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FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

THE SECURITIES EXCHANGE ACT OF 1934

Report on Form 6-K dated October 21, 2010

(Commission File No. 1-15024)

Novartis AG

(Name of Registrant)

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Switzerland

(Address of Principal Executive Offices)

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

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Novartis delivers excellent performance in third quarter: recently launched products generate 20%* of sales; Gilenya approved; Alcon consolidated

Key figures – third quarter and nine months to September 30

	Q3 2010 USD m	Q3 2009 USD m	% change USD	cc	9M 2010 USD m	9M 2009 USD m	% change USD	cc
Net sales	12 578	11 086	13	16	36 425	31 341	16	15
Operating income	2 587	2 634	-2	3	9 059	7 345	23	23
Net income	2 319	2 112	10	14	7 704	6 131	26	24
EPS (USD)	0.99	0.93	6	12	3.34	2.69	24	22
Free cash flow (before dividends)	2 895	2 675	8		8 166	6 097	34	
Core								
Operating income	3 699	2 959	25	29	10 840	8 233	32	31
Net income	3 146	2 679	17	21	9 226	7 375	25	24
EPS (USD)	1.36	1.17	16	19	4.00	3.24	23	22

•Strong financial performance in the third quarter and for nine months

- Net sales up 13% (+16% in constant currencies, or cc) to USD 12.6 billion; nine months net sales up 16% (+15% cc)
- Operating income fell 2% (+3% cc) to USD 2.6 billion including impairment and acquisition charges of USD 794 million; nine months operating income up 23% (23% cc)
- Core operating income up 25% (+29% cc) to USD 3.7 billion; Core operating income margin 29.4% of net sales; nine months core operating income up 32% (+31 % cc)

- Core EPS improves 16% (+19% cc) to USD 1.36; nine months core EPS up 23% (+22% cc); third quarter EPS up 6% (+12% cc) to USD 0.99; nine months EPS +24% (+22% cc)

    - Free cash flow before dividends of USD 2.9 billion, nine months free cash flow USD 8.2 billion

• New product and pipeline momentum strengthens growth prospects

- Group's recently launched products contribute 20%* of net sales (USD 2.3 billion) with 42% growth over the previous year

- Significant innovation momentum underpinned by FDA approval of Gilenya as first-in-class novel therapy for relapsing multiple sclerosis; Tasigna received positive CHMP opinion and approval in Switzerland as first-line therapy; positive Phase III trial data for Onbrez over salmeterol and positive Phase III data for MenB

- Sandoz launches enoxaparin outpacing all recent injectables launches in the US; achieves enoxaparin sales of USD 292 million

See page 49 for further information and definition of core results
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*All figures with an asterisk are excluding Alcon

Basel, October 21, 2010 — Commenting on the results, Joseph Jimenez, CEO of Novartis, said:
“I am pleased with our excellent performance in the third quarter. Our innovation momentum and strong execution once more drove strong sales and core operating income growth. Approvals such as Gilenya, a breakthrough first-line oral treatment for multiple sclerosis, and Tasigna, a new first-line treatment for chronic myeloid leukemia, have the potential to change patients’ lives. Data on new medicines such as MenB, our meningococcal vaccine candidate, give me confidence that our pipeline will continue to deliver”.

GROUP REVIEW

Third quarter
Net sales rose 13% (+16% cc) to USD 12.6 billion with strong contributions from all businesses. Currency movements depressed the result by 3 percentage points. Rapid growth of recently launched products across the Group generated USD 2.3 billion in sales, representing 20%* of total sales. Acquisitions contributed 6 percentage points to growth, mainly driven by Alcon, Inc. (Alcon) sales of USD 617 million. Volumes grew by 11 percentage points offset by a negative price effect of 1 percentage point.

Pharmaceuticals (USD 7.6 billion, +6% cc) maintained solid volume growth of 7%. Recently launched products contributed USD 1.7 billion in sales, or 22% of overall sales, representing a 30% (+34% cc) growth over the previous year. Vaccines and Diagnostics net sales were USD 0.6 billion (+21% cc) on a strong start to the flu season. Sandoz (USD 2.2 billion, +23% cc) accelerated its growth from new product launches, particularly enoxaparin, and continued strong results from the US, Canada, Russia, Italy and biosimilars. All Consumer Health businesses (USD 1.6 billion, +9% cc) had good performances and grew ahead of their markets.

Operating income decreased 2% (+3% cc) to USD 2.6 billion. Included in operating income are intangible asset impairment charges of USD 593 million in R&D expense, principally due to the termination of two development projects, and Alcon related charges of USD 217 million. Currency movements, particularly the strengthening Swiss franc, which increases costs, reduced operating income by 5 percentage points.

