BP PLC
Form 6-K
November 03, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 6-K

Report of Foreign Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

for the period ended September 30, 2004

BP p.l.c.
(Translation of registrant s name into English)

1 ST JAMES S SQUARE, LONDON, SW1Y 4PD, ENGLAND
(Address of principal executive offices)

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

Form 20-F	X	Form 40-F	

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	X

THIS REPORT ON FORM 6-K SHALL BE DEEMED TO BE INCORPORATED BY REFERENCE IN THE PROSPECTUS INCLUDED IN THE REGISTRATION STATEMENT ON FORM F-3 (FILE NO. 333-9790) OF BP p.l.c., THE PROSPECTUS INCLUDED IN THE REGISTRATION STATEMENT ON FORM F-3 (FILE NO. 333-65996) OF BP p.l.c., THE PROSPECTUS INCLUDED IN THE REGISTRATION STATEMENT ON FORM F-3 (FILE NO. 333-83180) OF BP AUSTRALIA CAPITAL MARKETS LIMITED, BP CANADA FINANCE COMPANY, BP CAPITAL MARKETS p.l.c., BP CAPITAL MARKETS AMERICA INC. AND BP p.l.c., THE REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 33-21868) OF BP p.l.c., THE REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-9020) OF BP p.l.c., THE REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-9798) OF BP p.l.c., THE REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-79399) OF BP p.l.c., THE REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-34968) OF BP p.l.c., THE REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-67206) OF BP p.l.c., THE REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-74414) OF BP p.l.c., THE REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-103924) OF BP p.l.c., THE REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-102583) OF BP p.l.c.. THE REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-103923) OF BP p.l.c., AND THE REGISTRATION STATEMENT ON FORM S-8 (FILE NO. 333-119934) OF BP p.l.c., AND TO BE A PART THEREOF FROM THE DATE ON WHICH THIS REPORT IS FURNISHED, TO THE EXTENT NOT SUPERSEDED BY DOCUMENTS OR REPORTS SUBSEQUENTLY FILED OR FURNISHED.

1

BP p.l.c. AND SUBSIDIARIES
FORM 6-K FOR THE PERIOD ENDED SEPTEMBER 30, 2004

BP p.l.c. AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GROUP RESULTS JANUARY SEPTEMBER 2004

	Three months ended September 30 (Unaudited)		Nine months ended September 30 (Unaudited)	
	2004	2003	2004	2003
	($ million)			
Turnover	70,885	58,250	207,578	174,707
Profit for the period	4,483	2,344	13,197	8,148
Exceptional items, net of tax	(18)	(168)	(1,219)	(639)
Profit before exceptional items	4,465	2,176	11,978	7,509
Profit for the period per ordinary share cents	20.67	10.62	60.28	36.71
Dividends per ordinary share cents	7.10	6.50	20.95	19.25

The following discussion should be read in conjunction with the consolidated financial statements and the related notes provided elsewhere in this Form 6-K and with the information, including the consolidated financial statements and related notes, for the year ended December 31, 2003 in BP p.l.c. s Annual Report on Form 20-F for the year ended December 31, 2003.

The financial information for 2003 has been restated to reflect (a) the transfer of natural gas liquids (NGL) operations from Exploration and Production to Gas, Power and Renewables on January 1, 2004; (b) the adoption by the Group of Financial Reporting Standard No. 17 Retirement Benefits (FRS 17) with effect from January 1, 2004; and (c) the adoption by the Group of Urgent Issues Task Force Abstract No. 38 Accounting for ESOP Trusts with effect from January 1, 2004. For further information, see Note 2 of Notes to Consolidated Financial Statements.

TNK-BP operational and financial information has been estimated.

The third quarter and nine months trading environment was generally stronger than a year ago with higher oil and gas realizations and higher refining and chemicals margins. For the three months ended September 30, 2004 the Brent oil price increased $13.16 per barrel, the Henry Hub gas price was up $0.78 per mmbtu, the refining Global Indicator Margin increased $1.61 per barrel and the Chemicals Indicator Margin increased $30 per tonne compared with a year ago. For the nine months, the Brent oil price was $7.67 per barrel higher, the Henry Hub gas price was $0.16 per mmbtu higher, the refining Global Indicator Margin was up $2.13 per barrel and the Chemicals Indicator Margin was up $18 per tonne compared with a year ago.

Turnover for the three months and nine months ended September 30, 2004 was $70.9 billion and $207.6 billion respectively, compared with $58.3 billion and $174.7 billion for the equivalent periods in 2003. The increase in turnover for the third quarter reflects increases of around $17.4 billion from higher prices and around $2.0 billion from foreign exchange movements, partly offset by a net decrease of approximately $4.2 billion from lower sales volumes and a decrease of approximately $0.7 billion related to lower production volumes.

The increase in turnover for the nine months reflects $32.9 billion from higher sales prices and $7 billion from foreign exchange movements partly offset by a decrease of approximately $2.5 million from lower sales volumes and a decrease of around $2.3 billion related to lower production volumes.

Profit for the three months ended September 30, 2004 was $4,483 million, including inventory holding gains of $1,027 million. Profit for the three months ended September 30, 2003 was $2,344 million, including inventory holding gains of $84 million. Inventory holding gains or losses represent the difference between the cost of sales calculated using the average cost of supplies incurred during the period and the cost of sales calculated using the first-in first-out method. Profit for the nine months ended September 30, 2004 was $13,197 million, including inventory holding gains of $2,137 million. Profit for the nine months ended September 30, 2003 was $8,148 million, after inventory holding losses of $68 million.

Profit before exceptional items was $4,465 million for the three months ended September 30, 2004, compared with $2,176 million for the equivalent period of 2003. Exceptional items are gains and losses on the sale of fixed assets and businesses or termination of operations. Net

exceptional gains in the third quarter of 2004 were $18 million (a loss of $15 million before tax) and include a charge arising from the sale of our Fabrics and Fibres business. Net exceptional gains in the third quarter of 2003 were $168 million ($172 million before tax) and principally relate to gains on disposal of certain upstream interests.

BP p.l.c. AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

Profit before exceptional items was $11,978 million for the nine months ended September 30, 2004, compared with $7,509 million for the equivalent period of 2003. Net exceptional gains in the nine months of 2004 were $1,219 million ($1,088 million before tax) and principally relate to net gains from the sale of our interests in PetroChina and Sinopec, and the divestment of certain upstream interests, partially offset by net losses associated with the termination of operations. Net exceptional gains in the nine months of 2003 were $639 million ($846 million before tax) and principally relate to net gains from the sale of certain upstream interests partially offset by a provision for loss on disposal.

Profit before exceptional items for the three months ended September 30, 2004 is after impairment charges of $7 million related to the partner operated Temsah platform in Egypt following a blow-out and subsequent fire offset partly by revisions to impairment estimates made in the prior quarter and a charge of $35 million in respect of Alaskan tankers that are no longer required in Exploration and Production; charges of $206 million, $58 million and $225 million in relation to new, and revisions to existing, environmental and other provisions in Refining and Marketing, Petrochemicals and Other businesses and corporate, respectively, and a charge of $19 million in respect of the separation of the Olefins and Derivatives business in Other businesses and corporate.

Profit before exceptional items for the three months ended September 30, 2003 includes charges of $369 million resulting from new, and revisions to existing, environmental and other provisions and ongoing Veba integration costs of $72 million in Refining and Marketing; charges of $36 million relating to a provision to cover future rental payments on surplus property and charges of $20 million resulting from revisions to environmental and other provisions in Petrochemicals; and charges of $112 million resulting from new, and revisions to existing, environmental and other provisions in Other businesses and corporate.

Profit before exceptional items for the nine months ended September 30, 2004 is after impairment charges of $7 million related to the partner operated Temsah platform in Egypt following a blow-out offset partly by revisions to impairment estimates made in the prior quarter, a charge of $35 million in respect of Alaskan tankers no longer required, an impairment charge of $160 million related to a gas processing plant in the USA and a field in the Gulf of Mexico and an impairment charge of $186 million related to our interests in two fields in Venezuela, Desarrollo Zuli Occidental (DZO) and Boqueron, in Exploration and Production; charges of $206 million, $58 million and $225 million in relation to new, and revisions to existing, environmental and other provisions in Refining and Marketing, Petrochemicals and Other businesses and corporate, respectively, and a charge of $19 million in respect of the separation of the Olefins and Derivatives business in Other businesses and corporate.

Profit before exceptional items for the nine months ended September 30, 2003 is after an impairment charge of $108 million related to the Kepadong field in Indonesia, an impairment charge of $103 million related to the Yacheng field in China, charges of $102 million in respect of our restructuring activities in North America and the UK and a $49 million write-down of the Viscount asset in the North Sea in Exploration and Production; a charge of $369 million resulting from new, and revisions to existing environmental and other provisions and Veba integration costs of $131 million in Refining and Marketing; charges of $36 million relating to a provision to cover future rental payments on surplus property, a charge of $20 million resulting from revisions to environmental and other provisions and a credit of $5 million resulting from a reduction in the provision for costs associated with closure of polypropylene capacity in Petrochemicals; charges of $112 million resulting from new, and revisions to existing environmental and other provisions in Other businesses and corporate; and a $130 million credit related to tax restructuring benefits.

In addition to the factors above, the increase in profit before tax for the third quarter reflects higher liquids and gas realizations, higher refining margins with some offset from lower marketing margins, higher chemicals margins, higher contributions from the natural gas liquids and solar businesses with some offset from a lower marketing and trading result and the impact of higher volumes and the changing production composition primarily arising from the TNK-BP acquisition. These increases were partly offset by higher costs. These factors also contributed to the increase in profit before tax for the nine months.

Interest expense for the three months and nine months ended September 30, 2004 was $156 million and $453 million respectively, compared with $159 million and $484 million in the same periods of 2003. The decrease for the three months ended September 30, 2004 primarily reflects higher capitalized interest and lower debt buyback costs, almost fully offset by the inclusion of equity-accounted interest from the TNK-BP joint venture. The decrease for the nine months ended September 30, 2004 compared with the same period in 2003 primarily reflects lower average interest rates and an increase in capitalized interest partly offset by the inclusion of equity-accounted interest from the TNK-BP joint venture. Other finance expense for the three months and nine months ended September 30, 2004 was $79 million and $231 million respectively, compared with $139 million and $395 million in the same periods of 2003. The decreases in both periods primarily reflect a reduction in net pension and finance costs partly offset by the inclusion of the unwinding of the discount on the deferred consideration for acquisition of the investment in TNK-BP.

BP p.l.c. AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

Net taxation, other than production taxes, charged for the three months and nine months ended September 30, 2004 was $2,109 million and $6,130 million respectively, compared with $1,428 million and $4,954 million in the equivalent periods last year. The tax on exceptional items was a credit of $33 million and $131 million for the third quarter and nine months of 2004 respectively, compared with a charge of $4 million and $207 million for the third quarter and nine months of 2003. The effective tax rate was 32% and 31% for the three months and nine months ended September 30, 2004, compared with 37% for both the equivalent periods of 2003. The reduction in the third quarter rate reflects the significant non-taxable inventory holding gain reported in 2004 compared with a much smaller gain in 2003 and the reduction in the nine months rate reflects the inventory holding gain in 2004 as well as the low tax charge on the exceptional gains reported in the first quarter of 2004.

Capital expenditure in the third quarter and nine months of 2004 was $3.4 billion and $11.2 billion respectively. The amount for the nine months includes a $1.35 billion payment relating to the contribution of TNK s interest in Slavneft within TNK-BP. Capital expenditure and acquisitions for the third quarter and nine months of 2003 was $9.2 billion and $15.4 billion. Excluding acquisitions, capital expenditure for the three months and nine months ended September 30, 2004 was $3.4 billion and $9.8 billion respectively, compared with $3.3 billion and $9.4 billion respectively. Disposal proceeds in the third quarter and nine months of 2004 were $0.6 billion and $4.1 billion respectively and in the third quarter and nine months of 2003 were $0.9 billion and $5.0 billion respectively.

Net cash inflow for the three months ended September 30, 2004 was $1.7 billion, compared with an outflow of $2.4 billion for the equivalent period of 2003, reflecting higher cash inflow from operating activities, higher dividends from joint ventures and lower acquisition spending partly offset by higher taxes paid, higher payments for fixed assets and lower proceeds from the sale of fixed assets. Net cash inflow for the nine months ended September 30, 2004 was $7.0 billion, compared with $3.2 billion for the equivalent period of 2003, reflecting higher cash inflow from operating activities, higher dividends from joint ventures, lower acquisition spending and lower interest paid partly offset by higher taxes paid, lower proceeds from the sale of fixed assets, higher payments for fixed assets and higher dividends paid. Net cash inflow from operating activities was $6.9 billion and $21.5 billion for the three months and nine months ended September 30, 2004 respectively, compared with $4.9 billion and $18.2 billion in the equivalent periods in 2003. The increase for the third quarter reflected higher profits, a higher net operating charge for pensions and other post-retirement obligations, less contributions, higher depreciation and higher losses on sale of fixed assets and businesses, partly offset by a higher share of profits of joint ventures and associated undertakings and higher working capital requirements. The increase for the nine months reflected higher profits, a higher net operating charge for pensions and other post-retirement obligations, less contributions, and higher depreciation, partly offset by a higher share of profits of joint ventures and associated undertakings, lower profits on sale of fixed assets and businesses and higher working capital requirements.

