and full-year 2009 results

## CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

## Consolidated income statements (unaudited)

## First half

	H1 2009 USD m	H1 2008 USD m	Change USD m	%
<b>Net sales from continuing operations</b>	<b>20 255</b>	<b>20 635</b>	<b>380</b>	<b>2</b>
Other revenues	413	571	158	28
Cost of Goods Sold	5 409	5 584	175	3
<i>Of which amortization and impairments of product and patent rights and trademarks</i>	456	498	42	8
<b>Gross profit</b>	<b>15 259</b>	<b>15 622</b>	<b>363</b>	<b>2</b>
Marketing & Sales	5 711	5 921	210	4
Research & Development	3 496	3 441	55	2
General & Administration	1 047	1 078	31	3
Other Income & Expense, net	294	233	61	26
<b>Operating income from continuing operations</b>	<b>4 711</b>	<b>4 949</b>	<b>238</b>	<b>5</b>
Income from associated companies	207	256	49	19
Financial income	43	233	190	82
Interest expense	222	118	104	88
<b>Income before taxes from continuing operations</b>	<b>4 739</b>	<b>5 320</b>	<b>581</b>	<b>11</b>
Taxes	720	746	26	3
<b>Net income from continuing operations</b>	<b>4 019</b>	<b>4 574</b>	<b>555</b>	<b>12</b>
Net income from discontinued Consumer Health operations		9	9	
<b>Total net income</b>	<b>4 019</b>	<b>4 583</b>	<b>564</b>	<b>12</b>
<i>Attributable to:</i>				
<i>Shareholders of Novartis AG</i>	3 997	4 566	569	12
<i>Non-controlling interests</i>	22	17	5	29
<b>Average number of shares outstanding Basic (million)</b>	<b>2 264.9</b>	<b>2 266.2</b>	<b>1.3</b>	
<b>Basic earnings per share (USD)(1)</b>				
<b>Continuing operations</b>	<b>1.76</b>	<b>2.01</b>	<b>0.25</b>	<b>12</b>
<b>Discontinued operations</b>		<b>0.00</b>		
<b>Total</b>	<b>1.76</b>	<b>2.01</b>	<b>0.25</b>	<b>12</b>
<b>Average number of shares outstanding Diluted (million)</b>	<b>2 281.4</b>	<b>2 285.2</b>	<b>3.8</b>	
<b>Diluted earnings per share (USD)(1)</b>				
<b>Continuing operations</b>	<b>1.75</b>	<b>2.00</b>	<b>0.25</b>	<b>13</b>
<b>Discontinued operations</b>		<b>0.00</b>		
<b>Total</b>	<b>1.75</b>	<b>2.00</b>	<b>0.25</b>	<b>13</b>

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

## Consolidated income statements (unaudited)

## Second quarter

	Q2 2009 USD m	Q2 2008 USD m	Change USD m	%
<b>Net sales from continuing operations</b>	<b>10 546</b>	<b>10 726</b>	<b>180</b>	<b>2</b>
Other revenues	196	264	68	26
Cost of Goods Sold	2 824	2 936	112	4
<i>Of which amortization and impairments of product and patent rights and trademarks</i>	233	252	19	8
<b>Gross profit</b>	<b>7 918</b>	<b>8 054</b>	<b>136</b>	<b>2</b>
Marketing & Sales	2 990	3 106	116	4
Research & Development	1 802	1 767	35	2
General & Administration	542	559	17	3
Other Income & Expense, net	220	161	59	37
<b>Operating income from continuing operations</b>	<b>2 364</b>	<b>2 461</b>	<b>97</b>	<b>4</b>
Income from associated companies	124	119	5	4
Financial income	91	85	6	7
Interest expense	136	61	75	123
<b>Income before taxes from continuing operations</b>	<b>2 443</b>	<b>2 604</b>	<b>161</b>	<b>6</b>
Taxes	399	338	61	18
<b>Net income from continuing operations</b>	<b>2 044</b>	<b>2 266</b>	<b>222</b>	<b>10</b>
Net income from discontinued Consumer Health operations		6	6	
<b>Total net income</b>	<b>2 044</b>	<b>2 260</b>	<b>216</b>	<b>10</b>
<i>Attributable to:</i>				
<i>Shareholders of Novartis AG</i>	2 035	2 249	214	10
<i>Non-controlling interests</i>	9	11	2	18
<b>Average number of shares outstanding Basic (million)</b>	<b>2 263.3</b>	<b>2 266.8</b>	<b>3.5</b>	
<b>Basic earnings per share (USD)(1)</b>				
<b>Continuing operations</b>	<b>0.90</b>	<b>0.99</b>	<b>0.09</b>	<b>9</b>
<b>Discontinued operations</b>		<b>0.00</b>		
<b>Total</b>	<b>0.90</b>	<b>0.99</b>	<b>0.09</b>	<b>9</b>
<b>Average number of shares outstanding Diluted (million)</b>	<b>2 279.6</b>	<b>2 285.6</b>	<b>6.0</b>	
<b>Diluted earnings per share (USD)(1)</b>				
<b>Continuing operations</b>	<b>0.89</b>	<b>0.98</b>	<b>0.09</b>	<b>9</b>
<b>Discontinued operations</b>		<b>0.00</b>		
<b>Total</b>	<b>0.89</b>	<b>0.98</b>	<b>0.09</b>	<b>9</b>

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



**Consolidated statements of recognized income and expense** (unaudited)**First half**

	<b>H1 2009</b>	<b>H1 2008</b>	<b>Change</b>
	<b>USD m</b>	<b>USD m</b>	<b>USD m</b>
Net income from continuing operations	4 019	4 574	555
Fair value adjustments on financial instruments, net of taxes	36	77	113
Net actuarial losses from defined benefit plans, net of taxes	55	158	103
Novartis share of equity recognized by associated companies, net of taxes	86	13	73
Translation effects	12	1 365	1 353
Amounts related to discontinued operations		9	9
<b>Recognized income and expense</b>	<b>3 926</b>	<b>5 700</b>	<b>1 774</b>
<i>Attributable to:</i>			
<i>Shareholders of Novartis AG</i>	<i>3 896</i>	<i>5 691</i>	<i>1 795</i>
<i>Non-controlling interests</i>	<i>30</i>	<i>9</i>	<i>21</i>

**Second quarter**

	<b>Q2 2009</b>	<b>Q2 2008</b>	<b>Change</b>
	<b>USD m</b>	<b>USD m</b>	<b>USD m</b>
Net income from continuing operations	2 044	2 266	222
Fair value adjustments on financial instruments, net of taxes	79	13	66
Net actuarial gains from defined benefit plans, net of taxes	610	506	104
Novartis share of equity recognized by associated companies, net of taxes	19		19
Translation effects	1 415	11	1 426
Amounts related to discontinued operations		6	6
<b>Recognized income and expense</b>	<b>4 129</b>	<b>2 768</b>	<b>1 361</b>
<i>Attributable to:</i>			
<i>Shareholders of Novartis AG</i>	<i>4 108</i>	<i>2 764</i>	<i>1 344</i>
<i>Non-controlling interests</i>	<i>21</i>	<i>4</i>	<i>17</i>