Core operating income, which excludes exceptional items and amortization of intangible assets, rose 25% (+29% cc) to USD 3.7 billion with Alcon contributing 7 percentage points. Performance was strong across all divisions: Pharmaceuticals grew core operating income by 9%; Vaccines and Diagnostics by 24%; Sandoz by 28%; and Consumer Health by 27%. Core operating income margin improved by 2.7 percentage points to 29.4% of net sales.

Net income increased by 10% (+14% cc) to USD 2.3 billion, primarily benefitting from a gain on the revaluation of the initial 25% stake in Alcon of USD 204 million and the impact of exceptional charges made against associated companies in 2009. Earnings per share (EPS) increased by 6% (+12% cc) to USD 0.99 from USD 0.93 in the 2009 period. EPS grew at a lower rate than net income as net income includes 100% of Alcon’s results since change of majority ownership whereas EPS only recognizes the 77% share attributable to Novartis shareholders. Core net income increased by 17% (+21% cc) to USD 3.1 billion, while core EPS was up 16% (+19% cc) in the third quarter to USD 1.36 from USD 1.17 in the year-ago period.

The acquisition of an additional 52% of Alcon was completed on August 25 and Alcon has been consolidated thereafter. Sales of USD 617 million have been included in the third quarter; operating income (including one time acquisition effects; see page 18 for details) was USD 101 million and core operating income was USD 222 million. In addition, costs relating to the acquisition of Alcon totaling USD 96 million, have been charged to the Corporate segment resulting in a net contribution to operating income of USD 5 million. Excluding Alcon Group sales grew by 8% (10% cc), operating income declined 2% (+3% cc) and core operating income increased by 18% (22% cc). Core operating income margin was 29.1%, an improvement of 2.4 percentage points over 2009.

Nine months to September 30
Net sales were up 16% (+15% cc) to USD 36.4 billion with strong improvements across all businesses. Recently launched products provided USD 7.9 billion (USD 4.3 billion in the previous year-period), contributing 22%* of total sales. Volumes grew by 13 percentage points and price contributed a negative 1 percentage point for the nine months period. Acquisitions contributed 3 percentage points to growth, mainly driven by Alcon sales of USD 617 million.

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Pharmaceuticals (USD 22.5 billion, +7% cc) maintained strong volume growth of 8 percentage points for the nine months period. Recently launched products contributed USD 4.7 billion in sales, or 21% of overall sales compared to 16% in the previous year. Vaccines and Diagnostics grew strongly to USD 2.6 billion (+151% cc) mainly through A(H1N1) pandemic flu vaccine sales of USD 1.3 billion in the first half of the year. Sandoz (USD 6.2 billion, +15% cc) realized double-digit growth versus the prior year supported by strong growth in the US, Canada, Italy, and in emerging markets. Consumer Health businesses grew 9% (8% cc) to USD 4.6 billion through delivering solid growth ahead of its respective markets.

Operating income rose 23% (+23% cc) to USD 9.1 billion on the volume-driven sales expansion and by contributions of A(H1N1) pandemic flu vaccines. Included in operating income are exceptional charges, including intangible asset impairments charged to R&D (USD 762 million) and legal settlements (USD 237 million), offset by a pension gain of USD 265 million. Operating income margin improved 1.5 percentage points to 24.9% of net sales from 23.4% in the 2009 period.

Core operating income, which excludes exceptional items and amortization of intangible assets in both periods, rose 32% to USD 10.8 billion, with Alcon contributing 3 percentage points, and the core operating income margin rose 3.5 percentage points to 29.8% of net sales from 26.3% in the previous year.

Net income advanced 26% (+24% cc) to USD 7.7 billion ahead of operating income growth. Earnings per share (EPS) rose largely in line with net income to USD 3.34 from USD 2.69 in the 2009 period. Core net income grew 25% (+24% cc) to USD 9.2 billion, while core EPS was up 23% (+22% cc) in the first nine months to USD 4.00 from USD 3.24 in the year-ago period.

Excluding Alcon sales grew for the nine months by 14% (+13% cc), operating income by 23% (+23% cc) and core operating income by 29% (+28% cc).

Delivering innovation, growth and productivity
The success of Novartis is driven by a commitment to three strategic priorities: (1) extending our lead in innovation through the research and development of differentiated new medicines, vaccines and diagnostics; (2) accelerating growth across all divisions by broadening our product portfolios with new launches and increasing our presence in new markets; and (3) improving profitability through productivity by streamlining and simplifying our processes. Our above-market growth in the third quarter demonstrates that, despite challenges and volatility in the external environment, we are delivering on these goals.

Extending our lead in innovation
At Novartis, innovation is the core strategic focus and we continue to follow the science. We are continuing to invest in R&D for the long-term health of our pipeline: our investment in R&D is 16% of Group sales (20% of Pharmaceuticals sales), excluding impairment charges, well ahead of other companies, many of which are reducing their investment in R&D.

