

NOVARTIS AG
Form 6-K
January 24, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

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

Report on Form 6-K dated January 24, 2007

(Commission File No. 1-15024)

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on September 5, 2006 (File No. 333-137112) and on October 1, 2004 (File No. 333-119475), in each case to the extent not superseded by documents or reports subsequently filed by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, in each case as amended

Novartis AG

(Name of Registrant)

Lichtstrasse 35

4056 Basel

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Switzerland

(Address of Principal Executive Offices)

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

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

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

Yes: o **No: x**

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

Yes: o **No: x**

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

Yes: o **No: x**

Enclosure: **Novartis AG Announces Results for the Fourth Quarter and Full Year of 2006**

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Novartis strategic healthcare portfolio drives sustained strong performance with record full-year results in 2006

Dynamic 2006 Group performance:

Net sales rise 15% (+14% in local currencies) to USD 37.0 billion

Operating income advances 18% as productivity initiatives more than offset acquisition costs and investments in new pharmaceutical product launches

Net income up 17% to USD 7.2 billion

EPS rise 16% to USD 3.06 per share in the fifth consecutive year of double-digit profit expansion

Excluding Chiron acquisition-related charges, Group operating income climbs 28% and net income up 25%

Dividend proposed to shareholders for 2006 of CHF 1.35 per share, a 17% increase from 2005 and representing the tenth consecutive year of a higher payment

Recent acquisitions and plans to divest Medical Nutrition strengthen strategic focus on healthcare portfolio

Novartis strategic healthcare portfolio drives sustained strong performance with record full-year results in 2006

Novartis preparing for multiple new product launches in 2007-2008, led by Exforge and Tekturna/Rasilez (hypertension), Galvus (diabetes) and Lucentis (blindness)

Key Group figures

Full year

| | 2006 | | 2005 | | % Change | |
|------------------------------|----------|----------------|----------|----------------|----------|----|
| | USD m | % of net sales | USD m | % of net sales | USD | lc |
| Net sales | 37 020 | | 32 212 | | 15 | 14 |
| Operating income | 8 174 | 22.1 | 6 905 | 21.4 | 18 | |
| Net income | 7 202 | 19.5 | 6 141 | 19.1 | 17 | |
| Basic earnings per share/ADS | USD 3.06 | | USD 2.63 | | 16 | |

Fourth quarter

| | Q4 2006 | | Q4 2005 | | % Change | |
|------------------------------|----------|----------------|----------|----------------|----------|----|
| | USD m | % of net sales | USD m | % of net sales | USD | lc |
| Net sales | 10 053 | | 8 657 | | 16 | 12 |
| Operating income | 1 824 | 18.1 | 1 488 | 17.2 | 23 | |
| Net income | 1 663 | 16.5 | 1 352 | 15.6 | 23 | |
| Basic earnings per share/ADS | USD 0.70 | | USD 0.58 | | 21 | |

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

Basel, January 18, 2007 Commenting on the results, Dr. Daniel Vasella, Chairman and CEO of Novartis, said, *The strong performance in 2006 stems from our commitment to innovation and reflects the impact of strengthening our healthcare portfolio. All divisions, particularly Pharmaceuticals, performed very well. I also have high expectations for further dynamic growth in our new Vaccines and Diagnostics Division. Launches are planned for several innovative medicines in 2007 and 2008, and we will keep investing aggressively in Research & Development to sustain our performance. I am confident of another year of record sales and earnings in 2007.*

2006 net sales

| | 2006 | 2005 | % Change | |
|--|---------------|--------|----------|-----|
| | USD m | USD m | USD | lc |
| Pharmaceuticals | 22 576 | 20 262 | 11 | 11 |
| Vaccines and Diagnostics | 956 | | | |
| Sandoz | 5 959 | 4 694 | 27 | 25 |
| Consumer Health continuing operations | 6 540 | 6 049 | 8 | 8 |
| Net sales from continuing operations | 36 031 | 31 005 | 16 | 16 |
| Consumer Health discontinuing operations | 989 | 1 207 | -18 | -18 |
| Total | 37 020 | 32 212 | 15 | 14 |

Group net sales advance 15% (+14% lc) to USD 37.0 billion

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Dynamic 2006 Group performance with 15% net sales growth from the strong business expansion in all divisions as well as contributions from recent acquisitions. Higher sales volumes added six percentage points to Group net sales growth and acquisitions seven percentage points, while net price changes and currency translations each led to an increase of one percentage point.

Pharmaceuticals net sales up 11% (+11% lc) to USD 22.6 billion

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Pharmaceuticals delivered its sixth consecutive year of market share gains and double-digit net sales growth, reaching 11%. The Cardiovascular and Oncology franchises provided dynamic performances as *Diovan* (+15% 1c) exceeded USD 4 billion and *Gleevec/Glivec* (+17% 1c) topped USD 2.5 billion. New product launches, particularly *Xolair*, *Exjade* and *Prexige*, supported the performance. US net sales were up 17%, outpacing the market.

Vaccines and Diagnostics net sales of USD 956 million

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The turnaround of the influenza vaccine business led the performance. This new division, created from the Chiron acquisition in April 2006, increased net sales 42% in the eight-month period compared to the same period in 2005 reported by Chiron. Diagnostics products, primarily used for testing blood donations, showed continued good growth.

Sandoz net sales rise 27% (+25% 1c) to USD 6.0 billion

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Net sales advanced 27% thanks to strengthening positions in fast-growing generics markets, especially in Europe, as well as successful new product launches, many of which are difficult-to-make products. Also supporting growth were the Hexal and Eon Labs acquisitions.

Consumer Health continuing operations net sales up 8% (+8% 1c) to USD 6.5 billion

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Net sales were driven by double-digit expansions in the OTC and Animal Health businesses, which improved their global rankings thanks to their focus on strategic brands.

Consumer Health discontinuing operations net sales of USD 989 million

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Consumer Health discontinuing operations reflects net sales of the Medical Nutrition business, which is being sold to Nestlé, as well as the contribution of the Nutrition & Santé business before its divestment in February 2006.

2006 operating income

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| | 2006 | | 2005 | | Change |
|--|--------------|----------------|-------|----------------|--------|
| | USD m | % of net sales | USD m | % of net sales | In % |
| Pharmaceuticals | 6 703 | 29.7 | 6 014 | 29.7 | 11 |
| Vaccines and Diagnostics | -26 | | | | |
| Sandoz | 736 | 12.4 | 342 | 7.3 | 115 |
| Consumer Health continuing operations | 1 068 | 16.3 | 952 | 15.7 | 12 |
| Corporate income & expense, net | -532 | | -506 | | |
| Operating income from continuing operations | 7 949 | 22.1 | 6 802 | 21.9 | 17 |
| Consumer Health discontinuing operations | 225 | 22.8 | 103 | 8.5 | 118 |
| Total | 8 174 | 22.1 | 6 905 | 21.4 | 18 |

Group operating income rises 18% to USD 8.2 billion

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Operating income rose at a faster rate than net sales as the operating margin rose 0.7 percentage points to 22.1%. The organic expansion in Pharmaceuticals, Sandoz and Consumer Health (continuing operations) more than offset the impact of the Chiron acquisition costs of USD 642 million. Excluding these costs, operating income was up 28%.

Pharmaceuticals operating income rises 11% to USD 6.7 billion

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Organic operating income (excluding Chiron acquisition costs of USD 309 million) advanced 17% and the corresponding operating margin reached 30.4%. The strong business expansion and productivity gains from good cost management more than offset marketing investments to support planned multiple new product launches, particularly in the US, as well as lower divestment income compared to 2005. On a reported basis, operating income grew roughly in line with net sales.

Vaccines and Diagnostics operating loss of USD 26 million

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The new division had organic operating income of USD 307 million, underpinned by the dynamic increase in net sales of influenza vaccines in the US. This strong performance was more than offset by acquisition-related costs totaling USD 333 million for a reported operating loss of USD 26 million.

Sandoz operating income up 115% to USD 736 million

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Operating income more than doubled thanks to new product launches, strengthening positions in leading markets and contributions from the Hexal and Eon Labs acquisitions. Operational improvements were made in both the retail generics and anti-infectives businesses. The year-ago period also included acquisition-related costs.

Operating income from Consumer Health continuing operations up 12% at USD 1.1 billion

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OTC and Animal Health drove the improvement in Consumer Health continuing operations, with both business units delivering strong performances and benefits from high volume gains. However, CIBA Vision had a weak performance due to product supply issues.

Consumer Health discontinuing operations operating income of USD 225 million

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The reported operating income of USD 225 million for Consumer Health discontinuing operations was supported by a one-time gain of USD 129 million from the divestment of Nutrition & Santé in February 2006.

Fourth quarter 2006 net sales

| | Q4 2006 | Q4 2005 | | % Change |
|--|---------------|---------|-----|----------|
| | USD m | USD m | USD | lc |
| Pharmaceuticals | 6 049 | 5 248 | 15 | 12 |
| Vaccines and Diagnostics | 455 | | | |
| Sandoz | 1 653 | 1 573 | 5 | 0 |
| Consumer Health continuing operations | 1 644 | 1 551 | 6 | 3 |
| Net sales from continuing operations | 9 801 | 8 372 | 17 | 13 |
| Consumer Health discontinuing operations | 252 | 285 | -12 | -14 |
| Total | 10 053 | 8 657 | 16 | 12 |

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Group net sales rise 16% (+12% lc) to USD 10.1 billion

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All divisions underpinned the strong expansion, particularly Pharmaceuticals as net sales of many top-selling products grew at double-digit rates. Higher sales volumes generated eight percentage points of net sales growth, while acquisitions added five and currency translation provided four. Net price changes led to a decline of one percentage point.

Pharmaceuticals net sales grow 15% (+12% 1c) to USD 6.0 billion

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The top selling brands *Diovan*, *Gleevec/Glivec* and *Lotrel* all advanced at double-digit rates. US sales expanded 17% as several products benefited from new clinical data, disease awareness programs and strong positions in Medicare government formularies. *Diovan* (+13% lc) and *Lotrel* (+19% lc) led the 13% rise in Cardiovascular strategic brand sales to USD 1.7 billion. Oncology net sales advanced 20% to USD 1.6 billion underpinned by *Gleevec/Glivec* (+14% lc) and *Femara* (+35% lc). Russia and Turkey supported the performance in Europe, where net sales rose 18% (+10% lc) and helped to offset weaker performances in France and Germany. In Latin America, net sales were up 16% (+14% lc) thanks to operations in Brazil and Mexico, supported by successful launches of *Prexige*.

Vaccines and Diagnostics net sales of USD 455 million

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The ongoing improvement in seasonal influenza vaccine deliveries to the US was the primary growth driver, with net sales up 71% on a comparable basis to the 2005 period reported by Chiron. The diagnostics business improved thanks to continued geographic expansion of nucleic acid testing products and higher sales of West Nile Virus tests in the US.

Sandoz net sales up 5% (+0% lc) to USD 1.7 billion

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The 2005 fourth quarter included four months of net sales from the Eon Labs acquisition. On a comparable basis, net sales grew 8% (+3% lc) thanks to leading performances in Eastern Europe, Scandinavia, Canada, Switzerland and Australia. Volume gains were seen in Germany from recently launched products that more than offset price cuts. Several new products were launched in the US late in the fourth quarter.

Consumer Health continuing operations net sales up 6% (+3% lc) to USD 1.6 billion

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The continuing operations of Consumer Health performed well thanks to double-digit growth in Animal Health and OTC that offset a weak performance in CIBA Vision related to a contact lens product recall.