Net debt at September 30, 2004 was $18.6 billion compared with $20.2 billion at December 31, 2003. The ratio of net debt to net debt plus equity was 20% at Sepember 30, 2004 compared with 22% at December 31, 2003. This ratio shows the proportion of debt and equity used to finance our operations, and can also be used to measure borrowing capacity. In addition to reported debt, BP uses conventional off balance sheet sources of finance such as operating leases and joint venture and associated undertaking borrowings.

The Group has access to other sources of liquidity in the form of committed facilities and other funding through the capital markets. BP believes that, taking into account the substantial amounts of undrawn borrowing facilities available, the Group has sufficient working capital for foreseeable requirements.

In the normal course of business the Group has entered into certain long term purchase commitments principally relating to take or pay contracts for the purchase of natural gas, crude oil and chemicals feedstocks and throughput arrangements for pipelines. The Group expects to fulfil its obligations under these arrangements with no adverse consequences to the Group s results of operations or financial condition.

The return on average capital employed was 19.3% for the third quarter of 2004 compared with 11.4% for the same period in 2003. Return on average capital employed is the ratio of profit including minority shareholders interest and excluding post-tax interest on finance debt to average capital employed for the period. Capital employed is the total of BP shareholders interest, minority shareholders interest and finance debt. This performance measure is useful for shareholders and management as an indication of capital productivity over the long term. For the nine months ended September 30, 2004 the return on average capital employed was 19.0% compared with 13.1% in 2003. For further information on the return on average capital employed calculation see page 69 of this report.

BP announced a third quarterly dividend for 2004 of 7.10 cents per ordinary share. Holders of ordinary shares will receive 3.910 pence per share and holders of American Depositary Receipts (ADRs) $0.426 per ADS. The dividend is payable on December 6, 2004 to shareholders on the register on November 12, 2004. Participants in the Dividend Reinvestment Plan or the dividend reinvestment facility in the US Direct Access Plan will receive the dividend in the form of shares, also on December 6, 2004. During the third quarter, shares of $1.25 billion were issued to Alfa Group and Access Renova (AAR) as the first instalment of the deferred tax consideration. The Company also repurchased for cancellation 241.5 million of its own shares during the quarter, at a cost of $2.25 billion. During the nine months, 621 million shares were repurchased and cancelled at a cost of $5.5 billion.

BP p.l.c. AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

DETAILED REVIEW OF BUSINESSES

EXPLORATION AND PRODUCTION

		Three months ended September 30 (Unaudited)		Nine months ended September 30 (Unaudited)	
		2004	2003	2004	2003
Turnover	- $m	8,660	7,153	25,039	23,303
Profit before interest and tax	- $m	4,888	3,666	13,440	11,821
Exceptional (gains) losses	- $m	(23)	(196)	(120)	(962)
Total operating profit	- $m	4,865	3,470	13,320	10,859
Results include:					
Exploration expense	- $m	135	136	379	349
Of which: Exploration expenditure written off	- $m	34	75	123	168
Key Statistics:					
Crude oil Average prices realized					
by BP	- $/bbl	39.43	27.72	34.93	28.25
Production	- mb/d	2,298	1,852	2,320	1,798
Natural gas liquids Average prices realized					
by BP	- $/bbl	28.77	19.39	25.13	18.96
Production	- mb/d	181	202	190	211
Total liquids(a) Average prices realized					
by BP	- $/bbl	38.29	26.79	33.89	27.24
Production	- mb/d	2,479	2,054	2,510	2,009
Natural gas Average prices realized					
by BP	- $/mcf	3.66	3.08	3.71	3.46
Production	- mmcf/d	8,275	8,401	8,433	8,617
Total hydrocarbons(b) Average prices realized					
by BP	- $/bbl	30.08	22.58	28.03	23.88
Production	- mboe/d	3,906	3,502	3,964	3,495
Brent oil price	- $/bbl	41.54	28.38	36.31	28.64
West Texas Intermediate oil price	- $/bbl	43.88	30.19	39.18	31.08
Alaska North Slope US West Coast	- $/bbl	41.82	28.83	37.70	29.69
Henry Hub gas price (c)	- $/mmbtu	5.75	4.97	5.81	5.65
UK Gas National Balancing Point	- p/therm	23.63	15.08	22.98	17.92

(a) Crude oil and natural gas liquids
(b) Natural gas is converted to oil equivalent at 5.8 billion cubic feet = 1 million barrels
(c) Henry Hub First of the Month Index

Turnover for the three months ended September 30, 2004 was $8.7 billion, compared with $7.2 billion in the corresponding period in 2003, reflecting an increase of around $2.2 billion related to higher liquids and gas realizations, partly offset by a decrease of around $0.7 billion due to lower production volumes (for the BP Group excluding equity-accounted entities) as a result of divestment activity in 2003.

Turnover for the nine months ended September 30, 2004 was $25.0 billion compared with $23.3 billion in the corresponding period of 2003, reflecting an increase of around $4.0 billion related to higher liquids and gas realizations, partly offset by a decrease of around $2.3 billion due to lower production volumes (for the BP Group excluding equity-accounted entities) as a result of divestment activity in 2003.

Profit before interest and tax for the three months and nine months ended September 30, 2004 was $4,888 million and $13,440 million respectively, compared with $3,666 million and $11,821 million for the equivalent periods in 2003. Profit for the third quarter of 2004 included net exceptional gains before tax of $23 million, compared with net gains of $196 million before tax for the equivalent period in 2003. Profit for the nine months of 2004 included net exceptional gains of $120 million before tax compared with net gains of $962 million before tax for the

equivalent period in 2003.

BP p.l.c. AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

EXPLORATION AND PRODUCTION (concluded)

Total operating profit for the three months ended September 30, 2004 was $4,865 million including inventory holding gains of $5 million and is after impairment charges of $7 million in respect of the partner operated Temsah platform in Egypt following a blow-out offset partly by revisions to impairment estimates made in the prior quarter, and a charge of $35 million in respect of Alaskan tankers that are no longer required. Total operating profit for the three months ended September 30, 2003 was $3,470 million.

In addition to the factors above, the primary reasons for the increase in operating profit for the third quarter of 2004 compared with the third quarter of 2003 are higher liquids and gas realizations of around $1,650 million combined with an increase of $130 million due to higher volumes and the changing production composition primarily arising from the TNK-BP acquisition. Operating profit for the third quarter 2004 includes a charge of $95 million, reflecting an increase in the provision for unrealized profit in inventory, which removes the upstream margin from downstream inventories. This compares with a credit of $15 million in the equivalent quarter last year.

Total operating profit for the nine months ended September 30, 2004 was $13,320 million including inventory holding gains of $13 million and is after impairment charges of $7 million in respect of the partner operated Temsah platform in Egypt following a blow-out offset partly by revisions to impairment estimates made in the prior quarter, a charge of $35 million in respect of Alaskan tankers that are no longer required, impairment charges of $160 million in respect of a gas processing plant in the USA and a field in the Gulf of Mexico Shelf and impairment charges of $186 million related to our interests in Desarrollo Zuli Occidental (DZO) and Boqueron in Venezuela. We previously reported an exceptional loss on disposal of $217 million in respect of these assets; however, the sales agreement has lapsed and we will retain our interests in the fields. As a result of the lapse of the agreement, the exceptional loss was reversed and an impairment charge was recognized in the first quarter of 2004.

Total operating profit for the nine months ended September 30, 2003 was $10,859 million including inventory holding gains of $3 million and is after an impairment charge of $108 million related to the Kepadong field in Indonesia, an impairment charge of $103 million related to the Yacheng field in China, charges of $102 million in respect of restructuring activities in North America and the UK and a $49 million write-down of the Viscount asset in the North Sea.

In addition to the factors above, the primary reasons for the increase in operating profit for the nine months ended September 30, 2004 compared with the nine months ended September 30, 2003 are higher liquids and gas realizations of around $2,850 million combined with an increase of $350 million due to higher volumes and the changing production composition primarily arising from the TNK-BP acquisition. Operating profit for the first nine months of 2004 includes a charge of $248 million, reflecting an increase in the provision for unrealized profit in inventory compared with a charge of $4 million in the nine months 2003.

Production for the quarter was up over 11% to 3,906 mboe/d compared with a year ago. This reflects the inclusion of TNK-BP (945 mboe/d compared with 695 mboe/d in the period from August 29 to September 30, 2003) and the continuing ramp-up of production in the New Profit Centres, partly offset by planned maintenance in the North Sea and Alaska, the operational impact of Hurricane Ivan in the Gulf of Mexico and the blow-out at partner operated Temsah in Egypt. We expect full year production to be up over 10% compared to 2003 at around 4 mmboe/d.

Projects in the New Profit Centres remain on track. In the quarter Kizomba A started up in Angola, and in Australia, the North West Shelf Train 4 LNG plant was brought on line and first liftings have taken place.

As a result of global Exploration & Production sector inflationary pressure in the market price of capital goods and the weaker US dollar we have revised our estimate of capital expenditure; we now expect this to be just over $9.5 billion for 2004.

In the third quarter, we had further exploration success with the Pela Lache-1 prospect offshore Sakhalin Island in Russia.

During the quarter, we completed our divestments of various properties in the Gulf of Mexico Shelf and of our interests in Offshore North Sinai in Egypt, resulting in total exceptional gains in the quarter of $23 million.

BP p.l.c. AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

REFINING AND MARKETING

		Three months ended September 30 (Unaudited)		Nine months ended September 30 (Unaudited)	
		2004	2003	2004	2003
Turnover	- $m	45,359	38,205	132,520	112,574
Profit before interest and tax	- $m	1,947	571	4,968	1,934
Exceptional (gains) losses	- $m	17	21	175	122
Total operating profit	- $m	1,964	592	5,143	2,056
Total refined product sales	- kb/d	6,705	6,695	6,594	6,840
Refinery throughputs	- kb/d	3,005	3,086	2,990	3,124
Refining availability (a)	- %	94.9	96.2	95.0	95.7
Global Indicator Refining Margin (b)	- $/bbl	6.20	4.59	6.26	4.13

(a) Refining availability is the weighted average percentage of the period that refinery units are available for processing, after accounting for downtime such as turnarounds.

(b) The Global Indicator Refining Margin (GIM) is the average of six regional indicator margins weighted for BP s crude refining capacity in each region. Each regional indicator margin is based on a single representative crude with product yields characteristic of the typical level of upgrading complexity. The regional indicator margin may not be representative of the margins achieved by BP in any period because of BP s particular refinery configurations and crude and product slate.

Turnover for the three months and nine months ended September 30, 2004 was $45.4 billion and $132.5 billion respectively, compared with $38.2 billion and $112.6 billion for the same periods in the prior year. The increase in turnover in the third quarter of 2004 compared with 2003 was due principally to higher prices contributing approximately $12 billion and foreign exchange movements contributing approximately $2 billion, offset by lower trading and crude oil sales of around $7 billion. The increase in turnover in the nine months of 2004 compared with the nine months of 2003 was principally due to higher prices contributing approximately $25 billion and foreign exchange movements contributing approximately $7 billion, partly offset by lower trading and crude oil sales of around $12 billion.

Profit before interest and tax for the three months and nine months ended September 30, 2004 was $1,947 million and $4,968 million respectively, compared with $571 million and $1,934 million for the equivalent periods in 2003. Profit for the three months and nine months of 2004 was after net exceptional losses before tax of $17 million and $175 million respectively, which relate principally to the disposal of Singapore Refining Company Private Limited (SRC) and the closure of the lubricants operation of the Coryton Refinery in the UK. Profit in the three months and nine months of 2003 was after net exceptional losses before tax of $21 million and $122 million respectively.

Total operating profit for the three months and nine months ended September 30, 2004 was $1,964 million and $5,143 million respectively, including inventory holding gains of $866 million and $1,823 million respectively, and is after charging $206 million in both periods in relation to new, and revisions to existing, environmental and other provisions. Total operating profit for the three months and nine months ended September 30, 2003 was $592 million and $2,056 million respectively, including inventory holding gains of $89 million and after inventory holding losses of $64 million respectively, and is after charging Veba integration costs of $72 million and $131 million respectively, and charging $369 million in both periods in relation to new, and revisions to existing, environmental and other provisions.

