NOVARTIS AG
Form 6-K
July 19, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated July 17, 2007

(Commission File No. 1-15024)

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on September 5, 2006 (File No. 333-137112) and on October 1, 2004 (File No. 333-119475), in each case to the extent not superseded by documents or reports subsequently filed by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, in each case as amended

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Novartis AG

(Name of Registrant)

Lichtstrasse 35

4056 Basel

Switzerland

(Address of Principal Executive Offices)

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

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

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

Yes: o **No**: x

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

Yes: o **No**: x

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

Yes: o **No**: x

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

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QUARTERLY REPORT **RAPPORT TRIMESTRIEL** **QUARTALSBERICHT**

Novartis delivers strong performance in first half of 2007

Group first-half net sales advance 14% (+11% in local currencies) to USD 19.9 billion on solid contributions from all divisions

Net income up 14% to USD 4.2 billion and EPS rises 14% to USD 1.78 per share

Operating income from continuing operations up 13% and net income from continuing operations advances 17%

New pharmaceutical brands particularly Tekturna, Lucentis, Exjade and Exforge performing dynamically; seven major regulatory approvals achieved to date in 2007

Proceeds from non-core divestments to fund targeted acquisitions and repurchase of up to approximately USD 4 billion of Novartis shares by February 2008

Outlook maintained for record 2007 operating and net income for continuing operations; Group net sales growth revised to mid-single-digits in local currencies

Pharmaceuticals net sales growth expected to slow in second half of 2007, mainly from US generic competition for Lotrel and Lamisil and the Zelnorm suspension

Key Group figures

First half

		H1 2007			H1 2006		% Change	
		USD m	% of net sales		USD m	% of net sales	USD	lc
Net sales		**19 941**			17 483		14	11
Operating income		**4 669**	23.4		4 262	24.4	10	
Net income		**4 187**	21.0		3 669	21.0	14	
Basic earnings per share/ADS	**USD**	**1.78**		USD	1.56		14	

Second quarter

		Q2 2007			Q2 2006		% Change	
		USD m	% of net sales		USD m	% of net sales	USD	lc
Net sales		**10 122**			9 182		10	7
Operating income		**2 216**	21.9		2 060	22.4	8	
Net income		**2 016**	19.9		1 713	18.7	18	
Basic earnings per share/ADS	**USD**	**0.86**		USD	0.73		18	

Basel, July 17, 2007 Commenting on the results, Dr. Daniel Vasella, Chairman and CEO of Novartis said: *All areas of our strategic healthcare portfolio performed well in the first half of 2007 despite some setbacks in the Pharmaceuticals Division. Continuing our focus on innovation, we have already achieved seven major regulatory approvals this year and more are expected in the second half. Many of these new products are meeting high expectations, while our leading brands Diovan and Gleevec/Glivec keep growing dynamically. Sandoz and Vaccines and Diagnostics again delivered strong growth. Our complementary healthcare businesses are positioning us well to fulfill a broad spectrum of patient needs and meet the challenges of an increasingly volatile sector.*

First half 2007

Net sales

	H1 2007	H1 2006	% Change	
	USD m	USD m	USD	lc
Pharmaceuticals	**11 988**	10 751	12	9
Vaccines and Diagnostics	**482**	127		
Sandoz	**3 415**	2 881	19	13
Consumer Health continuing operations	**2 643**	2 415	9	6
Net sales from continuing operations	**18 528**	16 174	15	11
Consumer Health discontinuing operations[1]	1 413	1 309	8	7
Total	**19 941**	17 483	14	11

(1) Discontinuing operations include Medical Nutrition and Gerber in 2007 and Medical Nutrition, Gerber and Nutrition & Santé in 2006. The divestiture of Medical Nutrition was completed on July 1, 2007.

Group net sales rise 14% (+11% lc) to USD 19.9 billion

Dynamic performances from Sandoz and Vaccines and Diagnostics as well as solid growth in Pharmaceuticals and Consumer Health supported the double-digit expansion. Higher sales volumes represented seven percentage points of growth and acquisitions three percentage points, while currency translation had a positive impact of three points and net price changes added one point.

Pharmaceuticals net sales advance 12% (+9% lc) to USD 12.0 billion

Ongoing strong growth in the top-selling brands *Diovan* (USD 2.4 billion, +19% lc) and *Gleevec/Glivec* (USD 1.4 billion, +14% lc) both No. 1 in their segments underpinned the performance. Recently launched brands such as *Exforge, Exjade, Lucentis, Prexige* and *Tekturna/Rasilez* continued growing rapidly. US net sales rose 5%, as growth in several brands helped offset the impact of the *Zelnorm* suspension in March and generic competition for *Lotrel* starting in May.

Vaccines and Diagnostics net sales of USD 482 million

Key drivers were growth in deliveries of components for use in combination pediatric vaccines as well as vaccines for tick-borne encephalitis. Diagnostics products, mainly used for blood testing, delivered further double-digit growth. The year-ago period included net sales for only two months following the April 2006 acquisition. Net sales on a comparable basis were up 45% over the 2006 period recorded by Chiron.

Sandoz net sales expand 19% (+13% lc) to USD 3.4 billion

Recent US product launches, in particular for difficult-to-make products, underpinned the dynamic performance as this region accounted for 28% of total net sales. Improving positions in markets such as Eastern Europe, Scandinavia, Canada and Latin America further supported double-digit growth.

Consumer Health continuing operations net sales up 9% (+6% lc) to USD 2.6 billion

OTC provided strong growth ahead of the market thanks to strategic brands and expansion in emerging markets, while Animal Health benefited from further expansion in key markets.

Operating income

	H1 2007		H1 2006		Change
	USD m	% of net sales	USD m	% of net sales	In %
Pharmaceuticals	**3 620**	30.2	3 303	30.7	10
Vaccines and Diagnostics	**7**	1.5	-38		
Sandoz	**561**	16.4	445	15.4	26
Consumer Health continuing operations	**483**	18.3	446	18.5	8
Corporate income & expense, net	**-239**		-218		10
Operating income from continuing operations	**4 432**	23.9	3 938	24.3	13
Consumer Health discontinuing operations[1]	237	16.8	324	24.8	-27
Total	**4 669**	23.4	4 262	24.4	10

[1] Discontinuing operations include Medical Nutrition and Gerber in 2007 and Medical Nutrition, Gerber and Nutrition & Santé in 2006. The 2006 results include a pre-tax divestment gain of USD 129 million from the sale of Nutrition & Santé. The divestiture of Medical Nutrition was completed on July 1, 2007.