Fourth quarter 2006 operating income

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| | Q4 2006 | | Q4 2005 | | Change |
|--|--------------|----------------|---------|----------------|--------|
| | USD m | % of net sales | USD m | % of net sales | In % |
| Pharmaceuticals | 1 621 | 26.8 | 1 358 | 25.9 | 19 |
| Vaccines and Diagnostics | 2 | 0.4 | | | |
| Sandoz | 204 | 12.3 | 119 | 7.6 | 71 |
| Consumer Health continuing operations | 143 | 8.7 | 173 | 11.2 | -17 |
| Corporate income & expense, net | -176 | | -179 | | |
| Operating income from continuing operations | 1 794 | 18.3 | 1 471 | 17.6 | 22 |
| Consumer Health discontinuing operations | 30 | 11.9 | 17 | 6.0 | 76 |
| Total | 1 824 | 18.1 | 1 488 | 17.2 | 23 |

Group operating income advances 23% to USD 1.8 billion

Operating income rose at a strong pace as Pharmaceuticals and Sandoz delivered excellent performances that included operational improvements and contributions from new product launches.

Pharmaceuticals operating income up 19% to USD 1.6 billion

Operating income expanded faster than net sales, even including acquisition-related charges of USD 73 million, thanks to strong performance of leading brands. Marketing & Sales expenses rose 19%, supporting pre-launch investments for anticipated US approvals in 2007 for *Galvus* (diabetes) and *Tekturma/Rasilez*, and also the launch of *Exforge* (hypertension). Other Operating Income & Expenses was higher due to Chiron acquisition costs as well as lower divestment gains compared to 2005. Excluding these acquisition costs, operating income advanced 25% and the operating margin was 28%.

Vaccines and Diagnostics generates operating income of USD 2 million

The positive performance reflected organic operating income of USD 109 million that more than offset acquisition-related costs of USD 107 million thanks to the ongoing turnaround in seasonal influenza vaccine deliveries to the US.

Sandoz operating income rises 71% to USD 204 million

Operating income expanded strongly as the retail generics business benefited particularly from new product launches in key markets and synergies from recent acquisitions. The anti-infectives business delivered strong, double-digit growth in difficult market conditions from cost containment efforts and production efficiency.

Operating income from Consumer Health continuing operations down 17% to USD 143 million

Consumer Health continuing operations net sales up 6% (+3% lc) to USD 1.6 billion

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OTC led the Division with a strong contribution tied mainly to further market share gains. The Division's overall performance, however, was negatively impacted by costs related to a contact lens product recall in CIBA Vision.

Corporate

Financial income, net

Net financial income fell to USD 88 million in 2006 compared to USD 167 million in 2005, reflecting the drop of USD 3.8 billion in average net liquidity to fund recent acquisitions. Net liquidity was USD 0.7 billion at December 31, 2006, down from USD 2.5 billion at the end of 2005. Net financial income in the fourth quarter was USD 38 million, reflecting good currency and interest rate management.

Income from associated companies

For the full year, income from associated companies rose to USD 264 million from USD 193 million, mainly from the Roche investment. The group's interest in Roche generated income of USD 290 million compared to USD 166 million in 2005, comprised of an estimated 2006 income contribution to Novartis of USD 404 million that was offset by USD 114 million for the amortization of intangible assets. In the fourth quarter, associated companies contributed USD 71 million in income, up from USD 67 million in the year-ago period.

Group net income advances 17% to USD 7.2 billion

Group net income grew at a double-digit rate in 2006 as the return on net sales advanced to 19.5% from 19.1% in the year-ago period. The strong underlying business expansion lifted operating income at a faster pace than net sales, even including the impact of Chiron acquisition costs. However, non-operating profits were impacted by lower net financial income. Excluding charges of USD 451 million related to the Chiron acquisition, Group net income for the year was up 25%.

Balance sheet

The Group's equity increased by USD 8.1 billion to USD 41.3 billion at December 31, 2006, compared with USD 33.2 billion at the end of 2005. The increase was due to the higher net income of USD 7.2 billion, an upward net revaluation of USD 0.6 billion for the initial Chiron minority stake, increased equity from share-based compensation of USD 0.5 billion, translation gains of USD 1.5 billion, and a contribution of USD 0.3 billion from other factors. This increase was partially offset by the dividend payment of USD 2.0 billion.

Total liquidity amounted to USD 8.0 billion at December 31, 2006, down from USD 10.3 billion at the beginning of the year. The debt/equity ratio at December 31, 2006, was 0.18:1 compared to 0.25:1 a year ago.

Total non-current assets rose by USD 10.3 billion to USD 46.7 billion, reflecting the impact of the Chiron and NeuTec acquisitions and the related goodwill, other intangible assets and property, plant & equipment contributions.

Novartis did not repurchase any shares in 2006 through its share repurchase program via a second trading line on the SWX Swiss Exchange but sold shares amounting to USD 0.2 billion mainly due to the exercise of share-based compensation to associates.

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

Cash flow

Cash flow from operating activities from continuing operations increased by USD 0.7 billion to USD 8.7 billion, reflecting the business expansion and strict management of working capital. Cash flow used for investing activities from continuing operations included net investment of USD 4.5 billion to acquire Chiron and NeuTec and USD 0.3 billion for the acquisition of other net assets as well as capital expenditures of USD 1.8 billion. Free cash flow after dividends was USD 4.3 billion, a decline of USD 0.3 billion from the year-ago period as lower net proceeds from asset disposals as well as higher net purchases of intangible assets and capital expenditures offset the improvement in operating cash flow.

Proposed 2006 dividend

The Board of Directors has proposed for approval at the next Annual General Meeting on March 6, 2007, a dividend payment of CHF 1.35 per share for 2006, an increase of 17% from the dividend of CHF 1.15 per share paid for 2005. This proposed increase marks the tenth consecutive higher payout per share since the creation of Novartis in December 1996. If approved by shareholders, dividends paid for 2006 on outstanding shares are expected to total USD 2.6 billion. The dividend payout ratio for 2006 will be 36% of Group net income. Based on the year-end 2006 share price of CHF 70.25, the dividend yield is 1.9% compared to 1.7% for 2005. The payment date for the 2006 dividend has been set for March 9, 2007. All issued shares are dividend bearing, with the exception of 224.8 million treasury shares.

Strategic healthcare portfolio driving sustained strong performance

Novartis is sharpening its focus on medicines and vaccines, taking steps to strengthen strategic growth platforms aimed at best meeting the needs of patients, physicians and society in a dynamically changing healthcare environment.

These activities include innovative pharmaceuticals for human and animal health, vaccines, generics and over-the-counter (OTC) products. Novartis is the only pharmaceutical company with strong positions in these areas.

The acquisition of the remaining stake of Chiron Corporation in April 2006 not already held by Novartis led to the creation of the new strategic growth platform in vaccines and molecular diagnostics. Chiron's pharmaceutical products expanded the offering of products for oncology, respiratory and infectious diseases, while early-stage development compounds strengthened the oncology pipeline.

Novartis also announced the signing of an agreement in December 2006 to divest the Medical Nutrition business for USD 2.5 billion to Nestlé after having earlier in 2006 completed the sale of the Nutrition & Santé business for USD 211 million. The divestment of Medical Nutrition is expected to be completed in the second half of 2007. Results of these two businesses, which had comprised the Medical Nutrition Business Unit, have been treated as discontinuing operations for 2005 and 2006.

Group outlook

(For continuing operations, barring any unforeseen events)

Novartis expects in 2007 another year of record net sales and earnings, preparing for a wave of many new product launches during the next two years. Group net sales are expected to rise in 2007 at a mid- to high-single-digit rate in local currencies and net sales in the Pharmaceuticals Division at a mid-single-digit rate for the year.

Pharmaceutical business and key product highlights

Note: All growth figures refer to full-year 2006 worldwide sales growth in local currencies.

Diovan (USD 4.2 billion, +15% lc), the leading angiotensin-receptor blocker by sales worldwide, generated further excellent growth and achieved a record market share in its segment based on new indications, higher-strength doses and strong new efficacy data. In the US, *Diovan* has benefited from a leading formulary position with healthcare payors. *Co-Diovan* (combination with a diuretic) was up 19% lc in Europe, reflecting the increased use of combination therapies.

Gleevec/Glivec (USD 2.6 billion, +17% lc), a targeted treatment for patients with certain forms of chronic myeloid leukemia (CML) and gastro-intestinal stromal tumors (GIST), expanded at a rapid rate through ongoing penetration of the CML and GIST markets. New landmark data showed nearly 90% of CML patients in a five-year study taking *Gleevec/Glivec* were still alive after five years. *Gleevec/Glivec* also received four EU and five US approvals for treating various rare diseases during 2006.

Lotrel (USD 1.4 billion, +26% only in US), the leading fixed-dose combination treatment for hypertension in the US since 2002, has delivered strong growth based on new dosing strengths as well as increasing use of multiple therapies to treat hypertension, demographic factors and the impact of US disease awareness campaigns.

Zometa (USD 1.3 billion, +4% lc), an intravenous bisphosphonate for patients with bone cancer, was impacted by an overall slowing of the market segment in the US and Europe. However, *Zometa* has gained market segment share in treating patients with lung and prostate cancer and also benefited from a launch in Japan.

Lamisil (USD 978 million, -13% lc), an oral treatment for fungal nail infections, generated higher sales in the US, but this was offset by falling sales in Europe following the entry of generic competition in late 2005. In December 2006, the FDA confirmed the granting of a pediatric extension for *Lamisil* extending its marketing exclusivity through to June 2007.

Femara (USD 719 million, +33% lc), a leading oral treatment for women with hormone-related breast cancer, was a key growth driver due to ongoing market segment share gains. Clinical data has confirmed the benefits of use in women after surgery (adjuvant) as well as after completion of tamoxifen therapy (extended adjuvant). Recent four-year data from a major trial confirmed *Femara* significantly reduces the risk of breast cancer returning.

Zelnorm/Zelmac (USD 561 million, +34% lc), for treatment of irritable bowel syndrome with constipation and chronic idiopathic constipation, has benefited from outstanding US growth due to broader use of the product and ongoing

Consumer Health continuing operations net sales up 6% (+3% lc) to USD 1.6 billion

disease awareness programs.

Visudyne (USD 354 million, -27% lc), a treatment for the eye disease wet age-related macular degeneration, reported a sharp decline in net sales linked to off-label competition in the US and in other key markets, but sales in Japan were higher.

Exjade (USD 143 million), the first once-daily oral iron chelator for chronic iron overload, has performed well since its approval in the US and over 70 countries in 2006 as a new treatment for iron overload associated with various blood disorders.

Xolair (USD 102 million), for severe allergic asthma, has been launched in over 20 countries following EU approval in October 2005, with approvals now received in over 50 countries. In the US, Novartis co-promotes *Xolair* with Genentech and shares a portion of operating income. *Xolair* had 2006 net sales of USD 425 million in the US, resulting in a contribution to Novartis of USD 140 million reported as Other Revenues.

Novartis pipeline and regulatory update

With 138 projects in pharmaceutical development, Novartis has one of the industry's most promising pipelines amid plans for multiple new product approvals and launches over the next two years. Several of these anticipated approvals are for potentially best-in-class medicines that would advance treatment standards for patients with hypertension, diabetes, cancer and other diseases.

Beyond these new launches, a number of key compounds are already in or are moving into pivotal late-stage trials, including FTY720 (multiple sclerosis), QAB149 (chronic obstructive pulmonary disease and asthma), AGO178 (depression), RAD001 (cancer), ABF656 (hepatitis C) and SOM230 (Cushing's disease).