In addition to the factors above, the primary reasons for the increase in operating profit for the three months ended September 30, 2004 compared with the three months ended September 30, 2003 are an increase of approximately $800 million from improved refining margins, offset partly by a decline in marketing margins of approximately $250 million, adverse foreign exchange movements of approximately $50 million and portfolio impacts as outlined above of approximately $100 million. The primary additional reasons for the increase in operating profit in the nine months ended September 30, 2004, compared with the nine months ended September 30, 2003 were improved refining margins of approximately $2 billion, coupled with the impact of industry-wide planned and unplanned refinery maintenance. This increase was partly offset by higher purchased energy costs of around $100 million and portfolio impacts of around $100 million. Marketing margins declined by

approximately $550 million and adverse foreign exchange movements impacted operating profit by approximately $250 million.

BP p.l.c. AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

REFINING AND MARKETING (concluded)

The refining result for the quarter was stronger than that suggested by the Global Indicator Margin (GIM) because of upgrading capacity in our refining portfolio and the benefits from supply optimization. Marketing margins decreased relative to the equivalent quarter a year ago because rises in crude and product prices more than offset the increase in selling prices.

During the quarter BP Japan and Petrolub International announced an agreement to merge their automotive lubricant businesses and create a new company called BP Castrol KK.

The disposal of BP s Retail and LPG Business in the Singapore retail network and related assets was completed on September 30, 2004.

BP p.l.c. AND SUBSIDIARIES
MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS continued

PETROCHEMICALS

		Three months ended September 30 (Unaudited)		Nine months ended September 30 (Unaudited)	
		2004	**2003**	**2004**	**2003**
Turnover	- $m	5,412	3,946	14,727	12,264
Profit before interest and tax	- $m	317	86	661	572
Exceptional (gains) losses	- $m	38	(13)	186	(22)
Total operating profit	- $m	355	73	847	550
Production (a)	- kte	7,149	7,040	21,563	20,790
Petrochemicals Indicator Margin (b)	- $/te	139 (c)	109	131 (c)	113

(a) Includes BP share of joint venturesmargin:0in 0in .0001pt;text-align:right;"> 26

Sandoz	**1 039**	14.5	736	12.4	41
Consumer Health continuing operations	**812**	15.0	761	15.5	7
Corporate income & expense, net	1 228		532		131
Operating income from continuing operations	**6 781**	17.8	7 642	22.2	11

Operating income excluding environmental provision and Forward charges

	2007		2006		Change
	USD m	**% of net sales**	**USD m**	**% of net sales**	**In %**
Pharmaceuticals[1]	**6 393**	26.6	6 703	29.7	5
Vaccines and Diagnostics	**72**	5.0	26		
Sandoz	**1 039**	14.5	736	12.4	41
Consumer Health continuing operations[1]	**909**	16.8	761	15.5	19
Corporate income & expense, net[1],[2]	598		532		12
Operating income from continuing operations excluding Corporate environmental charge and Forward restructuring charge	**7 815**	20.5	7 642	22.2	2
Corporate environmental provision increase	590				
Forward restructuring charges	444				
Operating income from continuing operations	**6 781**	17.8	7 642	22.2	11

(1) Excludes respective component of the Forward restructuring charge in the 2007 fourth quarter of USD 444 million (Pharmaceuticals: USD 307 million, Consumer Health: USD 97 million and Corporate: USD 40 million)

(2) Excludes Corporate environmental provision increase of USD 590 million in the 2007 third quarter

Group

Operating income from continuing operations was affected significantly by one-time charges in 2007 that included approximately USD 1 billion in total for Corporate environmental provisions (USD 590 million) and restructuring charges for the Forward initiative (USD 444 million). Excluding these two charges, operating income from continuing operations rose 2%.

Pharmaceuticals

Among the factors contributing to the decline were lost operating income in the US due to the entry of generic competition for four products and the suspension of *Zelnorm,* major investments in late-stage development compounds, new product launches and restructuring charges. The operating margin declined to 25.3% of net sales (or to 26.7% of net sales excluding total restructuring charges) from 29.7% in 2006. Research & Development investments rose 19% to USD 5.1 billion and represented 21% of net sales, mainly to support the rich late-stage pipeline that includes the projects FTY720, QAB149, MFF258, ACZ885, ABF656, RAD001 and *Exforge*. Marketing & Sales expenses were up 9% to support many new product launches and rollouts, which was partly offset by productivity initiatives. Cost of Goods Sold was higher due mainly to a USD 320 million intangible asset impairment charge for *Famvir* product rights.

Vaccines and Diagnostics

The strong business performance supported significant investments in R&D, particularly for late-stage trials involving meningococcal meningitis vaccine candidates and a new strategic alliance with Intercell. The adjusted operating margin was 21.3% of net sales excluding legal settlement gains of USD 83 million in 2007 as well as restructuring and amortization charges for intangible assets.

Sandoz

Advancing broadly twice as fast as net sales, operating income expansion was driven by efficiency improvements throughout the division, economies of scale in marketing and productivity gains in R&D. As a result, the operating margin improved to 14.5% of net sales from 12.4% in 2006. Excluding one-time items and acquisition-related amortization of intangible assets in both periods, adjusted operating income rose 20% and the adjusted operating margin reached 20.0%.

Consumer Health continuing operations

Excluding the charge for Forward, operating income rose 19% and supported continued investments in R&D and marketing for new product launches and geographic expansion.

CONTINUING OPERATIONS

Fourth quarter

Key figures

	Q4 2007		Q4 2006		% change	
	USD m	% of net sales	USD m	% of net sales	USD	lc
Net sales	**9 931**		9 398		6	1
Operating income excl. Forward [1]	**1 341**	**13.5**	1 725	18.4	22	
Operating income	**897**	**9.0**	1 725	18.4	48	
Net income	**931**	**9.4**	1 596	17.0	42	
Basic earnings per share	**USD 0.41**		USD 0.67		39	

(1) Excludes USD 444 million in restructuring charges for the Forward initiative

Net sales

	Q4 2007 USD m	Q4 2006 USD m	% change USD	lc
Pharmaceuticals	**6 152**	6 049	2	5
Vaccines and Diagnostics	**398**	455	13	18
Sandoz	**1 971**	1 653	19	9
Consumer Health continuing operations	**1 410**	1 241	14	6
Net sales from continuing operations	**9 931**	9 398	6	1

Group

Overall good net sales growth in reported US dollars was achieved as Sandoz and Consumer Health offset the negative developments in Pharmaceuticals in the US and a weaker quarter in Vaccines and Diagnostics. Sales volumes and price changes each resulted in a loss of one percentage point in net sales, but were offset by acquisitions that provided one percentage point and currency translation that added seven percentage points to net sales.

Pharmaceuticals

Europe, Latin America and key emerging markets generated high-single-digit growth, but US net sales fell 21% due to generic competition for four products *Lotrel, Lamisil, Trileptal* and *Famvir* and the suspension of *Zelnorm*. However, worldwide net sales rose 8% for the unaffected product portfolio. *Diovan* (USD 1.4 billion, +12% lc) and *Gleevec/Glivec* (USD 0.8 billion, +12% lc) both improved their leadership positions as

the Oncology, Cardiovascular and Neuroscience franchises all delivered solid performances. The continued rollout of many new products including *Tekturna/Rasilez, Exforge, Exjade, Lucentis, Aclasta/Reclast, Exelon Patch* and *Xolair* in key markets around the world provided combined net sales of USD 427 million for the quarter.

Vaccines and Diagnostics

The net sales decline reflected deliveries of seasonal influenza vaccines occurring mainly in the third quarter of 2007 due to earlier availability as a result of high viral strain production yields for the vaccine. In comparison, poor production yields for vaccines last year led to more shipments occurring in the fourth quarter of 2006 than in the third quarter. Further expansion in Europe of the blood testing business supported the ongoing positive performance in Diagnostics.

Sandoz

Ongoing dynamic expansion as US net sales increased at a fast pace, while contributions from Eastern Europe, Asia and Latin America underpinned the performance. Key drivers were solid growth in the base retail generics business as well as recent launches of difficult-to-make and authorized generics.

Consumer Health continuing operations

Animal Health led the division with double-digit growth, reflecting the benefits of new product launches, recent sales force investments and the integration of Sankyo Lifetech in Japan. OTC grew at a slower pace, mainly due to the weak cough and cold season in the US. CIBA Vision was supported by new product launches, including *Air Optix Toric* contact lenses in Europe, with the year-ago period negatively impacted by a product recall.

Operating income

	Q4 2007		Q4 2006		Change
	USD m	% of net sales	USD m	% of net sales	In %
Pharmaceuticals	**925**	15.0	1 621	26.8	43
Vaccines and Diagnostics	**107**		2	0.4	
Sandoz	**250**	12.7	204	12.3	23
Consumer Health continuing operations	**85**	6.0	74	6.0	15
Corporate income & expense, net	256		176		45
Operating income from continuing operations	**897**	9.0	1 725	18.4	48

Operating income excluding Forward charge

	Q4 2007		Q4 2006		Change
	USD m	% of net sales	USD m	% of net sales	In %
Pharmaceuticals[(1)]	**1 232**	20.0	1 621	26.8	24
Vaccines and Diagnostics	**107**		2		0.4
Sandoz	**250**	12.7	204	12.3	23
Consumer Health continuing operations[(1)]	**182**	12.9	74	6.0	146
Corporate income & expense, net[(1)]	216		176		23
Operating income from continuing operations excluding Forward[(1)]	**1 341**	13.5	1 725	18.4	22
Forward restructuring charge	444				
Operating income from continuing operations	**897**	9.0	1 725	18.4	48

(1) Excludes a USD 444 million restructuring charge in the 2007 fourth quarter for the Forward initiative (Pharmaceuticals: USD 307 million, Consumer Health: USD 97 million and Corporate: USD 40 million)

Group

Operating income from continuing operations declined 22% excluding the restructuring charge of USD 444 million for the Forward initiative.

Pharmaceuticals

The significant decline reflected reduced income contributions from the US due to the loss of sales from products that have been suspended or face generic competition as well as ongoing investments in R&D, new product launches and restructuring charges. Excluding total restructuring charges, operating income fell 22% and the operating margin was 20.4% of net sales. Research & Development rose 19% in the fourth quarter of 2007 to represent 23% of net sales, mainly based on investments in late-stage development projects but also reflecting partial impairments of in-process R&D assets. Marketing & Sales expenses rose 3% as productivity initiatives helped offset some of the major investments being made in new product launches. Cost of Goods Sold was affected by the unfavorable product mix resulting from the loss of products in the US to generic competition and the suspension of *Zelnorm*.

Vaccines and Diagnostics

The results reflected the timing of seasonal influenza vaccine shipments, with more occurring in the third quarter of 2007 than in the fourth quarter. In contrast, poor production yields in 2006 led to more seasonal influenza vaccine sales in the fourth quarter than in the third quarter of 2006. Increased investments were made during the fourth quarter of 2007 in Research & Development in the meningitis vaccine portfolio and in technical infrastructure.

Sandoz

Operating income expanded largely in line with net sales, with the operating margin rising to 12.7% of net sales while supporting significant additional investments for expansion in emerging markets and product development. Excluding one-time items and the amortization of intangible assets in both periods, adjusted operating income advanced 22% and the corresponding operating margin reached 17.8%.

Consumer Health continuing operations

The improvement in operating income reflected improvements in Cost of Goods Sold due to a better product mix as well as a reduction in total operating costs. General & Administrative expenses declined, while Marketing & Sales investments benefited from targeted spending to support new product launches and geographic expansion. The year-ago quarter included a provision for a CIBA Vision recall of contact lenses.

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Corporate

Full year

	2007 USD m	2006 USD m	Change USD m	% change
Operating income from continuing operations excl. environmental provision and Forward[1]	**7 815**	**7 642**	**173**	**2**
Corporate environmental provision increase	590		590	
Forward restructuring charge	444		444	
Operating income from continuing operations	**6 781**	**7 642**	**861**	**11**
Income from associated companies	412	264	148	56
Financial income	531	354	177	50
Interest expense	237	266	29	11
Taxes	947	1 169	222	19
Net income from continuing operations	**6 540**	**6 825**	**285**	**4**
Net income from discontinued Consumer Health operations	5 428	377	5 051	
Total net income	**11 968**	**7 202**	**4 766**	**66**

(1) Excludes a Corporate environmental provision increase of USD 590 million in the 2007 third quarter and a USD 444 million restructuring charge in the 2007 fourth quarter for the Forward initiative

Fourth quarter

	Q4 2007 USD m	Q4 2006 USD m	Change USD m	% change
Operating income from continuing operations excl. Forward[1]	**1 341**	**1 725**	**384**	**22**
Forward restructuring charge	444		444	
Operating income from continuing operations	**897**	**1 725**	**828**	**48**
Income from associated companies	104	71	33	46
Financial income	245	95	150	158
Interest expense	61	57	4	7
Taxes	254	238	16	7
Net income from continuing operations	**931**	**1 596**	**665**	**42**
Net income from discontinued Consumer Health operations	18	67	85	127
Total net income	**913**	**1 663**	**750**	**45**

(1) Excludes a USD 444 million restructuring charge in the 2007 fourth quarter for the Forward initiative

Income from associated companies

Income from associated companies rose to USD 412 million in 2007, nearly double the USD 264 million in 2006 that included exceptional charges for Chiron. The investment in Roche provided income in 2007 of USD 391 million, up 35% from 2006. This represented USD 509

million in anticipated 2007 income from Roche that includes a positive prior-year adjustment of USD 13 million, which was offset by USD 118 million for amortization of intangible assets. Other associated companies added USD 21 million in income for 2007. In the fourth quarter, income rose 46% to USD 104 million from the comparable 2006 period.