## Condensed consolidated balance sheets

	June 30, 2009 (unaudited) USD m	Dec 31, 2008 USD m	Change USD m	June 30, 2008 (unaudited) USD m
<b>Assets</b>				
<b>Non-current assets</b>				
Property, plant & equipment	13 445	13 100	345	13 727
Goodwill	11 381	11 285	96	11 475
Intangibles other than goodwill	9 259	9 534	275	10 088
Financial and other non-current assets	23 017	23 499	482	16 024
<b>Total non-current assets</b>	<b>57 102</b>	<b>57 418</b>	<b>316</b>	<b>51 314</b>
<b>Current assets</b>				
Inventories	6 130	5 792	338	6 450
Trade receivables	7 167	7 026	141	7 142
Other current assets	2 060	1 946	114	2 295
Cash, short-term deposits and marketable securities	11 815	6 117	5 698	16 198
<b>Total current assets</b>	<b>27 172</b>	<b>20 881</b>	<b>6 291</b>	<b>32 085</b>
<b>Total assets</b>	<b>84 274</b>	<b>78 299</b>	<b>5 975</b>	<b>83 399</b>
<b>Equity and liabilities</b>				
<b>Total equity</b>	<b>50 488</b>	<b>50 437</b>	<b>51</b>	<b>51 605</b>
<b>Non-current liabilities</b>				
Financial debts	9 196	2 178	7 018	2 172
Other non-current liabilities	9 232	9 180	52	9 939
<b>Total non-current liabilities</b>	<b>18 428</b>	<b>11 358</b>	<b>7 070</b>	<b>12 111</b>
<b>Current liabilities</b>				
Trade payables	3 320	3 395	75	3 251
Financial debts and derivatives	4 673	5 186	513	8 559
Other current liabilities	7 365	7 923	558	7 873
<b>Total current liabilities</b>	<b>15 358</b>	<b>16 504</b>	<b>1 146</b>	<b>19 683</b>
<b>Total liabilities</b>	<b>33 786</b>	<b>27 862</b>	<b>5 924</b>	<b>31 794</b>
<b>Total equity and liabilities</b>	<b>84 274</b>	<b>78 299</b>	<b>5 975</b>	<b>83 399</b>

**Condensed consolidated changes in equity** (unaudited)**First half**

	H1 2009 USD m	H1 2008 USD m	Change USD m
<b>Consolidated equity at January 1</b>	<b>50 437</b>	<b>49 396</b>	<b>1 041</b>
Recognized income and expense	3 926	5 700	1 774
Purchase of treasury shares, net	196	432	236
Equity-based compensation	298	303	5
Dividends	3 941	3 345	596
Changes in non-controlling interests	36	17	19
<b>Consolidated equity at June 30</b>	<b>50 488</b>	<b>51 605</b>	<b>1 117</b>

**Second quarter**

	Q2 2009 USD m	Q2 2008 USD m	Change USD m
<b>Consolidated equity at April 1</b>	<b>46 228</b>	<b>49 266</b>	<b>3 038</b>
Recognized income and expense	4 129	2 768	1 361
Sale/purchase of treasury shares, net	44	554	598
Equity-based compensation	128	137	9
Dividends		3	3
Changes in non-controlling interests	41	9	32
<b>Consolidated equity at June 30</b>	<b>50 488</b>	<b>51 605</b>	<b>1 117</b>

## Condensed consolidated cash flow statements (unaudited)

## First half

	H1 2009 USD m	H1 2008 USD m	Change USD m
<b>Net income from continuing operations</b>	<b>4 019</b>	<b>4 574</b>	<b>555</b>
Reversal of non-cash items			
Taxes	720	746	26
Depreciation, amortization and impairments	1 098	1 258	160
Change in provisions and other non-current liabilities	235	217	18
Net financial expense/income	179	115	294
Other	107	84	191
<b>Net income adjusted for non-cash items</b>	<b>6 358</b>	<b>6 596</b>	<b>238</b>
Interest and other financial receipts	570	571	1
Interest and other financial payments	135	611	476
Taxes paid	928	1 176	248
<b>Cash flow before working capital changes</b>	<b>5 865</b>	<b>5 380</b>	<b>485</b>
Payments out of provisions and other net cash movements in non-current liabilities	422	307	115
Change in net current assets and other operating cash flow items	872	1 532	660
<b>Cash flow from operating activities from continuing operations</b>	<b>4 571</b>	<b>3 541</b>	<b>1 030</b>
Investments in property, plant & equipment	853	967	114
Investments in intangible, non-current and financial assets	370	166	204
Sale of property, plant & equipment, intangible, financial and other non-current assets	74	166	92
Acquisitions / divestments	31		31
Increase/decrease in marketable securities, associated companies and non-controlling interests	4 394	5 452	9 846
<b>Cash flow from investing activities from continuing operations</b>	<b>5 574</b>	<b>4 485</b>	<b>10 059</b>
Change in current and non-current financial debts	6 648	4 367	2 281
Dividends paid to shareholders of Novartis AG	3 941	3 345	596
Treasury share transactions	196	512	316
Other financing cash flows	4	20	16
<b>Cash flow from financing activities from continuing operations</b>	<b>2 507</b>	<b>490</b>	<b>2 017</b>
Cash flow from discontinued operations		69	69
Translation effect on cash and cash equivalents	48	124	76
<b>Change in cash and cash equivalents from continuing operations</b>	<b>1 552</b>	<b>8 709</b>	<b>7 157</b>
Cash and cash equivalents at January 1 from continuing operations	2 038	5 360	3 322
<b>Cash and cash equivalents at June 30 from continuing operations</b>	<b>3 590</b>	<b>14 069</b>	<b>10 479</b>

## Condensed consolidated cash flow statements (unaudited)

## Second quarter

	Q2 2009 USD m	Q2 2008 USD m	Change USD m
<b>Net income from continuing operations</b>	<b>2 044</b>	<b>2 266</b>	<b>222</b>
Reversal of non-cash items			
Taxes	399	338	61
Depreciation, amortization and impairments	550	624	74
Change in provisions and other non-current liabilities	156	130	26
Net financial expense/income	45	24	69
Other	47	4	51
<b>Net income adjusted for non-cash items</b>	<b>3 241</b>	<b>3 330</b>	<b>89</b>
Interest and other financial receipts	237	120	117
Interest and other financial payments	106	549	443
Taxes paid	591	666	75
<b>Cash flow before working capital changes</b>	<b>2 781</b>	<b>2 235</b>	<b>546</b>
Payments out of provisions and other net cash movements in non-current liabilities	160	164	4
Change in net current assets and other operating cash flow items	3	219	216
<b>Cash flow from operating activities from continuing operations</b>	<b>2 618</b>	<b>1 852</b>	<b>766</b>
Investments in property, plant & equipment	485	564	79
Investments in intangible, non-current and financial assets	234	88	146
Sale of property, plant & equipment, intangible, financial and other non-current assets	17	19	2
Acquisitions / divestments	31		31
Increase/decrease in marketable securities, associated companies and non-controlling interests	1 999	1 684	3 683
<b>Cash flow from investing activities from continuing operations</b>	<b>2 732</b>	<b>1 051</b>	<b>3 783</b>
Change in current and non-current financial debts	1 943	4 776	2 833
Dividends paid to shareholders of Novartis AG	10	3	7
Treasury share transactions	44	654	698
Other financing cash flows	78	60	18
<b>Cash flow from financing activities from continuing operations</b>	<b>2 055</b>	<b>4 179</b>	<b>2 124</b>
Cash flow from discontinued operations		18	18
Translation effect on cash and cash equivalents	74	38	36
<b>Change in cash and cash equivalents from continuing operations</b>	<b>2 015</b>	<b>7 138</b>	<b>5 123</b>
Cash and cash equivalents at April 1 from continuing operations	1 575	6 931	5 356
<b>Cash and cash equivalents at June 30 from continuing operations</b>	<b>3 590</b>	<b>14 069</b>	<b>10 479</b>

**Notes to the Condensed Interim Consolidated Financial Statements for the three- and six-month periods ended June 30, 2009**

(unaudited)

**1. Basis of preparation**

These Condensed Interim Consolidated Financial Statements for the three- and six-month periods ended June 30, 2009, were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and accounting policies set out in the 2008 Annual Report published on January 28, 2009. As of January 1, 2009, the Group adopted the revised IAS 1 *Presentation of Financial Statements* and IFRS 8 *Operating Segments* and the revised IAS 23 *Borrowing Costs*. These new accounting standards did not have a significant impact on the Group's Condensed Interim Consolidated Financial Statements.