Group operating income rises 10% to USD 4.7 billion

Operating income rose slower than net sales as the year-ago period included a one-time gain from the sale of Nutrition & Santé. Operating income from continuing operations was up 13% due to strong underlying contributions from all divisions, particularly Sandoz and Pharmaceuticals.

Pharmaceuticals operating income up 10% to USD 3.6 billion

The decline in operating margin to 30.2% reflected primarily the ongoing strong investments in new product launches as well as in trials for key late-stage development projects. R&D investments rose 26% and were 20.3% of net sales an increase of 2.4 percentage points from the year-ago period mainly for major projects entering Phase III and IV trials (FTY720, QAB149, *Tekturna/Rasilez, Galvus,* RAD001, SOM230, AGO178 and ABF656). Marketing & Sales expenses rose to 31.4% of net sales, an increase of 0.7 percentage points from the year-ago period, to support new product launches including *Tekturna/Rasilez, Exforge, Prexige, Exjade* and *Lucentis*. Productivity gains partially offset the higher investments in development and new product launches. Other Expenses, net of Other Income were sharply reduced in the 2007 first half, primarily reflecting the reversal of a one-time USD 107 million pre-launch inventory provision for *Tekturna/Rasilez* following US approval in March 2007 and acquisition-related charges in 2006. Excluding exceptional items in both periods, operating income rose 7% and the operating margin was 29.9%.

Vaccines and Diagnostics provides operating income of USD 7 million

Underlying operating income of USD 160 million (before restructuring and acquisition-related amortization charges of USD 153 million) reflected the ongoing business expansion for non-influenza vaccines and steady growth in diagnostics. Reported operating income also included one-time contributions in the 2007 first half of USD 83 million from legal and other settlements.

Sandoz operating income advances 26% to USD 561 million

Volume growth from several new product launches, particularly in the US, underpinned the growth in operating income ahead of net sales. Productivity gains and better economies of scale in key markets more than offset ongoing investments in new product development and the negative

impact of regulatory changes in some markets. Focus on high-margin sales as well as strong productivity gains in the anti-infectives business also positively impacted profitability. The operating income margin improved by one percentage point to 16.4%.

Consumer Health continuing operations operating income up 8% to USD 483 million

Operating income progressed well as significant investments were made in R&D and marketing initiatives for new product launches as well as ongoing geographic expansion in emerging markets and Japan.

Second quarter 2007

Net sales

	Q2 2007	Q2 2006	% Change	
	USD m	USD m	USD	lc
Pharmaceuticals	**6 065**	5 699	6	4
Vaccines and Diagnostics	**251**	127		
Sandoz	**1 719**	1 450	19	13
Consumer Health continuing operations	**1 365**	1 232	11	7
Net sales from continuing operations	**9 400**	8 508	10	7
Consumer Health discontinuing operations[1]	722	674	7	5
Total	**10 122**	9 182	10	7

(1) Discontinuing operations include Medical Nutrition and Gerber in 2007 and Medical Nutrition, Gerber and Nutrition & Santé in 2006. The divestiture of Medical Nutrition was completed on July 1, 2007.

Group net sales up 10% (+7% lc) to USD 10.1 billion

Outstanding performances from Sandoz, Vaccines and Diagnostics and Consumer Health helped offset lower sales in Pharmaceuticals in the US. Four percentage points of Group net sales growth came from higher sales volumes, while acquisitions added two points and net price changes one point. Currency translation had a positive impact of three points.

Pharmaceuticals net sales rise 6% (+4% lc) to USD 6.1 billion

Europe, Latin America and emerging markets supported the overall performance, which was impacted by a 6% decline in the US after the suspension of *Zelnorm* and generic competition for *Lotrel*. Strong growth came from the top brands *Diovan* (USD 1.2 billion, +17% lc), *Gleevec/Glivec* (USD 747 million, +12% lc) and *Femara* (USD 231 million, +28% lc) as well as from new products such as *Exforge, Tekturna/Rasilez, Prexige, Exjade* and *Lucentis.*

Vaccines and Diagnostics net sales advance to USD 251 million

The dynamic performance came mainly from higher deliveries of components for multivalent pediatric vaccines as well as for various non-influenza vaccines, including tick-borne encephalitis. Diagnostics benefited from geographic expansion outside the US. The 2006 period includes two months of net sales after the April 2006 acquisition. On a comparable basis, net sales were up 44% over the 2006 period recorded by Chiron.

Sandoz net sales grow 19% (+13% lc) to USD 1.7 billion

Ongoing growth in the US, where net sales rose 27%, drove the division s double-digit expansion. New product launches in the US performed very well, including anti-infectives such as cefdinir (Omnicef®)[(1)] and an authorized generic version of *Lotrel.* Other markets particularly Eastern Europe, India, Canada, Brazil, Australia and Turkey showed strong growth based on new product launches and in some cases rising generic utilization rates.

(1) Omnicef® is a registered trademark of Abbott Laboratories

Consumer Health continuing operations net sales up 11% (+7% lc) to USD 1.4 billion

OTC generated solid growth from strategic brands, expansion in emerging markets, new product launches in Europe and the recent entry into Japan, the world s No. 2 OTC market. Animal Health also grew at a double-digit rate, while CIBA Vision net sales were higher mainly on improved availability of lens care products.

Operating income

	Q2 2007		Q2 2006		Change
	USD m	% of net sales	USD m	% of net sales	In %
Pharmaceuticals	**1 767**	29.1	1 677	29.4	5
Vaccines and Diagnostics	**-20**		-38		
Sandoz	**243**	14.1	207	14.3	17
Consumer Health continuing operations	**243**	17.8	216	17.5	13
Corporate income & expense, net	**-136**		-98		
Operating income from continuing operations	**2 097**	22.3	1 964	23.1	7
Consumer Health discontinuing operations[1]	119	16.5	96	14.2	24
Total	**2 216**	21.9	2 060	22.4	8

(1) Discontinuing operations include Medical Nutrition and Gerber in 2007 and Medical Nutrition, Gerber and Nutrition & Santé in 2006. The divestiture of Medical Nutrition was completed on July 1, 2007.

Group operating income up 8% to USD 2.2 billion

All divisions contributed to the improved operating income, particularly the double-digit expansion in Sandoz and Consumer Health that helped to compensate for lower growth in Pharmaceuticals.