Among the recent developments:

Exforge⁽¹⁾, a single tablet with the two most prescribed branded anti-hypertension medicines – the angiotensin receptor blocker valsartan and the calcium channel blocker amlodipine – received European Commission approval in January 2007 as well as tentative US and Swiss approvals in December 2006. *Exforge* is expected to be available in Europe during the first half of 2007 and in the US in late September 2007 after the expiry of market exclusivity and patent protection for amlodipine (Norvasc[®]).⁽²⁾

Galvus (vildagliptin), seeking approval as a new oral once-daily therapy for patients with type 2 diabetes, was issued a three-month review process extension in November 2006 by the FDA. Results from recent clinical trials were submitted to the FDA involving an additional 1,000 patient-years of treatment experience. The data further supports the proposed once-daily dosing regimen and indications as well as complements the drug's risk/benefit profile. *Galvus* has been shown to be as effective as a TZD (thiazolidinedione), another oral anti-diabetic class of medicines, in reducing blood sugar but without the side effects of weight gain, edema or heart failure. Over 7,000 patients have been involved in *Galvus* clinical trials to date.

Tekturna/Rasilez⁽¹⁾ (aliskiren), seeking to be first in a new class of antihypertensive agents called direct renin inhibitors, received a three-month FDA regulatory review process extension. This will provide the FDA with time to consider additional data submitted by Novartis in early December. These data come from a study involving 30 healthy volunteers who received *Tekturna/Rasilez* at the proposed 300 mg once-daily dose for eight weeks to study potential changes of the colonic mucosa. Analysis of the data indicated that *Tekturna/Rasilez*, which was developed in collaboration with Speedel Pharma AG, did not induce any changes in the mucosal lining of the colon, as evaluated by colonoscopy and biopsies.

Tasigna⁽¹⁾ (nilotinib) was accepted in late 2006 for both US and EU regulatory review as a new option for patients with resistance and/or intolerance to treatment in certain forms of chronic myeloid leukemia. Phase II registration data, presented in December at the American Society of Hematology annual meeting, showed that *Tasigna* had impressive efficacy and a manageable safety profile, with patients intolerant to *Gleevec/Glivec* rarely

experiencing the same side-effects on *Tasigna*. About half of patients treated with *Tasigna* had significantly reduced or no presence of cells with the defective chromosome that causes this blood cancer. Both *Tasigna* and *Gleevec/Glivec*, another Novartis medicine, inhibit Bcr-Abl, the definitive

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- (1) Brand name awaiting approval by regulatory authorities
 - (2) Norvasc® is a trademark of Pfizer Inc.

cause of Philadelphia chromosome-positive chronic myeloid leukemia (Ph+ CML). *Tasigna* was designed to be a more selective inhibitor of Bcr-Abl and its mutations.

Lucentis (ranibizumab) is anticipated to receive European Union approval in the coming weeks as a new treatment option for patients with wet age-related macular degeneration, a leading cause of blindness in people over age 50. *Lucentis* was approved in June 2006 in the United States and in August 2006 in Switzerland. Genentech retains the rights to *Lucentis* in the US.

Aclasta/Reclast⁽³⁾ (zoledronic acid) was submitted in late 2006 for approval in the US and EU as a once-yearly bisphosphonate infusion for women with postmenopausal osteoporosis. Phase III data demonstrated high efficacy in reducing the incidence of bone fracture at all common fracture sites in women with this debilitating condition. *Aclasta/Reclast* has also been submitted for US approval as a treatment of patients with Paget's disease of the bone, an indication already approved in over 50 countries, including key European markets.

Prexige⁽⁴⁾ (lumiracoxib) is on track for launch in European markets in 2007 and 2008 following the successful completion of the Mutual Recognition Procedure (MRP) in October 2006. *Prexige* received this important regulatory approval as a new treatment option for patients suffering from osteoarthritic pain of the knee and hip. Resubmission to the FDA for US approval is planned for 2007.

AGO178 (agomelatine) began Phase III trials in the US at the end of 2006 as a once-daily treatment for patients with major depression. AGO178, which was licensed from Servier and for which Novartis has the US rights, has shown efficacy comparable to current standard antidepressant therapies. This compound potentially offers improved tolerability, including a low propensity to cause sexual dysfunction and weight gain as well as an improvement in the quality of sleep. Servier's submission for European Union approval was not supported by regulators due to insufficient data. This decision is not expected to have any effect on the development strategy and regulatory process in the US, with submission planned for 2008.

RAD001 (everolimus), a novel oral inhibitor of the mTOR pathway considered a key target in oncology, has demonstrated broad clinical activity in multiple tumor types at well-tolerated and efficacious doses. A registration program is underway that includes the RADIANT-1 study in chemotherapy-refractory pancreatic islet cell tumors (pICT) and the RECORD-1 study in metastatic renal cell carcinoma. This program will be expanded in 2007 to include registration trials for refractory carcinoid tumors as well as first- and second-line pICT. RAD001 acts by directly inhibiting tumor cell growth as well as by inhibiting the formation of new blood vessels (angiogenesis). The first regulatory submission could be as early as 2008.

(3) The proposed US trade name *Reclast* is currently under review by the US Food and Drug Administration (FDA).

- (4) The US trade name is currently under review by the FDA.

Disclaimer

This release contains certain forward-looking statements relating to the Group's business, which can be identified by the use of forward-looking terminology such as proposed, plans, expectations, planned, will, confident, anticipated, expected, sharpening its focus, aimed, expects, preparing, pipeline, development, plans, potentially, would, seeking, on track, could, or similar expressions, or by discussions regarding potential future financial results or sales of new or existing products; potential new products, or potential new indications for existing products, or regarding potential future revenues from such products; or by discussions of strategy, plans, expectations or intentions. Such statements reflect the current views of management with respect to future events and are subject to certain known and unknown risks, uncertainties, assumptions and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. There can be no guarantee that the Group will achieve any particular financial results, or that any particular products will reach any particular sales levels. Neither can there be any guarantee that any new products will be approved for sale in any market, or that any new indications will be approved for existing products in any market, or that they will achieve any particular revenue levels. In particular, management's expectations could be affected by, among other things, uncertainties involved in the development of new pharmaceutical products, including unexpected clinical trial results; unexpected regulatory actions or delays or government regulation; the Group's ability to obtain or maintain patent or other proprietary intellectual property protection; competition in general; government, industry, and general public pricing and other political pressures; and other risks and factors referred to in the Group's current Form 20-F on file with the US Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. Novartis is providing the information in this press release as of this date and does not undertake any obligation to update any forward-looking statements contained in this press release as a result of new information, future events or otherwise.

About Novartis

Novartis AG (NYSE: NVS) is a world leader in offering medicines to protect health, cure disease and improve well-being. Our goal is to discover, develop and successfully market innovative products to treat patients, ease suffering and enhance the quality of life. We are strengthening our medicine-based portfolio, which is focused on strategic growth platforms in innovation-driven pharmaceuticals, high-quality and low-cost generics, human vaccines and leading self-medication OTC brands. Novartis is the only company with leadership positions in these areas. In 2006, the Group's businesses achieved net sales of USD 37.0 billion and net income of USD 7.2 billion. Approximately USD 5.4 billion was invested in R&D. Headquartered in Basel, Switzerland, Novartis Group companies employ approximately 101,000 associates and operate in over 140 countries around the world. For more information, please visit <http://www.novartis.com>.

Further important dates

| | |
|------------------|--|
| March 6, 2007 | Annual General Meeting |
| April 23, 2007 | First quarter 2007 results |
| July 17, 2007 | First half and second quarter 2007 results |
| October 18, 2007 | Nine-month and third quarter 2007 results |

Consolidated income statements (audited)

Full year

| | 2006 | 2005 | Change | |
|--|----------------|---------------|--------------|------------|
| | USD m | USD m | USD m | % |
| Net sales from continuing operations | 36 031 | 31 005 | 5 026 | 16 |
| Other revenues | 718 | 314 | 404 | 129 |
| Cost of Goods Sold | -10 299 | -8 259 | -2 040 | 25 |
| <i>Of which amortization and impairments of product and patent rights and trademarks</i> | <i>-764</i> | <i>-421</i> | <i>-343</i> | <i>81</i> |
| Gross profit | 26 450 | 23 060 | 3 390 | 15 |
| Marketing & Sales | -10 454 | -9 397 | -1 057 | 11 |
| Research & Development | -5 349 | -4 825 | -524 | 11 |
| General & Administration | -1 957 | -1 681 | -276 | 16 |
| Other income & expense | -741 | -355 | -386 | 109 |
| Operating income from continuing operations | 7 949 | 6 802 | 1 147 | 17 |
| Income from associated companies | 264 | 193 | 71 | 37 |
| Financial income | 354 | 461 | -107 | -23 |
| Interest expense | -266 | -294 | 28 | -10 |
| Income before taxes from continuing operations | 8 301 | 7 162 | 1 139 | 16 |
| Taxes | -1 282 | -1 090 | -192 | 18 |
| Net income from continuing operations | 7 019 | 6 072 | 947 | 16 |
| Net income from Consumer Health discontinuing operations | 183 | 69 | 114 | 165 |
| Total net income | 7 202 | 6 141 | 1 061 | 17 |
| <i>Attributable to:</i> | | | | |
| <i>Equity holders of Novartis AG</i> | <i>7 175</i> | <i>6 130</i> | <i>1 045</i> | <i>17</i> |
| <i>Minority interests</i> | <i>27</i> | <i>11</i> | <i>16</i> | <i>145</i> |
| Average number of shares outstanding Basic (million) | 2 345.2 | 2 332.8 | | |
| Total basic earnings per share (USD)⁽¹⁾ | 3.06 | 2.63 | 0.43 | 16 |
| Average number of shares outstanding Diluted (million) | 2 360.5 | 2 342.5 | | |
| Total diluted earnings per share (USD) ⁽¹⁾ | 3.04 | 2.62 | 0.42 | 16 |

(1) Earnings per share (EPS) is calculated on the amount of net income attributable to the equity holders of Novartis AG. EPS is also based on total net income including Consumer Health discontinuing operations

Consolidated statement of recognized income and expense (audited)

Full year

| | 2006 | 2005 | Change |
|--|------|------|--------|
|--|------|------|--------|

Consumer Health continuing operations net sales up 6% (+3% lc) to USD 1.6 billion

40

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| | USD m | USD m | USD m |
|---|--------------|--------------|--------------|
| Net income | 7 202 | 6 141 | 1 061 |
| Fair value adjustments on financial instruments | 94 | -75 | 169 |
| Actuarial gains/losses from defined benefit plans | 139 | -400 | 539 |
| Additionally recognized amounts by associated companies | -76 | 41 | -117 |
| Revaluation of initial minority interests in Chiron | 592 | | 592 |
| Translation effects | 1 493 | -1 978 | 3 471 |
| Recognized income and expense | 9 444 | 3 729 | 5 715 |

Consolidated income statements (unaudited)