**2. Selected critical accounting policies**

The principal accounting policies of Novartis are set out in note 1 to the Consolidated Financial Statements in the 2008 Annual Report and conform with International Financial Reporting Standards (IFRS). The presentation of financial statements requires management to make subjective and complex judgments that affect the reported amounts. Because of the inherent uncertainties, actual outcomes and results may differ from management's assumptions and estimates. In particular, as discussed in notes 8 and 9 of the 2008 Annual Report, Novartis regularly reviews long-lived intangible and tangible assets, including identifiable intangible assets and goodwill for impairment. Goodwill and acquired In-Process Research & Development (IPR&D) projects not yet ready for use are subject to impairment review at least annually, or when events have occurred that require an assessment. As also discussed in notes 9 and 10 of the 2008 Annual Report, intangible assets and investments in associated companies are reviewed for impairment 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.

**3. Acquisitions, divestments and significant transactions**

The following significant transactions occurred during 2009 and 2008:

**2009**

**Corporate Issuance of US dollar bond**

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 euro bond**

On June 2, Novartis launched a bond issue of EUR 1.5 billion (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, was priced at 99.757% with a maturity date of June 15, 2016. It is guaranteed by Novartis AG.

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

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**Corporate Novartis India Ltd.**

On March 25, Novartis announced a tender offer to acquire an additional stake in its majority-owned Indian subsidiary, Novartis India Ltd., from public shareholders. Results from the offer showed Novartis increased its stake to nearly 76.4% from the previously level of 50.9%. The transaction represents a total value of approximately Rs 3.7 billion (or approximately USD 78 million). Almost all large institutional investors and quasi-institutional shareholders participated in the offer. This transaction resulted in USD 48 million of goodwill.

**Sandoz EBEWE Pharma**

On May 20, Novartis announced a definitive agreement for Sandoz to acquire 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, which requires customary regulatory approvals, is expected to be completed in 2009.

**2008**

**Corporate Issuance of Swiss franc bonds**

On June 26, Novartis issued two Swiss franc bonds totaling CHF 1.5 billion (approximately USD 1.4 billion) in the Swiss capital market, with each listed on the SIX Swiss Exchange. One was a 3.5% four-year bond for a total of CHF 700 million issued by Novartis Securities Investment Ltd. and guaranteed by Novartis AG. The other was a 3.625% seven-year bond of CHF 800 million issued by Novartis AG.

**Corporate Alcon**

On April 7, Novartis announced an agreement with Nestlé S.A. under which Novartis obtained rights to acquire in two steps majority ownership of Alcon Inc. (NYSE: ACL), a Swiss-registered company listed only on the New York Stock Exchange. The potential total value of the two steps is up to approximately USD 39 billion. The first step was completed on July 7, 2008, when Novartis acquired an initial 24.8% stake in Alcon, representing 74 million shares, from Nestlé for USD 10.4 billion in cash.

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

Novartis has determined that the put and call options represent contracts in a business combination to buy, sell or acquire at a future date, and are therefore currently exempt from recognition under IAS 39.

At June 30, 2009, Alcon's share price on the New York Stock Exchange (NYSE) was USD 116.12 compared to USD 90.91 at March 31, 2009, and USD 89.19 at December 31, 2008. Based on an evaluation of publicly available information about Alcon during the first half of 2009, no factors indicated that the value in use of this strategic investment to Novartis has fallen below the current carrying value of USD 136.84 per share. (The revised carrying value from the previous level of USD 140.58 at the end of the first quarter of 2009 takes into account dividends paid in 2009 as well as other equity accounting adjustments.) Further information, including assumptions used in determining the valuation of this



investment as of December 31, 2008, is provided in the 2008 Annual Report and Form 20-F under Critical Accounting Policies and Estimates.

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**Pharmaceuticals Speedel**

On July 10, Novartis announced the all-cash purchase of an additional 51.7% stake in Speedel Holding AG (SIX: SPPN) through off-exchange transactions together with plans to buy all remaining shares in the Swiss biopharmaceuticals company in a mandatory public tender offer. Novartis now holds more than 99.9% of Speedel's outstanding shares, and the process is continuing to delist Speedel's shares on the SIX Swiss Exchange. The acquisition price for the 90.3% interest not previously held was approximately CHF 939 million (USD 888 million) excluding USD 26 million of cash held by Speedel as of the July acquisition date of majority control. Speedel has been fully consolidated as a subsidiary since the July acquisition of a majority stake. Based on a final purchase price allocation, Speedel's identified net assets were USD 472 million, which resulted in 2008 goodwill of USD 493 million. As a result of this purchase price allocation, the value of the initial 9.5% stake rose by USD 38 million, which was recorded in the consolidated statement of recognized income and expense. The consolidation of Speedel resulted in immaterial amounts being included in the Group's consolidated income and operating cash flow statements for 2008 as well as the first half of 2009.

**Pharmaceuticals Protez**

On June 4, Novartis agreed to acquire Protez Pharmaceuticals, a privately held US biopharmaceuticals company, gaining access to PTZ601, a broad-spectrum antibiotic in Phase II development against potentially fatal drug-resistant bacterial infections. Novartis paid in total USD 102 million in cash to acquire 100% of Protez, whose owners are eligible for additional payments of up to USD 300 million contingent upon the future success of PTZ601. Protez has been consolidated since the transaction completion on July 17. Based on the purchase price allocation, identified net assets from Protez amounted to USD 72 million, which resulted in goodwill of USD 30 million. The consolidation of Protez resulted in immaterial amounts being included in the Group's consolidated income and operating cash flow statements for 2008 as well as the first half of 2009.

**Pharmaceuticals Nektar pulmonary business**

On October 21, Novartis agreed to acquire Nektar Therapeutics Inc.'s pulmonary business unit for USD 115 million in cash. In this transaction, which was completed on December 31, 2008, Novartis acquired research, development and manufacturing assets of Nektar's pulmonary business unit, including tangible assets as well as intellectual property, intangible assets and related expertise. The full purchase price has been allocated to the net assets acquired with no residual goodwill. The consolidation of the Nektar pulmonary business resulted in immaterial amounts being included in the Group's consolidated income and operating cash flow statements for 2008 as well as the first half of 2009.

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## 4. Principal currency translation rates

## First half

	Average rates H1 2009 USD	Average rates H1 2008 USD	Period-end rates June 30, 2009 USD	Period-end rates June 30, 2008 USD
1 CHF	<b>0.885</b>	0.953	<b>0.926</b>	0.982
1 EUR	<b>1.332</b>	1.531	<b>1.412</b>	1.579
1 GBP	<b>1.491</b>	1.974	<b>1.670</b>	1.995
100 JPY	<b>1.049</b>	0.953	<b>1.048</b>	0.946

## Second quarter

	Average rates Q2 2009 USD	Average rates Q2 2008 USD	Period-end rates June 30, 2009 USD	Period-end rates June 30, 2008 USD
1 CHF	<b>0.899</b>	0.970	<b>0.926</b>	0.982
1 EUR	<b>1.361</b>	1.562	<b>1.412</b>	1.579
1 GBP	<b>1.548</b>	1.970	<b>1.670</b>	1.995
100 JPY	<b>1.028</b>	0.956	<b>1.048</b>	0.946