This sustained commitment to innovation is delivering differentiated pharmaceuticals, vaccines and new medicines for patients. We have made major progress with both new product approvals and additions to our marketed portfolio in the third quarter, with approvals or positive recommendations for key products like Gilenya, Tasigna, Tekamlo, TOBI Podhaler, enoxaparin and Aflunov, as well as significant Phase III data on Onbrez and MenB. We continue to rejuvenate our portfolio across divisions and disease areas. This demonstrates the breadth and depth of the Novartis portfolio and our non-dependence on single products or trials to support future growth.

In a significant breakthrough for patients suffering from multiple sclerosis (MS), Novartis gained US and Russian regulatory approval in the third quarter for Gilenya (FTY720), an effective, first-line oral treatment for relapsing multiple sclerosis, the most common form of the disease. MS is a life-long debilitating disease affecting 2.1 million

patients worldwide. The approval of Gilenya gives patients a new and convenient treatment option that has shown significant efficacy in reducing symptoms and preventing relapses.

Our oncology franchise continues to expand its portfolio, as Tasigna (an improved therapy over Glivec) has received recommendation for approval in the EU and approval in Switzerland as a first-line treatment for patients with Philadelphia chromosome-positive chronic myeloid leukemia (Ph+ CML), a form of blood cancer. Tasigna is already available as a first line treatment for Ph+ CML in the US. In addition, results from Phase I//II studies of the Novartis Janus kinase (JAK) inhibitor, with the investigational name INC424, indicate that it has significant benefits in treating myelofibrosis, a life-threatening type of blood cancer characterized by bone marrow failure and debilitating symptoms. Both the FDA and the EMA have granted INC424 orphan status in treating myelofibrosis.

Novartis has several other drugs in its pipeline that have promise for patients with unmet needs. SOM230 became the first medical therapy to show efficacy in treating Cushing's disease in a Phase III trial. Cushing's disease is a debilitating hormonal disorder for which there are currently no approved medicines. In another Phase III study, Onbrez Breezhaler was shown to be significantly better in the treatment of chronic obstructive pulmonary disease (COPD) than salmeterol, one of the current mainstays of treatment. Onbrez Breezhaler is already approved in more than 40 countries, including the European Union. The Phase III study evaluating AIN457 for non-infectious uveitis in patients with Behcet’s disease did not meet its primary endpoint and the data do not support submission of AIN457 for this indication. We will continue to explore AIN457 in other indications.

Our Vaccines & Diagnostics Division published a Phase III study in the third quarter demonstrating that the vaccine MenB has the potential to fill a long-recognized global unmet need for a broad-coverage vaccine against the B serogroup of meningococcal meningitis (MenB), a deadly disease that often occurs in infants. Novartis is on track to file by the end of 2010 for MenB in Europe.

Sandoz achieved a significant milestone in the third quarter, winning approval of enoxaparin, the first generic version of the blockbuster anti-thrombotic Lovenox®. Enoxaparin, an injectable, was launched immediately following approval. The successful development and launch of this first-to-market generic shows the ability of Sandoz to broaden its portfolio with complex new differentiated products.

Accelerating growth
New and recently launched products were a key driver of overall growth in the third quarter providing USD 2.3 billion of net sales in the 2010 period, representing 20%* of net sales compared to 15% in the 2009 quarter. For the first nine months, recently launched products generated USD 7.9 billion of net sales, representing 22%* of net sales compared to 14% in the previous year. Pharmaceuticals recently launched products were up 34% cc contributing 22% of total sales in the third quarter. Sandoz has also been very strong in optimizing new launches: US retail generics and biosimilars (+76% cc) delivered excellent growth due to successful first-to-market launches including enoxaparin, tacrolimus and losartan. Our ability to execute successful, large-scale launches quickly after regulatory approval is critical to meeting the diverse needs of a global patient population.

Gilenya (FTY720), the breakthrough oral treatment for relapsing forms of multiple sclerosis (MS), was launched in the United States in early October. Gilenya offers MS patients for the first time a safe and effective oral first-line treatment option and will make a significant difference in the quality of life of many MS patients. Oncology has continued to build momentum since the launch of Afinitor (achieving sales of USD 67 million in the third quarter) for the treatment of patients with renal cell carcinoma (RCC), with promising data in the treatment of pancreatic tumors, as well as subependymal giant cell astrocytomas (SEGA) tumors in patients with tuberous sclerosis, which was filed in the EU and the US. In the third quarter, in the cardiovascular and metabolism franchise, Diovan (+2% cc) continued to perform very well despite competition from generic Cozaar® in the US and Europe. Tekturna (+42% cc) continued to grow strongly and Exforge (+33% cc) also had strong growth in all global markets. Galvus (+114% cc) sales grew strongly in the third quarter. In Europe, Galvus is outpacing the overall dipeptidyl peptidase 4 (DPP-4) market.

