KUBOTA CORP
Form 6-K
May 11, 2011
Table of Contents

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

For the month of May 2011

Commission File Number: 1-07294

KUBOTA CORPORATION

(Translation of registrant s name into English)

2-47, Shikitsuhigashi 1-chome, Naniwa-ku, Osaka, Japan

(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 _____

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) : _____

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) : _____

Table of Contents

Information furnished on this form:

EXHIBITS

Exhibit Number

1. Results of operations for the year ended March 31, 2011 (Wednesday, May 11, 2011)

2. Notice on a distribution of retained earnings (Wednesday, May 11, 2011)

3. Basic policy regarding reduction of trading unit of the Company s stock. (Wednesday, May 11, 2011)

Table of Contents

Contact:
IR Group
Kubota Corporation
2-47, Shikitsuhigashi 1-chome,
Naniwa-ku, Osaka 556-8601, Japan
Phone : +81-6-6648-2645
Facsimile: +81-6-6648-2632

FOR IMMEDIATE RELEASE (WEDNESDAY, MAY 11, 2011)

RESULTS OF OPERATIONS FOR THE YEAR ENDED

MARCH 31, 2011 REPORTED BY KUBOTA CORPORATION

OSAKA, JAPAN, May 11, 2011 Kubota Corporation reported today its consolidated results of operations for the year ended March 31, 2011.

Consolidated Financial Highlights

1. Consolidated Results of Operations for the Fiscal Year Ended March 31, 2011

(1) Results of operations

(In millions of yen except per common share amounts)

	Year ended March 31, 2011	Change [%]	Year ended March 31, 2010	Change [%]
Revenues	¥ 933,685	0.3	¥ 930,644	(16.0)
Operating income	¥ 86,111	23.5	¥ 69,702	(32.2)
% of revenues	9.2%		7.5%	
Income before income taxes and equity in net income of affiliated companies	¥ 91,300	24.2	¥ 73,483	(11.7)
% of revenues	9.8%		7.9%	
Net income attributable to Kubota Corporation	¥ 54,822	29.5	¥ 42,326	(11.9)
% of revenues	5.9%		4.5%	
Net income attributable to Kubota Corporation per common share				
Basic	¥ 43.11		¥ 33.28	
Diluted	¥ 43.11		¥ 33.28	
Ratio of net income attributable to Kubota Corporation to shareholders equity	8.7%		7.0%	
Ratio of income before income taxes and equity in net income of affiliated companies to total assets	6.6%		5.3%	

Notes.

1. Change[%] represents percentage change from the prior year.
2. Comprehensive income for the years ended March 31, 2011 and 2010 were ¥27,325 million [(65.1%)] and ¥78,283 million [-%], respectively.
3. Equity in net income of affiliated companies for the years ended March 31, 2011 and 2010 were ¥492 million and ¥402 million, respectively.

(2) Financial position

(In millions of yen except per common share amounts)

	March 31, 2011	March 31, 2010
Total assets	¥ 1,356,852	¥ 1,409,033
Equity	¥ 681,361	¥ 671,619

Kubota Corporation shareholders equity	¥	634,885	¥	626,397
Ratio of Kubota Corporation shareholders equity to total assets		46.8%		44.5%
Kubota Corporation shareholders equity per common share	¥	499.24	¥	492.51

Table of Contents

Kubota Corporation

and Subsidiaries

(3) Summary of statements of cash flows

(In millions of yen)

	Year ended March 31, 2011	Year ended March 31, 2010
Net cash provided by operating activities	¥ 81,907	¥ 119,072
Net cash used in investing activities	(¥ 43,581)	(¥ 43,399)
Net cash used in financing activities	(¥ 41,715)	(¥ 34,672)
Cash & cash equivalents, end of year	¥ 105,293	¥ 111,428

2. Cash dividends

(In millions of yen except per common share amounts)

	Cash dividends per common share						
	First quarter period	Second quarter period	Third quarter period	Year-end	Total	Annual cash dividends	Annual cash dividends as % to net income	Annual dividends as % to share-holders equity
Year ended March 31, 2011		¥ 7.00		¥ 7.00	¥ 14.00	¥ 17,810	32.5%	2.8%
Year ended March 31, 2010		¥ 7.00		¥ 5.00	¥ 12.00	¥ 15,268	36.1%	2.5%

Note.

Although the Company s basic policy for the return of profit to shareholders is to maintain stable dividends or raise dividends, specific amount of cash dividends for each fiscal year is decided in consideration of the development of business performance, financial conditions and payout ratio including share buybacks. Specific amount of cash dividends for the year ending March 31, 2012 is not decided at this time and the Company will inform the amount as soon as a decision is made.

3. Anticipated results of operations for the year ending March 31, 2012

It is unable to reasonably forecast the consolidated financial result for the year ending March 31, 2012 at this time due to the effects of the Great East Japan Earthquake. Accordingly, the forecast is not disclosed at present. Please refer to 1. Review of operations and financial condition, (1) Review of operations, c) Prospect for the next fiscal year on page 6.

4. Other

(1) Changes in material subsidiaries: None

(2) Changes in accounting principles, procedures, and presentations for consolidated financial statements

a) Changes due to the revision of accounting standards: None

b) Changes in matters other than a) above: None

(3)	Number of shares outstanding including treasury stock as of March 31, 2011	:	1,285,919,180
	Number of shares outstanding including treasury stock as of March 31, 2010	:	1,285,919,180
	Number of treasury stock as of March 31, 2011	:	14,206,633
	Number of treasury stock as of March 31, 2010	:	14,072,545
	Weighted average number of shares outstanding during the year ended March 31, 2011	:	1,271,778,025
	Weighted average number of shares outstanding during the year ended March 31, 2010	:	1,271,985,454

Please refer to (9) Per common share information on page 18.

Table of Contents

Kubota Corporation

(Parent Company Only)

(Reference) Non-consolidated Financial Highlights

(1) Results of operations

(In millions of yen except per common share amounts)

	Year ended March 31, 2011	Change [%]	Year ended March 31, 2010	Change [%]
Net sales	¥ 565,073	4.6	¥ 540,449	(16.0)
Operating income	¥ 28,785	12.4	¥ 25,601	(8.1)
Ordinary income	¥ 33,811	(9.8)	¥ 37,495	46.1
Net income	¥ 20,504	(30.0)	¥ 29,298	661.1
Net income per common share				
Basic	¥ 16.11		¥ 23.02	
Diluted				

Note.

Change[%] represents percentage change from the prior year.

(2) Financial position

(In millions of yen except per common share amounts)

	March 31, 2011	March 31, 2010
Total assets	¥ 719,217	¥ 744,122
Net assets	¥ 432,886	¥ 432,033
Equity	¥ 432,886	¥ 432,033
Ratio of equity to total assets	60.2%	58.1%
Net assets per common share	¥ 340.27	¥ 339.59

(*Information on status of the audit by the independent auditor)

This release has not been audited in accordance with Financial Instruments and Exchange Law of Japan by the independent auditor because this release is not subject to audit.

As of the date of this release, the Company s consolidated financial statements for the year ended March 31, 2011 are under procedure of the audit.

Table of Contents

Kubota Corporation

and Subsidiaries

Index to Accompanying Materials

Table of Contents

Kubota Corporation

and Subsidiaries

1. Review of operations and financial condition

(1) Review of operations

a) Summary of the results of operations for the year under review

For the year ended March 31, 2011, revenues of the Company increased ¥3.0 billion (0.3 %), to ¥933.7 billion from the prior year. In the domestic market, revenues in Farm & Industrial Machinery, Water & Environment Systems and Social Infrastructure decreased due to weak demand for farm equipment and public works related products and the effects of the Great East Japan Earthquake. As a result domestic revenues decreased ¥23.8 billion (4.7 %), to ¥477.9 billion from the prior year. In overseas markets, revenues increased ¥26.8 billion (6.2 %), to ¥455.8 billion from the prior year. While revenues in Water & Environment Systems, Social Infrastructure and Other decreased, revenues in Farm & Industrial Machinery steadily increased due to increases in revenues in North America and Europe supported by sustained economic recovery. The ratio of overseas revenues to consolidated revenues was 48.8 %, 2.7 percentage points higher than the prior year end.

Operating income increased ¥16.4 billion (23.5 %), to ¥86.1 billion from the prior year due to an increase in overseas revenues in Farm & Industrial Machinery and company-wide cost reduction. Income before income taxes and equity in net income of affiliated companies increased ¥17.8 billion (24.2 %), to ¥91.3 billion due to an increase in operating income and other income. Income taxes were ¥30.7 billion (representing an effective tax rate of 33.6 %), and equity in net income of affiliated companies was ¥0.5 billion. Accordingly, net income increased ¥13.2 billion (27.6 %), to ¥61.1 billion. After deducting ¥6.3 billion of net income attributable to the noncontrolling interests, net income attributable to Kubota Corporation was ¥54.8 billion, ¥12.5 billion (29.5 %) higher than the prior year.

b) Review of operations by reporting segment

1) Farm & Industrial Machinery

Farm & Industrial Machinery comprises farm equipment, engines and construction machinery.

Revenues in this segment increased 5.6 %, to ¥651.5 billion from the prior year, comprising 69.8 % of consolidated revenues.

Domestic revenues decreased 1.4 %, to ¥226.4 billion. In the domestic market, demand for farm equipment was sluggish due to weakening motivation for buying farm equipment affected by price slump of rice and an absence of governmental subsidy for leasing agricultural machinery which was implemented in the prior year. Moreover, the Great East Japan Earthquake gave a negative impact on demand for farm equipment. Accordingly, sales of farm equipment remained at a lower level. On the other hand, sales of construction machinery and engines increased largely due to an upturn of demand.

Overseas revenues increased 9.8 %, to ¥425.1 billion. In North America, sales of tractors and construction machinery increased as a result of aggressive sales promotion activities. Sales of engines also increased largely supported by favorable demand. In Europe, sales of construction machinery and engines increased substantially due to a rapid recovery of demand, while sales of tractors decreased. In Asia outside Japan, although growth rate of sales of farm equipment slowed down mainly affected by broken weather, sales of construction machinery largely increased.

Operating income in Farm & Industrial Machinery increased 43.0 %, to ¥86.5 billion due to increased overseas revenues and cost reduction.

Table of Contents

2) Water & Environment Systems

Water & Environment Systems comprises pipe-related products (ductile iron pipes, plastic pipes, valves, and other products) and environment-related products (environmental plants, pumps and other products).

Revenues in this segment decreased 13.5 %, to ¥192.8 billion from the prior year, comprising 20.6 % of consolidated revenues.

Domestic revenues decreased 9.8 %, to ¥178.7 billion. Sales of pipe-related products such as ductile iron pipes and plastic pipes decreased substantially due to sluggish demand. Sales of environment-related products also decreased mainly due to a decrease in sales of products related to water and sewage treatment, and waste treatment. Overseas revenues decreased 43.3 %, to ¥14.1 billion, due to substantial sales declines of ductile iron pipes and pumps.

Operating income in Water & Environment Systems decreased 33.5 %, to ¥13.1 billion due to decreased revenues and price hike of raw materials.

3) Social Infrastructure

Social Infrastructure comprises industrial castings, spiral welded steel pipes, vending machines, electronic equipped machinery, and air-conditioning equipment.

Revenues in this segment decreased 4.5 %, to ¥60.4 billion from the prior year, comprising 6.5 % of consolidated revenues.

Domestic revenues decreased 5.8 %, to ¥44.3 billion. Although sales of electronic equipped machinery and air-conditioning equipment increased, sales of spiral welded steel pipes largely decreased and sales of industrial castings and vending machines also decreased from the prior year. Overseas revenues decreased 0.7 %, to ¥16.2 billion due to the sales decline of industrial castings.

Operating income in Social Infrastructure decreased 8.7 %, to ¥2.5 billion due to decreased revenues.

4) Other

Other comprises construction, services and other business.

Revenues in this segment increased 4.6 %, to ¥29.0 billion from the prior year, comprising 3.1 % of consolidated revenues, due to an increase in sales of construction and other business.

Operating income in Other decreased 20.3 %, to ¥2.1 billion.

c) Prospect for the next fiscal year

Due to the effects of the Great East Japan Earthquake, supply of parts and electric power is not stable in some plants in Japan and there is a strong sense of uncertainty concerning demand of damaged areas. At this time it is difficult to foresee possible impacts of these factors and unable to reasonably forecast the consolidated financial results for the year ending March 31, 2012. Accordingly, the forecast is not disclosed at present and will be promptly announced when it is available.

(2) Financial condition

a) Assets, liabilities and equity

Total assets at the end of March 2011 amounted to ¥1,356.9 billion, a decrease of ¥52.2 billion from the end of the prior year. As for assets, current assets decreased largely centering on notes and accounts receivable. In addition, investment and long-term finance receivables as well as property, plant, and equipment decreased.

As for liabilities, long-term liabilities decreased substantially due to a decrease of long-term debt.

Equity increased steadily because recorded net income compensated an increase in accumulated other comprehensive loss mainly due to a decrease of foreign currency translation adjustments. As a result, shareholders equity ratio was 46.8 %, 2.3 percentage points higher than the prior year end.

Table of Contents

Kubota Corporation

and Subsidiaries

b) Cash flows

Net cash provided by operating activities during the year under review was ¥81.9 billion, and cash inflow decreased ¥37.2 billion from the prior year. Although net income increased, cash inflow substantially decreased due to the changes in working capital.

Net cash used in investing activities was ¥43.6 billion, and cash outflow increased ¥0.2 billion from the prior year.

Net cash used in financing activities was ¥41.7 billion, and cash outflow increased ¥7.0 billion from the prior year due to a decrease in proceeds from issuance of long-term debt.

Including the effect of exchange rate fluctuations, cash and cash equivalents at the end of March 31, 2011 were ¥105.3 billion, a decrease of ¥6.1 billion from the prior year.

(Reference) Cash flow indices

	Year ended March 31, 2011	Year ended March 31, 2010
Ratio of shareholders equity to total assets [%]	46.8	44.5
Equity ratio based on market capitalization [%]	73.5	76.9
Interest-bearing debt / Net cash provided by operating activities [year]	4.3	3.4
Interest coverage ratio [times]	11.8	12.4

Notes.