## 5. Consolidated income statements First half Divisional segmentations (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health continuing operations		Corporate		Total continuing operations		Discontinued Consumer Health operations		Total Group	
	H1 2009 USD m	H1 2008 USD m	H1 2009 USD m	H1 2008 USD m	H1 2009 USD m	H1 2008 USD m	H1 2009 USD m	H1 2008 USD m	H1 2009 USD m	H1 2008 USD m	H1 2009 USD m	H1 2008 USD m	H1 2009 USD m	H1 2008 USD m	H1 2009 USD m	H1 2008 USD m
	<b>Net sales to third parties</b>	<b>13</b>	<b>13</b>	<b>494</b>	<b>602</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>2</b>			<b>20</b>	<b>20</b>			<b>20</b>
Sales to other Divisions	92	108	15	5	128	136	23	29	258	278						
<b>Sales of Divisions</b>	<b>13</b>	<b>13</b>	<b>509</b>	<b>607</b>	<b>3</b>	<b>3</b>	<b>2</b>	<b>3</b>	<b>258</b>	<b>278</b>	<b>255</b>	<b>635</b>			<b>255</b>	<b>635</b>
Other revenues	186	303	192	225	6	11	29	32			413	571			413	571
Cost of Goods Sold	2	2			1	2		1	250	273	5	5			5	5
<i>Of which amortization and impairments of product and patent rights and trademarks</i>	162	177	141	145	112	137	41	39			456	498			456	498
<b>Gross profit</b>	<b>11</b>	<b>11</b>	<b>234</b>	<b>306</b>	<b>687</b>	<b>930</b>	<b>788</b>	<b>992</b>	<b>8</b>	<b>5</b>	<b>259</b>	<b>622</b>			<b>259</b>	<b>622</b>
Marketing & Sales	4	4						1			5	5			5	5
Research & Development	004	008	131	137	620	715	956	061			711	921			711	921
General & Administration	2	2							75	91	3	3			3	3
Other Income & Expense	784	665	191	183	284	348	162	154	220	219	496	441			496	441
<i>Of which amortization and impairments of capitalized intangible assets included in function costs</i>	399	392	76	80	182	201	170	186	220	219	1	1			1	1
<b>Operating income</b>	<b>96</b>	<b>60</b>	<b>70</b>	<b>34</b>	<b>63</b>	<b>75</b>	<b>6</b>	<b>25</b>	<b>71</b>	<b>39</b>	<b>294</b>	<b>233</b>		<b>30</b>	<b>294</b>	<b>203</b>
Income from associated companies	52	72	12	17	6	19		1	2	1	72	110			72	110
Financial income	4	4									4	4			4	4
Interest expense																
<b>Income before taxes</b>											<b>739</b>	<b>320</b>		<b>30</b>	<b>739</b>	<b>350</b>
Taxes											720	746		21	720	767
<b>Net income</b>											<b>4</b>	<b>4</b>		<b>9</b>	<b>4</b>	<b>4</b>
<b>Net income</b>											<b>019</b>	<b>574</b>		<b>9</b>	<b>019</b>	<b>583</b>
<i>Additions to:</i>																
<i>Property, plant and equipment(1)</i>	406	492	226	198	115	242	59	58	30	32	836	022			836	022
<i>Goodwill and other intangible assets(1)</i>	146	70	12	3	12	14	68	8	48	1	286	96			286	96

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(1) Excluding impact of business acquisitions

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

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health continuing operations		Corporate		Total continuing operations		Discontinued Consumer Health operations		Total Group	
	Q2 2009 USD m	Q2 2008 USD m	Q2 2009 USD m	Q2 2008 USD m	Q2 2009 USD m	Q2 2008 USD m	Q2 2009 USD m	Q2 2008 USD m	Q2 2009 USD m	Q2 2008 USD m	Q2 2009 USD m	Q2 2008 USD m	Q2 2009 USD m	Q2 2008 USD m	Q2 2009 USD m	Q2 2008 USD m
	<b>Net sales to third parties</b>	7	6	247	322	774	948	410	528			546	726			546
Sales to other Divisions	47	55	5	2	65	73	13	14	130	144						
<b>Sales of Divisions</b>	7	6			1	2	1	1			10	10			10	10
Other revenues	84	145	95	99	2	5	15	15			196	264			196	264
Cost of Goods Sold	1	1				1					2	2			2	2
<i>Of which amortization and impairments of product and patent rights and trademarks</i>	82	90	71	72	58	70	22	20			233	252			233	252
<b>Gross profit</b>	6	5	106	157	846	945	922	026	22	5	918	054			918	054
Marketing & Sales	2	2									2	3			2	3
Research & Development	106	106	72	80	324	378	488	542			990	106			990	106
General & Administration	1	1									1	1			1	1
Other Income & Expense	441	355	103	97	143	186	86	81	29	48	802	767			802	767
<i>Of which amortization and impairments of capitalized intangible assets included in function costs</i>	205	210	43	40	91	98	89	96	114	115	542	559			542	559
Operating income	101	82	55	15	41	37	12	3	35	24	220	161		6	220	155
Income from associated companies	27	31	6	8	3	8		1	1	1	37	49			37	49
Financial income	2	2									2	2			2	2
Interest expense	213	178	167	75	247	246	271	304	200	192	364	461		6	364	467
Income before taxes											443	604		6	443	610
Taxes											399	338		12	399	350
Net income											2	2			2	2
<b>Net income</b>											044	266		6	044	260
<i>Additions to:</i>																
Property, plant and equipment(1)	247	277	135	99	63	154	35	35	18	20	498	585			498	585
Goodwill and other intangible assets(1)	19	33	7	3	11	10	65	6	48		150	52			150	52

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(1) Excluding impact of business acquisitions

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## 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 do occur. As a consequence, Novartis may in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its results of operations or cash flow. See note 19 in the Group's Consolidated Financial Statements in the 2008 Annual Report for a summary of major legal proceedings. The following is a non-exhaustive list relating to some cases reported in the 2008 Annual Report and includes information as of the 2009 first half:

### Governmental investigations

The US Attorney's Office for the Eastern District of Pennsylvania served an administrative subpoena pursuant to the Health Insurance Portability and Accountability Act on a Novartis subsidiary in 2005. Novartis is cooperating with parallel civil and criminal investigations of the US Attorney's Office into allegations of potential off-label promotion of the epilepsy therapy *Trileptal*. Settlement discussions covering civil and criminal investigations are ongoing. At this time, Novartis is unable to assess with any reasonable certainty the likely outcome of these discussions.

The US Attorney's Office for the Northern District of California served in 2007 an administrative subpoena pursuant to the Health Insurance Portability and Accountability Act covering several Novartis subsidiaries. The subpoena covered information regarding potential off-label marketing and promotion of TOBI, a treatment for patients with cystic fibrosis acquired through the purchase of Chiron Corporation in mid-2006. Settlement discussions regarding the investigation are ongoing. At this time, Novartis is unable to assess with any reasonable certainty the likely outcome of these discussions.

A Novartis subsidiary has received letter requests from the Attorney General of the State of Texas. The requests seek documents and information relating to the promotion of the dermatology medicine *Elidel*. The Company is responding to the requests and will cooperate with the inquiry.

### *Zometa/Aredia* litigation

Novartis Pharmaceuticals Corp. (NPC) is a defendant in approximately 625 cases brought in US courts. Plaintiffs claim to have experienced osteonecrosis of the jaw after having been treated with *Zometa* or *Aredia*, which are used to treat patients whose cancer has spread to the bones. All purported class actions have been dismissed.

### *Zelnorm*

Novartis subsidiaries are defendants in approximately 140 cases brought in US courts. Plaintiffs claim to have experienced cardiovascular injuries after having been treated with *Zelnorm*, a treatment 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. Trials are currently scheduled for the first quarter of 2010 in Louisiana and Virginia.





### **Contact lenses patent litigation**

In the US, Johnson & Johnson (J&J) filed suits seeking declaration that their Oasys® and Advance® products do not infringe CIBA Vision's silicone hydrogel patents (Jump patents). CIBA Vision filed counter-claims for infringement of its Jump patents. The trial on the Johnson & Johnson Oasys® product in the US began at the end of March 2009. Closing arguments for the trial were held on June 10, 2009. Novartis has also filed infringement suits based on these patent rights in several European countries, including France, Germany, the Netherlands, Ireland, Italy, and the United Kingdom. J&J filed an invalidation suit in Austria in January 2009. Courts in the Netherlands (February 2009) and France (March 2009) issued rulings holding that CIBA Vision's patents were valid and infringed by J&J's sales of Oasys® products. J&J appealed these rulings in the Netherlands and France. A trial in the UK, which was concluded in April 2009, held in a ruling issued in July 2009 that the Jump patents were invalid.