Sandoz achieved strong overall sales growth of 18% (+23 % cc) in the third quarter versus the same period in 2009, driven by strong performance in North America, Europe, emerging markets and biosimilars. Much of this growth was driven by the success Sandoz has had in gaining market share in injectables and biosimilars. Newly launched products, such as enoxaparin, losartan, and tacrolimus, have been key in driving year-to-date growth. Of particular note is the third quarter launch of enoxaparin, the first-to-market generic version of the anti-thrombotic drug Lovenox®, which was the most successful injectables launch in the US ever. The continued strong growth in biosimilars was led by products such as Omnitrope, which has made steady gains against originator growth hormone deficiency treatments, as well as the launches of oncology indications of Binocrit (epoetin alfa) and Zarzio (filgrastim), setting the stage for further expansion of Sandoz's position as the biosimilars market leader.

Menveo, a breakthrough vaccine for meningococcal disease, has been launched in the US, EU and select other countries in Latin America and Asia-Pacific. Menveo is an important tool in the prevention of meningitis, a potentially deadly disease affecting almost half a million people annually. Potential indication expansions are on track and are expected to help strengthen the brand even further.

The Novartis Consumer Health medicine Prevacid24HR, an over-the-counter treatment for heartburn, continued to establish itself with a market share of 20% in the fast-growing proton pump inhibitors (PPI) market segment which has grown 35% year-to-date. Another Novartis Consumer Health treatment, Voltaren, used for joint and muscle pain, is now the number one self-medication brand in Germany, and grew by nearly 12% in the third quarter. CIBA Vision also continued to grow in its AirOptix contact lens brand.

Broadening our presence in emerging markets is a key element of our growth strategy. In the third quarter, we continued to serve more patients and customers in these markets, growing as a Group by 13%* over the previous year period. Our growth rates in the top six emerging markets, which includes China, Russia, Brazil, India, South Korea and Turkey, remained also solid at 13%*. Sandoz achieved especially strong results in emerging markets, increasing its geographic footprint with double-digit growth in the emerging market regions of Central and Eastern Europe, Asia-Pacific and the Middle East and Africa.

Driving productivity

Productivity is an essential component of performance. All parts of the business have extensive productivity programs to generate operating leverage. This provides the foundation for improved profitability while enabling investment for the future. Sustained growth cannot come without investment.

For the nine months period, core operating income margin increased 3.5 percentage points to 29.8%. Sales of A(H1N1) pandemic flu vaccines contributed approximately 2.1 percentage points of improvement, although most of this benefit will erode in the fourth quarter given the size of A(H1N1) sales in the fourth quarter of 2009.

Of the remaining core operating income margin improvement of 1.4 percentage points, Cost of Goods Sold were negative 0.8 percentage points and productivity programs generated 2.5 percentage points, of which approximately 0.9 percentage points was reinvested. The key contributions to productivity were purchasing savings with an increasing portion of purchasing now being done through global cross-divisional programs and e-sourcing, and the continued trending down of sales and marketing costs.
For the third quarter, core operating income margin grew by 2.7 percentage points with no distortion from A(H1N1) pandemic flu vaccines. Cost of Goods Sold absorbed 0.6 percentage points, other income and expenses were positive 1.4 percentage points, while productivity programs generated 3.1 percentage points, with approximately 1.7 percentage points being reinvested.

Alcon, Inc.
In the third quarter, Novartis completed its purchase of an additional 52% of Alcon from Nestlé resulting in 77% ownership of Alcon establishing Novartis' position as the global leader in eye care. Alcon strategically complements Novartis' portfolio, adding a world class, dynamic eye care business to its Pharmaceuticals, Vaccines and Diagnostics, Sandoz generics and Consumer Health divisions.

Opportunities for collaboration are now being explored, although any implementation will recognize the arm's-length principle. These may include utilizing the companies' complementary field forces around the potential launch of Lucentis for diabetic macular edema (DME). In addition, joint sourcing and procurement programs could leverage the combined purchasing volume of both companies. Other potential opportunities include optimization of lens care manufacturing and research collaborations.

Cash flow and net indebtedness

The sustainability of our strategy lies with the generation of cash flow that provides the resources for reinvestment and creates shareholder return. Free cash flow before dividends generated in the third quarter totaled USD 2.9 billion, an increase of 8% over the previous year, and for the nine months amounted to USD 8.2 billion, rising 34% over the previous year.

Cash flow continues to be driven by a continued focus on the cash conversion cycle and operational cash flow improvements. Cash flow from operating activities remained flat at USD 3.2 billion in the third quarter (25.7% of net sales), and in the nine months period increased to USD 9.5 billion (26.1% of net sales).

Following completion of the acquisition of 52% of Alcon on August 25 for USD 28.3 billion, the company has gone from a net cash position to a net debt position. As of September 30, net debt stood at USD 19.0 billion. The long-term portion of the Alcon financing was put in place in 2008, 2009 and the first quarter of 2010 (with maturities spanning 3 to 10 years), with the final amount of approximately USD 8.2 billion being financed through an expanded US commercial paper program. The commercial paper financing recognizes both attractive funding rates and the strong cash generation of the business, allowing fast repayment of the commercial papers. As of September 30, USD 7.5 billion was outstanding on the US commercial paper program. The long-term credit rating for the company continues to be AA (Standard & Poor’s AA-; Moody’s Aa2).