Pharmaceuticals operating income rises 5% to USD 1.8 billion

Continued significant investments in Research & Development and Marketing & Sales led to a decline in the operating margin to 29.1% of net sales. R&D expenses rose to 20.0% of net sales, driven by major projects entering late-stage trials compared to the 2006 second quarter. Marketing & Sales expenses were up 11% and represented 32.3% of net sales, mainly due to investments in new products such as *Tekturna/Rasilez, Exforge, Prexige, Exjade* and *Lucentis.* Productivity gains helped to partially offset these investments. In addition, lower acquisition-related charges had a positive impact on Other Income & Expense. Excluding exceptional items in both periods, operating income fell 1%, while operating margin declined to 29.5% from 31.8% in the prior-year period

Vaccines and Diagnostics operating loss of USD 20 million

Operating income was USD 55 million before restructuring and acquisition-related amortization charges of USD 75 million, which led to the reported operating loss. The relatively low underlying operating income contribution during the second quarter reflects the seasonal nature of this business.

Sandoz operating income advances 17% to USD 243 million

The double-digit growth reflected volume expansion from the recent wave of new product launches, particularly in the US and other key markets. Productivity gains, including lower production costs, more than offset new product investments and expansion plans in emerging markets.

Consumer Health continuing operations operating income up 13% to USD 243 million

Strong volume growth in net sales underpinned the improvement and supported investments in sales forces and marketing for new product launches and geographic expansion into new markets, mainly in Animal Health and OTC.

Corporate

Income from associated companies

Income from associated companies was USD 95 million in the second quarter compared to USD 1 million in the year-ago period, reflecting one-time charges in 2006 for the Chiron acquisition. The investment in Roche provided a contribution of USD 87 million, up from USD 72 million in the 2006 second quarter. In the first half, associated companies provided income of USD 192 million compared to USD 105 million in the year-ago period.

Financial income, net

Net financial income rose to USD 33 million in the second quarter, up from USD 4 million in the year-ago period and mainly reflecting the realization of gains from the sale of marketable securities and excellent currency management. For the first half, net financial income was USD 67 million, a 24% increase from the year-ago period.

Group net income

Group net income in the second quarter rose 18%, faster than operating income based on the beneficial impact of income from associated companies and a lower anticipated tax rate of 14.0% in the quarter compared to 17.0% in the year-ago period. For the first six months of 2007, Group net income rose 14%, also faster than operating income thanks to higher contributions from associated companies and the lower anticipated tax rate of 15.0%. The reduced tax rates for these periods mainly reflect the impact of deferred tax accounting effects on completing legal restructurings following the Chiron acquisition.

Balance sheet

The Group s equity rose to USD 43.7 billion at June 30, 2007, compared to USD 41.3 billion at December 31, 2006. First-half net income of USD 4.2 billion as well as actuarial gains from employee benefit plans of USD 1.2 billion and a contribution of USD 0.3 billion from share-based compensation and USD 0.3 billion in currency translation gains more than offset the dividend payment of USD 2.6 billion and share repurchases of USD 1.1 billion.

Total liquidity declined slightly to USD 7.5 billion from USD 8.0 billion at the end of 2006, while the debt/equity ratio improved to 0.17:1 compared to 0.18:1 at the end of 2006.

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

maturities. Moody s has rated the Group as Aaa and P1, respectively, while Fitch has rated Novartis as AAA for long-term maturities and as F1+ for short-term maturities.

Cash flow

Cash flow from operating activities from continuing operations in the 2007 first half was USD 3.9 billion, up USD 0.3 billion from the year-ago period. Net cash used in financing activities was USD 3.3 billion, of which USD 2.6 billion was for the 2006 dividend payment, USD 1.0 billion

for the purchase of treasury shares offset by USD 0.3 billion in other net financing cash inflow. For continuing operations, free cash flow after dividends was USD 111 million in the first half, down from USD 604 million in the year-ago period due mainly to the increased dividend payment for 2006.

Targeted investments to strengthen healthcare portfolio

Novartis is strategically repositioning its activities to focus solely on healthcare, areas where the Group has expertise and synergies to better address the needs of patients, physicians and societies in a dynamically changing healthcare environment. These areas include innovative pharmaceuticals for human and animal health, vaccines and diagnostics, generics and consumer health products such as over-the-counter (OTC) brands.

Targeted acquisitions will be considered that strengthen this healthcare portfolio. Novartis and Intercell AG signed in July one of the industry s most innovative comprehensive alliances that broadens the Novartis vaccines portfolio. Novartis has gained access to over 10 Intercell projects in preclinical and early-stage development, including vaccines for prevention of hospital-acquired infections and other life-threatening diseases, in return for an upfront payment and equity investment totaling USD 364 million (EUR 270 million). Novartis will assume responsibility for Phase III development, manufacturing and commercialization for any Intercell projects chosen after Phase II trials.

Divestments of non-core businesses are on track to be finished in 2007. The sale of Medical Nutrition to Nestlé for USD 2.5 billion was completed on July 1, while the Gerber baby foods business sale to Nestlé for USD 5.5 billion is set to be completed in the second half.

Repurchase of up to approximately USD 4 billion in Novartis shares

Utilizing the Group s strong free cash flow and proceeds from divestitures, Novartis intends to complete the previously approved share repurchase programs and to buy back the remaining open amount of up to approximately USD 4 billion in shares by the next Annual General Meeting in February 2008. Shares worth USD 0.8 billion were already repurchased during the 2007 first half via a second trading line on the SWX Swiss Exchange.

Group outlook

(For continuing operations, barring any unforeseen events)

With one of the industry s most productive late-stage pipelines, Novartis has made significant progress during 2007 in launching new medicines after gaining important regulatory approvals. This intensive launch plan and strong growth prospects for the Group s strategic healthcare portfolio are expected to underpin mid-term growth through 2010 and beyond and position Novartis for further years of record results.

During the rest of 2007, the Pharmaceuticals Division s net sales will be negatively impacted by the suspension of *Zelnorm* and US generic competition for *Lotrel* and *Lamisil*. Annual net sales for these products in 2006 amounted to USD 2.5 billion. As a result, Novartis has revised its full year outlook to mid-single-digit growth in net sales for Group continuing operations and to low-single-digit growth in the Pharmaceuticals Division, both in local currencies.

The Pharmaceuticals Division will continue during 2007 to reallocate resources to support new product launches and accelerate productivity initiatives. Based on these initiatives, and also plans for continued strong performances from other divisions, Novartis reaffirms expectations for record operating and net income from continuing operations in 2007.

Pharmaceuticals product performance update

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

Novartis has received seven major new regulatory approvals for pharmaceuticals in the US and Europe since the start of 2007, making significant progress in delivering a wave of new medicines many with first-in-class status addressing significant medical needs.