Financial income, net

Net financial income more than tripled to USD 294 million in 2007 from USD 88 million in 2006, reflecting increased liquidity due to divestment proceeds and excellent currency management in very challenging conditions. In the fourth quarter, net financial income rose to USD 184 million from USD 38 million in the 2006 period, benefiting from improved liquidity and currency gains.

Taxes

The tax rate for continuing operations fell to 12.6% in 2007 from 14.6% in 2006 due to several factors that included the restructuring and environmental provision increases, a reduced corporate tax rate in Germany and a benefit from the restructuring of the Chiron business on integration into the Novartis Group. The Chiron restructuring, however, had a negative impact on the fourth quarter of 2007 as the tax rate rose to 21.4%, up from 13.0% in the comparable 2006 period.

Net income

Net income from continuing operations declined 4% to USD 6.5 billion in 2007, with basic earnings per share down 3% to USD 2.81 from USD 2.90 in 2006. Higher contributions of income from associated companies, improved net financial income and a lower tax rate all helped to mitigate the decline.

In the fourth quarter of 2007, net income from continuing operations fell 42% to USD 931 million, while basic earnings per share was down 41% to USD 0.40. The sharp reduction in net income was largely in line with reduced operating income, which was adversely impacted by lost income contributions from the US pharmaceuticals business and the Forward restructuring charge taken in the quarter.

Balance sheet

The Group s equity rose to USD 49.4 billion at December 31, 2007, from USD 41.3 billion at December 31, 2006. The net increase of USD 8.1 billion included USD 14.8 billion in total recognized income and expenses (comprised of USD 12.0 billion in net income, USD 2.2 billion in currency translation gains, USD 0.4 billion in actuarial gains on pension plans and USD 0.2 billion in other net movements) that were offset by USD 6.7 billion in transactions with shareholders (mainly a payment of USD 2.6 billion for the dividend and USD 4.1 billion in net share repurchases and share-based compensation).

Thanks to divestment proceeds and the strong cash flow from continuing operations, net liquidity rose sharply to USD 7.4 billion at the end of 2007 from USD 0.7 billion at the end of 2006. The debt/equity ratio at the end of 2007 improved to 0.12:1 compared to 0.18:1 at the end of 2006.

Novartis is one of the few non-financial services companies worldwide with 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 for long- and short-term, while Fitch has rated Novartis as AAA for long-term maturities and F1+ for short-term maturities.

Cash flow

Cash flow from continuing operating activities was USD 9.2 billion in 2007, an increase of USD 0.9 billion from 2006 due mainly to the underlying business expansion and continued strict control of working capital. Net cash used for investing activities in continuing operations was USD 6.2 billion, mainly the result of USD 2.9 billion in net investments for intangible and tangible assets and USD 3.3 billion in financial assets (including marketable securities). Free cash flow from continuing operations after dividends was USD 3.8 billion, a decline from USD 4.0 billion in 2006 due to the larger dividend payment and higher capital expenditures. Among the reasons for the increased capital expenditures, which were USD 2.5 billion and represented 6.7% of net sales from continuing operations, were capacity expansion projects in Vaccines and Diagnostics, Sandoz and Pharmaceuticals.

Dividend proposal for 2007

The Board of Directors has proposed a dividend payment of CHF 1.60 per share for 2007, a 19% increase from the dividend of CHF 1.35 per share in 2006. Shareholders will vote on this proposal at the next Annual General Meeting on February 26, 2008. This proposal marks the eleventh consecutive year of a higher dividend payout since the creation of Novartis in December 1996. If approved by shareholders, dividends paid for 2007 on outstanding shares are expected to total approximately USD 3.2 billion. The dividend payout ratio for 2007 will be 49% of the Group s net income from continuing operations. Based on the year-end 2007 share price of CHF 62.10, the dividend yield is 2.6% compared to 1.9% in 2006. The payment date for the 2007 dividend is set for February 29, 2008. All issued shares are dividend bearing, with the exception of 272.7 million treasury shares.

Proposal for new CHF 10 billion share repurchase program

Utilizing the Group s strong free cash flow and proceeds from recent divestments, Novartis completed its fourth and fifth share repurchase programs during 2007, with a total of 85.3 million shares worth CHF 4.7 billion repurchased via a second trading line on the SWX Swiss Stock Exchange where Novartis is the exclusive buyer. Shareholders will also be asked to approve the cancellation of these shares acquired in 2007 along with a corresponding reduction of 3.1% in the Group s registered share capital. The Board of Directors will propose to shareholders the approval of a new CHF 10 billion repurchase program at the next Annual General Meeting in February 2008.

Preparing for a new growth cycle

Novartis believes it has an excellent portfolio to address a dynamically changing healthcare environment one that is diversified, yet focused solely on healthcare and in businesses with dynamic growth potential going beyond patented prescription pharmaceuticals to include generic pharmaceuticals, preventive vaccines and diagnostics, and targeted consumer health products.

The Sandoz, Vaccines and Diagnostics and Consumer Health Divisions are expected to again deliver strong performances in 2008. These businesses are expanding quickly and compete in some areas that are expected to grow faster than the global market for patented pharmaceuticals.

Thanks to leading positions for many top products and the ongoing launches for many new medicines, the Pharmaceuticals Division is expected to return to dynamic growth in the second half of 2008. Launches are progressing well for recently approved products, including *Exforge, Tekturna/Rasilez, Lucentis, Tasigna, Exelon Patch* and *Aclasta/Reclast,* following 15 major regulatory approvals in 2007 in the US and Europe.

However, the results of Pharmaceuticals in the first two quarters of 2008 will be negatively affected by the full-year effect of having lost significant sales contributions from five products in the US during 2007. These products Ze*lnorm*, *Lotrel*, *Trileptal*, *Lamisil* and *Famvir* had combined total net sales in the US of USD 3.1 billion in 2006, and net sales for this group fell to USD 1.7 billion in 2007, mainly from the entry of generic competition. The year-on-year impact of lost sales from these products will only diminish later in 2008. At the same time, underlying growth of the unaffected product portfolio driven by launches of many new products and further expansion of flagship products such as *Diovan* and *Gleevec/Glivec* are expected to support high-single digit net sales growth in the Pharmaceuticals Division by the

fourth quarter of 2008, and for net sales growth at a low-single-digit rate for the full year, both in local currencies.

To help Novartis more rapidly meet the needs of patients and customers, the Forward initiative was launched in December 2007 to improve competitiveness. This initiative, which is now underway and will be implemented in 2008 and 2009, will simplify organizational structures, accelerate and decentralize decision-making processes, redesign the way Novartis operates and provide productivity gains. Pre-tax annual cost savings of USD 1.6 billion are expected in 2010, with a pre-tax restructuring charge of USD 444 million taken in the 2007 fourth quarter. Approximately 2,500 full-time positions are expected to be reduced from among the currently nearly 100,000 full-time positions within the Group. Many reductions will be handled through normal fluctuation in staffing levels, which has traditionally averaged about 8% of the Group s annual workforce, as well as through vacancy management and social programs.

Ranked as having one of the industry s best pharmaceutical product pipelines, Novartis will continue making major investments in drug discovery, particularly biologic therapies. The Novartis Biologics unit was created in 2007 as a dedicated innovation unit with a strong biotech culture in the areas of discovery and development unique to biologics, and with full access to the extensive Novartis organization. These types of therapies are increasingly a priority and now total approximately 25% of the pre-clinical research pipeline.

Group outlook

(Barring any unforeseen events)

Given the outlook for strong contributions from most of its healthcare businesses, Novartis continuing operations expect another year of record net sales and earnings in 2008. Net sales from continuing operations for the Group are expected to rise at a mid-single-digit rate, and at a low-single-digit growth rate in the Pharmaceuticals Division, both in local currencies.

Pharmaceuticals products performance review

Note: All net sales growth figures refer to 2007 worldwide performance in local currencies

Diovan (USD 5.0 billion, +16% lc) reached another important milestone in 2007 as net sales reached USD 5 billion for the first time. *Diovan* has consistently grown thanks to new indications and clinical data underpinning its status as the world s No. 1 branded high blood pressure medicine. Many key countries, particularly the US, Japan and Germany, delivered double-digit growth. *Diovan* held in the US a 40% share among angiotensin receptor blockers (ARBs), the fastest-growing segment of the antihypertensive market. *Co-Diovan/Diovan HCT,* a single-tablet combination with a diuretic, was driven by growing use of multiple therapies.

Gleevec/Glivec (USD 3.1 billion, +14% lc), a therapy for certain forms of chronic myeloid leukemia (CML) and gastrointestinal stromal tumors (GIST), reinforced its leadership in helping patients with these and other often-fatal forms of cancer. New data from the IRIS study in patients with newly diagnosed Philadelphia chromosome-positive CML (Ph+ CML) showed *Gleevec/Glivec* halted disease progression to more advanced stages completely in the sixth year of treatment and that 88% of *Gleevec/Glivec* patients in the trial were still alive. *Gleevec/Glivec* has also benefited from wider use in patients with GIST and in various rare diseases. Competition in the CML market in 2007 had little impact on underlying demand.

Zometa (USD 1.3 billion, 2% lc), an intravenous bisphosphonate therapy for patients with cancer that has spread to the bones, delivered a steady performance amid signs that demand stabilized during 2007 in the US and Europe. Overall growth for this class of medicines has slowed with many patients receiving treatment less frequently and for a shorter course of therapy. However, this trend was balanced by increasing use in patients with lung cancer as well as rapid growth in Japan and markets outside the US and Europe. In December, the US Food and Drug Administration granted *Zometa* an additional six months of marketing exclusivity until 2013 following the completion of pediatric studies.

Sandostatin (USD 1.0 billion, +7% lc), for acromegaly and various neuroendocrine and carcinoid tumors, reached annual net sales of USD 1 billion for the first time thanks to increasing use of the long-acting-release *Sandostatin LAR* version given once a month that accounts for 85% of net sales. The once-daily *Sandostatin* version faces generic competition.

Neoral/Sandimmun (USD 944 million, 2% lc), for organ transplantation, has maintained generally stable worldwide net sales despite ongoing generic competition thanks to its pharmacokinetic profiles and reliability.

Femara (USD 937 million, +25% lc), an oral treatment for women with hormone-sensitive breast cancer, delivered ongoing dynamic growth primarily from expanded use in patients immediately after surgery (early adjuvant) in the US and Europe as well as from the 2006 launch in Japan. *Femara* has outpaced competitors and gained market share in the aromatase inhibitor segment due to its unique benefits.

Lotrel (USD 748 million, 45% lc, only in US) has been negatively affected since May 2007 following the at risk launch of a generic copy by Teva Pharmaceuticals despite a valid US patent until 2017. Sandoz also launched an authorized generic version of this high blood pressure medicine. A trial date has not been set for the ongoing lawsuit against Teva, which risks potentially significant damages if Novartis prevails.

Voltaren (USD 747 million, +3% lc), a therapy for inflammation and pain, showed steady growth, primarily in Latin America and Asia, based on long-term trust in the brand. Patent

protection for *Voltaren* in many key markets around the world has expired.

Trileptal (USD 692 million, 6% lc), a treatment for epilepsy seizures, generated growth until the expected entry of US generic competition in October 2007, which led to a sharp decline in US net sales in the fourth quarter of 2007.

Lescol (USD 665 million, 12% lc), a statin drug used to reduce cholesterol, was primarily impacted by decisions to reduce reference prices in Europe, while the introduction of generic simvastatin and a highly competitive market for this class weighed on US net sales.

Exelon (USD 632 million, +14% lc), for mild to moderate forms of Alzheimer s disease and dementia associated with Parkinson s disease, delivered solid growth. Several launches are underway for ***Exelon Patch*** in the US and Europe following regulatory approvals in 2007. This once-daily skin patch provides a novel treatment approach with a smooth and continuous delivery of *Exelon* to patients. *Exelon Patch* provides equivalent efficacy to the highest doses of capsules, but with three times fewer reports of nausea or vomiting.