2010 outlook

(Barring unforeseen events)

At the half-year stage we raised our sales guidance to mid- to high-single-digit in constant currency, excluding Alcon. For the full year, Group sales will include four months of Alcon and this is expected to take constant currency sales growth into the low- to mid-teens. Excluding Alcon, we maintain our previous guidance. The fourth quarter of 2009 includes A(H1N1) pandemic flu vaccine sales totaling USD 1.0 billion, which will not recur in 2010.

Group and core operating income margins are both expected to increase for the full year in 2010 as a result of business growth and the net benefit of productivity gains after reinvestments. The inclusion of Alcon is expected to be slightly negative to operating income margin and slightly positive to core operating income margin.

For the nine months, the impact of 2010 exchange rates on reported sales and operating income was broadly neutral. In the third quarter, however, the impact was negative 3 percentage points on sales and negative 5 percentage points on operating income. During the third quarter, the US dollar weakened against most currencies, although it remains relatively strong against the euro. As a result, if current exchange rates prevail for the remainder of the year, the impact on sales and operating income for the year as a whole should remain broadly neutral.

HEALTHCARE BUSINESS REVIEW

Pharmaceuticals

	Q3 2010 USD m	Q3 2009 USD m	% change USD	cc	9M 2010 USD m	9M 2009 USD m	% change USD	cc
Net sales	7 565	7 217	5	6	22 526	20 765	8	7
Operating income	1 844	2 211	-17	-12	6 508	6 486	0	0
As % of net sales	24.4	30.6			28.9	31.2		
Core operating income	2 568	2 364	9	12	7 635	6 853	11	10
As % of net sales	33.9	32.8			33.9	33.0		

Third quarter

Net sales
Net sales grew 6% in constant currencies to USD 7.6 billion driven by 7 percentage points volume expansion, partly offset by government cost-containment measures in Europe and the bi-annual price cut in Japan. Recently launched products provided USD 1.7 billion of net sales in the 2010 period, growing 34% cc over the same period last year. Products launched since 2007 – which include Lucentis, Exforge, Exelon Patch, Exjade, Reclast/Aclasta, Tekturna/Rasilez, Tasigna, Afinitor, Onbrez Breezhaler, Ilaris and Fanapt – now comprise 22% of division sales compared to 18% in the 2009 quarter.

Portfolio rejuvenation benefited all regions, particularly Europe (USD 2.6 billion, +6% cc), generating 29% of its net sales from recently launched products. Volume growth in Europe was 12 percentage points with a negative price effect of 6 percentage points due to recent government cost-containment measures. The US (USD 2.6 billion, +6% cc), as well as Latin America and Canada (USD 0.8 billion, +16% cc), maintained solid growth rates. Japan's performance (USD 0.8 billion, -3% cc) was impacted by the bi-annual price cuts and the angiotensin II receptor blocker (ARB) market slowdown. The six top emerging markets (USD 710 million, +7% cc) were led by particularly strong growth in India (+26% cc) and Russia (+20% cc).

All strategic products contributed to the business expansion. Oncology (USD 2.5 billion, +9% cc), the largest franchise, was led by sustained growth of Gleevec/Glivec (USD 1.0 billion, +6% cc), Femara (USD 343 million, +6% cc), and Sandostatin (USD 318 million, +8% cc). Recently launched products made important contributions: Tasigna (USD 109 million, +97% cc), Afinitor (USD 67 million), Exjade (USD 182 million, +7% cc). Cardiovascular and Metabolism (USD 2.0 billion, +10% cc) maintained strong momentum supported by Exforge (USD 222 million, +33% cc), Tekturna (USD 113 million, +42% cc) and Galvus (USD 101 million, +114% cc). Diovan sales (USD 1.5 billion, +2% cc) also held up well, despite Cozaar® generic entry in the US and the ARB market slowdown in Japan. Neuroscience and Ophthalmics (USD 0.9 billion, +13% cc) saw rapid growth from Lucentis (USD 398 million, +22% cc) and Extavia (USD 26 million, +102% cc).

Operating income
Operating income decreased 12% in constant currencies (-17% in USD) to USD 1.8 billion. The operating income margin of 24.4% of net sales declined 6.2 percentage points, primarily impacted by intangible asset impairment charges for Albuferon and Mycograb totalling USD 584 million (Albuferon: USD 228 million, Mycograb: USD 356 million).