Fourth quarter

| | Q4 2006 | Q4 2005 | Change | |
|--|----------------|--------------|--------------|------------|
| | USD m | USD m | USD m | % |
| Net sales from continuing operations | 9 801 | 8 372 | 1 429 | 17 |
| Other revenues | 257 | 96 | 161 | 168 |
| Cost of Goods Sold | -2 901 | -2 366 | -535 | 23 |
| <i>Of which amortization and impairments of product and patent rights and trademarks</i> | -223 | -139 | -84 | 60 |
| Gross profit | 7 157 | 6 102 | 1 055 | 17 |
| Marketing & Sales | -2 991 | -2 533 | -458 | 18 |
| Research & Development | -1 548 | -1 466 | -82 | 6 |
| General & Administration | -615 | -492 | -123 | 25 |
| Other income & expense | -209 | -140 | -69 | 49 |
| Operating income from continuing operations | 1 794 | 1 471 | 323 | 22 |
| Income from associated companies | 71 | 67 | 4 | 6 |
| Financial income | 95 | 110 | -15 | -14 |
| Interest expense | -57 | -67 | 10 | -15 |
| Income before taxes from continuing operations | 1 903 | 1 581 | 322 | 20 |
| Taxes | -264 | -242 | -22 | 9 |
| Net income from continuing operations | 1 639 | 1 339 | 300 | 22 |
| Net income from Consumer Health discontinuing operations | 24 | 13 | 11 | 85 |
| Total net income | 1 663 | 1 352 | 311 | 23 |
| <i>Attributable to:</i> | | | | |
| <i>Equity holders of Novartis AG</i> | <i>1 654</i> | <i>1 350</i> | <i>304</i> | <i>23</i> |
| <i>Minority interests</i> | <i>9</i> | <i>2</i> | <i>7</i> | <i>350</i> |
| Average number of shares outstanding Basic (million) | 2 348.8 | 2 335.5 | | |
| Total basic earnings per share (USD) ⁽¹⁾ | 0.70 | 0.58 | 0.12 | 21 |
| Average number of shares outstanding Diluted (million) | 2 367.5 | 2 350.1 | | |
| Total diluted earnings per share (USD) ⁽¹⁾ | 0.70 | 0.57 | 0.13 | 23 |

(1) Earnings per share (EPS) is calculated on the amount of net income attributable to the equity holders of Novartis AG. EPS is also based on total net income including Consumer Health discontinuing operations

Consolidated statement of recognized income and expense (unaudited)

Fourth quarter

Q4 2006 Q4 2005 Change

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| | USD m | USD m | USD m |
|---|--------------|--------------|--------------|
| Net income | 1 663 | 1 352 | 311 |
| Fair value adjustments on financial instruments | 106 | -51 | 157 |
| Actuarial gains from defined benefit plans | 255 | 114 | 141 |
| Additionally recognized amounts by associated companies | -9 | 7 | -16 |
| Revaluation of initial minority interests in Chiron | -17 | | -17 |
| Translation effects | 622 | -227 | 849 |
| Recognized income and expense | 2 620 | 1 195 | 1 425 |

Condensed consolidated balance sheets (audited)

| | Dec 31, 2006 | Dec 31, 2005 | Change |
|--|-----------------|-----------------|---------------|
| | USD m | USD m | USD m |
| Assets | | | |
| Total non-current assets | 46 604 | 36 289 | 10 315 |
| Current assets | | | |
| Inventories | 4 498 | 3 725 | 773 |
| Trade accounts receivable | 6 161 | 5 343 | 818 |
| Other current assets | 2 054 | 1 442 | 612 |
| Cash, short-term deposits and marketable securities | 7 955 | 10 933 | -2 978 |
| Total current assets from continuing operations | 20 668 | 21 443 | -775 |
| Assets related to discontinuing operations | 736 | | 736 |
| Total current assets | 21 404 | 21 443 | -39 |
| Total assets | 68 008 | 57 732 | 10 276 |
| Equity and liabilities | | | |
| Total equity | 41 294 | 33 164 | 8 130 |
| Non-current liabilities | | | |
| Financial debts | 656 | 1 319 | -663 |
| Other non-current liabilities | 9 824 | 7 921 | 1 903 |
| Total non-current liabilities | 10 480 | 9 240 | 1 240 |
| Current liabilities | | | |
| Trade accounts payable | 2 487 | 1 961 | 526 |
| Financial debts and derivatives | 6 643 | 7 135 | -492 |
| Other current liabilities | 6 897 | 6 232 | 665 |
| Total current liabilities from continuing operations | 16 027 | 15 328 | 699 |
| Liabilities related to discontinuing operations | 207 | | 207 |
| Total current liabilities | 16 234 | 15 328 | 906 |
| Total liabilities | 26 714 | 24 568 | 2 146 |
| Total equity and liabilities | 68 008 | 57 732 | 10 276 |

Condensed consolidated changes in equity**Full year (audited)**

| | 2006 | 2005 | Change |
|---|---------------|---------------|--------------|
| | USD m | USD m | USD m |
| Consolidated equity at January 1 | 33 164 | 31 315 | 1 849 |
| Recognized income and expense | 9 444 | 3 729 | 5 715 |
| Sale/purchase of treasury shares, net | 248 | -245 | 493 |
| Share-based compensation | 506 | 445 | 61 |
| Dividends | -2 049 | -2 107 | 58 |
| Changes in minorities | -19 | 27 | -46 |
| Consolidated equity at December 31 | 41 294 | 33 164 | 8 130 |

Fourth quarter (unaudited)

| | Q4 2006 | Q4 2005 | Change |
|---|---------------|---------------|--------------|
| | USD m | USD m | USD m |
| Consolidated equity at October 1 | 38 590 | 31 748 | 6 842 |
| Recognized income and expense | 2 620 | 1 195 | 1 425 |
| Purchase/sale of treasury shares, net | -42 | 36 | -78 |
| Share-based compensation | 134 | 131 | 3 |
| Changes in minorities | -8 | 54 | -62 |
| Consolidated equity at December 31 | 41 294 | 33 164 | 8 130 |

Condensed consolidated cash flow statements(audited)

Full year

| | 2006 | 2005 | Change |
|---|---------------|---------------|---------------|
| | USD m | USD m | USD m |
| Net income from continuing operations | 7 019 | 6 072 | 947 |
| Reversal of non-cash items | | | |
| Taxes | 1 282 | 1 090 | 192 |
| Depreciation, amortization and impairments | 2 026 | 1 727 | 299 |
| Net financial income | -88 | -167 | 79 |
| Other | 130 | -179 | 309 |
| Net income adjusted for non-cash items | 10 369 | 8 543 | 1 826 |
| Interest and other financial receipts | 520 | 537 | -17 |
| Interest and other financial payments | -281 | -313 | 32 |
| Taxes paid | -1 760 | -1 345 | -415 |
| Cash flow before working capital and provision changes | 8 848 | 7 422 | 1 426 |
| Restructuring payments and other cash payments out of provisions | -304 | -285 | -19 |
| Change in net current assets and other operating cash flow items | 166 | 838 | -672 |
| Cash flow from operating activities of continuing operations | 8 710 | 7 975 | 735 |
| Investments in property, plant & equipment | -1 802 | -1 157 | -645 |
| Acquisitions/divestments of subsidiaries | -4 522 | -8 536 | 4 014 |
| Decrease/increase in marketable securities, intangible and financial assets | -251 | 2 244 | -2 495 |
| Cash flow from investing activities of continuing operations | -6 575 | -7 449 | 874 |
| Cash flow from financing activities of continuing operations | -4 970 | -270 | -4 700 |
| Cash flow from discontinuing operations | 308 | 76 | 232 |
| Translation effect on cash and cash equivalents | 25 | -94 | 119 |
| Cash and cash equivalents at year-end for discontinuing operations | -4 | | -4 |
| Change in cash and cash equivalents | -2 506 | 238 | -2 744 |
| Cash and cash equivalents at January 1 | 6 321 | 6 083 | 238 |
| Cash and cash equivalents for continuing operations at December 31 | 3 815 | 6 321 | -2 506 |

Condensed consolidated cash flow statements (unaudited)

Fourth quarter

| | Q4 2006 | Q4 2005 | Change |
|---|---------------|---------------|---------------|
| | USD m | USD m | USD m |
| Net income from continuing operations | 1 639 | 1 339 | 300 |
| Reversal of non-cash items | | | |
| Taxes | 264 | 242 | 22 |
| Depreciation, amortization and impairments | 580 | 679 | -99 |
| Net financial income | -38 | -43 | 5 |
| Other | 42 | -47 | 89 |
| Net income adjusted for non-cash items | 2 487 | 2 170 | 317 |
| Interest and other financial receipts | 121 | 96 | 25 |
| Interest and other financial payments | -156 | -163 | 7 |
| Taxes paid | -331 | -378 | 47 |
| Cash flow before working capital and provision changes | 2 121 | 1 725 | 396 |
| Restructuring payments and other cash payments out of provisions | -106 | -83 | -23 |
| Change in net current assets and other operating cash flow items | 352 | 578 | -226 |
| Cash flow from operating activities of continuing operations | 2 367 | 2 220 | 147 |
| Investments in property, plant & equipment | -668 | -411 | -257 |
| Acquisitions/divestments of subsidiaries | -14 | 6 | -20 |
| Decrease/increase in marketable securities, intangible and financial assets | 40 | -891 | 931 |
| Cash flow from investing activities of continuing operations | -642 | -1 296 | 654 |
| Cash flow from financing activities of continuing operations | -1 939 | 1 795 | -3 734 |
| Cash flow from discontinuing operations | 40 | 42 | -2 |
| Translation effect on cash and cash equivalents | -20 | 28 | -48 |
| Cash and cash equivalents at year-end for discontinuing operations | 1 | | 1 |
| Change in cash and cash equivalents | -193 | 2 789 | -2 982 |
| Cash and cash equivalents for continuing operations at October 1 | 4 008 | 3 532 | 476 |
| Cash and cash equivalents for continuing operations at December 31 | 3 815 | 6 321 | -2 506 |

Net sales by Division

Full year (audited)

| | 2006 | 2005 | % Change | |
|--|---------------|--------|----------|-----|
| | USD m | USD m | USD | lc |
| Pharmaceuticals | 22 576 | 20 262 | 11 | 11 |
| Vaccines and Diagnostics | 956 | | | |
| Sandoz | 5 959 | 4 694 | 27 | 25 |
| Consumer Health continuing operations | 6 540 | 6 049 | 8 | 8 |
| Net sales from continuing operations | 36 031 | 31 005 | 16 | 16 |
| Consumer Health discontinuing operations | 989 | 1 207 | -18 | -18 |
| Total | 37 020 | 32 212 | 15 | 14 |

Fourth quarter (unaudited)

| | Q4 2006 | Q4 2005 | % Change | |
|--|---------------|---------|----------|-----|
| | USD m | USD m | USD | lc |
| Pharmaceuticals | 6 049 | 5 248 | 15 | 12 |
| Vaccines and Diagnostics | 455 | | | |
| Sandoz | 1 653 | 1 573 | 5 | 0 |
| Consumer Health continuing operations | 1 644 | 1 551 | 6 | 3 |
| Net sales from continuing operations | 9 801 | 8 372 | 17 | 13 |
| Consumer Health discontinuing operations | 252 | 285 | -12 | -14 |
| Total | 10 053 | 8 657 | 16 | 12 |

Operating income by Division

Full year (audited)

| | 2006 | | 2005 | | Change |
|--|--------------|----------------|-------|----------------|--------|
| | USD m | % of net sales | USD m | % of net sales | In % |
| Pharmaceuticals | 6 703 | 29.7 | 6 014 | 29.7 | 11 |
| Vaccines and Diagnostics | -26 | | | | |
| Sandoz | 736 | 12.4 | 342 | 7.3 | 115 |
| Consumer Health continuing operations | 1 068 | 16.3 | 952 | 15.7 | 12 |
| Corporate income & expense, net | -532 | | -506 | | |

Consumer Health continuing operations net sales up 6% (+3% lc) to USD 1.6 billion

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| | | | | | |
|--|--------------|------|-------|------|-----|
| Operating income from continuing operations | 7 949 | 22.1 | 6 802 | 21.9 | 17 |
| Consumer Health discontinuing operations | 225 | 22.8 | 103 | 8.5 | 118 |
| Total | 8 174 | 22.1 | 6 905 | 21.4 | 18 |