These include the approval and launch of the high blood pressure medicine ***Tekturna/Rasilez*** in the US, with a launch in Europe anticipated soon. ***Exforge*** was launched in the US three months ahead of schedule and also in Europe. Others approved and launched in the first half were ***Aclasta/Reclast*** in the US for Paget s disease, the blindness therapy ***Lucentis*** in Europe and ***Sebivo*** in Europe and China for hepatitis B. ***Exelon Patch*** won US approval in July as the first skin patch therapy for Alzheimer s disease and Parkinson s disease dementia.

A review of the leading marketed pharmaceutical products follows:

Diovan (USD 2.4 billion, +19% lc) has become the world s No. 1 branded high blood pressure medicine thanks to its status as one of the fastest-growing medicines in its market segment. *Diovan* has the potential to become one of the industry s top five pharmaceuticals based on annual worldwide sales. A primary growth driver has been increasing awareness about the consequences of uncontrolled high blood pressure, including studies showing 70% of patients do not reach their treatment goals. All regions delivered strong performances, supported in particular by recently published results of the JIKEI heart study underscoring efficacy in reducing the risk of cardiovascular events, especially strokes. *Co-Diovan*, a single-tablet combination with a diuretic, grew dynamically in both the US and Europe.

Gleevec/Glivec (USD 1.4 billion, +14% lc), a targeted therapy used in patients with certain forms of chronic myeloid leukemia (CML) and gastrointestinal stromal tumors (GIST) as well as other rare cancers, maintained strong growth thanks to improved survival rates for patients, expansion of the GIST market and use in newly-approved rare diseases. New competition had little impact on underlying demand. Data presented at the American Society of Clinical Oncology (ASCO) meeting showed one year of treatment with *Gleevec/Glivec* led to an 82% reduction in the risk of cancer returning in patients who underwent surgery for GIST tumors. These findings may lead to changes in clinical practice recommendations, and regulatory submissions are planned for 2008. Development of *Gleevec/Glivec* for use in an aggressive brain tumor known as glioblastoma multiforme was halted in the second quarter after study results showed no improvement in progression-free survival.

Zometa (USD 636 million, 1% lc), an intravenous bisphosphonate for patients with bone cancer, has been affected by overall slowing growth for this segment following price reductions in Europe and changes in prescribing that has reduced frequency of use in cancer patients. However, use in patients with lung and prostate cancers continues to rise. *Zometa* is now the leading infusional bisphosphonate in Japan after its launch just 15 months ago.

Lotrel (USD 594 million, 8% lc, only in US) was negatively impacted by the at risk launch of a generic copy by Teva Pharmaceuticals in May 2007 despite a valid US patent until 2017. Sandoz subsequently launched a generic version of this medicine, which is a fixed-dose combination therapy for high blood pressure. Novartis will continue to defend its intellectual property rights. A trial date has not been set for the ongoing lawsuit against Teva, which risks potentially significant damages if Novartis prevails.

Sandostatin (USD 491 million, +8% lc), for patients with acromegaly as well as treatment of patients with certain tumors, reported 14% worldwide growth for the long-acting-release *Sandostatin LAR* version that accounts for approximately 85% of net sales.

Femara (USD 439 million, +30% lc), a leading oral treatment for women with hormone-sensitive breast cancer, experienced further dynamic growth worldwide. Compelling clinical data shows that *Femara* is the first aromatase inhibitor when used as an initial therapy to demonstrate a significant reduction in the risk of breast cancer spreading to other parts of the body. Market share gains continue in early adjuvant treatment in women immediately following cancer surgery.

Lamisil (USD 432 million, 11% lc), an oral treatment for fungal nail infections, had lower net sales ahead of the entry of generic competition in the US, which began on July 2. Ongoing generic competition further eroded net sales in Europe.

Trileptal (USD 396 million, +11% lc), a treatment for epilepsy seizures, generated strong growth in key markets. Generic competition may emerge in the US during this year.

Exelon (USD 297 million, +17%), a treatment for mild to moderate forms of Alzheimer s disease dementia and dementia associated with Parkinson s disease, maintained its strong expansion in both the US and other key markets. *Exelon Patch* received US regulatory approval in early July. The constant 24-hour delivery of *Exelon s* active ingredient through a skin patch showed equivalent efficacy at the target dose to the highest doses of capsules but with three times fewer reports of nausea or vomiting. The patch was preferred by over 70% of family members as it helps in the management of day-to-day patient care.

Exjade (USD 157 million) has delivered dynamic growth particularly in Europe and the Middle East since the first launch in 2006 based on its status as the first once-daily oral iron chelator for blood disorders involving chronic iron overload. Over 80 countries have approved *Exjade*, which is used to treat iron overload associated with various blood disorders. It was submitted in Japan for approval a year ahead of schedule.

Lucentis (USD 101 million), for the eye disease wet age-related macular degeneration (AMD), has generated rapid growth following European Union approval in January 2007. *Lucentis* is now available in 45 countries (including Switzerland, Australia and Canada) as the first and only treatment proven to maintain and improve vision in patients with wet AMD the leading cause of blindness in people over age 50. Genentech holds the US rights.

Zelnorm/Zelmac (USD 91 million, 66% lc), for irritable bowel syndrome and chronic constipation, has been negatively affected by the suspension of sales in the US and over 20 other countries following an FDA request in March 2007 to review cardiovascular safety data. Novartis believes *Zelnorm/Zelmac* provides important benefits for appropriate patients and will continue working with health authorities to secure access for these patients.

Xolair (USD 64 million), for moderate to severe allergic asthma, has grown quickly in key markets worldwide where launched, particularly France and Germany. It is now approved in 55 countries and is already available in 34 countries. In the US, Novartis co-promotes *Xolair* with Genentech and shares a portion of operating income. *Xolair* had first-half net sales of USD 231 million in the US, resulting in a contribution to Novartis of USD 79 million reported as Other Revenues.

Prexige (USD 52 million)**,** an oral COX-2 inhibitor for patients with certain forms of osteoarthritic pain, gained market share where launched. EU approval was granted in November 2006, and launches are underway in Latin America, where it has performed strongly. A US regulatory decision is expected in September 2007.

Aclasta/Reclast was launched in April in the US after regulatory approval as the first new treatment in nearly a decade for patients with Paget s disease of the bone. *Aclasta/Reclast* is already approved in more than 50 other countries, including key European markets, for this indication. Decisions on US and European approvals are pending for the use of this medicine as a once-yearly infusion of only 15 minutes for women with postmenopausal osteoporosis.