### ***Famvir***

*Famvir*, a therapy for viral infections, is the subject of patent litigation in the US. The active ingredient of this medicine is covered by a compound patent that expires in 2010 in the US. Novartis initiated litigation against Teva and Roxane for infringement of patents covering the compound and method of use. Teva launched at risk its generic version in 2007, and a request by Novartis to grant a preliminary injunction was denied. In February 2009, the judge denied Teva's motion for summary judgment of the invalidity based on obviousness. Since the patent was not held invalid at this stage of the litigation, the case will continue to a full trial on its merits. The trial on the compound patent is scheduled to begin on November 9, 2009. Roxane has also been added as co-defendant to the Teva litigation.

### **Wage and Hour litigation**

A group of pharmaceutical sales representatives filed suit in a State Court in California and in a Federal Court in New York against US Novartis subsidiaries alleging that the companies violated wage and hour laws by misclassifying the sales representatives as exempt employees, and by failing to pay overtime compensation. The lawsuits were consolidated and certified as a class action. In January 2009, the Court found the sales representatives are not entitled to overtime pay under the federal Fair Labor Standards Act and corresponding state wage and hour laws. Plaintiffs have appealed the judgment. The US Department of Labor has indicated that it will file an amicus brief on behalf of plaintiffs.

### **Average Wholesale Price litigation**

Claims have been brought against various pharmaceutical companies, including Novartis subsidiaries, alleging that they have fraudulently overstated the Average Wholesale Price and best price, which are, or have been, used by the US federal and state governments in the calculation of, respectively, Medicare reimbursements and Medicaid rebates. Discovery is ongoing in certain of these cases. Motions have been made to dismiss the complaint or for summary judgment in other cases. Novartis Pharmaceuticals Corp. was defendant in a trial in Alabama in 2008. The jury rendered a verdict against the Novartis subsidiary and imposed USD 33 million of compensatory damages. No punitive damages were awarded. The Novartis subsidiary has appealed the verdict. In a separate trial that took place in Alabama in February 2009, the jury rendered a verdict against a Sandoz subsidiary and awarded compensatory damages of USD 28 million and punitive damages of USD 50 million. The Novartis subsidiary will appeal the verdict. A second trial involving Sandoz took place in Kentucky in June 2009. The jury rendered a verdict against Sandoz and imposed USD 16 million of compensatory damages. No punitive damages were awarded.

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**Supplementary information****Non-IFRS disclosures**

Net debt/liquidity and free cash flow are non-IFRS financial measures, which means they should not be interpreted as measures determined under IFRS. Net debt/liquidity is presented as additional information since management believes it is a useful 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 since management believes it is a useful 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 and business units. Free cash flow of the divisions and business units uses the same definition as for the Group. No dividends, tax or financial receipts or payments are included in the division and business unit 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 change in net debt/liquidity (unaudited)****First half**

	H1 2009 USD m	H1 2008 USD m	Change USD m
<b>Change in cash and cash equivalents</b>	<b>1 552</b>	<b>8 709</b>	<b>7 157</b>
Change in marketable securities, financial debt and financial derivatives	2 359	10 649	8 290
<b>Change in net debt/liquidity</b>	<b>807</b>	<b>1 940</b>	<b>1 133</b>
Net debt/liquidity at January 1	1 247	7 407	8 654
<b>Net debt/liquidity at June 30</b>	<b>2 054</b>	<b>5 467</b>	<b>7 521</b>

**Second quarter**

	Q2 2009 USD m	Q2 2008 USD m	Change USD m
<b>Change in cash and cash equivalents</b>	<b>2 015</b>	<b>7 138</b>	<b>5 123</b>
Change in marketable securities, financial debt and financial derivatives	456	6 042	5 586
<b>Change in net debt/liquidity</b>	<b>1 559</b>	<b>1 096</b>	<b>463</b>
Net debt/liquidity at April 1	3 613	4 371	7 984
<b>Net debt/liquidity at June 30</b>	<b>2 054</b>	<b>5 467</b>	<b>7 521</b>

**Free cash flow** (unaudited)**First half**

	H1 2009 USD m	H1 2008 USD m	Change USD m
<b>Cash flow from operating activities from continuing operations</b>	<b>4 571</b>	<b>3 541</b>	<b>1 030</b>
Purchase of property, plant & equipment	853	967	114
Purchase of intangible, non-current and financial assets	370	166	204
Sale of property, plant & equipment, intangible, financial and non-current assets	74	166	92
<b>Free cash flow from continuing operations before dividends</b>	<b>3 422</b>	<b>2 574</b>	<b>848</b>
Dividends paid to shareholders of Novartis AG	3 941	3 345	596
<b>Free cash flow from continuing operations</b>	<b>519</b>	<b>771</b>	<b>252</b>
Free cash flow from discontinued operations		85	85
<b>Free cash flow</b>	<b>519</b>	<b>856</b>	<b>337</b>

**Second quarter**

	Q2 2009 USD m	Q2 2008 USD m	Change USD m
<b>Cash flow from operating activities from continuing operations</b>	<b>2 618</b>	<b>1 852</b>	<b>766</b>
Purchase of property, plant & equipment	485	564	79
Purchase of intangible, non-current and financial assets	234	88	146
Sale of property, plant & equipment, intangible, financial and non-current assets	17	19	2
<b>Free cash flow from continuing operations before dividends</b>	<b>1 916</b>	<b>1 219</b>	<b>697</b>
Dividends paid to shareholders of Novartis AG	10	3	7
<b>Free cash flow from continuing operations</b>	<b>1 906</b>	<b>1 216</b>	<b>690</b>
Free cash flow from discontinued operations		14	14
<b>Free cash flow</b>	<b>1 906</b>	<b>1 202</b>	<b>704</b>

**Share information** (unaudited)

	June 30, 2009	June 30, 2008
Number of shares outstanding (million)	2 264.8	2 263.3
Registered share price (CHF)	44.04	56.25
ADS price (USD)	40.79	55.04
Market capitalization (USD billion)	92.4	125.0
Market capitalization (CHF billion)	99.7	127.3

## Impact of impairment, intangible asset and restructuring charges and significant exceptional items First half(unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health continuing operations		Corporate		Total continuing operations	
	H1 2009 USD m	H1 2008 USD m	H1 2009 USD m	H1 2008 USD m	H1 2009 USD m	H1 2008 USD m	H1 2009 USD m	H1 2008 USD m	H1 2009 USD m	H1 2008 USD m	H1 2009 USD m	H1 2008 USD m
<b>Reported operating income</b>	275	4 274	234	128	538	591	506	566	374	3544	711	4 949
Recurring amortization	190	201	153	161	118	156	41	40	2	1	504	559
Impairment of intangible assets	24	48		1							24	49
<b>Intangible asset charges</b>	<b>214</b>	<b>249</b>	<b>153</b>	<b>162</b>	<b>118</b>	<b>156</b>	<b>41</b>	<b>40</b>	<b>2</b>	<b>1</b>	<b>528</b>	<b>608</b>
Exceptional gains from divesting brands, subsidiaries and financial investments	15	141									15	141
Acquisition-related restructuring and integration expenses, net				11								11
Other restructuring expenses	15	47	1		7	4		3			7	48
Impairment of property, plant & equipment	1	6			2	2				4	3	12
Impairment of financial assets		21							8	6	7	27
Legal provisions, litigations and exceptional settlements	1		45	49							56	49
Release of pre-launch inventory provisions		45										45
Release of US government health agency rebate provisions		104										104
<b>Total significant exceptional items</b>	<b>19</b>	<b>216</b>	<b>6</b>	<b>38</b>				<b>3</b>	<b>8</b>	<b>0</b>	<b>4</b>	<b>241</b>
<b>Total adjustments</b>	<b>95</b>	<b>33</b>	<b>199</b>	<b>124</b>	<b>123</b>	<b>162</b>	<b>41</b>	<b>37</b>	<b>6</b>	<b>11</b>	<b>552</b>	<b>367</b>
<b>Adjusted operating income</b>	<b>470</b>	<b>4 307</b>	<b>35</b>	<b>4</b>	<b>661</b>	<b>753</b>	<b>547</b>	<b>603</b>	<b>380</b>	<b>3435</b>	<b>263</b>	<b>5 316</b>
<i>Adjusted return on net sales</i>	<i>3.0%</i>	<i>32.6%</i>			<i>18.9%</i>	<i>19.5%</i>	<i>20.2%</i>	<i>20.2%</i>			<i>26.0%</i>	<i>25.8%</i>
Income from associated companies											207	256
Recurring amortization related to income from associated companies, net of tax											279	69
Net financial expense/income											179	115
Taxes (adjusted for above items)											881	895
<b>Adjusted net income from continuing operations</b>											<b>4 689</b>	<b>4 861</b>
<b>Adjusted net income attributable to shareholders</b>											<b>4 667</b>	<b>4 844</b>
<b>Adjusted basic earnings per share from continuing operations</b>											<b>2.06</b>	<b>2.14</b>