Equity ratio based on market capitalization : market capitalization / total assets

Interest coverage ratio : cash flows provided by operating activities / interest paid

Each ratio is calculated based on the figures in the consolidated financial statements. Market capitalization is calculated based on closing price at the end of the fiscal year multiplied by the number of shares outstanding at the end of fiscal year, excluding treasury stock. Net cash provided by operating activities is the amount of operating cash flows in the consolidated statements of cash flows. Interest-bearing debt includes short-term borrowings, current portion of long-term debt, and long-term debt in the consolidated balance sheets. Additionally, interest paid is the amount of interest paid in the consolidated statements of cash flows.

Table of Contents

Kubota Corporation

and Subsidiaries

2. Management policies

(1) Basic management policy

More than a century since its founding, the Company has continued to help improve people s quality of life, by offering products and services including farm equipment, pipes for water supply and sewage systems and environmental control plants.

And now, here in the 21st century, the Company is developing our business globally under the corporate principle Contribute to social development and the conservation of the global environment through products, technology, and services that support both comfortable lifestyles and the foundation of our societies in an aim at solving the worldwide problems of food , water , and the environment .

While adhering to this management principle, the Company is implementing management policies that are focused on prioritizing allocation of its resources, emphasizing agility in its operations and strengthening consolidated operations. Through these measures, the Company aims to improve its adaptability to respond with flexibility to the changing times, resulting in a high enterprise value.

(2) Principal business policies for medium-to-long term growth in profit

The Company will implement the following measures in order to achieve medium- to long-term growth amid the difficult business environment.

1) Management emphasizing the front-line of business with focus on technology and manufacturing capabilities

The Company continues conducting business with enhancing capabilities for developing technologies and manufacturing proficiency that form the backbone of a manufacturer. In order to realize a medium- to long-term growth by prevailing against increasingly fierce competition under ongoing globalization of the Company s business, it is essential to bolster the capabilities for developing technologies and manufacturing proficiency. To this end, the Company will identify the fields of R&D it should focus on and make efforts to obtain advanced technologies. The Company will also devote itself to accumulate overwhelming manufacturing proficiency by strengthening organizational structure which facilitates advancement of quality of product and production engineering.

2) Enhancement of CSR management

It is essential for the Company to thoroughly implement CSR management by giving due consideration to the development of society and conservation of the global environment in order to attain sustainable growth and development of the Company.

The Company has been implementing its CSR management with placing emphasis on reducing the load on the global environment, promoting diversity management and strengthening internal control system. In addition to these priority issues, the Company will engage in relief activities for the victims of the Great East Japan Earthquake and reconstruction assistance for the disaster areas from now on.

3) Promotion of globalization

The Company s overseas revenues are approaching half of total revenues. To further expand its business, it is necessary to globalize all aspects of the Company s operations. The Company intends to promote globalization of not only sales activities but also production, R&D, allocation of management resources as well as business management system.

In concrete terms, the Company will accelerate expansion of overseas production and promote localization of R&D and facilitate the use of locally-hired human resources. The Company will also establish management system that can manage group-wide resources on business and

allocate them to each country and region more timely. In addition, the Company will establish regional management framework to cope with rapidly changing each market.

Table of Contents

Kubota Corporation

and Subsidiaries

4) Enhancement of activities for future business expansion

The Company will develop business in the fields which are related to food, water and environment to seek sustainable long-term growth. In the business of machinery, the Company will contribute to increase in worldwide food production as a comprehensive manufacturer of agricultural machinery by entering into market of agricultural machinery for dry field farming in addition to currently engaging agricultural machinery business for rice farming. In the field of water and environment, the Company will fully develop water- and environment-related business in Asia outside Japan. In the year ended March 31, 2011, the Company established a subsidiary in China which produces and sells pumps and newly set up Water & Environment Innovative Research Laboratory to meet the needs of water and environment infrastructure in the emerging countries. In the year ending March 31, 2012, the Company will establish two subsidiaries in China which will engage in water- and environment -related business. By utilizing business experiences accumulated over the years in Japan, the Company intends to bring up water- and environment -related business in Asia outside Japan to become a growth field of the Company.

5) Addressing to the Great East Japan Earthquake

It is one of important management issues to properly address to the Great East Japan Earthquake, which caused unprecedented damage to Japan. The Company has been engaging in supportive activities in diverse ways with establishing the Countermeasures Headquarters for Reconstruction Assistance immediately after the Earthquake and intends to continue such activities in the future.

In addition, the Company will sustain production capacity in order to provide the products that are necessary for reconstruction of the disaster areas. From this perspective, the Company will make concerted efforts to restore normal production of some plants which are being affected by parts shortage resulting from the Earthquake.

< Cautionary Statements with Respect to Forward-Looking Statements >

This document may contain forward-looking statements that are based on management s expectations, estimates, projections and assumptions. These statements are not guarantees of future performance and involve certain risks and uncertainties, which are difficult to predict. Therefore, actual future results may differ materially from what is forecast in forward-looking statements due to a variety of factors, including, without limitation: general economic conditions in the Company s markets, particularly government agricultural policies, levels of capital expenditures, both in public and private sectors, foreign currency exchange rates, continued competitive pricing pressures in the marketplace, as well as the Company s ability to continue to gain acceptance of its products.

Table of Contents

Kubota Corporation

and Subsidiaries

3. Consolidated financial statements

(1) Consolidated balance sheets

Assets

(In millions of yen)

	March 31, 2011		March 31, 2010		Change
	Amount	%	Amount	%	Amount
Current assets:					
Cash and cash equivalents	105,293		111,428		(6,135)
Notes and accounts receivable:					
Trade notes	56,185		57,412		(1,227)
Trade accounts	300,229		317,485		(17,256)
Less: Allowance for doubtful notes and accounts receivable	(2,806)		(2,821)		15
Total notes and accounts receivable, net	353,608		372,076		(18,468)
Short-term finance receivables-net	100,437		104,840		(4,403)
Inventories	174,217		172,323		1,894
Other current assets	43,649		60,161		(16,512)
Total current assets	777,204	57.3	820,828	58.3	(43,624)
Investments and long-term finance receivables:					
Investments in and loan receivables to affiliated companies	16,569		15,945		624
Other investments	100,498		109,306		(8,808)
Long-term finance receivables-net	199,829		196,473		3,356
Total investments and long-term finance receivables	316,896	23.4	321,724	22.8	(4,828)
Property, plant, and equipment:					
Land	89,435		89,664		(229)
Buildings	217,738		214,329		3,409
Machinery and equipment	352,064		358,354		(6,290)
Construction in progress	9,631		5,306		4,325
Total	668,868		667,653		1,215
Accumulated depreciation	(451,510)		(446,760)		(4,750)
Net property, plant, and equipment	217,358	16.0	220,893	15.7	(3,535)
Other assets:					
Long-term trade accounts receivable	27,487		26,688		799
Other	18,839		19,670		(831)
Less: Allowance for doubtful receivables	(932)		(770)		(162)
Total other assets	45,394	3.3	45,588	3.2	(194)
Total	1,356,852	100.0	1,409,033	100.0	(52,181)

Sandoz	
	2 143
	1 804
	19
	10
Consumer Health	
	1 623
	1 352
	20
	13
Net sales	
	12 926
	10 077
	28

Pharmaceuticals: USD 7.8 billion (+21%, +13% lc)

Sustained dynamic growth in the 2009 fourth quarter driven by rapid uptake of new products and ongoing expansion in all major markets. Recently launched products provided USD 1.4 billion of net sales in the 2009 quarter, rising to 18% of the division s net sales from 12% in the 2008 quarter. These products also provided eight percentage points of the 13% lc net sales growth in the quarter. Among new product launches initiated in the 2009 quarter were *Onbrez Breezhaler* (COPD) in Germany following European regulatory approval in November.

Recently launched products provided important contributions in Oncology (USD 2.5 billion, +14% lc), which benefited from the new anti-cancer medicine *Afinitor* (USD 32 million) approved in 2009 and new clinical data supporting *Tasigna* (USD 68 million, +101% lc). Cardiovascular and Metabolism (USD 2.4 billion, +10% lc) benefited from rapid expansion of the diabetes medicine *Galvus* (USD 66 million, +211% lc), while Novartis expanded its share of the global branded anti-hypertension market on gains recorded for *Diovan* in all key markets as well as the rollout of new single-pill combination therapies involving *Tekturna/Rasilez* and *Exforge*. The ophthalmics medicine *Lucentis* (USD 374 million, +44% lc) also continued to show strong gains.

Europe (USD 2.9 billion, +14% lc) solidified its position as the largest region. Gains were also seen in the US (USD 2.5 billion, +12% lc), while Japan (USD 889 million, +9% lc) continued to benefit from new launches in 2009. The six top emerging markets (USD 712 million, +22% lc) advanced at a rapid pace, led by gains in China, Russia and India that more than offset recent governmental cost-

containment measures in Turkey.

Vaccines and Diagnostics: USD 1.4 billion (+182%, +166% lc)

USD 1.0 billion of net sales in the 2009 period came from deliveries of A (H1N1) pandemic flu vaccines and adjuvants. Seasonal flu vaccines were adversely impacted by a price decline, while pediatric vaccines helped offset lower sales of tick-borne encephalitis vaccines.

Sandoz: USD 2.1 billion (+19%, +10% lc)

Solid growth in key markets was in line with the consistent pace throughout 2009, with completion of the EBEWE Pharma acquisition in September adding five percentage points of growth in the 2009 quarter. US retail generics and biosimilars (+24%) achieved a third consecutive quarter of growth in 2009 with more new product launches than 2008. German retail generics and biosimilars (+1% lc) extended its lead in a deteriorating environment. Key emerging markets kept up their expansion, particularly in Asia-Pacific (+10% lc).

Consumer Health: USD 1.6 billion (+20%, +13% lc)

Very strong growth across all businesses was led by OTC expansion at a double-digit rate in local currencies on the strength of the US launch of *Prevacid24HR* in November and strong demand for cough & cold products. Continued momentum of new contact lens products supported CIBA Vision, while Animal Health advanced on market share gains in the US.

Core operating income

	Q4 2009		Q4 2008		
	USD m	% of net sales	USD m	% of net sales	Change %
Pharmaceuticals	**2 215**	28.5	1 803	28.0	23
Vaccines and Diagnostics	**653**	47.1	55	12.5	NM
Sandoz	**356**	16.6	296	16.4	20
Consumer Health	**248**	15.3	209	15.5	19
Corporate income and expenses, net	268		273		
Core operating income	**3 204**	24.8	2 090	20.8	53

Pharmaceuticals

Operating income rose 22% to USD 1.9 billion, and the operating income margin improved 0.2 percentage points to 24.5% of net sales. Core operating income advanced 23%, well ahead of sales and included four percentage points of positive currency impact.

The strong business expansion, with net sales rising 13% lc, and benefits of productivity initiatives resulted in double-digit core operating income gains after investments in product launches, key development projects and geographic expansion. Marketing & Sales expenses were 30.3% of net sales, declining three percentage points from the 2008 period. R&D investments also benefited from productivity efforts, but remained largely steady at 21.0% of net sales amid investments in oncology, biologics and molecular diagnostics. As a result, the core operating

income margin rose 0.5 percentage points to 28.5% of net sales. Cost of Goods Sold were 18.1% of net sales, an increase of 2.7 percentage points, reflecting higher *Lucentis* royalties and the short-term impact of an accelerated inventory reduction program in the quarter. Among exceptional items excluded in core operating income for 2009 that totaled USD 309 million were a USD 318 million increase in legal provisions as part of pending settlements to resolve US federal investigations into past marketing practices of *Trileptal* as well as a one-time gain of USD 100 million from the partial reversal of an impairment charge in 2007 for *Famvir* due to ongoing strong sales growth outside the US in the meantime. Core adjustments in 2008 excluded total exceptional items of USD 241 million.

Vaccines and Diagnostics

Operating income rose to USD 583 million from USD 26 million in the 2008 period, while core operating income of USD 653 million in the 2009 quarter reflected the recognition of exceptional contributions from sales of A (H1N1) pandemic flu vaccines during the period that were made possible by significant investments in development and manufacturing earlier in the year.

Sandoz

Operating income grew 11% to USD 221 million, which was reduced by seven percentage points of adverse currency impact. Core operating income improved on strong economies of scale and high growth in the US, advancing 20% to USD 356 million. As a result, the core operating income margin improved 0.2 percentage points to 16.6% of net sales. Core results excluded higher acquisition-related charges and exceptional items totaling USD 135 million in 2009 (including EBEWE acquisition costs and restructuring in Germany) compared to USD 96 million in 2008.

Consumer Health

Operating income was up 9% to USD 207 million in the 2009 quarter, which included nine percentage points of positive currency impact. However, the operating income margin declined 1.3 percentage points to 12.8% of net sales. Core operating income, which excluded higher impairment and other exceptional charges of USD 22 million in 2009 over the 2008 period, grew 19% to USD 248 million as productivity gains and cost controls helped free up resources for increased Marketing & Sales investments for the launch of *Prevacid24HR* in the US and R&D projects. As a result, the core operating income margin declined only 0.2 percentage points to 15.3% of net sales.

Corporate Income & Expense, net

Net corporate expenses in the fourth quarter of 2009 were slightly lower than in the 2008 period, as positive currency exchange movements and a gain on the sale of financial assets more than offset higher pension costs.

FINANCIAL REVIEW

Full year and fourth quarter

	2009 USD m	2008 USD m	Change %	Q4 2009 USD m	Q4 2008 USD m	Change %
Core operating income	**11 437**	**10 319**	**11**	**3 204**	**2 090**	**53**
Income from associated companies	1 051	839	25	252	266	5
Financial income	198	384	48	104	58	79
Interest expense	551	290	90	156	76	105
Taxes	1 868	1 751	7	512	371	38
Core net income	**10 267**	**9 501**	**8**	**2 892**	**1 967**	**47**
Core basic EPS (USD)	**4.50**	**4.18**	**8**	**1.26**	**0.86**	**47**

Income from associated companies

For the fourth quarter of 2009, income from associated companies rose 10% to USD 107 million, but fell 34% to USD 293 million for the full year, mainly due to USD 189 million of exceptional charges in the third quarter of 2009 related to Roche s restructuring of Genentech and Alcon s decision to stop a development project. Core results in the fourth quarter declined 5% to USD 252 million due to losses from Idenix after it became an associated company when the Group s shareholding fell below 50% in late 2009. Full-year core income from associated companies rose 25% to USD 1.1 billion on increased underlying contributions from Roche as well as full-year equity accounting of the 25% Alcon stake after the mid-2008 purchase.