Fourth quarter (unaudited)

| | Q4 2006 | | Q4 2005 | | Change |
|--|--------------|----------------|---------|----------------|--------|
| | USD m | % of net sales | USD m | % of net sales | In % |
| Pharmaceuticals | 1 621 | 26.8 | 1 358 | 25.9 | 19 |
| Vaccines and Diagnostics | 2 | 0.4 | | | |
| Sandoz | 204 | 12.3 | 119 | 7.6 | 71 |
| Consumer Health continuing operations | 143 | 8.7 | 173 | 11.2 | 17 |
| Corporate income & expense, net | -176 | | -179 | | |
| Operating income from continuing operations | 1 794 | 18.3 | 1 471 | 17.6 | 22 |
| Consumer Health discontinuing operations | 30 | 11.9 | 17 | 6.0 | 76 |
| Total | 1 824 | 18.1 | 1 488 | 17.2 | 23 |

Consolidated income statements Divisional segmentation (audited)

Full year

| | Vaccines and | | | Consumer Health | | | | Consumer Health | | | | Total Group | | | |
|--|-----------------|--------------|-------------|-----------------|--------------|-----------------------|--------------|-----------------|-------------|-----------------------------|--------------|--------------------------|--------------|--------------|--------------|
| | Pharmaceuticals | | Diagnostics | Sandoz | | continuing operations | | Corporate | | Total continuing operations | | discontinuing operations | | Total Group | |
| | 2006 | 2005 | 2006 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD | USD |
| m | m | m | m | m | m | m | m | m | m | m | m | m | m | m | m |
| Net sales to third parties | 22 | 20 | 956 | 5 959 | 4 694 | 6 540 | 6 049 | | | 36 | 31 | | | 37 | 32 |
| Sales to other Divisions | 162 | 128 | 9 | 148 | 144 | 39 | 23 | -358 | -295 | | | | | | |
| Sales of Divisions | 22 | 20 | 965 | 6 107 | 4 838 | 6 579 | 6 072 | -358 | -295 | 36 | 31 | 989 | 1 207 | 37 | 32 |
| Other revenues | 424 | 253 | 231 | 24 | 18 | 39 | 43 | | | 718 | 314 | 3 | | 721 | 314 |
| Cost of Goods Sold | -3 | -3 | | -3 | -2 | -2 | -2 | | | -10 | -8 | | | -10 | -8 |
| | 826 | 275 | -795 | 420 | 883 | 642 | 374 | 384 | 273 | 299 | 259 | -516 | -609 | 815 | 868 |
| <i>Of which amortization and impairments of product and patent rights and trademarks</i> | -225 | -195 | -172 | -288 | -169 | -79 | -57 | | | -764 | -421 | -11 | -11 | -775 | -432 |
| Gross profit | 19 | 17 | 401 | 2 711 | 1 973 | 3 976 | 3 741 | 26 | -22 | 26 | 23 | 476 | 598 | 26 | 23 |
| Marketing & Sales | -7 | -6 | | -1 | -816 | 200 | 096 | | | -10 | -9 | | | -10 | -9 |
| | 069 | 485 | -124 | 061 | | | | | | 454 | 397 | -302 | -405 | 756 | 802 |
| Research & Development | -4 | -3 | | -477 | -434 | -288 | -270 | -171 | -149 | -5 | -4 | | | -5 | -4 |
| | 265 | 972 | -148 | | | | | | | 349 | 825 | -15 | -21 | 364 | 846 |
| General & Administration | -703 | -657 | -92 | -311 | -270 | -435 | -370 | -416 | -384 | -1 | -1 | | | -2 | -1 |
| | | | | | | | | | | 957 | 681 | -50 | -61 | 007 | 742 |
| Other income & expense | -596 | -240 | -63 | -126 | -111 | 15 | -53 | 29 | 49 | -741 | -355 | 116 | | -8 | -625 |
| <i>Of which amortization and impairments of capitalized intangibles included in function costs</i> | -119 | -342 | | -38 | -57 | -31 | -24 | -8 | -17 | -196 | -440 | -10 | -10 | -206 | -450 |
| Operating income | 6 703 | 6 014 | -26 | 736 | 342 | 1 068 | 952 | -532 | -506 | 7 949 | 6 802 | 225 | 103 | 8 174 | 6 905 |
| Income from associated companies | | | | | | | | | | 264 | 193 | | | 264 | 193 |
| Financial income | | | | | | | | | | 354 | 461 | | | 354 | 461 |
| Interest expense | | | | | | | | | | -266 | -294 | | | -266 | -294 |
| Income before taxes | | | | | | | | | | 8 301 | 7 162 | 225 | 103 | 8 526 | 7 265 |
| Taxes | | | | | | | | | | -1 | -1 | | | -1 | -1 |
| | | | | | | | | | | 282 | 090 | -42 | -34 | 324 | 124 |
| Net income | | | | | | | | | | 7 019 | 6 072 | 183 | 69 | 7 202 | 6 141 |
| <i>Additions to:</i> | | | | | | | | | | | | | | | |
| - Property, plant and equipment ⁽¹⁾ | 1 135 | 686 | 113 | 264 | 212 | 222 | 233 | 106 | 32 | 1 840 | 1 163 | 11 | 31 | 1 851 | 1 194 |
| - Goodwill and other intangibles ⁽¹⁾ | 351 | 211 | 13 | 38 | 24 | 177 | 160 | | | 579 | 395 | 1 | 2 | 580 | 397 |

(1) Excluding impact of business acquisitions

Consolidated income statements Divisional segmentation (unaudited)

Fourth quarter

| | Vaccines and Pharmaceuticals | | Diagnostics | | Sandoz | | Consumer Health continuing operations | | Corporate | | Total continuing operations | | Consumer Health discontinuing operations | | Total Group | |
|--|---------------------------------|--------------|-------------|--------------|--------------|--------------|---|-------------|-------------|--------------|--------------------------------|------------|--|---------------|--------------|---------|
| | Q4 2006 | Q4 2005 | Q4 2006 | Q4 2005 | Q4 2006 | Q4 2005 | Q4 2006 | Q4 2005 | Q4 2006 | Q4 2005 | Q4 2006 | Q4 2005 | Q4 2006 | Q4 2005 | Q4 2006 | Q4 2005 |
| | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m |
| Net sales to third parties | 6 049 | 5 248 | 455 | 1 653 | 1 573 | 1 644 | 1 551 | | | 9 801 | 8 372 | 252 | 285 | 10 053 | 8 657 | |
| Sales to other Divisions | 42 | 29 | -5 | 36 | 26 | 6 | 1 | -79 | -56 | | | | | | | |
| Sales of Divisions | 6 091 | 5 277 | 450 | 1 689 | 1 599 | 1 650 | 1 552 | -79 | -56 | 9 801 | 8 372 | 252 | 285 | 10 053 | 8 657 | |
| Other revenues | 160 | 79 | 81 | 6 | 5 | 10 | 12 | | | 257 | 96 | 1 | | 258 | 96 | |
| Cost of Goods Sold | -1 002 | -860 | -356 | -933 | -929 | -700 | -628 | 90 | 51 | -2 901 | -2 366 | -129 | -151 | -3 030 | -2 517 | |
| <i>Of which amortization and impairments of product and patent rights and trademarks</i> | <i>-74</i> | <i>-68</i> | <i>-68</i> | <i>-62</i> | <i>-52</i> | <i>-19</i> | <i>-19</i> | | | <i>-223</i> | <i>-139</i> | <i>-3</i> | <i>-3</i> | <i>-226</i> | <i>-142</i> | |
| Gross profit | 5 249 | 4 496 | 175 | 762 | 675 | 960 | 936 | 11 | -5 | 7 157 | 6 102 | 124 | 134 | 7 281 | 6 236 | |
| Marketing & Sales | -2 026 | -1 706 | -51 | -314 | -266 | -600 | -561 | | | -2 991 | -2 533 | -76 | -96 | -3 067 | -2 629 | |
| Research & Development | -1 213 | -1 216 | -62 | -135 | -134 | -90 | -72 | -48 | -44 | -1 548 | -1 466 | -5 | -6 | -1 553 | -1 472 | |
| General & Administration | -218 | -183 | -44 | -96 | -91 | -131 | -101 | -126 | -117 | -615 | -492 | -13 | -16 | -628 | -508 | |
| Other income & expense | -171 | -33 | -16 | -13 | -65 | 4 | -29 | -13 | -13 | -209 | -140 | | 1 | -209 | -139 | |
| <i>Of which amortization and impairments of capitalized intangibles included in function costs</i> | <i>-54</i> | <i>-270</i> | | <i>-12</i> | <i>-4</i> | <i>-9</i> | <i>-2</i> | <i>-1</i> | <i>-3</i> | <i>-76</i> | <i>-279</i> | <i>-2</i> | <i>-2</i> | <i>-78</i> | <i>-281</i> | |
| Operating income | 1 621 | 1 358 | 2 | 204 | 119 | 143 | 173 | -176 | -179 | 1 794 | 1 471 | 30 | 17 | 1 824 | 1 488 | |
| Income from associated companies | | | | | | | | | | 71 | 67 | | | 71 | 67 | |
| Financial income | | | | | | | | | | 95 | 110 | | | 95 | 110 | |
| Interest expense | | | | | | | | | | -57 | -67 | | | -57 | -67 | |
| Income before taxes | | | | | | | | | | 1 903 | 1 581 | 30 | 17 | 1 933 | 1 598 | |
| Taxes | | | | | | | | | | -264 | -242 | -6 | -4 | -270 | -246 | |
| Net income | | | | | | | | | | 1 639 | 1 339 | 24 | 13 | 1 663 | 1 352 | |

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Additions to:

| | | | | | | | | | | | | | | | |
|---|-----|-----|----|----|----|----|-----|----|---|-----|-----|---|---|-----|-----|
| - Property, plant and equipment ⁽¹⁾ | 435 | 286 | 50 | 89 | 59 | 85 | 49 | 39 | 9 | 698 | 403 | 3 | 7 | 701 | 410 |
| - Goodwill and other intangibles ⁽¹⁾ | 74 | 53 | 13 | 25 | 6 | 16 | 107 | | | 128 | 166 | 1 | 2 | 129 | 168 |

(1) Excluding impact of business acquisitions

Notes to the consolidated financial statements for 2006

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, 2006, has been prepared in accordance with International Accounting Standard 34 Interim Financial Reporting and with the accounting policies set out in the 2006 Annual Report, which was published on January 18, 2007.

2. Business combinations and other significant transactions

The following significant transactions occurred during 2006 and 2005:

2006

Corporate Chiron acquisition

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

For the period from January 1 to the date of acquisition, the prior 44% interest in Chiron has been accounted for using the equity method. From its date of acquisition Chiron has been fully consolidated with its identifiable assets and liabilities being revalued to their fair value at the date of acquisition. The Group's initial 44% interest in Chiron was also 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). For the period following the acquisition up to December 31, the income statement and cash flows from Chiron's pharmaceuticals activities have been consolidated into the Division's results. Goodwill on this transaction at December 31, 2006, amounted to USD 1.9 billion. This goodwill is provisional pending the finalization of the purchase price allocation, which depends on the outcome of negotiations with Bayer-Schering AG on the rights of each party to regulatory, development, manufacturing and supply agreements for *Betaseron* and its impact on related intangible and other asset values and the resolution of tax-related uncertainties.

On July 14, Novartis announced that its offer for the UK biopharmaceutical company NeuTec Pharma plc, which is specialized in hospital anti-infectives, became unconditional and the company has been consolidated from this date. Novartis paid a total consideration of USD 606 million (GBP 328 million) to fully acquire the company. NeuTec Pharma plc had no post-acquisition sales, although expenses and cash flows have been consolidated from the acquisition date. Goodwill on this transaction at December 31, 2006 amounted to USD 129 million.