Exforge, a single tablet combining the angiotensin receptor blocker valsartan (*Diovan*) and the calcium channel blocker amlodipine, was launched in the US following the earlier-than-expected final US approval in June instead of September 2007. European launches are underway in ten countries, including Germany, the UK, Greece and Switzerland following approval in January 2007, with more launches set for 2007 and 2008.

Tekturna/Rasilez, the first new type of high blood pressure medicine in more than a decade, has outpaced the launches of recent hypertension medicines, including Benicar®(2), in the US following approval and launch in March. Known as *Tekturna* in the US and as *Rasilez* in other markets, key drivers have been data showing its efficacy and safety and recognition of the need for new high blood pressure medicines. *Rasilez* gained Swiss approval in June. European approval is expected during the third quarter after European regulators issued a positive opinion in June. A single-tablet combination with a diuretic was submitted for US approval during the second quarter. This medicine was developed with Speedel.

Research & Development update

Pharmaceuticals

With 138 projects in pharmaceutical development, Novartis has one of the industry s most promising pipelines. Several of the anticipated approvals are for potentially best-in-class medicines that would advance or create new treatment standards. Many compounds are progressing in late-stage trials. These include **FTY720** (multiple sclerosis), **QAB149** (respiratory diseases), **AGO178** (depression), **RAD001** (cancer), **ABF656** (hepatitis C) and **SOM 230** (Cushing s disease). Among the recent pharmaceuticals pipeline developments are:

Tasigna (nilotinib) is awaiting regulatory decisions in the US, Europe and Switzerland as a new targeted cancer therapy for patients with a form of the life-threatening blood cancer chronic myeloid leukemia (CML) who are resistant or intolerant to treatment with *Gleevec/Glivec* (imatinib). A submission was completed in Japan during the 2007 second quarter. Also planned for 2007 are the start of Phase III studies in newly diagnosed CML patients and patients responding sub-optimally to other therapies. A registration study is already underway in patients with gastrointestinal

stromal tumors (GIST). Both *Tasigna* and *Gleevec/Glivec* inhibit Bcr-Abl, the definitive cause of Philadelphia chromosome-positive chronic myeloid leukemia (Ph+ CML). *Tasigna* was designed to be a more selective inhibitor of Bcr-Abl and its mutations. In the US, the FDA requested on July 16 a three-month extension in the regulatory review period.

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(2) Benicar® is a registered trademark of Daiichi Sankyo

Galvus (vildagliptin), a new oral once-daily treatment for type 2 diabetes submitted for approval in the US and Europe, has been shown in new clinical data to deliver consistent and robust blood sugar reductions in patients with this progressive disease. The findings, presented at the American Diabetes Association meeting, were consistent with earlier results demonstrating the efficacy and tolerability of *Galvus* as a monotherapy and in combination with other diabetes medicines. A European Union regulatory decision is anticipated in 2007. In the US, Novartis is in discussions with the FDA on steps needed for approval after having received an approvable letter in February 2007, including a request for additional data from clinical trials.

RAD001 (everolimus), a novel oral inhibitor of the mTOR pathway considered a key target in oncology, demonstrated its broad clinical activity in multiple tumor types in data from 17 abstracts presented at the American Society of Clinical Oncology (ASCO) meeting. Positive interim Phase II data in a proof-of-concept trial involved patients with refractory/relapsed lymphoma was presented. Registration trials are underway in chemotherapy-refractory pancreatic islet cell tumors (pICT), metastatic renal cell carcinoma and plans for expansion in 2007 include registration trials for refractory carcinoid tumors as well as first- and second-line pICT. RAD001 acts by directly inhibiting tumor cell growth and inhibiting the formation of new blood vessels (angiogenesis). First submissions could be as early as 2008.

ACZ885, a fully human monoclonal antibody, has entered a Phase III trial in Muckle Wells Syndrome, an inherited inflammatory disease caused by a rare genetic mutation. ACZ885 has led to immediate and long lasting clinical remission in these patients through potent and selective blockage of interleukin-1B. ACZ885 has a potentially important role in treating a range of systemic inflammatory diseases, and Phase II trials are underway in systemic juvenile arthritis and other conditions. Submissions for regulatory approval in Muckle Wells Syndrome is planned for 2009.

NM283 (valopicitabine)**,** in Phase IIb trials for treatment of hepatitis C, was put on clinical hold on July 13 by FDA after discussions on the overall risk/benefit profile. The affiliated company Idenix Pharmaceuticals and Novartis are evaluating options for this compound.

Novartis acquired the rights to two development compounds during the second quarter. **NIC002** (formerly CYT002-NicQb) (NicQb) from Cytos Biotechnology AG combines elements of medicinal and vaccine technology and has been shown in Phase II clinical trials to help smokers overcome addiction to nicotine. **ASA404** (formerly AS1404) from Antisoma plc is a small molecule vascular disrupting agent targeting solid cancer tumors and is expected to soon begin Phase III trials in patients with non-small cell lung cancer.

Vaccines and Diagnostics

Two important new vaccines against influenza infections received European Union approval during the 2007 second quarter: ***Focetria*** for use as quickly as possible after the declaration of an influenza pandemic, and ***Optaflu*** as the first influenza vaccine to utilize a proprietary cell culture line to generate viral antigens rather than relying on traditional chicken eggs. *Focetria* will be manufactured to contain strains declared at the

time of a pandemic by the World Health Organization (WHO). It will also include the proprietary Novartis adjuvant MF59, which could extend supplies by allowing for smaller amounts of viral antigens to be used in each dose compared to vaccines without this additive designed to increase efficacy. *Optaflu*, considered the first major innovation in influenza vaccine manufacturing in over 50 years, has been approved for use in vaccination against seasonal influenza. This cell culture technology can be used for faster and more flexible manufacturing start-up in a pandemic. It will be available in Germany and

Austria for the 2007/2008 influenza season and in other EU countries for the 2008/2009 season. Submission for US approval is planned for 2008.

Sandoz

European Union regulators issued a positive opinion in June supporting approval of a **biosimilar version of epoetin alfa**, as Sandoz achieved another important milestone in efforts to bring follow-on biological medicines to patients. More than 250,000 patients in Europe are treated annually with epoetin alfa, which is marketed under various brand names, and similar medicines to regulate the formation of red blood cells. The European Commission will soon decide on approval. In a precedent-setting decision in April 2006, Sandoz was the first company to obtain European Commission approval for a follow-on biologic, the human growth hormone *Omnitrope*. US approval was granted in May 2006.