Financial income and interest expense

Financial income rose 79% to USD 104 million in the fourth quarter of 2009, primarily from realized gains and lower impairment charges for marketable securities as well as average liquidity of USD 15.7 billion compared to USD 7.2 billion in the 2008 quarter. Interest expense more than doubled in the 2009 quarter to USD 156 million following the issuance of US dollar and euro bonds in the first half of the year. Reflecting these same factors for the full year, financial income declined 48% to USD 198 million, while interest expenses rose 90% to USD 551 million.

Taxes

The tax rate (taxes as a percentage of pre-tax income) in the fourth quarter of 2009 was 13.7% compared to 14.3% in the prior-year quarter, while the full-year tax rate rose to 14.8% from 14.1%. For core results, the tax rate in the fourth quarter of 2009 declined to 15.0% from 15.9% in the 2008 period. The core tax rate in 2009 was 15.4%, down from 15.6% in 2008.

Net income

In the fourth quarter of 2009, net income rose 54% to USD 2.3 billion, while net income for the full year rose 4% to USD 8.5 billion. Core net income advanced 47% to USD 2.9 billion in the fourth quarter of 2009. For the full year, core net income rose 8% to USD 10.3 billion.

Earnings per share

Basic earnings per share (EPS) in the fourth quarter were up 53% to USD 1.01 from USD 0.66 in the 2008 quarter, while full-year basic EPS rose 3% to USD 3.70 compared to USD 3.59 in 2008, at a slightly slower pace than net income in 2009 due to higher net income attributable to minority interests. For quarterly core results, basic EPS rose in line with core net income in the 2009 quarter, up 47% to USD 1.26 from USD 0.86 in the 2008 period, while full-year basic EPS grew 8% to USD 4.50 from USD 4.18 in 2008.

Balance sheet

The acquisition of EBEWE Pharma s specialty generics business and USD 7.1 billion of investments in marketable securities with proceeds from bond issues in 2009 led to an increase in total assets, which rose to USD 95.6 billion in 2009 from USD 78.3 billion in 2008.

The Group s equity rose to USD 57.5 billion at December 31, 2009, from USD 50.4 billion at the start of the year. The increase resulted mostly from USD 8.5 billion in net income in 2009, actuarial gains of USD 0.9 billion and currency translation gains of USD 0.8 billion. Other equity movements provided a net increase of USD 0.8 billion, mainly from share-based compensation of USD 0.6 billion. These contributions more than offset the dividend payment of USD 3.9 billion in the 2009 first quarter.

The Group s debt/equity ratio rose to 0.24:1 at the end of 2009 compared to 0.15:1 at the end of 2008, reflecting issuance of a USD 5 billion bond (two tranches) in the US in the first quarter and a EUR 1.5 billion bond (USD 2.1 billion) in the second quarter. At the end of 2009, the Group s financial debt of USD 14.0 billion consisted of USD 5.3 billion in current and USD 8.7 billion in non-current liabilities.

Overall liquidity rose to USD 17.4 billion at December 31, 2009, more than double the year-end 2008 level of USD 6.1 billion, underpinned by increasing cash flow from operations and proceeds from the bond issues. Novartis returned to a net liquidity position at the end of 2009, which stood at USD 3.5 billion compared to net debt (financial debt net of liquidity) of USD 1.2 billion at the end of 2008.

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

Cash flow

Cash flow from operating activities improved 25% in 2009 to USD 12.2 billion based on higher profitability and initiatives to reduce working capital requirements, which fell USD 1.3 billion from 2008 levels.

Cash outflows from investing activities amounted to USD 14.2 billion in 2009 compared to USD 10.4 billion in 2008, as lower capital expenditures of USD 1.9 billion (which declined to 4.3% of net sales in 2009 compared to 5.1% in 2008) was more than offset by investments in marketable securities and increased investments totaling USD 12.3 billion in intangible, non-current and financial assets, including the EBEWE Pharma generics acquisition.

Cash inflows from financing activities were a net USD 2.8 billion in 2009, as proceeds of USD 7.1 billion from the bond issues were partially offset by the dividend payment of USD 3.9 billion for 2008 and other items totaling USD 0.4 billion.

Free cash flow before dividends rose 24% to USD 9.4 billion in 2009, reflecting the strong focus on business performance and control of fixed and working capital.

14

PHARMACEUTICALS PRODUCT REVIEW

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

Cardiovascular and Metabolism

Diovan (USD 6.0 billion, +6% lc) achieved solid worldwide growth based on its status as the only medicine in the angiotensin receptor blocker (ARB) class approved for all three indications to treat high blood pressure, high-risk heart attack survivors and heart failure. Japan now accounts for 20% of annual sales, while growth was seen in Europe, where the expected entry of generic versions of losartan, another medicine in the ARB segment, was delayed until the first half of 2010. In the US (+4%), *Diovan* increased its leadership of the ARB segment despite the overall shrinking of the branded anti-hypertension market due to increasing use of generic medicines in other anti-hypertensive classes.

Exforge (USD 671 million, +72% lc), a single-pill combination of the angiotensin receptor blocker *Diovan* (valsartan) and the calcium channel blocker amlodipine, has delivered above-market growth and set new standards for high blood pressure combination therapies since its launch in 2007. *Exforge* HCT, which adds a diuretic, was launched in the US in April 2009 as a single-pill therapy with three medicines. *Exforge* received approval in Japan in January 2010.

Tekturna/Rasilez (USD 290 million, +104% lc), the first in a new class of medicines known as direct renin inhibitors to treat high blood pressure, has been growing consistently since its launch in 2007 based on positive clinical data demonstrating its prolonged efficacy in lowering blood pressure for more than 24 hours and superiority in clinical trials over ramipril, a leading ACE inhibitor. *Valturna* a single-pill combination with *Diovan* (valsartan) was launched in the US in late 2009, joining the group of single-pill combinations that involve aliskiren, the active ingredient in *Tekturna/Rasilez.* A single-pill combination of aliskiren and amlodipine was submitted for US and European approvals in 2009, and a triple-combination with amlodipine and a diuretic is expected to be submitted in 2010.

Galvus/Eucreas (USD 181 million, +327% lc), oral treatments for type 2 diabetes, have achieved rapid success in many European, Latin American and Asia-Pacific markets since first launched in 2007. *Galvus* and *Eucreas*, a single-pill combination of *Galvus* with metformin that accounts for the majority of sales, have outperformed a competitor medicine in the DPP-4 segment in some countries. *Galvus* was approved in Japan in January 2010 with the brand name *Equa.*

Oncology

Gleevec/Glivec (USD 3.9 billion, +12% lc), a targeted therapy for some forms of chronic myeloid leukemia (CML) and gastrointestinal stromal tumors (GIST), achieved sustained double-digit growth based on its leadership position in treating these cancers backed by new clinical data and regulatory approvals. The latest approval in 2009 was for use in adjuvant (post-surgery) GIST patients, which is now approved in more than 55 countries in North America, Europe and Asia-Pacific.

Tasigna (USD 212 million, +145% lc), a second-line therapy for patients with a form of chronic myeloid leukemia (CML) resistant or intolerant to prior therapy, including *Gleevec/Glivec*, has gained rapid acceptance following its approval in more than 80 countries. In December 2009, *Tasigna* was submitted for US and European regulatory approvals for first-line use in CML after new data from the global ENESTnd trial, the largest head-to-head comparison of a targeted therapy against *Glivec* ever conducted, showed *Tasigna* produced faster and deeper responses than *Glivec* in newly diagnosed CML patients. Trials are underway examining the use of *Tasigna* in CML with suboptimal response to *Glivec,* as well as a Phase III trial in patients with GIST.

Zometa (USD 1.5 billion, +9% lc), an intravenous bisphosphonate therapy for patients with certain types of cancer that has spread to bones, is growing due to improved compliance and use in existing indications. US and European regulatory submissions were completed in late 2009 for the use of *Zometa* in adjuvant breast cancer in premenopausal women based on published anticancer data for this indication. Studies are underway to review potential benefits in other tumor types.

Femara (USD 1.3 billion, +16% lc), an oral therapy for postmenopausal women with hormone-sensitive breast cancer, saw strong sales growth in 2009 due to growth in the initial adjuvant (post-

surgery) setting. In August 2009, The New England Journal of Medicine published results from the landmark BIG 1-98 study affirming that the five-year upfront use of *Femara* after surgery was an optimal treatment approach for postmenopausal women with early-stage, hormone-receptor positive breast cancer. These data were submitted in the US and Europe for inclusion in product information.

Sandostatin (USD 1.2 billion, +7% lc), for patients with acromegaly and symptoms associated with neuroendocrine tumors of the gastrointestinal tract and pancreas, has grown from increasing use of *Sandostatin LAR*, the once-monthly version that accounts for nearly 90% of net sales. Recent clinical trial data demonstrated a significant delay in tumor progression in patients with metastatic neuroendocrine tumors of the midgut treated with *Sandostatin LAR*. These data formed the basis of a recent US National Comprehensive Cancer Network (NCCN) update on treatment guidelines for neuroendocrine tumors.

Exjade (USD 652 million, +27% lc), currently approved in more than 90 countries as the only once-daily oral therapy for transfusional iron overload, received regulatory approvals in 2009 in the US, Europe, Switzerland and other countries to extend the dose range to 40 mg/kg. This new dosing range provides a new option to patients who require dose intensification due to high iron burdens. Novartis submitted new safety information to health authorities worldwide in mid-2009. The new labeling was approved in Europe in November, providing new guidance on the selection of appropriate myelodysplastic syndrome (MDS) and malignant disease patients for *Exjade* therapy. US and Japanese regulatory authorities are also reviewing this data.

Afinitor (USD 70 million), an oral inhibitor of the mTOR pathway, was launched in the US, Europe and Switzerland after gaining regulatory approvals in 2009 as a treatment for advanced renal cell carcinoma (RCC, kidney cancer) following VEGF-targeted therapy. *Afinitor* is being studied in many cancer types. Phase III studies are underway in patients with neuroendocrine tumors (NET), breast cancer, lymphoma, tuberous sclerosis complex (TSC) and gastric cancer. Two potential regulatory submissions are planned for 2010 based on the outcome of clinical trials of this medicine in patients with neuroendocrine tumors (NET) as well as tuberous sclerosis complex (TSC). A late-stage trial is planned to start in patients with hepatocellular carcinoma (HCC) in early 2010. The active ingredient, everolimus, is the same as in the transplant therapy *Certican*.

Other Pharmaceuticals products

Lucentis (USD 1.2 billion, +47% lc), a biotechnology eye therapy now approved in more than 80 countries, delivered sustained growth on top performances in France, the United Kingdom, Australia and Japan. *Lucentis* is the only treatment proven to maintain and improve vision in patients with wet age-related macular degeneration, a leading cause of blindness in people over age 50. *Lucentis* was submitted in December 2009 for European regulatory approval for treatment of visual impairment due to diabetic macular edema (DME), an eye condition related to longstanding diabetes that may lead to blindness. Late-stage clinical trials are underway in other eye conditions. Genentech holds the US rights to this medicine.

Exelon/Exelon **Patch** (USD 954 million, +22% lc), a therapy for mild to moderate forms of Alzheimer s disease dementia as well as dementia linked with Parkinson s disease, achieved more than half of its sales from *Exelon* Patch, the novel skin patch launched in late 2007 that is now available in more than 60 countries worldwide.

Reclast/Aclasta (USD 472 million, +88% lc), a once-yearly infusion therapy for osteoporosis, continues to expand on increasing patient access to infusion centers and a broad range of use in patients with various types of this debilitating bone disease. Approvals have been received for up to six indications, including the treatment of osteoporosis in men and postmenopausal women.

Xolair (USD 338 million, +65% lc, Novartis sales), a biotechnology drug for moderate to severe persistent allergic asthma in the US and severe persistent allergic asthma in Europe, maintained solid growth due to its global presence and approvals in more than 80 countries, including Japan since early 2009. In August 2009, *Xolair* received European regulatory approval to treat children age six and older. Novartis co-promotes *Xolair* with Genentech in the US and shares a portion of operating income. In 2009, Genentech s US sales were USD 571 million.

Certican (USD 118 million, +31% lc), a transplantation medicine, generated solid growth based on its availability in more than 70 countries. In the US, the FDA issued a Complete Response letter in

December 2009 for this medicine (under the brand name *Zortress*) for prevention of organ rejection in adult kidney transplant patients. The FDA discussions focus on product labeling and Risk Evaluation Mitigation Strategy (REMS) as well as a safety update, but no request for more clinical studies. This medicine, which has the same active ingredient as *Afinitor* (everolimus), has been shown to have good immunosuppressive efficacy and a manageable side-effect profile.

Extavia (USD 49 million), for relapsing forms of multiple sclerosis (MS), was launched in 2009 in the US and more than 20 other countries, marking the entry of Novartis into the field of MS. *Extavia* is the Novartis-branded version of Betaferon®/Betaseron®.

Ilaris, a fully human monoclonal antibody that blocks action of the inflammatory protein interleukin-1 beta, has been launched after receiving first approvals during 2009 in the US, Europe and some other markets for treatment of cryopyrin-associated periodic syndrome (CAPS), a group of rare lifelong auto-inflammatory disorders. Trials are ongoing in other diseases in which IL-1 beta is believed to play an important role. Other diseases include refractory gout, chronic obstructive pulmonary disease (COPD), type 2 diabetes and systemic juvenile idiopathic arthritis (SJIA).

R&D UPDATE

Novartis has one of the industry s most competitive pipelines with 145 projects in pharmaceutical clinical development, of which 60 involve new molecular entities.

Pharmaceuticals

AIN457, a fully human monoclonal antibody that blocks action of interleukin-17A a major trigger of inflammation involved in a variety of diseases such as uveitis, psoriasis and rheumatoid arthritis has begun Phase III studies in November 2009 for use in treating a form of uveitis, an inflammation in the eye, with regulatory submissions possible in 2010.

Gilenia (FTY720, fingolimod), a once-daily oral compound in development for certain forms of multiple sclerosis, was submitted in December 2009 for US and European regulatory approvals. The clinical program provides safety experience in more than 2,300 MS patients, including some patients in their sixth year of therapy.