Vaccines and Diagnostics

For the period following the Chiron acquisition up to December 31, the income statement and cash flows from the vaccines and diagnostics activities comprise the Division's results. Goodwill on this transaction at December 31, 2006, amounted to USD 1.1 billion and remains provisional pending the resolution of tax related uncertainties.

Consumer Health

On February 17, Novartis announced the completion of the sale of its Nutrition & Santé unit, part of the Medical Nutrition Business Unit, for USD 211 million to ABN AMRO Capital France, resulting in a divestment gain before taxes of USD 129 million.

On December 14, Novartis announced its intention to divest the remainder of the Medical Nutrition Business Unit to Nestlé S.A., Switzerland for USD 2.5 billion. This transaction, which is subject to customary regulatory approvals, is expected to be completed in the second half of 2007.

The Medical Nutrition Business Unit (including the Nutrition & Santé business divested in February 2006) is disclosed as discontinuing operations in all periods in the Group's consolidated financial statements.

2005

Sandoz

On June 6, Novartis completed the 100% acquisition of Hexal AG for USD 5.3 billion in cash, with the results and cash flows consolidated from that date. Goodwill on this transaction at December 31, 2006, amounted to USD 3.7 billion.

On July 20, Novartis completed the acquisition of 100% of Eon Labs, Inc. for a total cost of USD 2.6 billion, with the results and cash flows consolidated from that date. Goodwill on this transaction at December 31, 2006, amounted to USD 1.8 billion.

Consumer Health

On July 14, the Novartis OTC Business Unit announced the acquisition of the rights to produce and market a portfolio of over-the-counter (OTC) brands from Bristol-Myers Squibb Company sold principally in the US for USD 660 million in cash. The closing date for the main North American product portfolio was August 31, 2005; that for the South American portfolio, September 30, 2005 and for the Europe, Middle East and African portfolio January 6, 2006, with the results and cash flows consolidated from these dates. Goodwill on the transaction at December

31, 2006, amounted to USD 49 million.

3. Principal currency translation rates

Full year

| | Average rates 2006 | Average rates 2005 | Period-end rates Dec 31, 2006 | Period-end rates Dec 31, 2005 |
|---------|-----------------------|-----------------------|----------------------------------|----------------------------------|
| | USD | USD | USD | USD |
| 1 CHF | 0.798 | 0.804 | 0.819 | 0.762 |
| 1 EUR | 1.256 | 1.245 | 1.317 | 1.186 |
| 1 GBP | 1.842 | 1.820 | 1.965 | 1.726 |
| 100 JPY | 0.860 | 0.910 | 0.841 | 0.851 |

Fourth quarter

| | Average rates Q4 2006 | Average rates Q4 2005 | Period-end rates Dec 31, 2006 | Period-end rates Dec 31, 2005 |
|---------|--------------------------|--------------------------|----------------------------------|----------------------------------|
| | USD | USD | USD | USD |
| 1 CHF | 0.810 | 0.768 | 0.819 | 0.762 |
| 1 EUR | 1.290 | 1.189 | 1.317 | 1.186 |
| 1 GBP | 1.916 | 1.748 | 1.965 | 1.726 |
| 100 JPY | 0.850 | 0.853 | 0.841 | 0.851 |

4. Condensed consolidated change in liquidity

Full year

| | 2006 | 2005 | Change |
|---|---------------|---------------|---------------|
| | USD m | USD m | USD m |
| Change in cash and cash equivalents | -2 506 | 238 | -2 744 |
| Change in marketable securities, financial debt and financial derivatives | 683 | -4 796 | 5 479 |
| Change in net liquidity | -1 823 | -4 558 | 2 735 |
| Net liquidity at January 1 | 2 479 | 7 037 | -4 558 |
| Net liquidity from continuing operations at December 31 | 656 | 2 479 | -1 823 |
| Net debt from discontinuing operations at December 31 | -3 | | -3 |
| Total net liquidity at December 31 | 653 | 2 479 | -1 826 |

Fourth quarter

| | Q4 2006 | Q4 2005 | Change |
|---|--------------|--------------|---------------|
| | USD m | USD m | USD m |
| Change in cash and cash equivalents | -193 | 2 789 | -2 982 |
| Change in marketable securities, financial debt and financial derivatives | 1 539 | -1 355 | 2 894 |
| Change in net liquidity | 1 346 | 1 434 | -88 |
| Net liquidity at October 1 | -690 | 1 045 | -1 735 |
| Net liquidity from continuing operations at December 31 | 656 | 2 479 | -1 823 |
| Net debt from discontinuing operations at December 31 | -3 | | -3 |
| Net liquidity at December 31 | 653 | 2 479 | -1 826 |

5. Legal proceedings update

A number of our affiliates are the subject of various legal proceedings that arise from time to time in the ordinary course of business. While we do not believe that any of them will have a material adverse effect on our financial position, litigation is inherently unpredictable and excessive verdicts do occur. As a consequence, we may in the future incur judgments or enter into settlements of claims that could have a material adverse effect on our results of operations in any particular period.

Please consult the 2006 Annual Report (note 19 to the Group's consolidated financial statement) for a summary of major legal proceedings.

The following non-exhaustive list reflects recent developments in legal proceedings:

Canadian Importation Cases: The court of appeals for the Eighth Circuit affirmed the dismissal by a Minnesota court of an antitrust action filed against Novartis AG alleging that Novartis and other pharmaceutical companies conspired against the importation of cheaper Canadian prescription drugs into the United States. Plaintiffs may appeal the decision to the US Supreme Court until February 28, 2007. In addition, a California court granted a Novartis affiliate's motion for summary judgment in a separate action involving allegations of price fixing. Plaintiffs have appealed the decision.

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

The Group's consolidated financial statements have been prepared in accordance with IFRS, which, as applied by the Group, differ in certain significant respects from US GAAP. The effects of the application of US GAAP to net income and equity are set out in the tables below. For further comments regarding the nature of these adjustments, please consult note 33 in the Novartis 2006 Annual Report.

| | 2006 | 2005 |
|--|---------------|---------------|
| | USD m | USD m |
| Net income from continuing operations under IFRS | 7 019 | 6 072 |
| US GAAP adjustments: | | |
| Available-for-sale securities | -114 | 278 |
| Inventory impairment reversal | 103 | 20 |
| Associated companies | | -6 |
| Intangible assets | -1 743 | -1 238 |
| Property, plant and equipment | 58 | 53 |
| Pensions and other post-employment benefits | -198 | -181 |
| Deferred taxes | 125 | 178 |
| Share-based compensation | -5 | -44 |
| Minority interests | -27 | -11 |
| Other | -68 | |
| Net income from continuing operations under US GAAP | 5 150 | 5 121 |
| Net income from discontinuing operations under US GAAP | 114 | 69 |
| Net income under US GAAP | 5 264 | 5 190 |
| Earnings per share under US GAAP | | |
| Continuing operations earnings per share (USD) | 2.19 | 2.19 |
| Discontinuing operations earnings per share (USD) | 0.05 | 0.03 |
| Total earnings per share (USD) | 2.24 | 2.22 |
| Diluted earnings per share under US GAAP (USD) | | |
| Continuing operations diluted earnings per share (USD) | 2.18 | 2.19 |
| Discontinuing operations diluted earnings per share (USD) | 0.05 | 0.03 |
| Total diluted earnings per share (USD) | 2.23 | 2.22 |
| | Dec 31, 2006 | Dec 31, 2005 |
| | USD m | USD m |
| Equity under IFRS | 41 294 | 33 164 |
| US GAAP adjustments: | | |
| Available-for-sale securities | -37 | -24 |
| Inventory impairment reversal | -11 | -23 |
| Associated companies | -307 | 25 |
| Intangible assets | 1 349 | 4 092 |
| Property, plant and equipment | -436 | -409 |
| Pensions and other post-employment benefits | 15 | 3 133 |
| Deferred taxes | 130 | -1 438 |
| Share-based compensation | -186 | -96 |
| Minority interests | -183 | -174 |
| Net assets from discontinuing operations | -19 | 50 |

| | | |
|----------------------------------|---------------|---------------|
| Others | 61 | |
| Total US GAAP adjustments | 376 | 5 136 |
| Equity under US GAAP | 41 670 | 38 300 |

Supplementary information (unaudited)

Free cash flow

Full year

| | 2006 | 2005 | Change |
|--|--------------|--------------|-------------|
| | USD m | USD m | USD m |
| Cash flow from continuing operating activities | 8 710 | 7 975 | 735 |
| Purchase of property, plant & equipment | -1 802 | -1 157 | -645 |
| Purchase of intangible and financial assets | -1 345 | -1 140 | -205 |
| Sale of property, plant & equipment, intangible and financial assets | 719 | 1 030 | -311 |
| Dividends | -2 049 | -2 107 | 58 |
| Free cash flow from continuing operations | 4 233 | 4 601 | -368 |
| Free cash flow from discontinuing operations | 107 | 72 | 35 |
| Total free cash flow | 4 340 | 4 673 | -333 |

Fourth quarter

| | Q4 2006 | Q4 2005 | Change |
|--|--------------|--------------|------------|
| | USD m | USD m | USD m |
| Cash flow from continuing operating activities | 2 367 | 2 220 | 147 |
| Purchase of property, plant & equipment | -667 | -411 | -256 |
| Purchase of intangible and financial assets | -255 | -396 | 141 |
| Sale of property, plant & equipment, intangible and financial assets | 192 | 161 | 31 |
| Free cash flow from continuing operations | 1 637 | 1 574 | 63 |
| Free cash flow from discontinuing operations | 38 | 36 | 2 |
| Total free cash flow | 1 675 | 1 610 | 65 |

Share information

| | December 31, 2006 | December 31, 2005 |
|--|-------------------|-------------------|
| Number of shares outstanding (million) | 2 348.2 | 2 335.9 |
| Registered share price (CHF) | 70.25 | 69.05 |
| ADS price (USD) | 57.44 | 52.48 |
| Market capitalization (USD billion) | 135.1 | 122.9 |
| Market capitalization (CHF billion) | 165.0 | 161.3 |

Impact of intangible asset charges and significant exceptional items (unaudited)

Full year

| | Pharmaceuticals | | Vaccines and Diagnostics | Sandoz | | Consumer Health continuing operations | | Corporate | | Total continuing operations | | Consumer Health discontinuing operations | | Total Group | | |
|--|-----------------|--------------|--------------------------|--------------|------------|---------------------------------------|------------|-------------|-------------|-----------------------------|-------------|--|------------|-------------|--------------|--------------|
| | 2006 | 2005 | 2006 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | |
| | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | |
| Reported operating income | 6 703 | 6 014 | -26 | 736 | 342 | 1 068 | 952 | -532 | -506 | 7 | 949 | 6 802 | 225 | 103 | 8 174 | 6 905 |
| Recurring amortization | 268 | 178 | 172 | 279 | 189 | 107 | 81 | 8 | 12 | 834 | 460 | 21 | 21 | 855 | 481 | |
| Impairments | 76 | 359 | | 47 | 37 | 3 | | | 5 | 126 | 401 | | | 126 | 401 | |
| Intangible asset charges | 344 | 537 | 172 | 326 | 226 | 110 | 81 | 8 | 17 | 960 | 861 | 21 | 21 | 981 | 882 | |
| Impairment charges on property, plant & equipment | 3 | | 7 | | 14 | 1 | | | | 11 | 14 | | | 11 | 14 | |
| Impact of increasing acquisition-related inventory to selling price less distribution margin | 95 | | 117 | | 161 | | | | | 212 | 161 | | 21 | 212 | 182 | |
| Restructuring and acquisition related integration expenses | 131 | | 44 | 61 | 76 | | | | | 236 | 76 | | 19 | 236 | 95 | |
| Exceptional restructuring and other acquisition-related integration expenses | 229 | | 168 | 61 | 251 | 1 | | | | 459 | 251 | | 40 | 459 | 291 | |
| Exceptional gains from divesting subsidiaries and major products | -87 | -231 | | 7 | | | -8 | | | -80 | -239 | -129 | | -209 | -239 | |
| Operating income excluding the above items | 7 189 | 6 320 | 314 | 1 130 | 819 | 1 179 | 025 | -524 | -489 | 9 | 288 | 7 675 | 117 | 164 | 9 405 | 7 839 |