Disclaimer

This release contains certain forward-looking statements relating to the Group s business, which can be identified by the use of forward-looking terminology such as outlook , expected , will , on track , set , intends , prospects , expectations , anticipated , potential , may , pl believes , pending , promising , pipeline , approvable , plans , could , can , or similar expressions, or by express or implied discussions re potential future revenues from any particular products, or potential future sales or earnings of the Novartis Group or any of its divisions; potential new products, or potential new indications for existing products, or regarding potential future revenues from any such products; or by discussions of strategy, plans, expectations or intentions. Such statements reflect the current views of management with respect to future events and are subject to certain known and unknown risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. There can be no guarantee that any particular products will reach any particular sales levels. Neither can there be any guarantees that the Novartis Group, or any of its divisions, will achieve any particular financial results. Nor can there be any guarantee that any new products will be approved for sale in any market, or that any new indications will be approved for existing products in any market, or that they will achieve any particular revenue levels. In particular, management s expectations could be affected by, among other things, uncertainties involved in the development of new pharmaceutical products; unexpected clinical trial results, including additional analysis of existing clinical data or unexpected new clinical data; unexpected regulatory actions or delays or government regulation generally; the Group s ability to obtain or maintain patent or other proprietary intellectual property protection, including the uncertainties involved in the US litigation process; competition in general; government, industry, and general public pricing and other political pressures; and other risks and factors referred to in the Group s current Form 20-F on file with the US Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. Novartis is providing the information in this press release as of this date and does not undertake any obligation to update any forward-looking statements contained in this press release as a result of new information, future events or otherwise.

About Novartis

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

Further important dates

September 12, 2007	Novartis Brand and Business Review (East Hanover, NJ)
October 18, 2007	Nine-month and third quarter 2007 results
January 17, 2008	Full-year and fourth quarter 2007 results

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statements (unaudited)

First half

	H1 2007 USD m	H1 2006 USD m	Change USD m	Change %
Net sales from continuing operations	**18 528**	**16 174**	**2 354**	**15**
Other revenues	430	253	177	70
Cost of Goods Sold	-4 985	-4 205	-780	19
Of which amortization and impairments of product and patent rights and trademarks	*-482*	*-313*	*-169*	*54*
Gross profit	**13 973**	**12 222**	**1 751**	**14**
Marketing & Sales	-5 399	-4 710	-689	15
Research & Development	-3 031	-2 377	-654	28
General & Administration	-1 000	-843	-157	19
Other Income & Expense	-111	-354	243	-69
Operating income from continuing operations	**4 432**	**3 938**	**494**	**13**
Income from associated companies	192	105	87	83
Financial income	177	187	-10	-5
Interest expense	-110	-133	23	-17
Income before taxes from continuing operations	**4 691**	**4 097**	**594**	**14**
Taxes	-656	-660	4	-1
Net income from continuing operations	**4 035**	**3 437**	**598**	**17**
Net income from Consumer Health discontinuing operations	152	232	-80	-34
Total net income	**4 187**	**3 669**	**518**	**14**
Attributable to:				
Equity holders of Novartis AG	*4 177*	*3 654*	*523*	*14*
Minority interests	*10*	*15*	*-5*	*-33*
Average number of shares outstanding Basic (million)	**2 342.4**	**2 342.6**	**-0.2**	
Basic earnings per share (USD)[1]				
Total	**1.78**	**1.56**	**0.22**	**14**
Continuing operations	**1.72**	**1.46**	**0.26**	**18**
Discontinuing operations	**0.06**	**0.10**	**-0.04**	**-40**
Average number of shares outstanding Diluted (million)	2 355.6	2 358.3	-2.7	
Diluted earnings per share (USD)[1]				
Total	1.77	1.55	0.22	14
Continuing operations	1.71	1.45	0.26	18
Discontinuing operations	0.06	0.10	-0.04	-40

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

Consolidated statement of recognized income and expense (unaudited)

First half

	H1 2007 USD m	H1 2006 USD m	Change USD m
Net income	4 187	3 669	518
Fair value adjustments on financial instruments	-16	-76	60
Actuarial gains from defined benefit plans	1 170	296	874
Additionally recognized amounts by associated companies	92	-9	101
Revaluation of initial minority interests in Chiron	55	663	-608
Translation effects	301	1 040	-739
Recognized income and expense	**5 789**	**5 583**	**206**

Consolidated income statements (unaudited)

Second quarter

	Q2 2007 USD m	Q2 2006 USD m	Change USD m	Change %
Net sales from continuing operations	**9 400**	**8 508**	**892**	**10**
Other revenues	184	163	21	13
Cost of Goods Sold	-2 497	-2 225	-272	12
Of which amortization and impairments of product and patent rights and trademarks	*-240*	*-192*	*-48*	*25*
Gross profit	**7 087**	**6 446**	**641**	**10**
Marketing & Sales	-2 812	-2 510	-302	12
Research & Development	-1 529	-1 253	-276	22
General & Administration	-517	-455	-62	14
Other Income & Expense	-132	-264	132	-50
Operating income from continuing operations	**2 097**	**1 964**	**133**	**7**
Income from associated companies	95	1	94	
Financial income	90	79	11	14
Interest expense	-57	-75	18	-24
Income before taxes from continuing operations	**2 225**	**1 969**	**256**	**13**
Taxes	-282	-317	35	-11
Net income from continuing operations	**1 943**	**1 652**	**291**	**18**
Net income from Consumer Health discontinuing operations	73	61	12	20
Total net income	**2 016**	**1 713**	**303**	**18**
Attributable to:				
Equity holders of Novartis AG	*2 008*	*1 707*	*301*	*18*
Minority interests	*8*	*6*	*2*	*33*
Average number of shares outstanding Basic (million)	**2 338.8**	**2 346.1**	**-7.3**	
Basic earnings per share (USD) [1]				

Total		**0.86**	**0.73**	**0.13**	**18**
Continuing operations		**0.83**	**0.70**	**0.13**	**19**
Discontinuing operations		**0.03**	**0.03**	**0**	
Average number of shares outstanding	Diluted (million)	2 351.6	2 361.6	-10.0	
Diluted earnings per share (USD)[1]					
Total		0.85	0.72	0.13	18
Continuing operations		0.82	0.70	0.12	17
Discontinuing operations		0.03	0.02	0.01	50

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

Consolidated statement of recognized income and expense (unaudited)

Second quarter

	Q2 2007 USD m	Q2 2006 USD m	Change USD m
Net income	2 016	1 713	303
Fair value adjustments on financial instruments	-29	-98	69
Actuarial gains from defined benefit plans	1 087	21	1 066
Additionally recognized amounts by associated companies	5	58	-53
Revaluation of initial minority interests in Chiron		663	-663
Translation effects	188	867	-679
Recognized income and expense	**3 267**	**3 224**	**43**