QAB149 (indacaterol), a once-daily long-acting bronchodilator for adult patients with chronic obstructive pulmonary disease (COPD), gained European regulatory approval in November 2009 as *Onbrez Breezhaler* and was launched in Germany in December. *Onbrez Breezhaler* has demonstrated greater improvements in lung function, breathlessness and quality of life compared to current therapies and is the first new inhaled compound in Europe for treatment of COPD in more than seven years. In the US, Novartis received a Complete Response letter from the FDA in October requesting additional information on the dosing proposed for QAB149. Novartis is working with the FDA to determine what clinical trials will be required.

Vaccines and Diagnostics

Menveo, a novel vaccine in development to protect against the four common A, C, W-135 and Y serogroups of meningococcal meningitis, is awaiting European regulatory approval in early 2010 after a positive opinion in December 2009 for initial use in adolescents (from age 11) and adults. A US regulatory decision is also expected in the first half of 2010. Trials are underway in other age groups.

MenB, in development as a vaccine to protect against the B serogroup of meningococcal meningitis, is in Phase III studies in Europe, where patient enrollment has been completed and a regulatory submission remains on track for 2010. The B serogroup is estimated to cause about 70% of meningococcal disease in Europe, with infants and toddlers most at risk. MenB has shown potential to

be the first to protect infants as young as six months based on Phase II trial results. In the US, discussions with the FDA are planned for 2010 to determine the scope of Phase III trials.

Disclaimer

These materials contain certain forward-looking statements relating to the Group s business, which can be identified by terminology such as strategic, proposes, to introduce, will, planned, expected, commitment, expects, set, preparing, plans, estimates, aims, estimated, proposal, or similar expressions, or by express or implied discussions regarding potential new products, potential new indications for existing products, or regarding potential future revenues from any such products, or potential future sales or earnings of the Novartis Group or any of its divisions or business units; or regarding the potential acquisition and merger with Alcon; or by discussions of strategy, plans, expectations or intentions. You should not place undue reliance on these statements. Such forward-looking statements reflect the current views of the Group regarding future events, and involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. There can be no guarantee that any new products will be approved for sale in any market, or that any new indications will be approved for existing products in any market, or that such products will achieve any particular revenue levels. Nor can there be any guarantee that the Novartis Group, or any of its divisions or business units, will achieve any particular financial results. Neither can there be any guarantee that the proposed acquisition and merger with Alcon will be completed in the expected form or within the expected time frame or at all. Nor can there be any guarantee that Novartis will be able to realize any of the potential synergies, strategic benefits or opportunities as a result of the proposed acquisition. In particular, management s expectations could be affected by, among other things, unexpected clinical trial results, including additional analysis of existing clinical data or unexpected new clinical data; unexpected regulatory actions or delays or government regulation generally; the Group s ability to obtain or maintain patent or other proprietary intellectual property protection; uncertainties regarding actual or potential legal proceedings, including, among others, product liability litigation, litigation regarding sales and marketing practices, government investigations and intellectual property disputes; competition in general; government, industry, and general public pricing and other political pressures; uncertainties regarding the after-effects of the recent global financial and economic crisis; uncertainties regarding future global exchange rates and uncertainties regarding future demand for our products; uncertainties involved in the development of new pharmaceutical products; the impact that the foregoing factors could have on the values attributed to the Group s assets and liabilities as recorded in the Group s consolidated balance sheet; and other risks and factors referred to in Novartis AG s current Form 20-F on file with the US Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described herein as anticipated, believed, estimated or expected. Novartis is providing the information in these materials as of this date and does not undertake any obligation to update any forward-looking statements as a result of new information, future events or otherwise.

About Novartis

Novartis provides healthcare solutions that address the evolving needs of patients and societies. Focused solely on healthcare, Novartis offers a diversified portfolio to best meet these needs: innovative medicines, cost-saving generic pharmaceuticals, preventive vaccines, diagnostic tools and consumer health products. Novartis is the only company with leading positions in these areas. In 2009, the Group s continuing operations achieved net sales of USD 44.3 billion, while approximately USD 7.5 billion was invested in R&D activities throughout the Group. Headquartered in Basel, Switzerland, Novartis Group companies employ approximately 100,000 full-time-equivalent associates and operate in more than 140 countries around the world. For more information, please visit http://www.novartis.com.

Important dates

February 26, 2010	Annual General Meeting
April 20, 2010	First quarter 2010 results
July 15, 2010	Second quarter and first half 2010 results
October 21, 2010	Third quarter and first nine months 2010 results

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS(1)

Consolidated income statements

Full year (audited)

	2009 USD m	2008 USD m	Change USD m	Change %
Net sales	**44 267**	**41 459**	**2 808**	**7**
Other revenues	836	1 125	289	26
Cost of Goods Sold	12 179	11 439	740	6
Of which amortization and impairments of product and patent rights and trademarks	*869*	*998*	*129*	*13*
Gross profit	**32 924**	**31 145**	**1 779**	**6**
Marketing & Sales	**12 050**	11 852	198	2
Research & Development	**7 469**	7 217	252	3
General & Administration	**2 281**	2 245	36	2
Other income	**782**	826	44	5
Other expense	1 924	1 693	231	14
Operating income	**9 982**	**8 964**	**1 018**	**11**
Income from associated companies	**293**	**441**	148	34
Financial income	**198**	**384**	186	48
Interest expense	**551**	**290**	261	90
Income before taxes	**9 922**	**9 499**	**423**	**4**
Taxes	**1 468**	**1 336**	132	10
Net income from continuing operations	**8 454**	**8 163**	**291**	**4**
Net income from discontinued Consumer Health operations		**70**	70	
Group net income	**8 454**	**8 233**	**221**	**3**
Attributable to:				
Shareholders of Novartis AG	***8 400***	***8 195***	*205*	*3*
Non-controlling interests	***54***	***38***	*16*	*42*
Average number of shares outstanding Basic (million)	**2 267.9**	**2 265.5**	**2.4**	**0**
Basic earnings per share (USD)(2)				
Continuing operations	**3.70**	**3.59**	**0.11**	**3**
Discontinued operations	**0.00**	**0.03**	**0.03**	
Total	**3.70**	**3.62**	**0.08**	**2**
Average number of shares outstanding Diluted (million)	2 276.6	2 284.2	7.6	0
Diluted earnings per share (USD)(2)				
Continuing operations	3.69	3.56	0.13	4
Discontinued operations	0.00	0.03	0.03	
Total	3.69	3.59	0.10	3

(1) Full-year financial information in these Condensed Consolidated Financial Statements are derived from the audited Consolidated Financial Statements in the 2009 Annual Report published on January 26, 2010.

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

Consolidated income statements

Fourth quarter (unaudited)

	Q4 2009 USD m	Q4 2008 USD m	Change USD m	Change %
Net sales	**12 926**	**10 077**	**2 849**	**28**
Other revenues	219	271	52	19
Cost of Goods Sold	3 667	2 834	833	29
Of which amortization and impairments of product and patent rights and trademarks	*160*	*228*	*68*	*30*
Gross profit	**9 478**	**7 514**	**1 964**	**26**
Marketing & Sales	**3 476**	**3 054**	422	14
Research & Development	**2 148**	**1 834**	314	17
General & Administration	**692**	**629**	63	10
Other income	361	197	164	83
Other expense	886	514	372	72
Operating income	**2 637**	**1 680**	**957**	**57**
Income from associated companies	**107**	**97**	10	10
Financial income	**104**	**58**	46	79
Interest expense	**156**	**76**	80	105
Income before taxes	**2 692**	**1 759**	**933**	**53**
Taxes	**369**	**252**	117	46
Net income from continuing operations	**2 323**	**1 507**	**816**	**54**
Net income from discontinued Consumer Health operations		**42**	42	
Group net income	**2 323**	**1 549**	**774**	**50**
Attributable to:				
Shareholders of Novartis AG	***2 305***	***1 539***	*766*	*50*
Non-controlling interests	***18***	***10***	*8*	*80*
Average number of shares outstanding Basic (million)	**2 272.8**	**2 264.9**	**7.9**	
Basic earnings per share (USD)(1)				
Continuing operations	**1.01**	**0.66**	**0.35**	**53**
Discontinued operations	**0.00**	**0.02**	**0.02**	
Total	**1.01**	**0.68**	**0.33**	**49**
Average number of shares outstanding Diluted (million)	2 286.7	2 282.6	4.1	
Diluted earnings per share (USD)(1)				
Continuing operations	1.01	0.66	0.35	53
Discontinued operations	0.00	0.01	0.01	
Total	1.01	0.67	0.34	51

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

Consolidated statements of comprehensive income

Full year (audited)

	2009 USD m	2008 USD m	Change USD m
Net income from continuing operations	**8 454**	**8 163**	**291**
Fair value adjustments on financial instruments, net of taxes	93	510	603
Net actuarial gains/losses from defined benefit plans, net of taxes	949	2 140	3 089
Novartis share of equity recognized by associated companies, net of taxes	43	201	158
Revaluation of initial non-controlling interest in Speedel		38	38
Translation effects	789	1 122	1 911
Amounts related to discontinued operations		70	70
Comprehensive income	**10 242**	**4 298**	**5 944**
Attributable to:			
Shareholders of Novartis AG	***10 180***	***4 275***	*5 905*
Non-controlling interests	***62***	***23***	*39*

Fourth quarter (unaudited)

	Q4 2009 USD m	Q4 2008 USD m	Change USD m
Net income from continuing operations	**2 323**	**1 507**	**816**
Fair value adjustments on financial instruments, net of taxes	67	212	145
Net actuarial gains/losses from defined benefit plans, net of taxes	1 737	1 192	2 929
Novartis share of equity recognized by associated companies, net of taxes	6	12	18
Revaluation of initial non-controlling interest in Speedel		2	2
Translation effects	110	542	432
Amounts related to discontinued operations		42	42
Comprehensive income	**3 889**	**407**	**4 296**
Attributable to:			
Shareholders of Novartis AG	***3 871***	***413***	*4 284*
Non-controlling interests	***18***	***6***	*12*

Condensed consolidated balance sheets (audited)

	Dec 31, 2009 USD m	Dec 31, 2008 USD m	Change USD m
Assets			
Non-current assets			
Property, plant & equipment	14 075	13 100	975
Goodwill	12 039	11 285	754
Intangibles other than goodwill	10 331	9 534	797
Financial and other non-current assets	25 369	23 499	1 870
Total non-current assets	**61 814**	**57 418**	**4 396**
Current assets			
Inventories	5 830	5 792	38
Trade receivables	8 310	7 026	1 284
Other current assets	2 102	1 946	156
Cash, short-term deposits and marketable securities	17 449	6 117	11 332
Total current assets	**33 691**	**20 881**	**12 810**
Total assets	**95 505**	**78 299**	**17 206**
Equity and liabilities			
Total equity	**57 462**	**50 437**	**7 025**
Non-current liabilities			
Financial debts	8 675	2 178	6 497
Other non-current liabilities	9 898	9 180	718
Total non-current liabilities	**18 573**	**11 358**	**7 215**
Current liabilities			
Trade payables	4 012	3 395	617
Financial debts and derivatives	5 313	5 186	127
Other current liabilities	10 145	7 923	2 222
Total current liabilities	**19 470**	**16 504**	**2 966**
Total liabilities	**38 043**	**27 862**	**10 181**
Total equity and liabilities	**95 505**	**78 299**	**17 206**

Condensed consolidated changes in equity

Full year (audited)

	2009 USD m	2008 USD m	Change USD m
Consolidated equity at January 1	**50 437**	**49 396**	**1 041**
Comprehensive income	10 242	4 298	5 944
Sale/purchase of treasury shares, net	225	430	655
Equity-based compensation	635	565	70
Dividends	3 941	3 345	596
Changes in non-controlling interests	136	47	89
Consolidated equity at December 31	**57 462**	**50 437**	**7 025**

Fourth quarter (unaudited)

	Q4 2009 USD m	Q4 2008 USD m	Change USD m
Consolidated equity at October 1	**53 313**	**50 737**	**2 576**
Comprehensive income	3 889	407	4 296
Sale/purchase of treasury shares, net	145	24	169
Equity-based compensation	185	145	40
Changes in non-controlling interests	70	14	56
Consolidated equity at December 31	**57 462**	**50 437**	**7 025**

Condensed consolidated cash flow statements

Full year (audited)

	2009 USD m	2008 USD m	Change USD m
Net income from continuing operations	**8 454**	**8 163**	**291**
Reversal of non-cash items			
Taxes	1 468	1 336	132
Depreciation, amortization and impairments	2 341	2 760	419
Change in provisions and other non-current liabilities	1 031	562	469
Net financial expense/income	353	94	447
Other	255	50	305
Net income adjusted for non-cash items	**13 902**	**12 677**	**1 225**
Interest and other financial receipts	613	659	46
Interest and other financial payments	654	268	386
Taxes paid	1 623	1 939	316
Cash flow before working capital changes	**12 238**	**11 129**	**1 109**
Payments out of provisions and other net cash movements in non-current liabilities	735	730	5
Change in net current assets and other operating cash flow items	688	630	1 318
Cash flow from operating activities	**12 191**	**9 769**	**2 422**
Investments in property, plant & equipment	1 887	2 106	219
Investments in intangible, financial and other non-current assets	1 084	346	738
Sale of property, plant & equipment, intangible, financial and other non-current assets	226	329	103
Acquisitions of subsidiaries	925	1 079	154
Increase in marketable securities, associated companies and non-controlling interests	10 549	7 165	3 384
Cash flow used for investing activities	**14 219**	**10 367**	**3 852**
Change in current and non-current financial debts	6 539	1 295	5 244
Dividends paid to shareholders of Novartis AG	3 941	3 345	596
Treasury share transactions	224	473	697
Other financing cash flows	13	50	37
Cash flow from/used for financing activities	**2 809**	**2 573**	**5 382**
Cash flow from discontinued operations		105	105
Translation effect on cash and cash equivalents	75	46	121
Change in cash and cash equivalents	**856**	**3 322**	**4 178**
Cash and cash equivalents at January 1	2 038	5 360	3 322
Cash and cash equivalents at December 31	**2 894**	**2 038**	**856**

Condensed consolidated cash flow statements

Fourth quarter (unaudited)