Lamisil (USD 595 million, 40% lc), a therapy for fungal nail infections, fell sharply after the entry of US generic competition in July 2007. Basic patent protection for *Lamisil* s active ingredient has now expired worldwide, with generics already available in Europe and Japan.

Lucentis (USD 393 million), for treatment of the eye disease wet age-related macular degeneration (AMD), experienced dynamic growth in Europe and other markets in its first year after EU approval in January 2007. *Lucentis* is the only treatment proven in clinical trials to maintain and improve vision in these patients with this form of AMD, which is the leading cause of blindness in people over age 50. Genentech holds the US rights.

Exjade (USD 357 million, +141% lc) delivered strong growth based on its unique status as the first once-daily oral therapy for iron overload associated with various blood disorders. First launched in the US in November 2005 and in Europe starting in August 2006, *Exjade* is now approved in over 85 countries. In 2007 *Exjade* was submitted in Japan, a year ahead of schedule. About half of patients being given this medicine are new to iron chelation.

Xolair (USD 140 million, +30% lc), a biotechnology drug that offers a new approach for the treatment of moderate to severe allergic asthma, has benefited from rapid acceptance and is now available in 54 countries after EU approval in October 2005. *Xolair* is administered as an injection every two to four weeks and is proven to target a root cause of allergic asthma. Novartis co-promotes *Xolair* with Genentech in the US and shares a portion of operating income. Genentech reported US sales of USD 472 million for *Xolair* in 2007.

Zelnorm/Zelmac (USD 88 million, 84% lc), for irritable bowel syndrome and chronic constipation, was suspended in the US in March 2007, and subsequently in many other countries, to comply with a request from the FDA to review cardiovascular safety data. A treatment access program was started in the US to provide *Zelnorm* to appropriate patients. Novartis continues to believe *Zelnorm/Zelmac* offers important benefits to appropriate patients, and discussions continue with various health authorities.

Prexige (USD 91 million), an oral COX-2 inhibitor for osteoarthritic pain, was withdrawn in the European Union and many other countries in 2007. These actions were taken after the first withdrawal in August in Australia based on post-marketing reports of serious liver side-effects allegedly associated with long-term use of higher doses, including the deaths of two patients. In September, the FDA issued a not approvable letter for the 100 mg once-daily dose, which is the lowest available formulation. Novartis believes *Prexige*, which continues to

be available in some countries, is a valuable therapy option for appropriate patients, particularly those at risk of serious gastrointestinal complications, and will continue discussions with health authorities.

Exforge (USD 103 million), a single-tablet combination of two proven high blood pressure medicines, the angiotensin receptor blocker *Diovan* and the calcium channel blocker amlodipine, delivered the strongest launch performance of any Novartis anti-hypertensive medicine thanks to rapid growth in the US and Europe following approvals in 2007. Clinical data have shown nine of ten patients treated with *Exforge* reached treatment goals, confirming strong efficacy coupled with improved convenience.

Aclasta/Reclast (USD 41 million) was launched in September 2007 in the US as a 15-minute, once-yearly infusion for women with postmenopausal osteoporosis, while initial launches were started in Europe in Germany and the UK after European Union approval in October 2007. *The New England Journal of Medicine* published in September the results of the first-ever clinical study involving more than 2,100 men and women with osteoporosis who had suffered a hip fracture, showing that *Aclasta/Reclast* reduces the risk of further fractures.

Tekturna/Rasilez (USD 40 million), the first new type of high blood pressure medicine in more than a decade, has performed well in a highly competitive US marketplace following its approval and launch in March 2007. Launches are also underway after European approval in August 2007. Known as *Tekturna* in the US and as *Rasilez* in other markets, key drivers have been broad clinical data demonstrating efficacy in lowering blood pressure, its safety profile and rising reimbursement rates in US formulary plans. Initial results of trials related to the ASPIRE HIGHER program showed potential benefits of *Tekturna/Rasilez* in reducing a key biomarker of kidney disease (AVOID) and in reducing the severity of heart failure (ALOFT). *Rasilez HCT,* a single-tablet combination with a diuretic, was submitted for EU approval in late 2007, while US approval of *Tekturna HCT* is expected in early 2008. This medicine was discovered by Novartis and developed in collaboration with Speedel.

Tasigna was launched during the fourth quarter of 2007 in the US and Europe following regulatory approvals as a new therapy for patients with Philadelphia chromosome-positive chronic myeloid leukemia (Ph+ CML) who are resistant or intolerant to treatment with *Gleevec/Glivec* (imatinib). *Tasigna* is now approved in about 40 countries, and was also submitted for approval in Japan in June. *Tasigna* was designed to be a more potent and selective inhibitor of Bcr-Abl, the cause of Ph+ CML, and its mutations than *Gleevec/Glivec*. Separate Phase III studies are underway comparing *Tasigna* and *Gleevec/Glivec* in newly diagnosed CML patients as well as those with sub-optimal responses to previous therapy. A registration study is also underway in patients with gastrointestinal stromal tumors (GIST) who are resistant or intolerant to prior treatment.

Research & Development update

Pharmaceuticals

Galvus (vildagliptin), a new oral treatment for type 2 diabetes, is expected to be first made available in Europe in the first half of 2008. European health authorities announced in November 2007 their support for changes proposed by Novartis to prescribing information that would reduce the recommended daily doses to 50 mg once-daily or 50 mg twice-daily in combination with various other oral anti-diabetes medicines. EU approval was granted in November 2007 for ***Eucreas***, a single-tablet combination of *Galvus* with the oral anti-diabetes medicine metformin. In the US, Novartis is continuing discussions with the FDA on steps needed for approval after having received an approvable letter in February 2007 that included a request for additional clinical trial data. A resubmission for US regulatory approval is not expected before 2010.

FTY720 (fingolimod) is on track for regulatory submissions at the end of 2009 after clinical trial enrollment required for global submissions was completed in 2007. FTY720, an oral therapy, is currently being investigated in the largest worldwide Phase III program to be conducted in relapsing-remitting multiple sclerosis (MS) to further evaluate its efficacy and safety. The program includes FREEDOMS and FREEDOMS II, two-year placebo-controlled trials measuring reductions in relapse rates and disability progression, and the one-year TRANSFORMS trial comparing FTY720 with interferon beta-1a (Avonex®). FTY720 has the potential to be the first in a new class of disease-modifying MS therapies that action on inflammation and could potentially have a direct impact on the Central Nervous System.

QAB149 (indacaterol), a once-daily long-acting beta-agonist with 24-hour bronchodilation and a fast onset of action, completed enrollment in 2007 in a pivotal Phase III monotherapy trial as a treatment for chronic obstructive pulmonary disease (COPD), a condition in which the lungs have been damaged, usually from smoking. QAB149 is also being developed for use in combination with other respiratory medicines and development compounds in patients with COPD. Other combination trials are being done in asthma.

RAD001 (everolimus), a once-daily oral inhibitor of the mTOR pathway that has demonstrated broad clinical activity in multiple tumors, is progressing toward a potential first regulatory submission in 2008. Enrollment has been completed in the registration trial involving metastatic renal cell carcinoma, a form of kidney cancer. Registration trials are also underway in chemotherapy-refractory pancreatic islet cell tumors (pICT) in the first- and second-line setting and for chemotherapy-refractory carcinoid (slow growing) tumors. RAD001 acts by directly inhibiting tumor cell growth and metabolism as well as the formation of new blood vessels (angiogenesis).

SOM230 (pasireotide), a next-generation somatostatin analogue therapy, has completed Phase II studies for acromegaly, carcinoid tumors and Cushing s disease. A Phase III registration study is enrolling patients with Cushing s disease, a rare disorder characterized by excessive excretion of the hormone cortisol from a pituitary adenoma (tumor) and a condition for which there is no approved medical therapy. Additional registration studies for acromegaly and refractory carcinoid patients are set to begin in the first quarter of 2008.

Vaccines and Diagnostics

Menveo (MenACWY-CRM), in development as a vaccine against four common types of meningococcal meningitis, showed in a Phase II trial that it may protect infants as young as two months old. *Menveo* was well tolerated and showed high immunogenicity against four types A, C, W135 and Y. Infants and adolescents have the highest rate of this disease, with the highest attack rates in infants from age three to 12 months. This rare, but potentially

fatal, bacterial disease causes an infection of membranes around the brain and spinal cord. Existing vaccines have not worked in very young children.

Disclaimer

These materials contain certain forward-looking statements relating to the Group s business, which can be identified by the use of forward-looking terminology such as proposed, expects, outlook , to show, set, strategy , expected , designed to, confident, will future trends, potential , targeted, proposal, believes, pipelines , approvable, may, or similar expressions, or by express or implied dis regarding potential new products, potential new indications for existing products, or regarding potential future revenues from any such products, or potential future sales or earnings of the Novartis Group or any of its divisions or business units; or by discussions of strategy, plans, expectations or intentions. Such forward-looking statements reflect the current views of the Group regarding future events, and involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. There can be no guarantee that any new products will be approved for sale in any market, or that any new indications will be approved for existing products in any market, or that such products will achieve any particular revenue levels. Nor can there be any guarantee that the Novartis Group, or any of its divisions or business units, will achieve any particular financial results. In particular, management s expectations could be affected by, among other things, uncertainties involved in the development of new pharmaceutical products; unexpected clinical trial results, including additional analysis of existing clinical data or unexpected new clinical data; unexpected regulatory actions or delays or government regulation generally; the Group s ability to obtain or maintain patent or other proprietary intellectual property protection, including the uncertainties involved in the US litigation process; competition in general; government, industry, and general public pricing and other political pressures; and other risks and factors referred to in Novartis AG s current Form 20-F on file with the US Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. Novartis is providing the information in these materials as of this date and does not undertake any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

About Novartis

Novartis AG provides healthcare solutions that address the evolving needs of patients and societies. Focused solely on growth areas in healthcare, Novartis offers a diversified portfolio to best meet these needs: innovative medicines, cost-saving generic pharmaceuticals, preventive vaccines and diagnostic tools, and consumer health products. Novartis is the only company with leading positions in these areas. In 2007, the Group s continuing operations (excluding divestments in 2007) achieved net sales of USD 38.1 billion and net income of USD 6.5 billion. Approximately USD 6.4 billion was invested in R&D activities throughout the Group. Headquartered in Basel, Switzerland, Novartis Group companies employ approximately 98,200 full-time associates and operate in over 140 countries around the world. For more information, please visit http://www.novartis.com.

Important dates

February 26, 2008	Annual General Meeting
April 21, 2008	First quarter 2008 results
July 17, 2008	Second quarter and first half 2008 results
October 20, 2008	Third quarter and first nine months 2008 results

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statements (audited)

Full year

	2007 USD m	2006 USD m	Change USD m	Change %
Net sales from continuing operations	**38 072**	**34 393**	**3 679**	**11**
Other revenues	875	712	163	23
Cost of Goods Sold	-11 032	-9 411	-1 621	17
Of which amortization and impairments of product and patent rights and trademarks	*-1 329*	*-763*	*-566*	*74*
Gross profit	**27 915**	**25 694**	**2 221**	**9**
Marketing & Sales	-11 126	-10 092	-1 034	10
Research & Development	-6 430	-5 321	-1 109	21
General & Administration	-2 133	-1 882	-251	13
Other Income & Expense[1]	-1 445	-757	-688	91
Operating income from continuing operations	**6 781**	**7 642**	**-861**	**-11**
Income from associated companies	412	264	148	56
Financial income	531	354	177	50
Interest expense	-237	-266	29	-11
Income before taxes from continuing operations	**7 487**	**7 994**	**-507**	**-6**
Taxes	-947	-1 169	222	-19
Net income from continuing operations	**6 540**	**6 825**	**-285**	**-4**
Net income from discontinued Consumer Health operations	5 428	377	5 051	
Total net income	**11 968**	**7 202**	**4 766**	**66**
Attributable to:				
Equity holders of Novartis AG	*11 946*	*7 175*	*4 771*	*66*
Minority interests	*22*	*27*	*-5*	*-19*
Average number of shares outstanding Basic (million)	**2 317.5**	**2 345.2**	**-27.7**	**-1**
Basic earnings per share (USD)[2]				
Total	**5.15**	**3.06**	**2.09**	**68**
Continuing operations	**2.81**	**2.90**	**-0.09**	**-3**
Discontinued operations	**2.34**	**0.16**	**2.18**	
Average number of shares outstanding Diluted (million)	2 328.9	2 360.5	-31.6	-1
Diluted earnings per share (USD)[2]				
Total	5.13	3.04	2.09	69
Continuing operations	2.80	2.88	-0.08	-3
Discontinued operations	2.33	0.16	2.17	

(1) Includes Corporate environmental provision increase of USD 590 million taken in the third quarter of 2007 and a restructuring charge of USD 444 million taken in the fourth quarter of 2007 for the Forward initiative