## Impact of impairment, intangible asset and restructuring charges and significant exceptional items Second quarter(unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health continuing operations		Corporate		Total continuing operations	
	Q2 2009 USD m	Q2 2008 USD m	Q2 2009 USD m	Q2 2008 USD m	Q2 2009 USD m	Q2 2008 USD m	Q2 2009 USD m	Q2 2008 USD m	Q2 2009 USD m	Q2 2008 USD m	Q2 2009 USD m	Q2 2008 USD m
<b>Reported operating income</b>	<b>213</b>	<b>2 178</b>	<b>167</b>	<b>75</b>	<b>247</b>	<b>246</b>	<b>271</b>	<b>304</b>	<b>200</b>	<b>1922</b>	<b>364</b>	<b>2 461</b>
Recurring amortization	95	100	77	80	61	78	22	21	1	1	256	280
Impairment of intangible assets	14	21									14	21
<b>Intangible asset charges</b>	<b>109</b>	<b>121</b>	<b>77</b>	<b>80</b>	<b>61</b>	<b>78</b>	<b>22</b>	<b>21</b>	<b>1</b>	<b>1</b>	<b>270</b>	<b>301</b>
Exceptional gains from divesting brands, subsidiaries and financial investments		26										26
Acquisition-related restructuring and integration expenses, net				11								11
Other restructuring expenses	2	8	1		7			3			4	5
Impairment of property, plant & equipment	4	4			1						5	4
Impairment of financial assets		6							11	1	11	7
Legal provisions, litigations and exceptional settlements	1		45								56	
Release of US government health agency rebate provisions		104										104
<b>Total significant exceptional items</b>		<b>112</b>	<b>4</b>	<b>1</b>				<b>3</b>	<b>11</b>		<b>4</b>	<b>103</b>
<b>Total adjustments</b>	<b>14</b>	<b>9</b>	<b>121</b>	<b>91</b>	<b>67</b>	<b>78</b>	<b>22</b>	<b>18</b>	<b>10</b>	<b>2</b>	<b>314</b>	<b>198</b>
<b>Adjusted operating income</b>	<b>327</b>	<b>2 187</b>	<b>46</b>	<b>16</b>	<b>314</b>	<b>324</b>	<b>293</b>	<b>322</b>	<b>210</b>	<b>1902</b>	<b>678</b>	<b>2 659</b>
<i>Adjusted return on net sales</i>	<i>2.7%</i>	<i>31.6%</i>		<i>5.0%</i>	<i>17.7%</i>	<i>16.6%</i>	<i>20.8%</i>	<i>21.1%</i>			<i>25.4%</i>	<i>24.8%</i>
Income from associated companies											124	119
Recurring amortization related to income from associated companies, net of tax											140	35
Net financial expense/income											45	24
Taxes (adjusted for above items)											491	416
<b>Adjusted net income from continuing operations</b>											<b>2 406</b>	<b>2 421</b>
<b>Adjusted net income attributable to shareholders</b>											<b>2 397</b>	<b>2 410</b>
<b>Adjusted basic earnings per share from continuing operations</b>											<b>1.06</b>	<b>1.06</b>

## Supplementary tables: First half 2009 Net sales of top 20 pharmaceutical products(unaudited)

Brands		US		Rest of world		Total		% change in local currencies
		USD m	% change in local currencies	USD m	% change in local currencies	USD m	% change in USD	
<i>Diovan/Co-Diovan</i>	Hypertension	1 240	5	1 695	8	2 935	2	6
<i>Gleevec/Glivec</i>	Chronic myeloid leukemia	513	22	1 371	12	1 884	3	15
<i>Zometa</i>	Cancer complications	351	12	350	8	701	4	10
<i>Femara</i>	Breast cancer	272	16	324	15	596	6	15
<i>Sandostatin</i>	Acromegaly	218	6	321	6	539	3	6
<i>Lucentis</i>	Age-related macular degeneration			523	42	523	20	42
<i>Neoral/Sandimmun</i>	Transplantation	46	16	402	1	448	11	2
<i>Exelon/Exelon Patch</i>	Alzheimer s disease	166	34	270	20	436	12	24
<i>Voltaren (Excl. OTC)</i>	Inflammation/pain	2	33	370	3	372	11	3
<i>Exforge</i>	Hypertension	106	71	198	109	304	76	96
<b>Top ten products total</b>		<b>2 914</b>	<b>12</b>	<b>5 824</b>	<b>13</b>	<b>8 738</b>	<b>4</b>	<b>13</b>
<i>Exjade</i>	Iron chelator	118	23	177	43	295	24	35
<i>Lescol</i>	Cholesterol reduction	61	22	228	5	289	14	9
<i>Comtan/Stalevo</i>	Parkinson s disease	105	9	156	19	261	7	15
<i>Ritalin/Focalin</i>	Attention Deficit/Hyperactivity Disorder	175	2	48	21	223	1	6
<i>Reclast/Aclasta</i>	Osteoporosis	139	88	61	146	200	94	105
<i>Tegretol</i>	Epilepsy	52	37	135	4	187	24	15
<i>Foradil</i>	Asthma	6	25	173	5	179	14	4
<i>Lotrel</i>	Hypertension	169	13			169	13	13
<i>Myfortic</i>	Transplantation	63	40	100	26	163	16	31
<i>Trileptal</i>	Epilepsy	61	13	86	1	147	15	6
<b>Top 20 products total</b>		<b>3 863</b>	<b>10</b>	<b>6 988</b>	<b>13</b>	<b>851</b>	<b>3</b>	<b>12</b>
Rest of portfolio		785	15	1 912	9	2 697	1	11
<b>Total Division sales</b>		<b>4 648</b>	<b>11</b>	<b>8 900</b>	<b>12</b>	<b>548</b>	<b>3</b>	<b>12</b>