	Q4 2009 USD m	Q4 2008 USD m	Change USD m
Net income from continuing operations	**2 323**	**1 507**	**816**
Reversal of non-cash items			
Taxes	369	252	117
Depreciation, amortization and impairments	629	641	12
Change in provisions and other non-current liabilities	595	142	453
Net financial expense/income	52	18	34
Other	7	48	55
Net income adjusted for non-cash items	**3 975**	**2 512**	**1 463**
Interest and other financial receipts	23	51	28
Interest and other financial payments	156	317	473
Taxes paid	406	369	37
Cash flow before working capital changes	**3 436**	**2 511**	**925**
Payments out of provisions and other net cash movements in non-current liabilities	168	249	81
Change in net current assets and other operating cash flow items	1 198	942	256
Cash flow from operating activities	**4 466**	**3 204**	**1 262**
Investments in property, plant & equipment	619	661	42
Investments in intangible, financial and other non-current assets	613	70	543
Sale of property, plant & equipment, intangible, financial and other non-current assets	115	85	30
Acquisitions of subsidiaries	35	388	353
Increase in marketable securities, associated companies and non-controlling interests	3 041	695	2 346
Cash flow used for investing activities	**4 193**	**1 729**	**2 464**
Change in current and non-current financial debts	271	3 745	3 474
Treasury share transactions	144	10	134
Other financing cash flows	14	13	1
Cash flow used for financing activities	**141**	**3 748**	**3 607**
Cash flow from discontinued operations		26	26
Translation effect on cash and cash equivalents	11	112	101
Change in cash and cash equivalents	**121**	**2 411**	**2 532**
Cash and cash equivalents at October 1	2 773	4 449	1 676
Cash and cash equivalents at December 31	**2 894**	**2 038**	**856**

Notes to the Condensed Consolidated Financial Statements for 2009

1. Basis of preparation

These Condensed Consolidated Financial Statements for the three- and twelve-month periods ended December 31, 2009, were prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* and accounting policies set out in the 2009 Annual Report published on January 26, 2010. As of January 1, 2009, the Group adopted the revised IAS 1 *Presentation of Financial Statements* and IFRS 8 *Operating Segments* and the revised IAS 23 *Borrowing Costs*. These new accounting standards did not have a significant impact on the Group s Condensed Consolidated Financial Statements.

2. Selected critical accounting policies

The Group s principal accounting policies are set out in note 1 to the Consolidated Financial Statements in the 2009 Annual Report and conform with International Financial Reporting Standards (IFRS). The presentation of financial statements requires management to make subjective and complex judgments that affect the reported amounts. Because of the inherent uncertainties, actual outcomes and results may differ from management s assumptions and estimates. In particular, as discussed in notes 10 and 11 of the 2009 Annual Report, Novartis regularly reviews long-lived intangible and tangible assets, including identifiable intangible assets and goodwill for impairment. Goodwill and acquired In-Process Research & Development (IPR&D) projects not yet ready for use are subject to impairment review at least annually, or when events have occurred that require an assessment. As also discussed in notes 4 and 11 of the 2009 Annual Report, investments in associated companies and intangible assets are reviewed for impairment whenever an event or decision occurs that raises concern about their balance sheet carrying value. The amount of investments in associated companies, goodwill and other intangible assets on the Group s consolidated balance sheet has risen significantly in recent years, primarily from recent acquisitions. Impairment testing under IFRS may lead to potentially significant impairment charges in the future that could have a materially adverse impact on the Group s financial results.

3. Acquisitions, divestments and significant transactions

The following significant transactions occurred during 2009 and 2008:

Acquisitions in 2009

Sandoz EBEWE Pharma

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

Vaccines and Diagnostics Zhejiang Tianyuan

On November 4, Novartis announced a definitive agreement to acquire an 85% stake in the Chinese vaccines company Zhejiang Tianyuan Bio-Pharmaceutical Co., Ltd. Terms call for Novartis to purchase an 85% majority interest for approximately USD 125 million in cash. The transaction, which is expected to be completed in 2010, is subject to certain closing conditions, including receipt of government and regulatory

approvals in China.

Pharmaceuticals Corthera

On December 23, Novartis announced a definitive agreement to acquire Corthera Inc, gaining worldwide rights to relaxin for the treatment of acute heart failure. Novartis will assume full responsibility for development and commercialization. The purchase price consists of an initial payment of USD 120 million. Corthera s current shareholders are eligible to receive additional payments of up to USD 500 million contingent upon clinical milestones, regulatory approvals and the

achievement of commercialization targets. The transaction is expected to be completed in 2010.

Acquisitions in 2008

Corporate Alcon

On April 7, Novartis announced an agreement with Nestlé S.A. under which Novartis obtained rights to acquire majority ownership of Alcon Inc. (NYSE: ACL), a Swiss-registered company listed only on the New York Stock Exchange. The potential total value of this transaction is up to approximately USD 38.5 billion. On July 7, 2008, Novartis acquired a 25% stake in Alcon, representing 74 million shares, from Nestlé for USD 10.4 billion in cash. At December 31, 2009, Alcon s share price on the New York Stock Exchange (NYSE) was USD 164.35, which was above the Group s carrying value of USD 136.88 per share for this strategic investment.

Pharmaceuticals Speedel

On July 10, Novartis announced the all-cash purchase of an additional 51.7% stake in Speedel Holding AG (SIX: SPPN) through off-exchange transactions together with plans to buy all remaining shares in the Swiss biopharmaceuticals company in a mandatory public tender offer. In September 2009, Speedel shares were delisted from the SIX Swiss Exchange and Novartis holds now all shares. The price for the 90.5% interest not previously held was approximately CHF 939 million (USD 888 million) excluding USD 26 million of cash held by Speedel as of the July 2008 acquisition date of majority control. Speedel has been fully consolidated as a subsidiary since the July acquisition of a majority stake. Based on a final purchase price allocation, Speedel s identified net assets were USD 472 million, which resulted in goodwill of USD 493 million in 2008. As a result of this purchase price allocation, the value of the initial 9.5% stake rose by USD 38 million, which was recorded in the consolidated statement of comprehensive income. The consolidation of Speedel resulted in immaterial amounts being included in the Group s consolidated income and operating cash flow statements for 2008 and 2009.

Pharmaceuticals Protez

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

Pharmaceuticals Nektar pulmonary business

On October 21, Novartis agreed to acquire Nektar Therapeutics Inc. s pulmonary business unit for USD 115 million in cash. In this transaction, which was completed on December 31, 2008, Novartis acquired research, development and manufacturing assets of Nektar s pulmonary business unit, including tangible assets as well as intellectual property, intangible assets and related expertise. The full purchase price was allocated to the net assets acquired with no residual goodwill.

Other significant transactions in 2009

Corporate Issuance of bond in US dollars

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

Corporate Issuance of bond in euros

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

Corporate Novartis India Ltd.

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

Pharmaceuticals Idenix

On August 5, Novartis did not participate in an underwritten public offering by Idenix Pharmaceuticals, which reduced the Group s stake to 47% from the pre-offering level of 53%. As a result of this offering, Novartis no longer controls this company, so Idenix was deconsolidated with effect from September 1, 2009. Idenix has been accounted for on an equity basis since this date, which had no material impact on the Group s consolidated income statement.

Other significant transaction in 2008

Corporate Issuance of bonds in Swiss francs

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

2009 subsequent event

Corporate Alcon

In 2008, Novartis entered into an agreement to purchase Nestle s 77% stake in Alcon Inc. for up to USD 38.5 billion, or an average price of USD 168 per share. Under the terms of the agreement, Novartis acquired a 25% Alcon stake from Nestlé in 2008 for USD 10.4 billion, or USD 143 per share. The purchase of the 25% stake was financed from internal cash reserves and external short-term financing.

On January 4, 2010, Novartis exercised its call option to acquire Nestlé s remaining 52% Alcon stake for USD 28.1 billion (contains the 17% control premium for the 77% stake over Alcon s share price of USD 143 at the time of the April 2008 announcement), or USD 180 per share. Upon completion of this transaction, Novartis will own a 77% majority stake in Alcon. The purchase of the 52% stake, which is subject to required regulatory approvals, is expected to be completed in the second half of 2010. Novartis will not control Alcon prior to the closing of the purchase of the 52% stake. This purchase will be funded from available liquidity and external debt financing.

On January 4, 2010, Novartis also announced its proposal to, upon completion of the Nestlé transaction, to enter into an all-share direct merger with Alcon for the remaining 23% minority stake. Novartis believes this merger, which is governed under the Swiss Merger Act, is in the interest of all stakeholders and will provide the needed clarity on Alcon s future. Novartis proposed a fixed exchange ratio of 2.80 Novartis shares for each remaining Alcon share. Based on the Novartis closing share price of CHF 56.50 on December 30, 2009 (the last trading day on the SIX Swiss Stock Exchange before the announcement) and an exchange rate of CHF 1.04 = USD 1.00, this proposal represents an implied price of USD 153 per Alcon share and a 12% premium to Alcon s unaffected publicly traded share price as determined by Novartis of USD 137

per share. Alcon s closing share price was USD 164.35 on December 31, 2009 (the last trading day on the New York Stock Exchange before the announcement). The merger would be conditional on the closing of the 52% stake purchase from Nestlé and would require approval by the Boards of Directors of Novartis and Alcon. The merger would also require two-thirds approval by the shareholders of Novartis and Alcon voting at their respective meetings. Under Swiss law, Novartis has the right to vote its Alcon stake in favor of the proposed merger.

4. Principal currency translation rates

Full year

	Average rates 2009 USD	Average rates 2008 USD	Period-end rates Dec 31, 2009 USD	Period-end rates Dec 31, 2008 USD
1 CHF	**0.923**	0.925	**0.965**	0.948
1 EUR	**1.393**	1.470	**1.436**	1.411
1 GBP	**1.564**	1.853	**1.591**	1.450
100 JPY	**1.070**	0.970	**1.086**	1.107

Fourth quarter

	Average rates Q4 2009 USD	Average rates Q4 2008 USD	Period-end rates Dec 31, 2009 USD	Period-end rates Dec 31, 2008 USD
1 CHF	**0.980**	0.862	**0.965**	0.948
1 EUR	**1.478**	1.314	**1.436**	1.411
1 GBP	**1.634**	1.571	**1.591**	1.450
100 JPY	**1.115**	1.042	**1.086**	1.107

5. Consolidated income statements Divisional segmentation Full year (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Corporate		Total continuing operations		Discontinued Consumer Health operations	Total Group	
	2009 USD m	2008 USD m	2009 USD m	2008 USD m	2009 USD m	2008 USD m	2009 USD m	2008 USD m	2009 USD m	2008 USD m	2009 USD m	2008 USD m	2008 USD m	2009 USD m	2008 USD m
Net sales to third parties	**28 538**	**26 331**	**2 424**	**1 759**	**7 493**	**7 557**	**5 812**	**5 812**			**44 267**	**41 459**		**44 267**	**41 459**
Sales to other Divisions	175	198	46	20	264	270	44	53	529	541					
Sales of Divisions	**28 713**	**26 529**	**2 470**	**1 779**	**7 757**	**7 827**	**5 856**	**5 865**	**529**	**541**	**44 267**	**41 459**		**44 267**	**41 459**
Other revenues	377	620	390	414	10	25	59	66			836	1 125		836	1 125
Cost of Goods Sold	**4 955**	**4 481**	**1 415**	**1 270**	**4 201**	**4 119**	**2 111**	**2 071**	503	502	**12 179**	**11 439**		**12 179**	**11 439**
Of which amortization and impairments of product and patent rights and trademarks	*230*	***353***	***287***	***286***	***256***	***283***	***96***	***76***			***869***	***998***		***869***	***998***
Gross profit	**24 135**	**22 668**	**1 445**	**923**	**3 566**	**3 733**	**3 804**	**3 860**	**26**	**39**	**32 924**	**31 145**		**32 924**	**31 145**
Marketing & Sales	**8 369**	**8 109**	297	247	1 330	1 413	**2 054**	**2 083**			**12 050**	11 852		12 050	11 852
Research & Development	**5 840**	**5 716**	508	360	613	667	346	313	162	161	7 469	7 217		7 469	7 217
General & Administration	870	843	176	177	385	408	376	383	474	434	2 281	2 245		2 281	2 245
Other income	414	447	27	38	105	62	72	111	164	168	782	826	70	782	896
Other expense	**1 078**	868	119	99	272	223	84	144	371	359	1 924	1 693		1 924	1 693
Amortization and impairments of capitalized intangible assets included in above function costs	*125*	*381*	*43*	*33*	*10*	*24*	*1*	*1*	*3*	*2*	*182*	*441*		*182*	*441*
Operating income	**392**	**7 579**	**372**	**78**	**1 071**	**1 084**	**1 016**	**1 048**	**869**	**825**	**9 982**	**8 964**	**70**	**9 982**	**9 034**
Return on net sales	*29.4%*	*28.8%*	*15.3%*	*4.4%*	*14.3%*	*14.3%*	*17.5%*	*18.0%*			*22.5%*	*21.6%*		*22.5%*	*21.8%*
Income from associated companies	14				**7**	**4**			**300**	**437**	**293**	**441**		**293**	**441**
Financial income											**198**	**384**		**198**	**384**
Interest expense											**551**	**290**		**551**	**290**
Income before taxes											**9 922**	**9 499**	**70**	**9 922**	**9 569**
Taxes											**1 468**	**1 336**		**1 468**	**1 336**
Net income											**8 454**	**8 163**	**70**	**8 454**	**8 233**
Additions to:															
	922	*1 115*	*437*	*435*	*282*	*422*	*164*	*160*	*78*	*77*	*1 883*	*2 209*		*1 883*	*2 209*

Property, plant and equipment(1)															
Goodwill and other intangible assets(1)	*809*	*98*	*12*	*42*	*35*	*21*	*101*	*22*	*10*	*5*	*967*	*188*		*967*	*188*