Core operating income grew 12% in constant currencies (+9% in USD) ahead of sales to USD 2.6 billion. The core operating income margin of 33.9% of net sales increased 1.1 percentage points compared to the same period in 2009. Cost of Goods Sold improved 0.5 percentage points driven by productivity gains partly offset by higher royalties. R&D increased 0.3 percentage points, mainly driven by phasing of clinical trial activities. Marketing & Sales expenses improved by 0.5 percentage points and is now 27.3% of net sales benefiting from continuing productivity efforts, while General & Administration expenses remained stable. Other Income and Expense improved by 0.5 percentage points mainly due to one-time expenses in the same period last year.

Nine months to September 30

Net sales
Net sales expanded 7% in constant currencies to USD 22.5 billion driven by 8 percentage points of volume expansion partially offset by 1 percentage point of negative price. Products launched since 2007 provided USD 4.7 billion of net sales in the 2010 period, representing 21% of net sales compared to 16% in the 2009 period (+43% cc).

Europe remained the largest region (USD 8.0 billion, +8% cc) particularly benefiting from recently launched products generating 27% of net sales. While volumes in Europe grew 12 percentage points, reported sales were affected by price erosion of 4 percentage points. The US (USD 7.5 billion, +6% cc) maintained solid growth rates, as did Latin America and Canada (USD 2.1 billion, +14% cc). Japan's performance (USD 2.4 billion) was in line with prior year despite the bi-annual price cuts and the ARB market slowdown. Top six emerging markets realized double-digit growth with the exception of Turkey, which was impacted by cost-containment measures.

Operating income
Operating income growth was flat compared to the prior year (USD 6.5 billion). The operating income margin of 28.9% of net sales was impacted by R&D impairment charges consisting mainly of Albuferon, Mycograb and PTZ601 totalling USD 736 million and litigation charges of USD 178 million, partly offset by the Famvir settlement with Teva.

Core operating income grew 10% in constant currencies (+11% in USD) ahead of sales to USD 7.6 billion. The core operating income margin of 33.9% of net sales improved by 0.9 percentage points. Other revenues decreased 0.1 percentage points and Cost of Goods Sold increased 0.4 percentage points, mainly driven by higher royalties. R&D improved 0.3 percentage points, mainly driven by phasing of clinical trial activities. Marketing & Sales and General & Administration expenses improved by a total of 1.2 percentage points benefiting from continuing productivity efforts. Other Income and Expense remained broadly stable (-0.1 percentage points) compared to the same period last year.

Pharmaceuticals product review

Cardiovascular and Metabolism

	Q3 2010 USD m	Q3 2009 USD m	% change USD	cc	9M 2010 USD m	9M 2009 USD m	% change USD	cc
Hypertension medicines								
Diovan	1 483	1 464	1	2	4 477	4 399	2	1
Exforge	222	171	30	33	653	475	37	37
Tekturna/Rasilez	113	83	36	42	305	202	51	53
Subtotal	1 818	1 718	6	7	5 435	5 076	7	6
Galvus	101	50	102	114	267	115	132	136
Lotrel	80	75	7	4	224	244	-8	-9
Total strategic products	1 999	1 843	8	10	5 926	5 435	9	8
Established medicines	264	320	-18	-17	836	997	-16	-17
Total	2 263	2 163	5	6	6 762	6 432	5	4

All comments below focus on third quarter movements.

Our broad cardiovascular and metabolic portfolio continues to grow steadily with overall sales growth of 6% versus previous year. Within hypertension, Novartis continues to drive sales as the valsartan group of products shows consistent worldwide growth, reaching a market share of 15.7% of the hypertension market segment based on the three months from June to August 2010. The Tekturna/Rasilez group continues to grow steadily, supported by strong growth, particularly in the European Union.

Diovan Group (USD 1.5 billion, +2% cc) maintained strong performance despite the introduction of generic losartan and the slowdown in growth in Japan's ARB market. Worldwide sales were up 2% in the third quarter versus last year. In the US, Diovan Group reached sales of USD 627 million (+4% cc) in the quarter, maintaining the Diovan Group's leadership of the ARB segment with a 40.8% share in August year-to-date 2010 (+1.9 percentage points compared to August year-to-date 2009; source: IMS Health).

Exforge Group (USD 222 million, +33% cc) showed strong worldwide growth fueled by continued prescription demand in the EU, US and other key regions, and ongoing Exforge HCT launches in the main European and Latin American markets. Exforge, a single-pill combination of Diovan (valsartan) and the calcium channel blocker amlodipine, has delivered sustained worldwide growth since its launch in 2007. Exforge HCT, the first modern triple hypertension medication, which adds a diuretic in a single pill, was introduced in the US in 2009 and has gained approvals in over 20 countries worldwide.