Impact of intangible asset charges and significant exceptional items (unaudited)

Fourth quarter

| | Pharmaceuticals | | Vaccines and Diagnostics | Sandoz | | Consumer Health continuing operations | | Corporate | | Total continuing operations | | Consumer Health discontinuing operations | | Total Group | |
|--|-----------------|--------------|-----------------------------|------------|------------|---|------------|-------------|-------------|-----------------------------------|--------------|--|------------|--------------|--------------|
| | Q4 2006 | Q4 2005 | Q4 2006 | Q4 2006 | Q4 2005 | Q4 2006 | Q4 2005 | Q4 2006 | Q4 2005 | Q4 2006 | Q4 2005 | Q4 2006 | Q4 2005 | Q4 2006 | Q4 2005 |
| | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m | USD m |
| Reported operating income | 1 621 | 1 358 | 2 | 204 | 119 | 143 | 173 | -176 | -179 | 1 794 | 1 471 | 30 | 17 | 1 824 | 1 488 |
| Recurring amortization | 91 | 45 | 68 | 73 | 52 | 26 | 22 | 1 | 2 | 259 | 121 | 5 | 5 | 264 | 126 |
| Impairments | 37 | 293 | | 1 | 4 | 2 | | | | 40 | 297 | | | 40 | 297 |
| Intangible asset charges | 128 | 338 | 68 | 74 | 56 | 28 | 22 | 1 | 2 | 299 | 418 | 5 | 5 | 304 | 423 |
| Impairment charges on property, plant & equipment | 5 | -19 | 7 | -7 | 11 | | | | | 5 | -8 | | | 5 | -8 |
| Impact of increasing acquisition-related inventory to selling price less distribution margin | 14 | | 24 | | 42 | | | | | 38 | 42 | -3 | 16 | 35 | 58 |
| Restructuring and acquisition related integration expenses | 18 | | 15 | 7 | 36 | | | | | 40 | 36 | | 8 | 40 | 44 |
| Exceptional restructuring and other acquisition-related integration expenses | 37 | -19 | 46 | | 89 | | | | | 83 | 70 | -3 | 24 | 80 | 94 |
| Exceptional gains from divesting subsidiaries and major products | | | | 7 | | | | | | 7 | | | | 7 | |
| Operating income excluding the above items | 1 786 | 1 677 | 116 | 285 | 264 | 171 | 195 | -175 | -177 | 2 183 | 1 959 | 32 | 46 | 2 215 | 2 005 |

Supplementary tables: Full-year 2006 net sales of top 20 pharmaceutical products (unaudited)

| Brands | Therapeutic area | US | | Rest of world | | Total | | |
|---------------------------------|--|--------------|------------------------------|---------------|------------------------------|---------------|------------------------------|-----------|
| | | USD m | % change in local currencies | USD m | % change in local currencies | in USD | % change in local currencies | |
| <i>Diovan/Co-Diovan</i> | Hypertension | 1 858 | 20 | 2 365 | 12 | 4 223 | 15 | 15 |
| | Chronic myeloid leukemia | 630 | 20 | 1 924 | 16 | 2 554 | 18 | 17 |
| <i>Gleevec/Glivec</i> | | | | | | | | |
| <i>Lotrel</i> | Hypertension | 1 352 | 26 | | | 1 352 | 26 | 26 |
| <i>Zometa</i> | Cancer complications | 696 | -1 | 587 | 12 | 1 283 | 5 | 4 |
| <i>Lamisil (group)</i> | Fungal infections | 574 | 7 | 404 | -31 | 978 | -14 | -13 |
| <i>Neoral/Sandimmun</i> | Transplantation | 125 | -17 | 793 | -1 | 918 | -4 | -4 |
| <i>Sandostatin (group)</i> | Acromegaly | 367 | -2 | 548 | 4 | 915 | 2 | 2 |
| <i>Lescol</i> | Cholesterol reduction | 256 | 0 | 469 | -8 | 725 | -5 | -5 |
| <i>Trileptal</i> | Epilepsy | 549 | 19 | 172 | 11 | 721 | 17 | 17 |
| <i>Femara</i> | Breast cancer | 338 | 40 | 381 | 27 | 719 | 34 | 33 |
| Top ten products total | | 6 745 | 15 | 7 643 | 7 | 14 388 | 10 | 10 |
| <i>Voltaren (group)</i> | Inflammation/pain | 8 | 60 | 682 | 0 | 690 | 0 | 1 |
| | Irritable bowel syndrome | 488 | 37 | 73 | 20 | 561 | 34 | 34 |
| <i>Zelnorm/Zelmac</i> | | | | | | | | |
| <i>Exelon</i> | Alzheimer s disease | 187 | 9 | 338 | 12 | 525 | 12 | 11 |
| <i>Tegretol (incl. CR/XR)</i> | Epilepsy | 120 | 10 | 271 | -5 | 391 | -1 | -1 |
| <i>Visudyne</i> | Macular degeneration | 70 | -62 | 284 | -6 | 354 | -27 | -27 |
| <i>Miacalcic</i> | Osteoporosis | 199 | -13 | 140 | 3 | 339 | -7 | -7 |
| <i>Comtan/Stalevo (group)</i> | Parkinson s disease | 157 | 18 | 182 | 24 | 339 | 22 | 21 |
| <i>Foradil</i> | Asthma | 14 | 0 | 317 | -1 | 331 | 0 | -1 |
| <i>Ritalin/Focalin (group)</i> | Attention deficit/hyperactive disorder | 264 | 47 | 66 | 6 | 330 | 37 | 37 |
| <i>Famvir</i> | Viral infections | 166 | 10 | 102 | -3 | 268 | 6 | 5 |
| Top 20 products total | | 8 418 | 14 | 10 098 | 5 | 18 516 | 9 | 9 |
| Rest of portfolio | | 1 054 | 43 | 3 006 | 14 | 4 060 | 21 | 21 |
| Total Division net sales | | 9 472 | 17 | 13 104 | 7 | 22 576 | 11 | 11 |

Supplementary tables: Fourth quarter 2006 net sales of top 20 pharmaceutical products (unaudited)

| Brands | Therapeutic area | US | | Rest of world | | | Total | |
|---------------------------------|--|--------------|------------------------------|---------------|------------------------------|--------------|-----------|------------------------------|
| | | USD m | % change in local currencies | USD m | % change in local currencies | USD m | in USD | % change in local currencies |
| <i>Diovan/Co-Diovan</i> | Hypertension | 505 | 21 | 647 | 7 | 1 152 | 16 | 13 |
| | Chronic myeloid leukemia | 173 | 13 | 529 | 15 | 702 | 19 | 14 |
| <i>Lotrel</i> | Hypertension | 354 | 19 | | | 354 | 19 | 19 |
| <i>Zometa</i> | Cancer complications | 174 | -7 | 165 | 21 | 339 | 8 | 5 |
| <i>Lamisil (group)</i> | Fungal infections | 127 | 0 | 99 | -22 | 226 | -10 | -11 |
| <i>Neoral/Sandimmun</i> | Transplantation | 31 | -21 | 209 | -2 | 240 | 0 | -5 |
| <i>Sandostatin (group)</i> | Acromegaly | 99 | 4 | 146 | 7 | 245 | 9 | 6 |
| <i>Lescol</i> | Cholesterol reduction | 61 | -13 | 118 | -12 | 179 | -9 | -12 |
| <i>Trileptal</i> | Epilepsy | 145 | 22 | 44 | 13 | 189 | 20 | 20 |
| <i>Femara</i> | Breast cancer | 92 | 37 | 112 | 32 | 204 | 40 | 35 |
| Top ten products total | | 1 761 | 12 | 2 069 | 7 | 3 830 | 12 | 9 |
| <i>Voltaren (group)</i> | Inflammation/pain | 2 | 0 | 176 | 1 | 178 | 5 | 2 |
| | Irritable bowel syndrome | 132 | 25 | 21 | 23 | 153 | 24 | 24 |
| <i>Zelnorm/Zelmac</i> | | | | | | | | |
| <i>Exelon</i> | Alzheimer s disease | 49 | 9 | 89 | 8 | 138 | 14 | 9 |
| <i>Tegretol (incl. CR/XR)</i> | Epilepsy | 32 | 14 | 72 | 3 | 104 | 8 | 6 |
| <i>Visudyne</i> | Macular degeneration | 10 | -68 | 67 | -18 | 77 | -28 | -33 |
| <i>Miacalcic</i> | Osteoporosis | 47 | -8 | 35 | -3 | 82 | -4 | -6 |
| <i>Comtan/Stalevo (group)</i> | Parkinson s disease | 41 | 14 | 51 | 23 | 92 | 23 | 19 |
| <i>Foradil</i> | Asthma | 4 | 33 | 88 | 5 | 92 | 14 | 7 |
| <i>Ritalin/Focalin (group)</i> | Attention deficit/hyperactive disorder | 79 | 41 | 17 | 8 | 96 | 33 | 34 |
| <i>Famvir</i> | Viral infections | 46 | 12 | 25 | 10 | 71 | 8 | 4 |
| Top 20 products total | | 2 203 | 12 | 2 710 | 6 | 4 913 | 12 | 9 |
| Rest of portfolio | | 318 | 69 | 818 | 21 | 1 136 | 35 | 32 |
| Total Division net sales | | 2 521 | 17 | 3 528 | 9 | 6 049 | 15 | 12 |

Pharmaceutical Division therapeutic area net sales (unaudited)