(1) Excluding impact of business acquisitions

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

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Corporate		Total continuing operations		Discontinued Consumer Health operations	Total Group	
	Q4 2009 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m
Net sales to third parties	**7 773**	**6 430**	**1 387**	**491**	**2 143**	**1 804**	**1 623**	**1 352**			**12 926**	**10 077**		**12 926**	**10 077**
Sales to other Divisions	38	39	20	11	74	62	13	12	145	124					
Sales of Divisions	**7 811**	**6 469**	**1 407**	**502**	**2 217**	**1 866**	**1 636**	**1 364**	**145**	**124**	**12 926**	**10 077**		**12 926**	**10 077**
Other revenues	93	160	108	86	2	8	16	17			219	271		219	271
Cost of Goods Sold	1 382	1 064	552	347	1 253	1 026	614	484	134	87	3 667	2 834		3 667	2 834
Of which amortization and impairments of product and patent rights and trademarks	*24*	*76*	*73*	*70*	*76*	*64*	*35*	*18*			*160*	*228*		*160*	*228*
Gross profit	**6 522**	**5 565**	**963**	**241**	**966**	**848**	**1 038**	**897**	**11**	**37**	**9 478**	**7 514**		**9 478**	**7 514**
Marketing & Sales	2 356	2 141	109	47	396	345	615	521			3 476	3 054		3 476	3 054
Research & Development	1 632	1 479	199	91	172	163	102	80	43	21	2 148	1 834		2 148	1 834
General & Administration	261	248	61	66	109	98	120	105	141	112	692	629		692	629
Other income	169	107	6	11	86	30	29	41	71	8	361	197	12	361	209
Other expense	536	242	17	22	154	72	23	42	156	136	886	514		886	514
Amortization and impairments of capitalized intangible assets included in above function costs	*40*	*52*	*25*	*9*	*1*	*3*	*1*		*1*		*66*	*64*		*66*	*64*
Operating income	**1 906**	**1 562**	**583**	**26**	**221**	**200**	**207**	**190**	**280**	**298**	**2 637**	**1 680**	**12**	**2 637**	**1 692**
Return on net sales	*24.5%*	*24.3%*	*42.0%*	*5.3%*	*10.3%*	*11.1%*	*12.8%*	*14.1%*			*20.4%*	*16.7%*		*20.4%*	*16.8%*
Income from associated companies	8				2				113	97	107	97		107	97
Financial income											104	58		104	58
Interest expense											156	76		156	76
Income before taxes											**2 692**	**1 759**	**12**	**2 692**	**1 771**
Taxes											369	252	30	369	222
Net income											**2 323**	**1 507**	**42**	**2 323**	**1 549**
Additions to:															

Property, plant and equipment(1)	*309*	*374*	*143*	*136*	*104*	*91*	*66*	*67*	*28*	*28*	*650*	*696*	*650*	*696*
Goodwill and other intangible assets(1)	*527*	*25*	*0*	*39*	*7*	*4*	*21*	*4*	*7*	*3*	*562*	*75*	*562*	*75*

(1) Excluding impact of business acquisitions

6. Legal proceedings update

A number of Novartis subsidiaries are, and will likely continue to be, subject to various legal proceedings that arise from time to time. As a result, the Group may become subject to substantial liabilities that may not be covered by insurance. Litigation is inherently unpredictable and large verdicts do occur.

As a result, Novartis may in the future incur judgments or enter into settlements of claims that could have a material adverse effect on its results of operations or cash flow. See note 20 in the Group s Consolidated Financial Statements in the 2009 Annual Report for a summary of major legal proceedings. The following is a non-exhaustive list relating to some cases reported in the 2009 Annual Report and includes information as of the 2009 fourth quarter:

Governmental investigations

In 2005 the US Attorney s Office for the Eastern District of Pennsylvania (the EDPA) served an administrative subpoena pursuant to the Health Insurance Portability and Accountability Act on Novartis Pharmaceuticals Corporation (NPC), a Novartis subsidiary. NPC has been cooperating with parallel civil and criminal investigations by the EDPA into allegations of potential off-label marketing and promotion of the epilepsy therapy *Trileptal* as well as certain payments made to healthcare providers in connection with this medicine. NPC recently entered into a plea agreement with the EDPA, which is contingent on court approval, to resolve criminal allegations. Pursuant to the plea agreement, NPC will plead guilty to a misdemeanor violation of the US Food, Drug and Cosmetic Act and pay a fine of USD 185 million. NPC is currently negotiating with the EDPA to resolve civil claims relating to *Trileptal*. In the fourth quarter of 2009, Novartis increased provisions relating to the EDPA s *Trileptal* investigations by USD 318 million. Total provisions at the end of 2009 relating to the EDPA s civil and criminal *Trileptal* investigations were USD 397 million.

NPC is also cooperating with an investigation by the EDPA regarding potential off-label marketing and promotion as well as payments made to healthcare providers in connection with five other products: *Diovan*, *Exforge*, *Sandostatin*, *Tekturna* and *Zelnorm*. Novartis is unable to assess with reasonable certainty the outcome of the investigation related to these five products or the amounts, which could be material, that it might be required to pay to resolve this investigation.

The US Attorney s Office for the Northern District of California in 2007 served an administrative subpoena pursuant to the Health Insurance Portability and Accountability Act covering several Novartis subsidiaries. The subpoena covered information regarding potential off-label marketing and promotion of *TOBI* (tobramycin), a treatment for patients with cystic fibrosis acquired through the purchase of Chiron Corporation in mid-2006. In September 2009, Novartis subsidiaries reached an agreement in principle with the US Department of Justice to pay USD 72.5 million to resolve all federal civil claims and state Medicaid claims relating to this investigation. Details of the agreement in principle are under discussion with relevant federal and state government offices.

In October 2009, the European Commission, together with the French competition authority, searched the French offices of Sandoz, alleging that Sandoz may have entered into anti-competitive price coordination practices with other generic pharmaceuticals companies and via the French trade association for generic pharmaceuticals companies. Sandoz is cooperating with the Commission and French authorities.

On January 12, 2010, the European Commission addressed a request for information to certain pharmaceutical companies, including Novartis International AG, asking them to submit copies of all of their patent settlement agreements as well as copies of all annexes, related agreements and amendments. The request covers patent settlement agreements concluded between originator and generic pharmaceutical companies in the period from July 1, 2008, to December 31, 2009, and

relating to the EU/EEA.

***Zometa/Aredia* litigation**

Novartis Pharmaceuticals Corp. is a defendant in approximately 682 cases brought in US courts in which plaintiffs claim to have experienced osteonecrosis of the jaw after treatment with *Zometa* or *Aredia*, which are used to treat patients whose cancer has spread to the bones. All purported class actions have been dismissed. A trial that began in Montana in October 2009 resulted in a plaintiff s verdict, and this verdict is currently under appeal. The next trial in a US state court is currently scheduled to begin in New Jersey in June 2010.

Zelnorm

Novartis subsidiaries are defendants in approximately 134 cases brought in US and Canadian courts in which plaintiffs claim to have experienced cardiovascular injuries after being treated with *Zelnorm*, a medicine for irritable bowel syndrome and chronic constipation. A purported national class action was filed against a Novartis subsidiary in Canada. A statement to defend was filed in this action. The first trial in the US is now expected to begin in Virginia in June 2010 after a case was dismissed that had been scheduled for trial in Louisiana in January 2010.

Contact lenses patent litigation

In the US, Johnson & Johnson (J&J) filed suits seeking a declaration that their Oasys® and Advance® products do not infringe CIBA Vision s silicone hydrogel patents (Jump patents). CIBA Vision filed counter-claims for infringement of its Jump patents. Novartis has also filed infringement suits based on these patent rights in several European countries, including France, Germany, the Netherlands, Ireland, Italy, Spain and the United Kingdom. J&J filed an invalidation suit in Austria in January 2009. Courts in the Netherlands (February 2009), France (March 2009) and the US (August 2009) issued rulings holding that CIBA Vision s patents were valid and infringed by J&J s sales of Oasys® products. J&J appealed the rulings in the Netherlands, France and in the US. However, the trial court in the UK held in July 2009 that the Jump patents were invalid. CIBA Vision has filed an appeal. In December 2009, a trial court in Germany also decided that the German part of the Jump patents was invalid. CIBA Vision will appeal this decision.

Famvir

Famvir, a therapy for viral infections, is the subject of patent litigation against Teva and Roxane in the US. A trial against Teva in November 2009 resulted in a jury verdict in favor of Novartis that the compound patent was valid and enforceable, i.e., that there was no inequitable conduct (the jury s verdict on inequitable conduct is advisory only). A hearing on a permanent injunction and inequitable conduct is scheduled for January 2010. The compound patent, which covers the active ingredient, expires in March 2011 and a method of use patent expires in 2015, including pediatric extensions. Teva had launched its generic version at risk in 2007 after the judge denied a request by Novartis for a preliminary injunction. Roxane could launch at risk in March 2011.

Average Wholesale Price litigation

Claims have been brought against various pharmaceutical companies, including Novartis subsidiaries, alleging that they fraudulently overstated the Average Wholesale Price and best price , which are, or have been, used by the US federal and state governments in the calculation of, respectively, Medicare reimbursements and Medicaid rebates. Discovery is ongoing in certain of these cases. Motions have been made to dismiss the complaint or for summary judgment in other cases. A Novartis subsidiary was defendant in a trial in Alabama in 2008. The jury rendered a verdict against the Novartis subsidiary and imposed USD 33 million of compensatory damages. No punitive damages were awarded. On October 16, 2009, the Supreme Court of the State of Alabama overturned this verdict, reversing the jury s finding. In a second trial that took place in Alabama in February 2009, the jury rendered a verdict against a separate Novartis subsidiary and awarded

compensatory damages of USD 28 million and punitive damages of USD 50 million. The Novartis subsidiary is appealing the verdict. A third trial involving Novartis subsidiaries took place in Kentucky in June 2009. The jury rendered a verdict against a Novartis subsidiary and imposed USD 16 million of compensatory damages and USD 13.6 million in penalties. No punitive damages were awarded. The Novartis subsidiary has filed post-trial motions in December 2009. A fourth trial against a Novartis subsidiary scheduled to start in Texas in January 2010 has been postponed by the court. A new trial date is not expected before March 2010. A fifth trial against a Novartis subsidiary was scheduled to begin in Wisconsin in May 2010. The Wisconsin court has recently stayed the pre-trial proceedings (except for fact discovery) and postponed the trial to a date to be determined.

Wage and Hour litigation

A group of pharmaceutical sales representatives filed suit in a US state court in California and in a US federal court in New York against US Novartis subsidiaries alleging that the companies violated wage and hour laws by misclassifying the sales representatives as exempt employees, and by failing to pay overtime compensation. The lawsuits were consolidated and certified as a class action. In January 2009, the US federal district court for the Southern District of New York held the sales representatives were not entitled to overtime pay under the federal Fair Labor Standards Act and corresponding state wage and hour laws. Plaintiffs have appealed the judgment. Amicus briefs supporting the plaintiffs position were filed by the National Employment Lawyers Association and by the US Department of Labor. The US Chamber of Commerce filed a brief in support of Novartis on November 5, 2009.

Gender discrimination

Certain female pharmaceutical sales representatives brought a lawsuit in a US federal court in New York against, among others, several US Novartis subsidiaries, alleging they were discriminated against because of their gender. The district court granted, in part, plaintiffs motion for class certification against one of the US Novartis subsidiaries, but dismissed all other US Novartis subsidiaries from the case. Discovery was required to be completed by December 31, 2009, and the trial is scheduled to begin on April 7, 2010.

Supplementary information

Non-IFRS disclosures

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

Condensed consolidated change in net liquidity/debt (unaudited)

Full year

	2009 USD m	2008 USD m	Change USD m
Change in cash and cash equivalents	**856**	**3 322**	**4 178**
Change in marketable securities, financial debt and financial derivatives	3 852	5 332	9 184
Change in net liquidity/debt	**4 708**	**8 654**	**13 362**
Net liquidity/debt at January 1	1 247	7 407	8 654
Net liquidity/debt at December 31	**3 461**	**1 247**	**4 708**

Fourth quarter

	Q4 2009 USD m	Q4 2008 USD m	Change USD m
Change in cash and cash equivalents	**121**	**2 411**	**2 532**
Change in marketable securities, financial debt and financial derivatives	3 540	3 831	291
Change in net liquidity/debt	**3 661**	**1 420**	**2 241**
Net liquidity/debt at October 1	200	2 667	2 467
Net liquidity/debt at December 31	**3 461**	**1 247**	**4 708**

Free cash flow (unaudited)

Full year

	2009 USD m	2008 USD m	Change USD m
Cash flow from operating activities from continuing operations	**12 191**	**9 769**	**2 422**
Purchase of property, plant & equipment	1 887	2 106	219
Purchase of intangible, financial and other non-current assets	1 084	346	738
Sale of property, plant & equipment, intangible, financial and other non-current assets	226	329	103
Free cash flow before dividends	**9 446**	**7 646**	**1 800**
Dividends paid to shareholders of Novartis AG	3 941	3 345	596
Free cash flow from continuing operations	**5 505**	**4 301**	**1 204**
Free cash flow from discontinued operations		237	237
Free cash flow	**5 505**	**4 064**	**1 441**

Fourth quarter

	Q4 2009 USD m	Q4 2008 USD m	Change USD m
Cash flow from operating activities from continuing operations	**4 466**	**3 204**	**1 262**
Purchase of property, plant & equipment	619	661	42
Purchase of intangible, financial and other non-current assets	613	70	543
Sale of property, plant & equipment, intangible, financial and other non-current assets	115	85	30
Free cash flow from continuing operations	**3 349**	**2 558**	**791**
Free cash flow from discontinued operations		20	20
Free cash flow	**3 349**	**2 538**	**811**

Share information (unaudited)

	December 31, 2009	December 31, 2008
Number of shares outstanding (million)	**2 274.4**	2 264.9
Registered share price (CHF)	**56.50**	52.70
ADS price (USD)	**54.43**	49.76
Market capitalization (USD billion)	**124.0**	113.2
Market capitalization (CHF billion)	**128.5**	119.4

Core results

The Group s operating income, net income and earnings per share from continuing operations have been significantly affected by acquisition-related factors, including the amortization of intangible assets, impairment charges, expenses relating to the integration of acquisitions as well as other items over a USD 25 million threshold that management deems exceptional.

In order to improve transparency and better present the underlying performance of the business, Novartis decided in the fourth quarter of 2009 to introduce these core measures as an additional view of performance. Novartis believes that investor understanding of the Group s performance is enhanced by disclosing these performance measures.