Tekturna/Rasilez (USD 113 million, +42% cc) maintained its strong growth driven by its excellent performance in the EU, especially France and Germany. In August, the US Food and Drug Administration (FDA) approved Tekamlo, a single-pill combination of aliskiren and amlodipine, with EU review of this treatment ongoing. In September, the decision was made to withdraw a separate application for EU Marketing Authorization for Rasival, the combination of aliskiren and valsartan. The application was withdrawn following the Committee for Medicinal Products for Human Use (CHMP) request to provide additional data satisfying the relevant EU guidelines. Novartis was unable to provide the requested data within the timeframe of the review process. The potential for the resubmission of Rasival will be re-evaluated in the near future.

Galvus/Eucreas (USD 101 million, +114% cc), oral treatments for type 2 diabetes, continued to deliver strong growth, driven mainly by combination treatment Eucreas/Galvusmet which delivered 72% of total sales and grew at +123% (cc) during the third quarter versus the prior year. Growth across the Galvus group of products is coming from launches in France, Japan, Korea and Turkey, as well as ongoing strong performance in Europe, notably in Germany, Spain, Greece and Portugal.

Oncology

	Q3 2010 USD m	Q3 2009 USD m	% change USD	cc	9M 2010 USD m	9M 2009 USD m	% change USD	cc
Gleevec/Glivec	1 015	974	4	6	3 122	2 858	9	8
Zometa	363	376	-3	-3	1 116	1 077	4	3
Femara	343	329	4	6	1 025	925	11	11
Sandostatin	318	300	6	8	940	839	12	11
Exjade	182	174	5	7	553	469	18	17
Tasigna	109	56	95	97	273	144	90	89
Afinitor	67	26	nm	nm	163	38	nm	nm
Other	54	61	-11	-9	144	180	-20	-21
Total	2 451	2 296	7	9	7 336	6 530	12	11

nm – not meaningful

Gleevec/Glivec (USD 1.0 billion, +6% cc) has sustained growth through continued expansion in Ph+ chronic myeloid leukemia (CML) as well as adjuvant (post-surgery) treatment of gastrointestinal stromal tumors (GIST). Gleevec/Glivec, a targeted therapy for certain forms of CML and GIST, was approved in 2009 for use in adjuvant treatment of patients following complete gross resection of GIST and has since received approvals for this indication in more than 55 countries.

Tasigna (USD 109 million, +97% cc) has been growing rapidly through geographic and market expansion with approvals in over 85 countries as a second-line therapy for patients with certain forms of Ph+ CML resistant or intolerant to prior therapy including Gleevec/Glivec. Tasigna is now approved in the US and Switzerland, for the treatment of adult patients with newly diagnosed Ph+ CML in chronic phase. In September, the CHMP issued a positive opinion recommending EU approval of Tasigna in this indication. Regulatory submissions in the first-line indication have also been submitted in Japan and other countries around the world. Trials are also underway

examining the use of Tasigna in CML patients with suboptimal response to Glivec and in patients with metastatic and/or unresectable Kit+ GIST. In October, Novartis signed a collaboration agreement with Cepheid for the commercialization and further development of a test for monitoring of bcr-abl gene transcript. This diagnostic is expected to help physicians optimize treatment of patients with CML, indicating the depth of patients' response to tyrosine kinase inhinitor (TKI) treatments.

Zometa (USD 363 million, -3% cc) volume expansion offset by negative EU and Japanese pricing, continued to come from improved compliance and increased use of this intravenous bisphosphonate therapy in patients with certain types of cancer which have spread to the bone. The US FDA has extended its review of the supplemental New Drug Application for Zometa in the adjuvant (post-surgery) treatment of premenopausal women with early breast cancer in conjunction with hormonal therapy from the fourth quarter of 2010 to the first quarter of 2011. The extension is the result of a major amendment to the application to include an additional 12 months of data to provide a median of five years of follow up of the pivotal Austrian Breast & Colorectal Cancer Study Group Trial 12 (ABCSG-12). This information has also been submitted to European regulatory authorities. Zoledronic acid, the active ingredient in Zometa (4mg), is also available under the trade names Reclast/Aclasta (5mg) for use in non-oncology indications with different dosing.

Femara (USD 343 million, +6% cc), a treatment for early stage or advanced breast cancer in postmenopausal women, achieved strong ongoing growth in key markets, including Germany, France, UK and Japan.

Sandostatin (USD 318 million, +8% cc), a treatment for acromegaly, benefited from the increasing use of Sandostatin LAR in treating symptoms of patients with neuroendocrine tumors (NET).

Exjade (USD 182 million, +7% cc) has continued to expand with strong growth based on new patients, expanded access and increased dosing in the US and key markets around the world. Exjade is currently approved in more than 100 countries as the only once-daily oral therapy for transfusional iron overload.