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

Consolidated income statements (unaudited)

Fourth quarter

	Q4 2007 USD m	Q4 2006 USD m	Change USD m	Change %
Net sales from continuing operations	**9 931**	**9 398**	**533**	**6**
Other revenues	240	256	-16	-6
Cost of Goods Sold	-3 013	-2 677	-336	13
Of which amortization and impairments of product and patent rights and trademarks	*-250*	*-223*	*-27*	*12*
Gross profit	**7 158**	**6 977**	**181**	**3**
Marketing & Sales	-3 045	-2 904	-141	5
Research & Development	-1 847	-1 540	-307	20
General & Administration	-634	-593	-41	7
Other Income & Expense[1]	-735	-215	-520	242
Operating income from continuing operations	**897**	**1 725**	**-828**	**-48**
Income from associated companies	104	71	33	46
Financial income	245	95	150	158
Interest expense	-61	-57	-4	7
Income before taxes from continuing operations	**1 185**	**1 834**	**-649**	**-35**
Taxes	-254	-238	-16	7
Net income from continuing operations	**931**	**1 596**	**-665**	**-42**
Net income from discontinued Consumer Health operations	-18	67	-85	-127
Total net income	**913**	**1 663**	**-750**	**-45**
Attributable to:				
Equity holders of Novartis AG	*904*	*1 654*	*-750*	*-45*
Minority interests	*9*	*9*		
Average number of shares outstanding Basic (million)	**2 278.0**	**2 348.8**	**-70.8**	**-3**
Basic earnings per share (USD)[2]				
Total	**0.40**	**0.70**	**-0.30**	**-43**
Continuing operations	**0.41**	**0.67**	**-0.26**	**-39**
Discontinued operations	**-0.01**	**0.03**	**-0.04**	**-133**
Average number of shares outstanding Diluted (million)	2 287.2	2 367.5	-80.3	-3
Diluted earnings per share (USD)[2]				
Total	0.39	0.70	-0.31	-44
Continuing operations	0.40	0.67	-0.27	-40
Discontinued operations	-0.01	0.03	-0.04	-133

(1) Includes a restructuring charge of USD 444 million taken in the fourth quarter of 2007 for the Forward initiative

(2) 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 (audited)

Full year

	2007 USD m	2006 USD m	Change USD m
Net income from continuing operations	6 540	6 825	-285
Fair value adjustments on financial instruments	1	108	-107
Actuarial gains from defined benefit plans, net	450	116	334
Novartis share of equity recognized by associated companies	150	-76	226
Revaluation of initial minority interests in Chiron	55	592	-537
Translation effects	2 188	1 495	693
Amounts related to discontinued operations	5 446	384	5 062
Recognized income and expense	**14 830**	**9 444**	**5 386**

Consolidated statement of recognized income and expense (unaudited)

Fourth quarter

	Q4 2007 USD m	Q4 2006 USD m	Change USD m
Net income from continuing operations	931	1 596	-665
Fair value adjustments on financial instruments	-10	104	-114
Actuarial gains from defined benefit plans, net	-591	266	-857
Novartis share of equity recognized by associated companies	37	-9	46
Revaluation of initial minority interests in Chiron		-17	17
Translation effects	776	625	151
Amounts related to discontinued operations	-18	55	-73
Recognized income and expense	**1 125**	**2 620**	**-1 495**

Condensed consolidated balance sheets (audited)

	Dec 31, 2007 USD m	Dec 31, 2006 USD m	Change USD m
Assets			
Non-current assets			
Property, plant & equipment	12 633	10 945	1 688
Intangible assets	21 249	21 230	19
Financial and other non-current assets	14 140	14 429	-289
Total non-current assets	**48 022**	**46 604**	**1 418**
Current assets			
Inventories	5 455	4 498	957
Trade accounts receivable	6 648	6 161	487
Other current assets	2 126	2 054	72
Cash, short-term deposits and marketable securities	13 201	7 955	5 246
Total current assets from continuing operations	27 430	20 668	6 762
Assets related to discontinued operations		736	-736
Total current assets	**27 430**	**21 404**	**6 026**
Total assets	**75 452**	**68 008**	**7 444**
Equity and liabilities			
Total equity	**49 396**	**41 294**	**8 102**
Non-current liabilities			
Financial debts	677	656	21
Other non-current liabilities	8 738	9 824	-1 086
Total non-current liabilities	**9 415**	**10 480**	**-1 065**
Current liabilities			
Trade accounts payable	3 018	2 487	531
Financial debts and derivatives	5 117	6 643	-1 526
Other current liabilities	8 506	6 897	1 609
Total current liabilities from continuing operations	16 641	16 027	614
Liabilities related to discontinued operations		207	-207
Total current liabilities	**16 641**	**16 234**	**407**
Total liabilities	**26 056**	**26 714**	**-658**
Total equity and liabilities	**75 452**	**68 008**	**7 444**

Condensed consolidated changes in equity

Full year (audited)

	2007 USD m	2006 USD m	Change USD m
Consolidated equity at January 1	**41 294**	**33 164**	**8 130**
Recognized income and expense	14 830	9 444	5 386
Purchase/sale of treasury shares, net	-4 687	248	-4 935
Equity-based compensation	597	506	91
Dividends	-2 598	-2 049	-549
Changes in minority interests	-40	-19	-21
Consolidated equity at December 31	**49 396**	**41 294**	**8 102**

Fourth quarter (unaudited)

	Q4 2007 USD m	Q4 2006 USD m	Change USD m
Consolidated equity at October 1	**49 493**	**38 590**	**10 903**
Recognized income and expense	1 125	2 620	-1 495
Purchase/sale of treasury shares, net	-1 377	-42	-1 335
Equity-based compensation	167	134	33
Changes in minority interests	-12	-8	-4
Consolidated equity at December 31	**49 396**	**41 294**	**8 102**

Condensed consolidated cash flow statements (audited)

Full year

	2007 USD m	2006 USD m	Change USD m
Net income from continuing operations	**6 540**	**6 825**	**-285**
Reversal of non-cash items			
Taxes	947	1 169	-222
Depreciation, amortization and impairments	2 936	1 962	974
Change in provisions and other non-current liabilities	1 365	346	1 019
Net financial income	-294	-88	-206
Other	-97	141	-238
Net income adjusted for non-cash items	**11 397**	**10 355**	**1 042**
Interest and other financial receipts	539	519	20
Interest and other financial payments	-255	-277	22
Taxes paid	-1 581	-1 715	134
Cash flow before working capital changes	**10 100**	**8 882**	**1 218**
Restructuring payments and other cash payments out of provisions	-355	-303	-52
Change in net current assets and other operating cash flow items	-535	-275	-260
Cash flow from operating activities from continuing operations	**9 210**	**8 304**	**906**
Investments in property, plant & equipment	-2 549	-1 779	-770
Acquisitions of subsidiaries	-52	-4 522	4 470
Increase in marketable securities, intangible and financial assets	-3 643	-56	-3 587
Cash flow from investing activities from continuing operations	**-6 244**	**-6 357**	**113**
Cash flow from financing activities from continuing operations	**-9 318**	**-4 931**	**-4 387**
Cash flow from discontinued operations	7 595	457	7 138
Translation effect on cash and cash equivalents	298	25	273
Change in cash and cash equivalents from discontinued operations	4	-4	8
Change in cash and cash equivalents from continuing operations	**1 545**	**-2 506**	**4 051**
Cash and cash equivalents at January 1 from continuing operations	3 815	6 321	-2 506
Cash and cash equivalents at December 31 from continuing operations	**5 360**	**3 815**	**1 545**

Condensed consolidated cash flow statements (unaudited)

Fourth quarter

	Q4 2007 USD m	Q4 2006 USD m	Change USD m
Net income from continuing operations	**931**	**1 596**	**-665**
Reversal of non-cash items			
Taxes	254	238	16
Depreciation, amortization and impairments	863	563	300
Change in provisions and other non-current liabilities	393	71	322
Net financial income	-184	-38	-146
Other	4	43	-39
Net income adjusted for non-cash items	**2 261**	**2 473**	**-212**
Interest and other financial receipts	138	121	17
Interest and other financial payments	-131	-155	24
Taxes paid	37	-307	344
Cash flow before working capital changes	**2 305**	**2 132**	**173**
Restructuring payments and other cash payments out of provisions	-127	-105	-22
Change in net current assets and other operating cash flow items	785	342	443
Cash flow from operating activities from continuing operations	**2 963**	**2 369**	**594**
Investments in property, plant & equipment	-754	-662	-92
Acquisitions of subsidiaries		-14	14
Increase in marketable securities, intangible and financial assets	-927	82	-1 009
Cash flow from investing activities from continuing operations	**-1 681**	**-594**	**-1 087**
Cash flow from financing activities from continuing operations	**-3 156**	**-1 903**	**-1 253**
Cash flow from discontinued operations	-381	-46	-335
Translation effect on cash and cash equivalents	201	-20	221
Change in cash and cash equivalents from discontinued operations		-4	4
Change in cash and cash equivalents from continuing operations	**-2 054**	**-198**	**-1 856**
Cash and cash equivalents at October 1 from continuing operations	7 414	4 013	3 401
Cash and cash equivalents at December 31 from continuing operations	**5 360**	**3 815**	**1 545**

Consolidated income statements Full year Divisional segmentation (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health continuing operations		Corporate		Total continuing operations		Discontinued Consumer Health operations		Total Group	
	2007 USD m	**2006 USD m**	**2007 USD m**	**2006 USD m**	**2007 USD m**	**2006 USD m**	**2007 USD m**	**2006 USD m**	**2007 USD m**	**2006 USD m**	**2007 USD m**	**2006 USD m**	**2007**	**2006 USD m**	**2007 USD m**	**2006 USD m**
Net sales to third parties	**24 025**	**22 576**	**1 452**	**956**	**7 169**	**5 959**	**5 426**	**4 902**			**38 072**	**34 393**	**1 728**	**2 627**	**39 800**	**37 020**
Sales to other Divisions	181	162	24	9	242	148	37	39	-484	-358						
Sales of Divisions	**24 206**	**22 738**	**1 476**	**965**	**7 411**	**6 107**	**5 463**	**4 941**	**-484**	**-358**	**38 072**	**34 393**	**1 728**	**2 627**	**39 800**	**37 020**
Other revenues	426	424	392	231	21	24	36	33			875	712	7	9	882	721
Cost of Goods Sold	-4 480	-3 826	-1 077	-795	-4 068	-3 420	-1 894	-1 754	487	384	-11 032	-9 411	-903	-1 404	-11 935	-10 815
Of which amortization and impairments of product and patent rights and trademarks	*-683*	*-225*	*-280*	*-172*	*-288*	*-288*	*-78*	*-78*			*-1 329*	*-763*		*-12*	*-1 329*	*-775*
Gross profit	**20 152**	**19 336**	**791**	**401**	**3 364**	**2 711**	**3 605**	**3 220**	**3**	**26**	**27 915**	**25 694**	**832**	**1 232**	**28 747**	**26 926**
Marketing & Sales	-7 687	-7 069	-227	-124	-1 236	-1 061	-1 976	-1 838			-11 126	-10 092	-399	-664	-11 525	-10 756
Research & Development	-5 088	-4 265	-295	-148	-563	-477	-301	-260	-183	-171	-6 430	-5 321	-26	-43	-6 456	-5 364
General & Administration	-798	-703	-160	-92	-351	-311	-375	-360	-449	-416	-2 133	-1 882	-77	-125	-2 210	-2 007
Other Income & Expense	-493	-596	-37	-63	-175	-126	-141	-1	-599	29	-1 445	-757	5 822	132	4 377	-625
Of which amortization and impairments of capitalized intangibles included in function costs	*-174*	*-119*	*-15*		*-37*	*-38*	*-15*	*-8*	*-3*	*-8*	*-244*	*-173*	*-6*	*-33*	*-250*	*-206*
Operating income	**6 086**	**6 703**	**72**	**-26**	**1 039**	**736**	**812**	**761**	**-1 228**	**-532**	**6 781**	**7 642**	**6 152**	**532**	**12 933**	**8 174**
Income from associated companies											412	264			412	264
Financial income											531	354			531	354
Interest expense											-237	-266			-237	-266
Income before taxes											**7 487**	**7 994**	**6 152**	**532**	**13 639**	**8 526**
Taxes											-947	-1 169	-724	-155	-1 671	-1 324
Net income											**6 540**	**6 825**	**5 428**	**377**	**11 968**	**7 202**
Additions to:																
Property, plant and equipment[1]	*1 436*	*1 135*	*287*	*113*	*627*	*264*	*209*	*197*	*98*	*106*	*2 657*	*1 815*	*32*	*36*	*2 689*	*1 851*
Goodwill and other intangibles[1]	*352*	*351*	*211*	*13*	*41*	*38*	*12*	*109*	*5*		*621*	*511*	*83*	*69*	*704*	*580*