## Supplementary tables: Second quarter 2009 Net sales of top 20 pharmaceutical products(unaudited)

Brands		US		Rest of world		USD m	Total % change in USD	% change in local currencies
		USD m	% change in local currencies	USD m	% change in local currencies			
						1		
<i>Diovan/Co Diovan</i>	Hypertension	655	7	878	6	533	2	6
	Chronic myeloid							
<i>Gleevec/Glivec</i>	leukemia	268	24	722	14	990	5	16
<i>Zometa</i>	Cancer complications	173	8	186	11	359	4	10
<i>Femara</i>	Breast cancer	141	18	169	13	310	7	15
<i>Sandostatin</i>	Acromegaly	112	7	169	6	281	3	6
	Age-related macular							
<i>Lucentis</i>	degeneration			294	42	294	21	41
<i>Neoral/Sandimmun</i>	Transplantation	20	29	207	0	227	12	3
<i>Exelon/Exelon</i>								
<i>Patch</i>	Alzheimer s disease	88	35	145	23	233	15	27
<i>Voltaren (Excl.</i>								
<i>OTC)</i>	Inflammation/pain	1	0	197	0	198	8	0
<i>Exforge</i>	Hypertension	57	58	111	96	168	66	84
<b>Top ten products</b>						<b>4</b>		
<b>total</b>		<b>1 515</b>	<b>13</b>	<b>3 078</b>	<b>13</b>	<b>593</b>	<b>4</b>	<b>13</b>
<i>Exjade</i>	Iron chelator	75	42	98	47	173	34	44
<i>Lescol</i>	Cholesterol reduction	30	29	118	9	148	18	13
<i>Comtan/Stalevo</i>	Parkinson s disease	54	6	84	17	138	5	13
	Attention							
	Deficit/Hyperactivity							
<i>Ritalin/Focalin</i>	Disorder	83	5	27	20	110	4	2
<i>Reclast/Aclasta</i>	Osteoporosis	80	74	35	135	115	80	91
<i>Tegretol</i>	Epilepsy	20	62	71	5	91	31	23
<i>Foradil</i>	Asthma	2	50	86	3	88	15	1
<i>Lotrel</i>	Hypertension	86	14			86	14	14
<i>Myfortic</i>	Transplantation	34	42	56	26	90	17	31
<i>Trileptal</i>	Epilepsy	31	3	46	0	77	7	1
						<b>5</b>		
<b>Top 20 products total</b>		<b>2 010</b>	<b>10</b>	<b>3 699</b>	<b>13</b>	<b>709</b>	<b>4</b>	<b>12</b>
						1		
Rest of portfolio		402	5	1 004	10	406	1	9
						7		
<b>Total Division sales</b>		<b>2 412</b>	<b>9</b>	<b>4 703</b>	<b>12</b>	<b>115</b>	<b>3</b>	<b>11</b>



**First half Pharmaceutical net sales by therapeutic area**

(unaudited)

	H1 2009 USD m	H1 2008 USD m	% change USD	% change lc
<b>Cardiovascular and Metabolism</b>				
<i>Diovan</i>	2 935	2 878	2	6
<i>Exforge</i>	304	173	76	96
<i>Lotrel</i>	169	195	13	13
<i>Tekturna/Rasilez</i>	119	58	105	117
<i>Galvus</i>	65	14	364	465
<b>Total strategic franchise products</b>	<b>3 592</b>	<b>3 318</b>	<b>8</b>	<b>14</b>
<b>Mature products (including <i>Lescol</i>)</b>	<b>677</b>	<b>775</b>	<b>13</b>	<b>6</b>
<b>Total Cardiovascular and Metabolism products</b>	<b>4 269</b>	<b>4 093</b>	<b>4</b>	<b>10</b>
<b>Oncology</b>				
<i>Gleevec/Glivec</i>	1 884	1 830	3	15
<i>Zometa</i>	701	677	4	10
<i>Femara</i>	596	561	6	15
<i>Sandostatin</i>	539	558	3	6
<i>Exjade</i>	295	238	24	35
Other	219	179	22	35
<b>Total Oncology products</b>	<b>4 234</b>	<b>4 043</b>	<b>5</b>	<b>15</b>
<b>Neuroscience and Ophthalmics</b>				
<i>Lucentis</i>	523	437	20	42
<i>Exelon/Exelon Patch</i>	436	391	12	24
<i>Comtan/Stalevo</i>	261	245	7	15
<i>Ritalin/Focalin</i>	223	220	1	6
<i>Tegretol</i>	187	245	24	15
<i>Trileptal</i>	147	173	15	6
<i>Extavia</i>	12		NM	NM
Other	328	425	23	13
<b>Total strategic franchise products</b>	<b>2 117</b>	<b>2 136</b>	<b>1</b>	<b>11</b>
<b>Mature products</b>	<b>188</b>	<b>211</b>	<b>11</b>	<b>0</b>
<b>Total Neuroscience and Ophthalmics products</b>	<b>2 305</b>	<b>2 347</b>	<b>2</b>	<b>10</b>
<b>Respiratory</b>				
<i>Foradil</i>	179	209	14	4
<i>Tobi</i>	143	145	1	4
<i>Xolair</i>	140	95	47	67
Other	48	52	8	7
<b>Total strategic franchise products</b>	<b>510</b>	<b>501</b>	<b>2</b>	<b>16</b>
<b>Mature products</b>	<b>48</b>	<b>49</b>	<b>2</b>	<b>3</b>
<b>Total Respiratory products</b>	<b>558</b>	<b>550</b>	<b>1</b>	<b>15</b>
<b>Immunology and Infectious Diseases</b>				
<i>Neoral/Sandimmun</i>	448	503	11	2
<i>Reclast/Aclasta</i>	200	103	94	105
<i>Myfortic</i>	163	141	16	31
Other	150	125	20	34
<b>Total strategic franchise products</b>	<b>961</b>	<b>872</b>	<b>10</b>	<b>21</b>
<b>Mature products</b>	<b>458</b>	<b>574</b>	<b>20</b>	<b>14</b>
<b>Total Immunology and Infectious Diseases products</b>	<b>1 419</b>	<b>1 446</b>	<b>2</b>	<b>7</b>

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<b>Additional products</b>				
<i>Voltaren</i> (excluding OTC)	372	418	11	3
<i>Enablex/Emselex</i>	107	95	13	16
Everolimus sales to stent manufacturers	116		NM	NM
Other	168	200	16	10
<b>Total additional products</b>	<b>763</b>	<b>713</b>	<b>7</b>	<b>15</b>
<b>Total strategic franchise products</b>	<b>11 414</b>	<b>10 870</b>	<b>5</b>	<b>14</b>
<b>Total mature and additional products</b>	<b>2 134</b>	<b>2 322</b>	<b>8</b>	<b>1</b>
<b>Total Division net sales</b>	<b>13 548</b>	<b>13 192</b>	<b>3</b>	<b>12</b>

NM Not meaningful

## Second quarter Pharmaceutical net sales by therapeutic area

(unaudited)

	Q2 2009 USD m	Q2 2008 USD m	% change USD	% change lc
<b>Cardiovascular and Metabolism</b>				
<i>Diovan</i>	1 533	1 509	2	6
<i>Exforge</i>	168	101	66	84
<i>Lotrel</i>	86	100	14	14
<i>Tekturma/Rasilez</i>	67	30	123	135
<i>Galvus</i>	39	8	388	491
<b>Total strategic franchise products</b>	<b>1 893</b>	<b>1 748</b>	<b>8</b>	<b>14</b>
<b>Mature products (including <i>Lescol</i>)</b>	<b>346</b>	<b>398</b>	<b>13</b>	<b>6</b>
<b>Total Cardiovascular and Metabolism products</b>	<b>2 239</b>	<b>2 146</b>	<b>4</b>	<b>8</b>
<b>Oncology</b>				
<i>Gleevec/Glivec</i>	990	942	5	16
<i>Zometa</i>	359	346	4	10
<i>Femara</i>	310	291	7	15
<i>Sandostatin</i>	281	289	3	6
<i>Exjade</i>	173	129	34	44
Other	124	98	27	39
<b>Total Oncology products</b>	<b>2 237</b>	<b>2 095</b>	<b>7</b>	<b>17</b>
<b>Neuroscience and Ophthalmics</b>				
<i>Lucentis</i>	294	242	21	41
<i>Exelon/Exelon Patch</i>	233	203	15	27
<i>Comtan/Stalevo</i>	138	131	5	13
<i>Ritalin/Focalin</i>	110	114	4	2
<i>Tegretol</i>	91	131	31	23
<i>Trileptal</i>	77	83	7	1
<i>Extavia</i>	9		NM	NM
Other	169	229	26	17
<b>Total strategic franchise products</b>	<b>1 121</b>	<b>1 133</b>	<b>1</b>	<b>10</b>
<b>Mature products</b>	<b>100</b>	<b>106</b>	<b>6</b>	<b>0</b>
<b>Total Neuroscience and Ophthalmics products</b>	<b>1 221</b>	<b>1 239</b>	<b>1</b>	<b>9</b>
<b>Respiratory</b>				
<i>Foradil</i>	88	104	15	1
<i>Tobi</i>	69	72	4	2
<i>Xolair</i>	79	56	41	61
Other	24	25	4	4
<b>Total strategic franchise products</b>	<b>260</b>	<b>257</b>	<b>1</b>	<b>15</b>
<b>Mature products</b>	<b>20</b>	<b>21</b>	<b>5</b>	<b>3</b>
<b>Total Respiratory products</b>	<b>280</b>	<b>278</b>	<b>1</b>	<b>12</b>
<b>Immunology and Infectious Diseases</b>				
<i>Neoral/Sandimmun</i>	227	258	12	3
<i>Reclast/Aclasta</i>	115	64	80	91
<i>Myfortic</i>	90	77	17	31
Other	82	66	24	36
<b>Total strategic franchise products</b>	<b>514</b>	<b>465</b>	<b>11</b>	<b>21</b>
<b>Mature products</b>	<b>237</b>	<b>335</b>	<b>29</b>	<b>14</b>
<b>Total Immunology and Infectious Diseases products</b>	<b>751</b>	<b>800</b>	<b>6</b>	<b>2</b>