Full year

| | 2006 | 2005 | Change |
|---|--------------|--------------|------------|
| | USD m | USD m | USD (%) |
| Cardiovascular | | | |
| Strategic franchise products | | | |
| <i>Diovan</i> | 4 223 | 3 676 | 15 |
| <i>Lotrel</i> | 1 352 | 1 075 | 26 |
| <i>Lescol</i> | 725 | 767 | -5 |
| Other | 172 | 128 | 34 |
| Total strategic franchise products | 6 472 | 5 646 | 15 |
| Mature products | 648 | 665 | -3 |
| Total Cardiovascular products | 7 120 | 6 311 | 13 |
| Oncology | | | |
| Strategic franchise products | | | |
| <i>Gleevec/Glivec</i> | 2 554 | 2 170 | 18 |
| <i>Zometa</i> | 1 283 | 1 224 | 5 |
| <i>Sandostatin (group)</i> | 915 | 896 | 2 |
| <i>Femara</i> | 719 | 536 | 34 |
| <i>Exjade</i> | 143 | 2 | |
| Other | 295 | 268 | 10 |
| Total Oncology products | 5 909 | 5 096 | 16 |
| Neuroscience | | | |
| Strategic franchise products | | | |
| <i>Trileptal</i> | 721 | 615 | 17 |
| <i>Exelon</i> | 525 | 467 | 12 |
| <i>Tegretol (incl. CR/XR)</i> | 391 | 393 | -1 |
| Other | 1 020 | 758 | 35 |
| Total strategic franchise products | 2 657 | 2 233 | 19 |
| Mature products | 440 | 476 | -8 |
| Total Neuroscience products | 3 097 | 2 709 | 14 |
| Respiratory & Dermatology | | | |
| Strategic franchise products | | | |
| <i>Lamisil (group)</i> | 978 | 1 133 | -14 |
| <i>Foradil</i> | 331 | 332 | |
| <i>Elidel</i> | 179 | 270 | -34 |
| <i>Xolair</i> | 102 | 5 | |
| Other | 246 | 53 | 364 |
| Total strategic franchise products | 1 836 | 1 793 | 2 |
| Mature products | 123 | 142 | -13 |
| Total Respiratory & Dermatology products | 1 959 | 1 935 | 1 |
| Arthritis/Bone/Gastrointestinal/Urinary (ABGU) | | | |
| Strategic franchise products | | | |
| <i>Zelnorm/Zelmac</i> | 561 | 418 | 34 |
| <i>Prexige</i> | 47 | 8 | 488 |
| Other | 117 | 47 | 149 |

| | | | |
|---|---------------|---------------|------------|
| Total strategic franchise products | 725 | 473 | 53 |
| Mature products | 1 526 | 1 581 | -3 |
| Total ABGU products | 2 251 | 2 054 | 10 |
| Infectious Diseases, Transplantation & Immunology (IDTI) | | | |
| <i>Neoral/Sandimmun</i> | 918 | 953 | -4 |
| Other | 330 | 162 | 104 |
| Total strategic franchise products | 1 248 | 1 115 | 12 |
| Mature products | 266 | 270 | -1 |
| Total IDTI products | 1 514 | 1 385 | 9 |
| Ophthalmics | | | |
| <i>Visudyne</i> | 354 | 484 | -27 |
| Other | 372 | 350 | 6 |
| Total Ophthalmics products | 726 | 834 | -13 |
| Total strategic franchise products | 19 573 | 17 190 | 14 |
| Total mature products | 3 003 | 3 134 | -4 |
| Prior-years US sales rebate accounting adjustment | | -62 | |
| Total division net sales | 22 576 | 20 262 | 11 |

Pharmaceutical therapeutic area net sales (unaudited)

Fourth quarter

| | Q4 2006 | Q4 2005 | Change |
|---|--------------|--------------|-----------|
| | USD m | USD m | USD (%) |
| Cardiovascular | | | |
| Strategic franchise products | | | |
| <i>Diovan</i> | 1 152 | 994 | 16 |
| <i>Lotrel</i> | 354 | 297 | 19 |
| <i>Lescol</i> | 179 | 196 | -9 |
| Other | 47 | 39 | 21 |
| Total strategic franchise products | 1 732 | 1 526 | 13 |
| Mature products | 168 | 158 | 6 |
| Total Cardiovascular products | 1 900 | 1 684 | 13 |
| Oncology | | | |
| Strategic franchise products | | | |
| <i>Gleevec/Glivec</i> | 702 | 590 | 19 |
| <i>Zometa</i> | 339 | 314 | 8 |
| <i>Sandostatin (group)</i> | 245 | 224 | 9 |
| <i>Femara</i> | 204 | 146 | 40 |
| <i>Exjade</i> | 50 | 2 | |
| Other | 74 | 69 | 7 |
| Total Oncology products | 1 614 | 1 345 | 20 |
| Neuroscience | | | |
| Strategic franchise products | | | |
| <i>Trileptal</i> | 189 | 157 | 20 |
| <i>Exelon</i> | 138 | 121 | 14 |
| <i>Tegretol (incl. CR/XR)</i> | 104 | 96 | 8 |
| Other | 298 | 204 | 46 |
| Total strategic franchise products | 729 | 578 | 26 |
| Mature products | 110 | 100 | 10 |
| Total Neuroscience products | 839 | 678 | 24 |
| Respiratory & Dermatology | | | |
| Strategic franchise products | | | |
| <i>Lamisil (group)</i> | 226 | 251 | -10 |
| <i>Foradil</i> | 92 | 81 | 14 |
| <i>Elidel</i> | 47 | 53 | -11 |
| <i>Xolair</i> | 35 | 2 | |
| Other | 88 | 14 | |
| Total strategic franchise products | 488 | 401 | 22 |
| Mature products | 32 | 34 | -6 |
| Total Respiratory & Dermatology products | 520 | 435 | 20 |
| Arthritis/Bone/Gastrointestinal/Urinary (ABGU) | | | |
| Strategic franchise products | | | |
| <i>Zelnorm/Zelmac</i> | 153 | 123 | 24 |
| <i>Prexige</i> | 18 | 5 | 260 |
| Other | 39 | 20 | 95 |

| | | | |
|--|--------------|--------------|------------|
| Total strategic franchise products | 210 | 148 | 42 |
| Mature products | 390 | 389 | 0 |
| Total ABGU products | 600 | 537 | 12 |
| Infectious Diseases, Transplantation & Immunology | | | |
| <i>Neoral/Sandimmun</i> | 240 | 241 | 0 |
| Other | 91 | 53 | 72 |
| Total strategic franchise products | 331 | 294 | 13 |
| Mature products | 73 | 86 | -15 |
| Total IDTI products | 404 | 380 | 6 |
| Ophthalmics | | | |
| <i>Visudyne</i> | 77 | 107 | -28 |
| Other | 95 | 82 | 16 |
| Total Ophthalmics products | 172 | 189 | -9 |
| Total strategic franchise products | 5 276 | 4 481 | 18 |
| Total mature products | 773 | 767 | 1 |
| Total division net sales | 6 049 | 5 248 | 15 |

Net sales by region (unaudited)

Full year

| | 2006 | 2005 | % change | | 2006 | 2005 |
|--------------------------------------|---------------|---------------|-----------|------------------|------------|------------|
| | USD m | USD m | USD | local currencies | % of total | % of total |
| Pharmaceuticals | | | | | | |
| US | 9 472 | 8 085 | 17 | 17 | 42 | 40 |
| Rest of world | 13 104 | 12 177 | 8 | 7 | 58 | 60 |
| Total | 22 576 | 20 262 | 11 | 11 | 100 | 100 |
| Vaccines and Diagnostics | | | | | | |
| US | 462 | | | | 48 | |
| Rest of world | 494 | | | | 52 | |
| Total | 956 | | | | 100 | |
| Sandoz | | | | | | |
| US | 1 548 | 1 282 | 21 | 21 | 26 | 27 |
| Rest of world | 4 411 | 3 412 | 29 | 27 | 74 | 73 |
| Total | 5 959 | 4 694 | 27 | 25 | 100 | 100 |
| Consumer Health⁽¹⁾ | | | | | | |
| US | 3 516 | 3 220 | 9 | 9 | 47 | 44 |
| Rest of world | 4 013 | 4 036 | -1 | -1 | 53 | 56 |
| Total | 7 529 | 7 256 | 4 | 3 | 100 | 100 |
| Group⁽¹⁾ | | | | | | |
| US | 14 998 | 12 587 | 19 | 19 | 41 | 39 |
| Rest of world | 22 022 | 19 625 | 12 | 11 | 59 | 61 |
| Total | 37 020 | 32 212 | 15 | 14 | 100 | 100 |

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

Net sales by region (unaudited)

Fourth quarter

| | Q4 2006 | Q4 2005 | % change | | Q4 2006 | Q4 2005 |
|--------------------------------------|---------------|--------------|-----------|------------------|------------|------------|
| | USD m | USD m | USD | local currencies | % of total | % of total |
| Pharmaceuticals | | | | | | |
| US | 2 521 | 2 156 | 17 | 17 | 42 | 41 |
| Rest of world | 3 528 | 3 092 | 14 | 9 | 58 | 59 |
| Total | 6 049 | 5 248 | 15 | 12 | 100 | 100 |
| Vaccines and Diagnostics | | | | | | |
| US | 230 | | | | 51 | |
| Rest of world | 225 | | | | 49 | |
| Total | 455 | | | | 100 | |
| Sandoz | | | | | | |
| US | 422 | 458 | -8 | -8 | 26 | 29 |
| Rest of world | 1 231 | 1 115 | 10 | 4 | 74 | 71 |
| Total | 1 653 | 1 573 | 5 | 0 | 100 | 100 |
| Consumer Health⁽¹⁾ | | | | | | |
| US | 874 | 859 | 2 | 2 | 46 | 47 |
| Rest of world | 1 022 | 977 | 5 | -1 | 54 | 53 |
| Total | 1 896 | 1 836 | 3 | 0 | 100 | 100 |
| Group⁽¹⁾ | | | | | | |
| US | 4 047 | 3 473 | 17 | 17 | 40 | 40 |
| Rest of world | 6 006 | 5 184 | 16 | 10 | 60 | 60 |
| Total | 10 053 | 8 657 | 16 | 12 | 100 | 100 |

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

Quarterly analysis

Key figures by quarter⁽¹⁾

| | Q4 2006 | Q3 2006 | Change | |
|------------------|---------|---------|--------|-----|
| | USD m | USD m | USD m | % |
| Net sales | 10 053 | 9 484 | 569 | 6 |
| Operating income | 1 824 | 2 088 | -264 | -13 |
| Financial income | 95 | 72 | 23 | 32 |
| Interest expense | -57 | -76 | 19 | -25 |
| Taxes | -264 | -302 | 38 | -13 |
| Net income | 1 663 | 1 870 | -207 | -11 |

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

Net sales by region⁽¹⁾

| | Q4 2006 | Q3 2006 | Change | |
|---------------|---------------|--------------|------------|----------|
| | USD m | USD m | USD m | % |
| US | 4 047 | 3 885 | 162 | 4 |
| Europe | 3 705 | 3 482 | 223 | 6 |
| Rest of world | 2 301 | 2 117 | 184 | 9 |
| Total | 10 053 | 9 484 | 569 | 6 |

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

Net sales by division

| | Q4 2006 | Q3 2006 | Change | |
|--|---------------|--------------|------------|-----------|
| | USD m | USD m | USD m | % |
| Pharmaceuticals | 6 049 | 5 776 | 273 | 5 |
| Vaccines and Diagnostics | 455 | 374 | 81 | 22 |
| Sandoz | 1 653 | 1 425 | 228 | 16 |
| Consumer Health continuing operations | 1 644 | 1 654 | -10 | -1 |
| Net sales from continuing operations | 9 801 | 9 229 | 572 | 6 |
| Consumer Health discontinuing operations | 252 | 255 | -3 | -1 |
| Total | 10 053 | 9 484 | 569 | 6 |

Operating income by division

| | Q4 2006 | Q3 2006 | Change | |
|--|--------------|---------|--------|-----|
| | USD m | USD m | USD m | % |
| Pharmaceuticals | 1 621 | 1 779 | -158 | 9 |
| Vaccines and Diagnostics | 2 | 10 | -8 | -80 |
| Sandoz | 204 | 87 | 117 | 134 |
| Consumer Health continuing operations | 143 | 317 | -174 | -55 |
| Corporate income & expense, net | -176 | -138 | -38 | 28 |
| Operating income from continuing operations | 1 794 | 2 055 | -261 | -13 |
| Consumer Health discontinuing operations | 30 | 33 | -3 | -9 |
| Total | 1 824 | 2 088 | -264 | -13 |

SIGNATURES

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

NOVARTIS AG

Date: January 24, 2007

By: /s/ MALCOLM CHEETHAM

Name: Malcolm Cheetham
Title: *Head Group Financial Reporting
and Accounting*