Condensed consolidated balance sheets

First half

	June 30, 2007 (unaudited) USD m	Dec 31, 2006 USD m	Change USD m	June 30, 2006 (unaudited) USD m
Assets				
Non-current assets				
Property, plant & equipment	11 352	10 945	407	10 077
Intangible assets	21 057	21 230	-173	21 594
Financial and other non-current assets	14 235	14 429	-194	14 463
Total non-current assets	**46 644**	**46 604**	**40**	**46 134**
Current assets				
Inventories	5 022	4 498	524	4 690
Trade accounts receivable	6 233	6 161	72	5 885
Other current assets	1 834	2 054	-220	1 910
Cash, short-term deposits and marketable securities	7 548	7 955	-407	7 310
Total current assets from continuing operations	20 637	20 668	-31	19 795
Assets related to discontinuing operations	3 340	736	2 604	
Total current assets	**23 977**	**21 404**	**2 573**	**19 795**
Total assets	**70 621**	**68 008**	**2 613**	**65 929**
Equity and liabilities				
Total equity	**43 664**	**41 294**	**2 370**	**37 164**
Non-current liabilities				
Financial debts	632	656	-24	1 617
Other non-current liabilities	8 662	9 824	-1 162	10 391
Total non-current liabilities	**9 294**	**10 480**	**-1 186**	**12 008**
Current liabilities				

Trade accounts payable	2 509	2 487	22	2 196
Financial debts and derivatives	6 819	6 643	176	7 809
Other current liabilities	6 652	6 897	-245	6 752
Total current liabilities from continuing operations	15 980	16 027	-47	16 757
Liabilities related to discontinuing operations	1 683	207	1 476	
Total current liabilities	**17 663**	**16 234**	**1 429**	**16 757**
Total liabilities	**26 957**	**26 714**	**243**	**28 765**
Total equity and liabilities	**70 621**	**68 008**	**2 613**	**65 929**

Condensed consolidated changes in equity (unaudited)

First half

	H1 2007	H1 2006	Change
	USD m	USD m	USD m
Consolidated equity at January 1	**41 294**	**33 164**	**8 130**
Recognized income and expense	5 789	5 583	206
Purchase/sale of treasury shares, net	-1 095	221	-1 316
Share-based compensation	293	244	49
Dividends	-2 598	-2 049	-549
Changes in minority interests	-19	1	-20
Consolidated equity at June 30	**43 664**	**37 164**	**6 500**

Second quarter

	Q2 2007 USD m	Q2 2006 USD m	Change USD m
Consolidated equity at April 1	**40 502**	**33 754**	**6 748**
Recognized income and expense	3 267	3 224	43
Purchase/sale of treasury shares, net	-248	49	-297
Share-based compensation	146	130	16
Changes in minority interests	-3	7	-10
Consolidated equity at June 30	**43 664**	**37 164**	**6 500**

Condensed consolidated cash flow statements (unaudited)

First half

	H1 2007 USD m	H1 2006 USD m	Change USD m
Net income from continuing operations	**4 035**	**3 437**	**598**
Reversal of non-cash items			
Taxes	656	660	-4
Depreciation, amortization and impairments	1 120	836	284
Net financial income	-67	-54	-13
Other	70	57	13
Net income adjusted for non-cash items	**5 814**	**4 936**	**878**
Interest and other financial receipts	300	301	-1
Interest and other financial payments	-81	-83	2
Taxes paid	-973	-1 048	75
Cash flow before working capital and provision changes	**5 060**	**4 106**	**954**
Restructuring payments and other cash payments out of provisions	-143	-123	-20
Change in net current assets and other operating cash flow items	-997	-387	-610
Cash flow from operating activities of continuing operations	**3 920**	**3 596**	**324**
Investments in property, plant & equipment	-1 145	-641	-504
Acquisitions of subsidiaries	-52	-4 290	4 238
Increase in marketable securities, intangible and financial assets	-778	-418	-360
Cash flow from investing activities of continuing operations	**-1 975**	**-5 349**	**3 374**
Cash flow from financing activities of continuing operations	**-3 289**	**-2 553**	**-736**
Cash flow from discontinuing operations	168	378	-210
Translation effect on cash and cash equivalents	24	57	-33
Change in cash and cash equivalents from discontinuing operations	-51		-51
Change in cash and cash equivalents from continuing operations	**-1 203**	**-3 871**	**2 668**
Cash and cash equivalents from continuing operations at January 1	3 815	6 321	-2 506
Cash and cash equivalents from continuing operations at June 30	**2 612**	**2 450**	**162**

Condensed consolidated cash flow statements (unaudited)

Second quarter

	Q2 2007 USD m	Q2 2006 USD m	Change USD m
Net income from continuing operations	**1 943**	**1 652**	**291**
Reversal of non-cash items			
Taxes	282	317	-35
Depreciation, amortization and impairments	580	423	157
Net financial income	-33	-4	-29
Other	21	101	-80
Net income adjusted for non-cash items	**2 793**	**2 489**	**304**
Interest and other financial receipts	58	81	-23
Interest and other financial payments	-44	-40	-4
Taxes paid	-690	-786	96
Cash flow before working capital and provision changes	**2 117**	**1 744**	**373**
Restructuring payments and other cash payments out of provisions	-64	-67	3
Change in net current assets and other operating cash flow items	-184	-93	-91
Cash flow from operating activities of continuing operations	**1 869**	**1 584**	**285**
Investments in property, plant & equipment	-623	-346	-277
Acquisitions of subsidiaries	-4	-4 313	4 309
Increase in marketable securities, intangible and financial assets	-181	-300	119
Cash flow from investing activities of continuing operations	**-808**	**-4 959**	**4 151**
Cash flow from financing activities of continuing operations	**-810**	**-798**	**-12**
Cash flow from discontinuing operations	79	89	-10
Translation effect on cash and cash equivalents	41	60	-19
Change in cash and cash equivalents from discontinuing operations	-49		-49
Change in cash and cash equivalents from continuing operations	**322**	**-4 024**	**4 346**
Cash and cash equivalents from continuing operations at April 1	2 290	6 474	-4 184
Cash and cash equivalents from continuing operations at June 30	**2 612**	**2 450**	**162**

Consolidated income statements **Divisional segmentation** (unaudited)