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<b>Additional products</b>				
<i>Voltaren</i> (excluding OTC)	198	216	8	0
<i>Enablex/Emselex</i>	55	49	12	17
Everolimus sales to stent manufacturers	47		NM	NM
Other	87	105	17	7
<b>Total additional products</b>	<b>387</b>	<b>370</b>	<b>5</b>	<b>4</b>
<b>Total strategic franchise products</b>	<b>6 025</b>	<b>5 698</b>	<b>6</b>	<b>15</b>
<b>Total mature and additional products</b>	<b>1 090</b>	<b>1 230</b>	<b>11</b>	<b>4</b>
<b>Total Division net sales</b>	<b>7 115</b>	<b>6 928</b>	<b>3</b>	<b>11</b>

NM Not meaningful

## Net sales by region(1) (unaudited)

## First half

	H1 2009	H1 2008	% change		H1 2009	H1 2008
	USD m	USD m	USD	local currencies	% of total	% of total
<b>Pharmaceuticals</b>						
US	4 648	4 203	11	11	35	32
Europe	4 928	5 220	6	12	36	40
Asia / Africa / Australasia	2 857	2 586	10	12	21	20
Canada and Latin America	1 115	1 183	6	13	8	8
<b>Total</b>	<b>13 548</b>	<b>13 192</b>	<b>3</b>	<b>12</b>	<b>100</b>	<b>100</b>
<b>Vaccines and Diagnostics</b>						
US	182	224	19	18	37	37
Europe	192	269	29	17	39	45
Asia / Africa / Australasia	95	96	1	16	19	16
Canada and Latin America	25	13	92	123	5	2
<b>Total</b>	<b>494</b>	<b>602</b>	<b>18</b>	<b>9</b>	<b>100</b>	<b>100</b>
<b>Sandoz</b>						
US	880	898	2	1	25	23
Europe	2 001	2 317	14	3	57	60
Asia / Africa / Australasia	370	370	0	15	11	10
Canada and Latin America	249	269	7	12	7	7
<b>Total</b>	<b>3 500</b>	<b>3 854</b>	<b>9</b>	<b>4</b>	<b>100</b>	<b>100</b>
<b>Consumer Health</b>						
US	868	847	2	3	32	28
Europe	1 207	1 439	16	1	45	48
Asia / Africa / Australasia	418	445	6	1	15	15
Canada and Latin America	220	256	14	4	8	9
<b>Total</b>	<b>2 713</b>	<b>2 987</b>	<b>9</b>	<b>1</b>	<b>100</b>	<b>100</b>
<b>Group</b>						
US	6 578	6 172	7	7	32	30
Europe	8 328	9 245	10	7	42	45
Asia / Africa / Australasia	3 740	3 497	7	11	18	17
Canada and Latin America	1 609	1 721	7	12	8	8
<b>Total</b>	<b>20 255</b>	<b>20 635</b>	<b>2</b>	<b>8</b>	<b>100</b>	<b>100</b>

(1) Net sales from operations by location of third party customer.

## Net sales by region(1) (unaudited)

## Second quarter

	Q2 2009	Q2 2008	% change		Q2 2009	Q2 2008
	USD m	USD m	USD	local currencies	% of total	% of total
<b>Pharmaceuticals</b>						
US	2 412	2 218	9	9	34	32
Europe	2 594	2 722	5	12	36	40
Asia / Africa / Australasia	1 502	1 349	11	13	21	19
Canada and Latin America	607	639	5	12	9	9
<b>Total</b>	<b>7 115</b>	<b>6 928</b>	<b>3</b>	<b>11</b>	<b>100</b>	<b>100</b>
<b>Vaccines and Diagnostics</b>						
US	95	145	34	33	38	45
Europe	87	121	28	17	35	38
Asia / Africa / Australasia	54	49	10	27	22	15
Canada and Latin America	11	7	57	95	5	2
<b>Total</b>	<b>247</b>	<b>322</b>	<b>23</b>	<b>15</b>	<b>100</b>	<b>100</b>
<b>Sandoz</b>						
US	433	430	1	2	25	22
Europe	1 013	1 176	14	2	57	60
Asia / Africa / Australasia	199	200	0	12	11	10
Canada and Latin America	129	142	9	8	7	8
<b>Total</b>	<b>1 774</b>	<b>1 948</b>	<b>9</b>	<b>4</b>	<b>100</b>	<b>100</b>
<b>Consumer Health</b>						
US	447	428	4	4	32	28
Europe	620	727	15	2	44	48
Asia / Africa / Australasia	224	236	5	0	16	15
Canada and Latin America	119	137	13	2	8	9
<b>Total</b>	<b>1 410</b>	<b>1 528</b>	<b>8</b>	<b>2</b>	<b>100</b>	<b>100</b>
<b>Group</b>						
US	3 387	3 221	5	6	32	30
Europe	4 314	4 746	9	7	41	44
Asia / Africa / Australasia	1 979	1 834	8	12	19	17
Canada and Latin America	866	925	6	10	8	9
<b>Total</b>	<b>10 546</b>	<b>10 726</b>	<b>2</b>	<b>8</b>	<b>100</b>	<b>100</b>

(1) Net sales from operations by location of third party customer.

## Quarterly analysis for continuing operations (unaudited)

## Key figures by quarter

	Q2 2009	Q1 2009	Change	
	USD m	USD m	USD m	%
Net sales	10 546	9 709	837	9
Operating income	2 364	2 347	17	1
Financial income	91	48	139	
Interest expense	136	86	50	58
Taxes	399	321	78	24
Net income	2 044	1 975	69	3

## Net sales by region

	Q2 2009	Q1 2009	Change	
	USD m	USD m	USD m	USD %
US	3 387	3 191	196	6
Europe	4 314	4 014	300	7
Asia / Africa / Australasia	1 979	1 761	218	12
Canada and Latin America	866	743	123	17
Total	10 546	9 709	837	9

## Net sales by division

	Q2 2009	Q1 2009	Change	
	USD m	USD m	USD m	USD %
Pharmaceuticals	7 115	6 433	682	11
Vaccines and Diagnostics	247	247	0	0
Sandoz	1 774	1 726	48	3
Consumer Health continuing operations	1 410	1 303	107	8
Total	10 546	9 709	837	9

## Operating income by division

	Q2 2009	Q1 2009	Change	
	USD m	USD m	USD m	%
Pharmaceuticals	2 213	2 062	151	7
Vaccines and Diagnostics	167	67	100	149
Sandoz	247	291	44	15
Consumer Health continuing operations	271	235	36	15
Corporate Income & Expense, net	200	174	26	15
Operating income from continuing operations	2 364	2 347	17	1





**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: July 16, 2009

By: /s/ MALCOLM B. CHEETHAM

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

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