[1] Excluding impact of business acquisitions

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

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health continuing operations		Corporate		Total continuing operations		Discontinued Consumer Health operations		Total Group	
	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 20 USD
Net sales to third parties	**6 152**	**6 049**	**398**	**455**	**1 971**	**1 653**	**1 410**	**1 241**			**9 931**	**9 398**		**655**	**9 931**	**10 0**
Sales to other Divisions	44	42	6	-5	64	36	8	6	-122	-79						
Sales of Divisions	**6 196**	**6 091**	**404**	**450**	**2 035**	**1 689**	**1 418**	**1 247**	**-122**	**-79**	**9 931**	**9 398**		**655**	**9 931**	**10 0**
Other revenues	132	160	91	81	6	6	11	9			240	256		2	240	2
Cost of Goods Sold	-1 144	-1 002	-361	-356	-1 114	-933	-516	-476	122	90	-3 013	-2 677		-353	-3 013	-3 0
Of which amortization and impairments of product and patent rights and trademarks	*-92*	*-74*	*-73*	*-68*	*-65*	*-62*	*-20*	*-19*			*-250*	*-223*		*-3*	*-250*	*-2*
Gross profit	**5 184**	**5 249**	**134**	**175**	**927**	**762**	**913**	**780**	**0**	**11**	**7 158**	**6 977**		**304**	**7 158**	**7 2**
Marketing & Sales	-2 078	-2 026	-85	-51	-362	-314	-520	-513			-3 045	-2 904		-163	-3 045	-3 0
Research & Development	-1 439	-1 213	-105	-62	-167	-135	-86	-82	-50	-48	-1 847	-1 540		-13	-1 847	-1 5
General & Administration	-248	-218	-39	-44	-99	-96	-109	-109	-139	-126	-634	-593		-35	-634	-6
Other Income & Expense	-494	-171	-12	-16	-49	-13	-113	-2	-67	-13	-735	-215	-28	6	-763	-2
Of which amortization and impairments of capitalized intangibles included in function costs	*-111*	*-54*	*-7*		*-9*	*-12*	*-6*	*-2*		*-1*	*-133*	*-69*		*-9*	*-133*	*-*
Operating income	**925**	**1 621**	**-107**	**2**	**250**	**204**	**85**	**74**	**-256**	**-176**	**897**	**1 725**	**-28**	**99**	**869**	**1 8**
Income from associated companies											104	71			104	
Financial income											245	95			245	
Interest expense											-61	-57			-61	-
Income before taxes											**1 185**	**1 834**	**-28**	**99**	**1 157**	**1 9**
Taxes											-254	-238	10	-32	-244	-2
Net income											**931**	**1 596**	**-18**	**67**	**913**	**1 6**
Additions to: Property, plant and equipment[(1)]	*377*	*435*	*121*	*50*	*233*	*89*	*63*	*77*	*50*	*39*	*844*	*690*		*11*	*844*	*7*

Goodwill and other intangibles[1]	*41*	*74*	*3*	*13*	*7*	*25*	*10*	*4*	*1*	*62*	*116*	*13*	*62*	*1*	

[1] Excluding impact of business acquisitions

Notes to the Condensed Consolidated Financial Information for 2007

1. Basis of preparation

This consolidated financial information containing condensed financial information for the three-month quarterly and the 12-month periods ended December 31, 2007, has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting and with the accounting policies set out in the 2007 Annual Report, which was published on January 17, 2008. Following a unanimous vote by the US Securities and Exchange Commission (SEC) to amend the relevant rules in November 2007, Novartis no longer provides a reconciliation to US Generally Accepted Accounting Principles.

2. Divestments, business combinations and other significant transactions

The following significant transactions occurred during 2007 and 2006:

2007

Pharmaceuticals Betaseron® agreement related to Chiron acquisition

On September 14, Novartis and Bayer Schering Pharma AG completed an agreement related to the regulatory, development, manufacturing and supply agreements for the multiple sclerosis medicine Betaseron®. The agreement was reached following the April 2006 acquisition of Chiron. As part of this agreement with Bayer Schering, Novartis received a one-time payment of approximately USD 200 million related to a transfer of manufacturing facilities as well as receiving rights to market its own branded version of Betaseron® starting in 2009 (pending regulatory approvals). As a result of this transaction, a final reassessment was made of the related assets from the Chiron acquisition as of April 20, 2006. This resulted in an increase of USD 235 million in identified net assets, which was adjusted in the 2007 first quarter. After taking this into account, final Pharmaceutical Division goodwill for the Chiron acquisition at December 31, 2007, amounted to USD 1.9 billion.

Vaccines and Diagnostics Intercell agreement

On September 28, Novartis entered into a strategic alliance with Intercell, an Austrian biotechnology company, focused on vaccines development. As a consequence of the agreement, Novartis paid USD 383 million (EUR 270 million) and recorded USD 207 million (EUR 146 million) of intangible assets. The payment also included the acquisition of an additional 4.8 million shares for USD 176 million (EUR 124 million), which increased the Novartis holding in Intercell to 15.9%.

Consumer Health Gerber Business Unit divestment

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

Consumer Health Medical Nutrition Business Unit divestment

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

The Gerber and Medical Nutrition Business Units (which included the Nutrition & Santé business divested in February 2006) are disclosed as discontinued operations in all periods in

the Group s consolidated financial statements. These businesses had combined 2007 net sales of USD 1.7 billion and operating income of USD 311 million before their divestment.

2006

Corporate Chiron acquisition

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

For the period from January 1, until the completion of the acquisition, the 44% minority interest in Chiron held by Novartis had been accounted for using the equity method. For the period after completion of the acquisition, the results of Chiron have been fully consolidated with its identifiable assets and liabilities being revalued to their fair value at the date of acquisition. The Group s 44% minority interest in Chiron also was revalued directly into equity by USD 0.6 billion.

Pharmaceuticals

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

On July 14, 2006, Novartis announced that its offer for the UK biopharmaceutical company NeuTec Pharma plc specialized in hospital anti-infectives, became unconditional and the company has been consolidated from this date. Novartis paid USD 606 million to fully acquire the company. NeuTec Pharma plc has had no post-acquisition sales, although expenses and cash flows were consolidated from the acquisition date. Goodwill on this transaction at December 31, 2007, amounted to USD 136 million.

Vaccines and Diagnostics

Since the Chiron acquisition, its vaccines and diagnostics activities comprise the division s results. Goodwill on this transaction at December 31, 2007, amounted to USD 1.1 billion.

3. Principal currency translation rates

Full year

	Average rates 2007 USD	Average rates 2006 USD	Period-end rates Dec 31, 2007 USD	Period-end rates Dec 31, 2006 USD
1 CHF	**0.834**	0.798	**0.881**	0.819
1 EUR	**1.371**	1.256	**1.465**	1.317
1 GBP	**2.002**	1.842	**1.996**	1.965
100 JPY	**0.850**	0.860	**0.884**	0.841

Fourth quarter

	Average rates Q4 2007 USD	Average rates Q4 2006 USD	Period-end rates Dec 31, 2007 USD	Period-end rates Dec 31, 2006 USD
1 CHF	**0.874**	0.810	**0.881**	0.819
1 EUR	**1.450**	1.290	**1.465**	1.317
1 GBP	**2.046**	1.916	**1.996**	1.965
100 JPY	**0.885**	0.850	**0.884**	0.841

4. Legal proceedings update

A number of Novartis subsidiaries are the subject of various legal proceedings that arise from time to time in the ordinary course of business. While Novartis does not believe any of them will have a material adverse effect on the Group s consolidated financial position, litigation is inherently unpredictable and excessive 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 consolidated results of operations in any particular period. Please consult the consolidated financial statements in the 2007 Annual Report for a summary of major legal proceedings. The following non-exhaustive list reflects recent developments in legal proceedings:

Product liability litigation

Zometa/Aredia

A Novartis affiliate is now a defendant in approximately 390 cases brought in US courts by approximately 420 plaintiffs who claim to have experienced osteonecrosis of the jaw after treatment with *Zometa/Aredia*. Two of these cases purport to be class actions. Discovery is continuing in these cases.

Chiron/*Fluvirin*

The former Chiron Corporation, which Novartis acquired in 2006, was the subject of a number of legal proceedings arising from the inability of Chiron to deliver its *Fluvirin* seasonal influenza vaccine to the US market for the 2004/2005 flu season. These included class-action lawsuits alleging breaches of securities laws and shareholder derivative litigations alleging breaches of fiduciary duties. The securities fraud class-action cases were settled in April 2006. The settlement is currently under revision in light of a 2007 court order denying settlement approval. The share derivative litigations have all been dismissed.

Patent litigation

Contact lenses

Rembrandt Vision Technologies filed a patent infringement suit against CIBA Vision in October 2005 in the US District Court for the Eastern District of Texas. The lawsuit involves CIBA Vision s O_2OPTIX and NIGHT & DAY contact lens products. Rembrandt asserts that these contact lens products infringe Rembrandt s US Patent No. 5,712,327. Rembrandt is seeking substantial past damages and a future royalty on sales of O_2OPTIX and NIGHT & DAY products, and an injunction may be sought against O_2OPTIX. The court has set a trial date for January 30, 2008.

A lawsuit filed in 2006 by CooperVision relating to the so-called Nicolson patents was settled in November 2007, with CIBA Vision licensing its Nicolson patents to CooperVision against royalty payments on US net sales of CooperVision s Biofinity® contact lenses until 2014 and on net sales outside the US until 2016. CIBA Vision also receives a continuing royalty from Bausch & Lomb on the same Nicolson patents for the net sales of its Purevision® products. Both the CooperVision and the Bausch & Lomb royalties could cease if the Nicolson patents were declared invalid as part of litigation with Johnson & Johnson.

33

Supplementary information (unaudited)

Condensed consolidated change in liquidity

Full year

	2007 USD m	2006 USD m	Change USD m
Change in cash and cash equivalents	**1 545**	**-2 506**	**4 051**
Change in marketable securities, financial debt and financial derivatives	5 206	683	4 523
Change in net liquidity	**6 751**	**-1 823**	**8 574**
Net liquidity at January 1 from continuing operations	656	2 479	-1 823
Net liquidity at December 31 from continuing operations	**7 407**	**656**	**6 751**

Fourth quarter

	Q4 2007 USD m	Q4 2006 USD m	Change USD m
Change in cash and cash equivalents	**-2 054**	**-198**	**-1 856**
Change in marketable securities, financial debt and financial derivatives	2 172	1 545	627
Change in net liquidity	**118**	**1 347**	**-1 229**
Net liquidity/debt at October 1 from continuing operations	7 289	-691	7 980
Net liquidity at December 31 from continuing operations	**7 407**	**656**	**6 751**

Free cash flow

Full year

	2007 USD m	2006 USD m	Change USD m
Cash flow from operating activities from continuing operations	**9 210**	**8 304**	**906**
Purchase of property, plant & equipment	-2 549	-1 779	-770
Purchase of intangible and financial assets	-895	-709	-186
Sale of property, plant & equipment, intangible and financial assets	593	278	315
Dividends	-2 598	-2 049	-549
Free cash flow from continuing operations	**3 761**	**4 045**	**-284**
Free cash flow from discontinued operations	-314	295	-609
Total free cash flow	**3 447**	**4 340**	**-893**

Fourth quarter

	Q4 2007 USD m	Q4 2006 USD m	Change USD m
Cash flow from operating activities of continuing operations	**2 963**	**2 369**	**594**
Purchase of property, plant & equipment	-754	-662	-92
Purchase of intangible and financial assets	-211	-94	-117
Sale of property, plant & equipment, intangible and financial assets	34	73	-39
Free cash flow from continuing operations	**2 032**	**1 686**	**346**
Free cash flow from discontinued operations	-367	-11	-356
Total free cash flow	**1 665**	**1 675**	**-10**

Share information

	December 31, 2007	December 31, 2006
Year-end number of shares outstanding (million)	**2 264.5**	2 348.2
Registered share price (CHF)	**62.10**	70.25
ADS price (USD)	**54.31**	57.44
Market capitalization (USD billion)	**123.9**	135.1
Market capitalization (CHF billion)	**140.6**	165.0