Novartis intends to use these core measures as important factors in assessing the Group s performance in conjunction with other performance metrics. The following are examples of how these core measures will be utilized:

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

- Annual budgets will be prepared for both IFRS and core measures starting in 2010.

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

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

CORE RESULTS

Reconciliation from IFRS results to core results **Full year 2009** (unaudited)

	IFRS results	Amortization of intangible assets(1)	Impairments(2)	Acquisition-related restructuring and integration items(3)	Exceptional items(4)	Core results
	USD m	USD m	USD m	USD m	USD m	USD m
Net sales to third parties	**44 267**					**44 267**
Other revenues	836				28	808
Cost of Goods Sold	12 179	**938**	**69**	**18**		**11 292**
Gross profit	**32 924**	**938**	**69**	**18**	**28**	**33 783**
Marketing & Sales	12 050					12 050
Research & Development	7 469	87	95			7 287
General & Administration	2 281					2 281
Other income	782				65	717
Other expense	1 924		49		430	1 445
Operating income	**9 982**	**1 025**	**75**	**18**	**337**	**11 437**
Income from associated companies	**293**	**569**	**92**		**97**	**1 051**
Financial income	**198**					**198**
Interest expense	**551**					**551**
Income before taxes	**9 922**	**1 594**	**167**	**18**	**434**	**12 135**
Taxes	**1 468**					**1 868(5)**
Net income	**8 454**					**10 267**
Basic EPS (USD)(6)	**3.70**					**4.50**
Diluted EPS (USD)(6)	**3.69**					**4.49**

(1) Amortization of intangible assets: Cost of Goods Sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; R&D includes the recurring amortization of acquired rights for core technology platforms; Income from associated companies includes the recurring amortization of the purchase price allocation related to intangible assets, primarily for the Roche and Alcon investments.

(2) Impairments: Cost of Goods Sold includes impairments of acquired rights to in-market products and other production-related impairment charges, including a partial reversal of USD 100 million in Pharmaceuticals for an impairment taken in 2007 for *Famvir*; R&D includes write-offs related to in-process R&D; Other expense includes impairments, primarily for financial assets; Income from associated companies reflects the USD 92 million impairment charge taken for an Alcon pharmaceutical development project.

(3) Acquisition-related restructuring and integration items: Cost of Goods Sold includes charges of USD 18 million related to the EBEWE Pharma specialty generics business acquisition.

(4) Exceptional items: Other revenues reflects a USD 28 million gain from a settlement in Vaccines and Diagnostics; Other income reflects divestments gains in Pharmaceuticals; Other expense includes an increase of USD 345 million in legal provisions principally for the *Trileptal* and *TOBI* US government investigations; Income from associated companies reflects a USD 97 million one-time charge for the Novartis share of Roche s restructuring charges for Genentech.

(5) Taxes on the adjustments between IFRS and core results take into account the tax rate applicable in the jurisdiction where the adjustment arises.

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

CORE RESULTS

Reconciliation of operating income to core operating income and net income **Full year** (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Corporate		Total	
	2009 USD m	2008 USD m	2009 USD m	2008 USD m	2009 USD m	2008 USD m	2009 USD m	2008 USD m	2009 USD m	2008 USD m	2009 USD m	2008 USD m
Operating income	**8 392**	**7 579**	**372**	**78**	**1 071**	**1 084**	**1 016**	**1 048**	**869**	**825**	**9 982**	**8 964**
Amortization of intangible assets	**366**	**414**	**312**	**318**	**260**	**284**	**84**	**77**	**3**	**2**	**1 025**	**1 095**
Impairments												
Intangible assets	11	320	18	1	6	23	13				26	344
Property, plant & equipment	4	13				2	5			1	9	16
Financial assets	37	53							3	37	40	90
Total impairment charges	**30**	**386**	**18**	**1**	**6**	**25**	**18**		**3**	**38**	**75**	**450**
Acquisition-related restructuring and integration items (including acquisition-related accounting impact of inventory adjustments), net		**6**		**11**	**18**						**18**	**17**
Exceptional items												
Exceptional gains from divesting brands, subsidiaries and financial investments	65	141									65	141
Other restructuring expenses		75			40						40	75
Legal provisions, litigations and exceptional settlements	345	79	17	49							362	30
Other product recall costs						28						28
Release of pre-launch inventory provisions		45										45
Release of US government rebate provisions		104										104
Change in contractual terms triggering revenue recognition				50								50
Total exceptional items	**280**	**136**	**17**	**99**	**40**	**28**					**337**	**207**
Total adjustments	**676**	**670**	**347**	**231**	**324**	**337**	**102**	**77**	**6**	**40**	**1 455**	**1 355**
											11	**10**
Core operating income	**9 068**	**8 249**	**719**	**309**	**1 395**	**1 421**	**1 118**	**1 125**	**863**	**785**	**437**	**319**
Core return on net sales	***31.8%***	***31.5%***	***29.7%***	***18.1%***	***18.6%***	***18.8%***	***19.2%***	***19.4%***			***25.8%***	***25.0%***
Income from associated companies	**14**				**7**	**4**			**300**	**437**	**293**	**441**
Recurring amortization, exceptional impairments and restructuring expenses related to income from associated companies, net of tax											**758**	**398**
Financial income											**198**	**384**
Interest expense											**551**	**290**
Taxes (adjusted for above items)											**1 868**	**1 751**
											10	
Core net income											**267**	**9 501**
Core net income attributable to shareholders											**10 213**	**9 463**

Core basic EPS (USD)	**4.50**	**4.18**

CORE RESULTS

Divisional income statement segmentation **Full year** (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Corporate		Total	
	2009 USD m	2008 USD m	2009 USD m	2008 USD m	2009 USD m	2008 USD m	2009 USD m	2008 USD m	2009 USD m	2008 USD m	2009 USD m	2008 USD m
	28	**26**									**44**	**41**
Net sales to third parties	**538**	**227**	**2 424**	**1 709**	**7 493**	**7 557**	**5 812**	**5 812**			**267**	**305**
Sales to other Divisions	175	198	46	20	264	270	44	53	529	541		
	28	**26**									**44**	**41**
Sales of Divisions	**713**	**425**	**2 470**	**1 729**	**7 757**	**7 827**	**5 856**	**5 865**	**529**	**541**	**267**	**305**
Other revenues	377	620	362	365	10	25	59	66			808	1 076
											11	**10**
Cost of Goods Sold	4 725	4 128	1 128	984	3 927	3 836	2 015	1 995	503	502	292	**441**
	24	**22**									**33**	**31**
Gross profit	**365**	**917**	**1 704**	**1 110**	**3 840**	**4 016**	**3 900**	**3 936**	**26**	**39**	**783**	**940**
											12	11
Marketing & Sales	8 369	8 109	297	247	1 330	1 413	2 054	2 083			050	852
Research & Development	5 715	5 335	465	327	603	643	345	312	159	159	7 287	6 776
General & Administration	870	843	176	177	385	408	376	383	474	434	2 281	2 245
Other income	349	261	27	38	105	62	72	111	164	168	717	640
Other expense	692	642	74	88	232	193	79	144	368	321	1 445	1 388
											11	**10**
Core operating income	**9 068**	**8 249**	**719**	**309**	**1 395**	**1 421**	**1 118**	**1 125**	**863**	**785**	**437**	**319**
Income from associated companies	14				**7**	**4**			**1 058**	**835**	**1 051**	**839**
Financial income											**198**	**384**
Interest expense											**551**	**290**
											12	**11**
Income before taxes											**135**	**252**
Taxes											**1 868**	**1 751**
											10	
Core net income											**267**	**9 501**
Core basic EPS (USD)											**4.50**	**4.18**

CORE RESULTS

Reconciliation from IFRS results to core results **Fourth quarter 2009** (unaudited)

	IFRS results	Amortization of intangible assets(1)	Impairments(2)	Acquisition-related restructuring and integration items(3)	Exceptional items(4)	Core results
	USD m	USD m	USD m	USD m	USD m	USD m
Net sales to third parties	**12 926**					**12 926**
Other revenues	219				28	191
Cost of Goods Sold	3 667	**246**	**86**	**18**		**3 489**
Gross profit	**9 478**	**246**	**86**	**18**	**28**	**9 628**
Marketing & Sales	3 476					3 476
Research & Development	2 148	19	47			2 082
General & Administration	692					692
Other income	361				65	296
Other expense	886		58		358	470
Operating income	**2 637**	**265**	**19**	**18**	**265**	**3 204**
Income from associated companies	**107**	**145**				**252**
Financial income	**104**					**104**
Interest expense	**156**					**156**
Income before taxes	**2 692**	**410**	**19**	**18**	**265**	**3 404**
Taxes	**369**					**512(5)**
Net income	**2 323**					**2 892**
Basic EPS (USD)(6)	**1.01**					**1.26**
Diluted EPS (USD)(6)	**1.01**					**1.26**

(1) Amortization of intangible assets: Cost of Goods Sold includes recurring amortization of acquired rights to in-market products and other production-related intangible assets; R&D includes the recurring amortization of acquired rights for core technology platforms; Income from associated companies includes the recurring amortization of the purchase price allocation related to intangible assets, primarily for the Roche and Alcon investments.

(2) Impairments: Cost of Goods Sold includes impairments of acquired rights to in-market products and other production-related impairment charges, including a partial reversal of USD 100 million in Pharmaceuticals for an impairment taken in 2007 for *Famvir*; R&D includes write-offs related to in-process R&D; Other expense includes impairments, primarily for financial assets.

(3) Acquisition-related restructuring and integration items: Cost of Goods Sold includes charges of USD 18 million related to the EBEWE Pharma specialty generics business acquisition.

(4) Exceptional items: Other revenues reflects a USD 28 million gain from a settlement in Vaccines and Diagnostics; Other income reflects divestments gains in Pharmaceuticals; Other expense includes an increase of USD 318 million in legal provisions principally for the *Trileptal* US government investigation and a USD 40 million one-time charge in Sandoz for German commercial operations restructuring.

(5) Taxes on the adjustments between IFRS and core results take into account the tax rate applicable in the jurisdiction where the adjustment arises.

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

CORE RESULTS

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

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Corporate		Total	
	Q4 2009 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m
Operating income	**1 906**	**1 562**	**583**	**26**	**221**	**200**	**207**	**190**	**280**	**298**	**2 637**	**1 680**
Amortization of intangible assets	**82**	**99**	**80**	**79**	**79**	**59**	**23**	**18**	**1**		**265**	**255**
Impairments												
Intangible assets	66	29	18		4	8	13				39	37
Property, plant & equipment	4	7			2	1	5	1		3	11	6
Financial assets	36	27							11	28	47	55
Total impairment charges	**26**	**63**	**18**		**2**	**9**	**18**	**1**	**11**	**25**	**19**	**98**
Acquisition-related restructuring and integration items (including acquisition-related accounting impact of inventory adjustments), net					**18**						**18**	
Exceptional items												
Exceptional gains from divesting brands, subsidiaries and financial investments	65										65	
Other restructuring expenses					40						40	
Legal provisions, litigations and exceptional settlements	318	79	28								290	79
Other product recall costs						28						28
Change in contractual terms triggering revenue recognition				50								50
Total exceptional items	**253**	**79**	**28**	**50**	**40**	**28**					**265**	**57**
Total adjustments	**309**	**241**	**70**	**29**	**135**	**96**	**41**	**19**	**12**	**25**	**567**	**410**
Core operating income	**2 215**	**1 803**	**653**	**55**	**356**	**296**	**248**	**209**	**268**	**273**	**3 204**	**2 090**
Core return on net sales	***28.5%***	***28.0%***	***47.1%***	***12.5%***	***16.6%***	***16.4%***	***15.3%***	***15.5%***			***24.8%***	***20.8%***
Income from associated companies	**8**				**2**				**113**	**97**	**107**	**97**
Recurring amortization, exceptional impairments and restructuring expenses related to income from associated companies, net of tax											**145**	**169**
Financial income											**104**	**58**
Interest expenses											**156**	**76**
											512	**371**

Taxes (adjusted for above items)		
Core net income	**2 892**	**1 967**
Core net income attributable to shareholders	**2 874**	**1 957**
Core basic EPS (USD)	**1.26**	**0.86**

CORE RESULTS

Divisional income statement segmentation **Fourth quarter** (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Corporate		Total	
	Q4 2009 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m	Q4 2009 USD m	Q4 2008 USD m
Net sales to third parties	**7 773**	**6 430**	**1 387**	**441**	**2 143**	**1 804**	**1 623**	**1 352**			**12 926**	**10 027**
Sales to other Divisions	38	39	20	11	74	62	13	12	145	124		
Sales of Divisions	**7 811**	**6 469**	**1 407**	**452**	**2 217**	**1 866**	**1 636**	**1 364**	**145**	**124**	**12 926**	**10 027**
Other revenues	93	160	80	86	2	8	16	17			191	271
Cost of Goods Sold	1 406	988	479	277	1 159	962	579	466	134	87	3 489	2 606
Gross profit	**6 498**	**5 641**	**1 008**	**261**	**1 060**	**912**	**1 073**	**915**	**11**	**37**	**9 628**	**7 692**
Marketing & Sales	2 356	2 141	109	47	396	345	615	521			3 476	3 054
Research & Development	1 592	1 427	174	82	173	160	101	80	42	21	2 082	1 770
General & Administration	261	248	61	66	109	98	120	105	141	112	692	629
Other income	104	107	6	11	86	30	29	41	71	5	296	194
Other expense	178	129	17	22	112	43	18	41	145	108	470	343
Core operating income	**2 215**	**1 803**	**653**	**55**	**356**	**296**	**248**	**209**	**268**	**273**	**3 204**	**2 090**
Income from associated companies	8				2				258	266	252	266
Financial income											104	58
Interest expense											156	76
Income before taxes											**3 404**	**2 338**
Taxes											512	371
Core net income											**2 892**	**1 967**
Core basic EPS (USD)											**1.26**	**0.86**

Supplementary tables: Full year 2009 Net sales of top 20 pharmaceutical products (unaudited)