First half

	Phaarmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health continuing operations		Corporate		Total continuing operations		Consumer Health discontinuing operations		Total Group	
	H1 2007 USD m	**H1 2006 USD m**	**H1 2007 USD m**	**H1 2006 USD m**	**H1 2007 USD m**	**H1 2006 USD m**	**H1 2007 USD m**	**H1 2006 USD m**	**H1 2007 USD m**	**H1 2006 USD m**	**H1 2007 USD m**	**H1 2006 USD m**	**H1 2007 USD m**	**H1 2006 USD m**	**H1 2007 USD m**	**H1 2006 USD m**
Net sales to third parties	**11 988**	**10 751**	**482**	**127**	**3 415**	**2 881**	**2 643**	**2 415**			**18 528**	**16 174**	**1 413**	**1 309**	**19 941**	**17 483**
Sales to other Divisions	86	79	6		122	75	20	23	-234	-177						
Sales of Divisions	**12 074**	**10 830**	**488**	**127**	**3 537**	**2 956**	**2 663**	**2 438**	**-234**	**-177**	**18 528**	**16 174**	**1 413**	**1 309**	**19 941**	**17 483**
Other revenues	189	164	213	61	11	11	17	17			430	253	6	4	436	257
Cost of Goods Sold	-2 024	-1 835	-401	-118	-1 905	-1 612	-885	-838	230	198	-4 985	-4 205	-750	-692	-5 735	-4 897
Of which amortization and impairments of product and patent rights and trademarks	*-179*	*-91*	*-139*	*-25*	*-126*	*-157*	*-38*	*-40*			*-482*	*-313*	*-6*	*-6*	*-488*	*-319*
Gross profit	**10 239**	**9 159**	**300**	**70**	**1 643**	**1 355**	**1 795**	**1 617**	**-4**	**21**	**13 973**	**12 222**	**669**	**621**	**14 642**	**12 843**
Marketing & Sales	-3 768	-3 297	-91	-27	-571	-493	-969	-893			-5 399	-4 710	-350	-344	-5 749	-5 054
Research & Development	-2 430	-1 925	-125	-37	-251	-222	-138	-115	-87	-78	-3 031	-2 377	-22	-19	-3 053	-2 396
General & Administration	-368	-321	-78	-19	-164	-136	-184	-169	-206	-198	-1 000	-843	-62	-63	-1 062	-906
Other Income & Expense	-53	-313	1	-25	-96	-59	-21	6	58	37	-111	-354	2	129	-109	-225
Of which amortization and impairments of capitalized intangibles included in function costs	*-40*	*-15*	*-4*		*-18*	*-20*	*-3*	*-2*	*-3*	*-4*	*-68*	*-41*	*-19*	*-16*	*-87*	*-57*
Operating income	**3 620**	**3 303**	**7**	**-38**	**561**	**445**	**483**	**446**	**-239**	**-218**	**4 432**	**3 938**	**237**	**324**	**4 669**	**4 262**
Income from associated companies											192	105			192	105
Financial income											177	187			177	187
Interest expense											-110	-133			-110	-133
Income before taxes											**4 691**	**4 097**	**237**	**324**	**4 928**	**4 421**
Taxes											-656	-660	-85	-92	-741	-752
Net income											**4 035**	**3 437**	**152**	**232**	**4 187**	**3 669**

Additions to:																
- Property, plant and equipment(1)	*690*	*399*	*92*	*27*	*251*	*113*	*90*	*69*	*32*	*39*	*1 155*	*647*	*23*	*16*	*1 178*	*663*
- Goodwill and other intangibles(1)	*221*	*271*			*15*	*11*	*2*	*103*	*4*		*242*	*385*	*71*	*33*	*313*	*418*

(1) Excluding impact of business acquisitions

Consolidated income statements **Divisional segmentation** (unaudited)

Second quarter

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health continuing operations		Corporate		Total continuing operations		Consumer Health discontinuing operations		Total Group	
	Q2 2007 USD m	Q2 2006 USD m	Q2 2007 USD m	Q2 2006 USD m	Q2 2007 USD m	Q2 2006 USD m	Q2 2007 USD m	Q2 2006 USD m	Q2 2007 USD m	Q2 2006 USD m	Q2 2007 USD m	Q2 2006 USD m	Q2 2007 USD m	Q2 2006 USD m	Q2 2007 USD m	Q2 2006 USD m
Net sales to third parties	**6 065**	**5 699**	**251**	**127**	**1 719**	**1 450**	**1 365**	**1 232**			**9 400**	**8 508**	**722**	**674**	**10 122**	**9 182**
Sales to other Divisions	43	41	2		56	37	10	18	-111	-96						
Sales of Divisions	**6 108**	**5 740**	**253**	**127**	**1 775**	**1 487**	**1 375**	**1 250**	**-111**	**-96**	**9 400**	**8 508**	**722**	**674**	**10 122**	**9 182**
Other revenues	89	87	78	61	9	7	8	8			184	163	4	1	188	164
Cost of Goods Sold	-1 013	-939	-189	-118	-954	-830	-457	-437	116	99	-2 497	-2 225	-386	-360	-2 883	-2 585
Of which amortization and impairments of product and patent rights and trademarks	*-90*	*-51*	*-68*	*-25*	*-62*	*-97*	*-20*	*-19*			*-240*	*-192*	*-3*	*-3*	*-243*	*-195*
Gross profit	**5 184**	**4 888**	**142**	**70**	**830**	**664**	**926**	**821**	**5**	**3**	**7 087**	**6 446**	**340**	**315**	**7 427**	**6 761**
Marketing & Sales	-1 959	-1 764	-49	-27	-298	-256	-506	-463			-2 812	-2 510	-177	-172	-2 989	-2 682
Research & Development	-1 215	-999	-71	-37	-127	-117	-72	-59	-44	-41	-1 529	-1 253	-12	-9	-1 541	-1 262
General & Administration	-196	-176	-37	-19	-87	-68	-93	-88	-104	-104	-517	-455	-31	-32	-548	-487
Other Income & Expense	-47	-272	-5	-25	-75	-16	-12	5	7	44	-132	-264	-1	-6	-133	-270
Of which amortization and impairments of capitalized intangibles included in function costs	*-19*	*-8*	*-4*		*-11*	*-12*	*-1*	*-2*	*-2*	*-2*	*-37*	*-24*	*-10*	*-8*	*-47*	*-32*
Operating income	**1 767**	**1 677**	**-20**	**-38**	**243**	**207**	**243**	**216**	**-136**	**-98**	**2 097**	**1 964**	**119**	**96**	**2 216**	**2 060**
Income from associated companies											95	1			95	1
Financial income											90	79			90	79
Interest expense											-57	-75			-57	-75
Income before taxes																