35

Impact of intangible asset charges and significant exceptional items Full year

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health continuing operations		Corporate		Total continuing operations	
	2007 USD m	2006 USD m	2007 USD m	2006 USD m	2007 USD m	2006 USD m	2007 USD m	2006 USD m	2007 USD m	2006 USD m	2007 USD m	2006 USD m
Reported operating income	**6 086**	**6 703**	**72**	**-26**	**1 039**	**736**	**812**	**761**	**-1 228**	**-532**	**6 781**	**7 642**
Recurring amortization	411	268	295	172	293	279	89	83	3	8	1 091	810
Impairment of intangible assets	446	76			32	47	4	3			482	126
Intangible asset charges	**857**	**344**	**295**	**172**	**325**	**326**	**93**	**86**	**3**	**8**	**1 573**	**936**
Acquisition-related restructuring and integration expenses (including acquisition-related accounting impact of inventory adjustments), net		226	25	161		53	9				34	440
Forward initiative restructuring expenses	307						97		40		444	
Other restructuring expenses	25				11	8					36	8
Other impairment of property, plant & equipment		3		7	31						31	10
Exceptional restructuring and acquisition related integration expenses, net	**332**	**229**	**25**	**168**	**42**	**61**	**106**		**40**		**545**	**458**
Exceptional gains from divesting brands, subsidiaries and financial investments	**-171**	**-87**				**7**					**-171**	**-80**
Impairment of financial assets	41	34			27				10	5	78	39
Corporate environmental provision increase									590		590	
Litigation and other settlements			-83								-83	
Suspension of *Zelnorm*	80										80	
Tekturna/Rasilez inventory provision	-107										-107	
Release of Tricare revenue deduction accrual		-62										-62
France accounting irregularity						69						69
Other exceptional items	**14**	**-28**	**-83**		**27**	**69**			**600**	**5**	**558**	**46**
Total adjustments	**1 032**	**458**	**237**	**340**	**394**	**463**	**199**	**86**	**643**	**13**	**2 505**	**1 360**
Adjusted operating income	**7 118**	**7 161**	**309**	**314**	**1 433**	**1 199**	**1 011**	**847**	**-585**	**-519**	**9 286**	**9 002**

Income from associated companies	412	264
Associated company exceptional charges incurred by Chiron prior to its acquisition		53
Net financial income	294	88
Taxes (adjusted for above items)	-1 639	-1 618
Adjusted net income from continuing operations	**8 353**	**7 789**
Adjusted net income attributable to shareholders	**8 331**	**7 762**
Adjusted basic earnings per share from continuing operations	**USD 3.59**	**USD 3.31**

Impact of intangible asset charges and significant exceptional items Fourth quarter

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health continuing operations		Corporate		Total continuing operations	
	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m	Q4 2007 USD m	Q4 2006 USD m
Reported operating income	**925**	**1 621**	**-107**	**2**	**250**	**204**	**85**	**74**	**-256**	**-176**	**897**	**1 725**
Recurring amortization	100	91	80	68	79	73	25	19		1	284	252
Impairment of intangible assets	103	37			-5	1	1	2			99	40
Intangible asset charges	**203**	**128**	**80**	**68**	**74**	**74**	**26**	**21**		**1**	**383**	**292**
Acquisition-related restructuring and integration expenses (including acquisition-related accounting impact of inventory adjustments), net		32	13	39		7					13	78
Forward initiative restructuring expenses	307						97		40		444	
Other restructuring expenses	25				-2						23	
Other impairment of property, plant & equipment		5		7	11	-7					11	5
Exceptional restructuring and acquisition related integration expenses, net	**332**	**37**	**13**	**46**	**9**	**0**	**97**		**40**		**491**	**83**
Exceptional gains from divesting brands, subsidiaries and financial investments	**-5**					**7**					**-5**	**7**
Impairment of financial assets	19	9			17	-10			3	2	39	1
Zelnorm suspension	-7										-7	
France accounting irregularity						11						11
Other exceptional items	**12**	**9**			**17**	**1**			**3**	**2**	**32**	**12**
Total adjustments	**542**	**174**	**93**	**114**	**100**	**82**	**123**	**21**	**43**	**3**	**901**	**394**
Adjusted operating income	**1 467**	**1 795**	**-14**	**116**	**350**	**286**	**208**	**95**	**-213**	**-173**	**1 798**	**2 119**
Income from associated companies											104	71
Net financial income											184	38
Taxes (adjusted for above items)											-492	-364
											1 594	**1 864**

Adjusted net income from continuing operations		
Adjusted net income attributable to shareholders	**1 585**	**1 855**
Adjusted basic earnings per share from continuing operations	**USD 0.70**	**USD 0.79**

Supplementary tables: Full year 2007 Net sales of top 20 pharmaceutical products (unaudited)

		US		Rest of world		Total		
Brands	**Therapeutic area**	**USD m**	**% change in local currencies**	**USD m**	**% change in local currencies**	**USD m**	**% change in USD**	**% change in local currencies**
Diovan/Co Diovan	Hypertension	2 194	18	2 818	14	5 012	19	16
Gleevec/Glivec	Chronic myeloid leukemia	714	13	2 336	14	3 050	19	14
Zometa	Cancer complications	649	-7	648	3	1 297	1	-2
Sandostatin (group)	Acromegaly	409	11	618	5	1 027	12	7
Neoral/Sandimmun	Transplantation	108	-14	836	0	944	3	-2
Femara	Breast cancer	411	22	526	28	937	30	25
Lotrel	Hypertension	748	-45			748	-45	-45
Voltaren (group)	Inflammation/pain	9	13	738	3	747	8	3
Trileptal	Epilepsy	500	-9	192	4	692	-4	-6
Lescol	Cholesterol reduction	207	-19	458	-8	665	-8	-12
Top ten products total		**5 949**	**-4**	**9 170**	**9**	**15 119**	**7**	**3**
Exelon	Alzheimer s disease	212	13	420	14	632	20	14
Lamisil (group)	Fungal infections	266	-54	329	-21	595	-39	-40
Comtan/Stalevo (group)	Parkinson s disease	178	13	242	23	420	24	18
Tegretol (incl. CR/XR)	Epilepsy	123	2	290	1	413	6	1
Lucentis	Age-related macular degeneration			393	NM	393	NM	NM
Ritalin/Focalin (group)	Attention deficit/hyperactive disorder	299	13	76	9	375	14	12
Foradil	Asthma	21	50	341	-1	362	9	1
Exjade (group)	Iron chelator	175	43	182	721	357	150	141
Miacalcic	Osteoporosis	147	-26	134	-11	281	-17	-20
Tobramycin	Cystic fibrosis	174	47	99	60	273	54	51
Top 20 products total		**7 544**	**-5**	**11 676**	**13**	**19 220**	**9**	**5**
Rest of portfolio		1 204	-22	3 601	1	4 805	-2	-6
Total Division sales		**8 748**	**-8**	**15 277**	**10**	**24 025**	**6**	**2**

NM Not meaningful

Supplementary tables: Fourth quarter 2007 Net sales of top 20 pharmaceutical products (unaudited)

		US		Rest of world		Total		
Brands	**Therapeutic area**	**USD m**	**% change in local currencies**	**USD m**	**% change in local currencies**	**USD m**	**% change in USD**	**% change in local currencies**
Diovan/Co Diovan	Hypertension	561	11	794	13	1 355	18	12
Gleevec/Glivec	Chronic myeloid leukemia	201	16	645	11	846	21	12
Zometa	Cancer complications	168	-3	175	-3	343	1	-3
Sandostatin (group)	Acromegaly	109	10	169	4	278	13	6
Neoral/Sandimmun	Transplantation	26	-16	218	-4	244	2	-6
Femara	Breast cancer	107	16	151	23	258	26	20
Lotrel	Hypertension	88	-75			88	-75	-75
Voltaren (group)	Inflammation/pain	2	0	193	1	195	10	1
Trileptal	Epilepsy	48	-67	50	0	98	-48	-51
Lescol	Cholesterol reduction	49	-20	114	-12	163	-9	-14
Top ten products total		**1 359**	**-17**	**2 509**	**7**	**3 868**	**2**	**-4**
Exelon	Alzheimer s disease	55	12	116	16	171	24	14
Lamisil (group)	Fungal infections	-3	-102	69	-34	66	-71	-72
Comtan/Stalevo (group)	Parkinson s disease	47	15	70	22	117	27	18
Tegretol (incl. CR/XR)	Epilepsy	29	-9	80	2	109	5	-1
Lucentis	Age-related macular degeneration			170	NM	170	NM	NM
Ritalin/Focalin (group)	Attention deficit/hyperactive disorder	83	5	21	11	104	8	5
Foradil	Asthma	4	0	91	-10	95	3	-10
Exjade (group)	Iron chelator	43	8	59	428	102	104	91
Miacalcic	Osteoporosis	33	-30	37	-6	70	-15	-19
Tobramycin	Cystic fibrosis	46	-4	26	13	72	3	0
Top 20 products total		**1 696**	**-19**	**3 248**	**12**	**4 944**	**4**	**-2**
Rest of portfolio		291	-30	917	-7	1 208	-8	-14
Total Division sales		**1 987**	**-21**	**4 165**	**7**	**6 152**	**2**	**-5**

NM Not meaningful

Full year Pharmaceutical net sales by therapeutic area (unaudited)

	2007 USD m	2006 USD m	% change USD
Cardiovascular & Metabolism			
Diovan	5 012	4 223	19
Lotrel	748	1 352	-45
Exforge	103	10	930
Tekturna/Rasilez	40	0	NM
Other	8	1	NM
Total strategic franchise products	**5 911**	**5 586**	**6**
Mature products (including Lescol)	**1 494**	**1 534**	**-3**
Total Cardiovascular & Metabolism products	**7 405**	**7 120**	**4**
Oncology & Hematology			
Gleevec/Glivec	3 050	2 554	19
Zometa	1 297	1 283	1
Sandostatin (group)	1 027	915	12
Femara	937	719	30
Exjade	357	143	150
Other	283	295	-4
Total Oncology & Hematology products	**6 951**	**5 909**	**18**
Neuroscience			
Trileptal	692	721	-4
Exelon	632	525	20
Comtan/Stalevo (group)	420	339	24
Tegretol	413	391	6
Ritalin/Focalin (group)	375	330	14
Other	382	351	9
Total strategic franchise products	**2 914**	**2 657**	**10**
Mature products	**431**	**440**	**-2**
Total Neuroscience products	**3 345**	**3 097**	**8**
Respiratory			
Foradil	362	331	9
TOBI/Tobramycin	273	177	54
Xolair	140	102	37
Other	87	69	26
Total strategic franchise products	**862**	**679**	**27**
Mature products	**97**	**103**	**-6**
Total Respiratory products	**959**	**782**	**23**
Ophthalmics, Dermatology, Gastrointestinal & Urology			
Lucentis	393	19	NM
Enablex/Emselex	179	114	57
Elidel	176	179	-2
Zelnorm/Zelmac	88	561	-84
Other	605	706	-14
Total strategic franchise products	**1 441**	**1 579**	**-9**
Mature products (including Lamisil)	**711**	**1 097**	**-35**
Total ODGU products	**2 152**	**2 676**	**-20**
Arthritis & Bone			

Prexige	91	47	94
Aclasta/Reclast	41	3	NM
Total strategic franchise products	**132**	**50**	**164**
Mature products (including Voltaren)	**1 442**	**1 430**	**1**
Total Arthritis & Bone products	**1 574**	**1 480**	**6**
Infectious Diseases, Transplantation & Immunology (IDTI)			
Neoral/Sandimmun	944	918	3
Other	448	330	36
Total strategic franchise products	**1 392**	**1 248**	**12**
Mature products	**247**	**264**	**-6**
Total IDTI products	**1 639**	**1 512**	**8**
Total strategic franchise products	**19 603**	**17 708**	**11**
Total mature products	**4 422**	**4 868**	**-9**
Total Division net sales	**24 025**	**22 576**	**6**

NM Not meaningful

Fourth quarter **Pharmaceutical net sales by therapeutic area** (unaudited)

	Q4 2007 USD m	Q4 2006 USD m	% change USD
Cardiovascular & Metabolism			
Diovan	1 355	1 152	18
Lotrel	88	354	-75
Exforge	51	3	NM
Tekturna/Rasilez	20	0	NM
Other	4	1	NM
Total strategic franchise products	**1 518**	**1 510**	**1**
Mature products (including Lescol)	**376**	**390**	**-4**
Total Cardiovascular & Metabolism products	**1 894**	**1 900**	**0**
Oncology & Hematology			
Gleevec/Glivec	846	702	21
Zometa	343	339	1
Sandostatin (group)	278	245	13
Femara	258	204	26
Exjade	102	50	104
Other	77	74	4
Total Oncology & Hematology products	**1 904**	**1 614**	**18**
Neuroscience			
Exelon	171	138	24
Comtan/Stalevo (group)	117	92	27
Tegretol	109	104	5
Ritalin/Focalin (group)	104	96	8
Trileptal	98	189	-48
Other	63	110	-43
Total strategic franchise products	**662**	**729**	**-9**
Mature products	**116**	**110**	**5**
Total Neuroscience products	**778**	**839**	**-7**
Respiratory			
Foradil	95	92	3
TOBI/Tobramycin	72	70	3
Xolair	40	35	14
Other	27	19	42
Total strategic franchise products	**234**	**216**	**8**
Mature products			