Brands		US		Rest of world		Total		
		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	2 492	4	3 521	7	6 013	5	6
Gleevec/Glivec	Chronic myeloid leukemia	1 088	21	2 856	9	3 944	7	12
Zometa	Cancer complications	718	8	751	9	1 469	6	9
Femara	Breast cancer	572	18	694	14	1 266	12	16
Lucentis	Age-related macular degeneration			1 232	47	1 232	39	47
Sandostatin	Acromegaly	458	6	697	8	1 155	3	7
Exelon/Exelon Patch	Alzheimer s disease	362	30	592	18	954	17	22
Neoral/Sandimmun	Transplantation	90	8	829	0	919	4	1
Voltaren (Excl. OTC)	Inflammation/pain	5	0	792	1	797	2	1
Exforge	Hypertension	229	53	442	83	671	65	72
Top ten products total		**6 014**	**11**	**12 406**	**13**	**18 420**	**9**	**12**
Exjade	Iron chelator	247	16	405	34	652	23	27
Lescol	Cholesterol reduction	121	21	442	8	563	13	11
Comtan/Stalevo	Parkinson s disease	217	9	337	17	554	10	14
Reclast/Aclasta	Osteoporosis	328	84	144	97	472	86	88
Ritalin/Focalin	Attention Deficit/Hyperactivity Disorder	343	1	106	21	449	2	4
Tegretol	Epilepsy	91	38	284	1	375	17	13
Foradil	Asthma	14	0	343	3	357	8	3
Myfortic	Transplantation	135	42	218	22	353	22	28
Xolair	Asthma	90	181	248	45	338	60	65
Lotrel	Hypertension	322	17			322	17	17
Top 20 products total		**7 922**	**10**	**14 933**	**13**	**22 855**	**9**	**12**
Rest of portfolio		1 620	13	4 063	10	5 683	7	11
Total Division sales		**9 542**	**11**	**18 996**	**12**	**28 538**	**8**	**12**

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

Brands		US		Rest of world		Total		
		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	650	7	964	9	1 614	14	8
Gleevec/Glivec	Chronic myeloid leukemia	303	22	783	10	1 086	22	13
Zometa	Cancer complications	182	5	210	11	392	14	8
Femara	Breast cancer	150	22	191	10	341	22	15
Lucentis	Age-related macular degeneration			374	44	374	64	44
Sandostatin	Acromegaly	123	9	193	11	316	17	10
Exelon/Exelon Patch	Alzheimer s disease	99	27	168	12	267	28	18
Neoral/Sandimmun	Transplantation	24	20	220	2	244	12	4
Voltaren (Excl. OTC)	Inflammation/pain	2	100	218	7	220	16	8
Exforge	Hypertension	63	43	133	56	196	66	52
Top ten products total		**1 596**	**13**	**3 454**	**13**	**5 050**	**21**	**13**
Exjade	Iron chelator	68	10	115	25	183	26	18
Lescol	Cholesterol reduction	31	18	108	10	139	7	13
Comtan/Stalevo	Parkinson s disease	59	13	93	14	152	21	13
Reclast/Aclasta	Osteoporosis	100	69	47	54	147	73	65
Ritalin/Focalin	Attention Deficit/Hyperactivity Disorder	88	10	32	23	120	0	4
Tegretol	Epilepsy	18	44	74	3	92	5	12
Foradil	Asthma	4	33	89	6	93	15	6
Myfortic	Transplantation	36	44	61	16	97	37	24
Xolair	Asthma	34	325	86	69	120	118	100
Lotrel	Hypertension	78	13			78	13	13
Top 20 products total		**2 112**	**13**	**4 159**	**14**	**6 271**	**21**	**13**
Rest of portfolio		366	10	1 136	13	1 502	21	12
Total Division sales		**2 478**	**12**	**5 295**	**14**	**7 773**	**21**	**13**

Pharmaceutical net sales by therapeutic area **Full year** (unaudited)

	2009 USD m	2008 USD m	% change USD	% change lc
Cardiovascular and Metabolism				
Diovan	6 013	5 740	5	6
Exforge	671	406	65	72
Lotrel	322	386	17	17
Tekturna/Rasilez	290	144	101	104
Galvus	181	43	321	327
Total strategic franchise products	**7 477**	**6 719**	**11**	**13**
Mature products (including *Lescol*)	**1 319**	**1 464**	**10**	**7**
Total Cardiovascular and Metabolism products	**8 796**	**8 183**	**7**	**9**
Oncology				
Gleevec/Glivec	3 944	3 670	7	12
Zometa	1 469	1 382	6	9
Femara	1 266	1 129	12	16
Sandostatin	1 155	1 123	3	7
Exjade	652	531	23	27
Tasigna	212	89	138	145
Afinitor	70	1	NM	NM
Other	231	286	19	16
Total Oncology products	**8 999**	**8 211**	**10**	**14**
Neuroscience and Ophthalmics				
Lucentis	1 232	886	39	47
Exelon/Exelon Patch	954	815	17	22
Comtan/Stalevo	554	502	10	14
Ritalin/Focalin	449	440	2	4
Tegretol	375	451	17	13
Trileptal	295	332	11	7
Extavia	49		NM	NM
Other	649	775	16	12
Total strategic franchise products	**4 557**	**4 201**	**8**	**13**
Mature products	**384**	**404**	**5**	**1**
Total Neuroscience and Ophthalmics products	**4 941**	**4 605**	**7**	**12**
Respiratory				
Foradil	357	387	8	3
Xolair	338	211	60	65
TOBI	300	295	2	4
Other	104	104	0	7
Total strategic franchise products	**1 099**	**997**	**10**	**17**
Mature products	**88**	**87**	**1**	**2**
Total Respiratory products	**1 187**	**1 084**	**10**	**15**
Immunology and Infectious Diseases				
Neoral/Sandimmun	919	956	4	1
Reclast/Aclasta	472	254	86	88
Myfortic	353	290	22	28
Certican	118	95	24	31
Other	232	177	31	36
Total strategic franchise products	**2 094**	**1 772**	**18**	**22**
Mature products	**941**	**1 098**	**14**	**12**

Total Immunology and Infectious Diseases products	**3 035**	**2 870**	**6**	**9**
Additional products				
Voltaren (excluding OTC)	797	814	2	1
Enablex/Emselex	223	201	11	13
Everolimus sales to stent manufacturers	215		NM	NM
Other	345	363	5	4
Total additional products	**1 580**	**1 378**	**15**	**17**
Total strategic franchise products	**24 226**	**21 900**	**11**	**14**
Total mature and additional products	**4 312**	**4 431**	**3**	**0**
Total Division net sales(1)	**28 538**	**26 331**	**8**	**12**

NM Not meaningful

(1) Full-year net sales in 2008 include a one-time contribution of USD 104 million in the second quarter of 2008. These brand-specific provision reversals were made following a Novartis review of accounting for rebate programs to US government health agencies. Individual brand sales may include contributions from the reversal of these provisions.

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

	Q4 2009 USD m	Q4 2008 USD m	% change USD	% change lc
Cardiovascular and Metabolism				
Diovan	1 614	1 419	14	8
Exforge	196	118	66	52
Lotrel	78	90	13	13
Tekturna/Rasilez	88	46	91	84
Galvus	66	17	288	211
Total strategic franchise products	**2 042**	**1 690**	**21**	**14**
Mature products (including *Lescol*)	**322**	**328**	**2**	**9**
Total Cardiovascular and Metabolism products	**2 364**	**2 018**	**17**	**10**
Oncology				
Gleevec/Glivec	1 086	890	22	13
Zometa	392	345	14	8
Femara	341	279	22	15
Sandostatin	316	271	17	10
Exjade	183	145	26	18
Tasigna	68	32	113	101
Afinitor	32	1	NM	NM
Other	51	68	25	31
Total Oncology products	**2 469**	**2 031**	**22**	**14**
Neuroscience and Ophthalmics				
Lucentis	374	228	64	44
Exelon/Exelon Patch	267	209	28	18
Comtan/Stalevo	152	126	21	13
Ritalin/Focalin	120	120	0	4
Tegretol	92	97	5	12
Trileptal	68	73	7	13
Extavia	23		NM	NM
Other	165	162	2	6
Total strategic franchise products	**1 261**	**1 015**	**24**	**14**
Mature products	**98**	**91**	**8**	**3**
Total Neuroscience and Ophthalmics products	**1 359**	**1 106**	**23**	**13**
Respiratory				
Xolair	120	55	118	100
Foradil	93	81	15	6
TOBI	81	76	7	4
Other	34	27	26	8
Total strategic franchise products	**328**	**239**	**37**	**27**
Mature products	**23**	**21**	**10**	**1**
Total Respiratory products	**351**	**260**	**35**	**25**
Immunology and Infectious Diseases				
Neoral/Sandimmun	244	218	12	4
Reclast/Aclasta	147	85	73	65
Myfortic	97	71	37	24
Certican	36	23	57	39
Other	71	48	48	39
Total strategic franchise products	**595**	**445**	**34**	**25**
Mature products	**234**	**245**	**4**	**10**

Total Immunology and Infectious Diseases products	**829**	**690**	**20**	**12**
Additional products				
Voltaren (excluding OTC)	220	190	16	8
Enablex/Emselex	59	52	13	14
Everolimus sales to stent manufacturers	32		NM	NM
Other	90	83	8	2
Total additional products	**401**	**325**	**23**	**14**
Total strategic franchise products	**6 695**	**5 420**	**24**	**16**
Total mature and additional products	**1 078**	**1 010**	**7**	**1**
Total Division net sales	**7 773**	**6 430**	**21**	**13**

NM Not meaningful

Net sales by region(1) (unaudited)

Full year

	2009 USD m	2008 USD m	% change USD	% change local currencies	2009 % of total	2008 % of total
Pharmaceuticals						
US	9 542	8 616	11	11	33	33
Europe	10 467	10 138	3	12	37	38
Asia / Africa / Australasia	6 079	5 231	16	13	21	20
Canada and Latin America	2 450	2 346	4	13	9	9
Total	**28 538**	**26 331**	**8**	**12**	**100**	**100**
Vaccines and Diagnostics						
US	973	765	27	27	40	43
Europe	1 083	683	59	60	45	39
Asia / Africa / Australasia	303	281	8	9	12	16
Canada and Latin America	65	30	117	138	3	2
Total	**2 424**	**1 759**	**38**	**39**	**100**	**100**
Sandoz						
US	1 847	1 766	5	5	25	24
Europe	4 271	4 481	5	4	57	59
Asia / Africa / Australasia	820	764	7	11	11	10
Canada and Latin America	555	546	2	10	7	7
Total	**7 493**	**7 557**	**1**	**5**	**100**	**100**
Consumer Health						
US	1 892	1 714	10	10	33	29
Europe	2 541	2 732	7	2	44	47
Asia / Africa / Australasia	883	863	2	2	15	15
Canada and Latin America	496	503	1	7	8	9
Total	**5 812**	**5 812**	**0**	**5**	**100**	**100**
Group						
US	14 254	12 861	11	11	32	31
Europe	18 362	18 034	2	10	42	44
Asia / Africa / Australasia	8 085	7 139	13	11	18	17
Canada and Latin America	3 566	3 425	4	13	8	8
Total	**44 267**	**41 459**	**7**	**11**	**100**	**100**

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

Net sales by region(1) (unaudited)

Fourth quarter

	Q4 2009 USD m	Q4 2008 USD m	% change USD	% change local currencies	Q4 2009 % of total	Q4 2008 % of total
Pharmaceuticals						
US	2 478	2 210	12	12	32	34
Europe	2 909	2 317	26	14	37	36
Asia / Africa / Australasia	1 696	1 348	26	15	22	21
Canada and Latin America	690	555	24	9	9	9
Total	**7 773**	**6 430**	**21**	**13**	**100**	**100**
Vaccines and Diagnostics						
US	591	181	227	229	43	37
Europe	647	199	225	192	47	41
Asia / Africa / Australasia	127	105	21	6	9	21
Canada and Latin America	22	6	267	250	1	1
Total	**1 387**	**491**	**183**	**166**	**100**	**100**
Sandoz						
US	536	439	22	21	25	24
Europe	1 196	1 044	15	4	56	58
Asia / Africa / Australasia	245	192	28	13	11	11
Canada and Latin America	166	129	29	14	8	7
Total	**2 143**	**1 804**	**19**	**10**	**100**	**100**
Consumer Health						
US	563	434	30	30	35	32
Europe	675	594	14	5	41	44
Asia / Africa / Australasia	239	202	18	5	15	15
Canada and Latin America	146	122	20	7	9	9
Total	**1 623**	**1 352**	**20**	**13**	**100**	**100**
Group						
US	4 168	3 264	28	27	32	32
Europe	5 427	4 154	31	18	42	41
Asia / Africa / Australasia	2 307	1 847	25	13	18	19
Canada and Latin America	1 024	812	26	11	8	8
Total	**12 926**	**10 077**	**28**	**20**	**100**	**100**

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

Quarterly analysis (unaudited)

Key figures by quarter

	Q4 2009 USD m	Q3 2009 USD m	Change USD m	Change %
Net sales	**12 926**	11 086	1 840	17
Operating income	**2 637**	2 634	3	0
Financial income	**104**	51	53	104
Interest expense	**156**	173	17	10
Taxes	**369**	379	10	3
Net income	**2 323**	2 112	211	10

Net sales by region

	Q4 2009 USD m	Q3 2009 USD m	Change USD m	Change %
US	**4 168**	3 508	660	19
Europe	**5 427**	4 607	820	18
Asia / Africa / Australasia	**2 307**	2 038	269	13
Canada and Latin America	**1 024**	933	91	10
Total	**12 926**	11 086	1 840	17

Net sales by division

	Q4 2009 USD m	Q3 2009 USD m	Change USD m	Change %
Pharmaceuticals	**7 773**	7 217	556	8
Vaccines and Diagnostics	**1 387**	543	844	155
Sandoz	**2 143**	1 850	293	16
Consumer Health	**1 623**	1 476	147	10
Total	**12 926**	11 086	1 840	17

Core operating income by division

	Q4 2009 USD m	Q3 2009 USD m	Change USD m	Change %
Pharmaceuticals	**2 215**	2 364	149	6
Vaccines and Diagnostics	**653**	102	551	NM
Sandoz	**356**	385	29	8
Consumer Health	**248**	323	75	23
Corporate Income & Expense, net	**268**	215	53	25
Core operating income	**3 204**	2 959	245	8

NM Not meaningful

SIGNATURES

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

Novartis AG

Date: January 26, 2010

By: /s/ MALCOLM B. CHEETHAM

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