Afinitor (USD 67 million) continued regulatory submissions with a filing in the EU with the trade name Votubia for patients with subependymal giant cell astrocytomas (SEGA) associated with tuberous sclerosis. Afinitor has priority review status in the US for this indication, and Afinitor/Votubia has received orphan drug status in the US and EU. Afinitor, an oral inhibitor of the mTOR pathway, is an approved treatment for advanced renal cell carcinoma (kidney cancer) following VEGF-targeted therapy. Regulatory submissions are also on track this year in advanced neuroendocrine tumors. Afinitor is being studied in other tumor types with Phase III trials underway in tuberous sclerosis, breast cancer, gastric cancer, hepatocellular carcinoma and lymphoma. Everolimus, the active ingredient in Afinitor, is also available under the trade names Zortress/Certican for use in non-oncology indications.

Neuroscience and Ophthalmics

	Q3 2010 USD m	Q3 2009 USD m	% change USD	cc	9M 2010 USD m	9M 2009 USD m	% change USD	cc
Lucentis	398	335	19	22	1 139	858	33	30
Exelon/Exelon Patch	244	251	-3	0	747	687	9	8
Comtan/Stalevo	152	141	8	9	443	402	10	9
Extavia	26	14	86	102	84	26	nm	nm
Other	111	108	3	6	343	343	0	-1
Total strategic products	931	849	10	13	2 756	2 316	19	17
Established medicines	137	145	-6	-6	419	426	-2	-5
Total	1 068	994	7	10	3 175	2 742	16	14

nm – not meaningful

Lucentis (USD 398 million, +22% cc) maintained strong growth reflecting its position as the only approved medicine to significantly improve vision in patients with wet age-related macular degeneration (AMD). Novartis has filed an

application in the EU for Lucentis for the treatment of visual impairment due to diabetic macular edema (DME) and is preparing for filing in the EU for the treatment of macular edema following retinal vein occlusion (RVO). Lucentis is approved in more than 85 countries for the treatment of wet AMD.

Exelon/Exelon Patch (USD 244 million, 0% cc) growth was flat versus the previous year. Due to increasing demand for Exelon Patch, the transdermal form of the medicine generates now more than 70% of total Exelon sales in the third quarter compared to 56% in the same period in 2009. Exelon Patch is approved for the treatment of mild-to-moderate Alzheimer’s disease dementia in more than 75 countries, including more than 20 countries where it is also approved for dementia associated with Parkinson’s disease.

Extavia (USD 26 million, +102% cc) continued to grow within key markets, notably Germany, Russia, Italy, Spain and the US. Extavia, the Novartis-branded version of Betaferon®/Betaseron® for relapsing forms of multiple sclerosis, was launched in the EU and US in 2009, and has been approved in over 30 countries.

Gilenya was approved as a first-line treatment for relapsing forms of multiple sclerosis in the US and for relapsing remitting multiple sclerosis in Russia. Novartis has launched Gilenya in the US with plans to launch in Russia in early 2011. Additionally, Gilenya is currently under regulatory review in the EU, where it was filed in December 2009, and with health authorities worldwide, including Canada, Switzerland, Turkey, Brazil and Australia.

Respiratory

	Q3 2010 USD m	Q3 2009 USD m	% change USD	% change cc	9M 2010 USD m	9M 2009 USD m	% change USD	% change cc
Xolair	97	78	24	32	267	218	22	24
TOBI	70	76	-8	-5	207	219	-5	-5
Onbrez	8	0	nm	nm	16	0	nm	nm
Other	0	-2	nm	nm	0	-1	nm	nm
Total strategic products	175	152	15	20	490	436	12	13
Established medicines	37	40	-8	-4	126	136	-7	-9
Total	212	192	10	15	616	572	8	8

nm – not meaningful

Xolair (USD 97 million, +32% cc), a biotechnology drug for severe persistent allergic asthma in Europe and moderate-to-severe persistent allergic asthma in the US, continues to show strong growth in major European markets and Latin America. Xolair is approved in more than 85 countries, with Phase III trials initiated in September 2010 to support a regulatory submission in China. Xolair Liquid, a new formulation in pre-filled syringes that will ease administration, is planned to be launched in January 2011 in the EU. Preparations are on track to start Phase III studies for a new indication, chronic idiopathic urticaria, in early 2011.

Onbrez Breezhaler (QAB149, indacaterol) (USD 8 million) has demonstrated promising performance following EU approval in December 2009 as a once-daily long-acting beta-2 agonist (LABA) for adults with chronic obstructive pulmonary disease (COPD). Onbrez Breezhaler is now available in eight European markets, with further EU launches planned during 2010, and is approved in more than 40 countries worldwide. Following a Complete Response Letter received in the US in October 2009, Novartis has completed additional studies to further characterize the dosing regimen for indacaterol. Incremental benefits have been observed with indacaterol in escalating doses from 75 mcg up to 300 mcg, with higher doses showing increasing benefit for patients, particularly those with more severe disease. Following an FDA request to explore the lower part of the dose response curve, data supporting the 75 and 150 mcg doses were submitted in the US at the end of September. Regulatory submissions have also been completed in Japan and China.

Integrated Hospital Care

	Q3 2010 USD m	Q3 2009 USD m	% change USD	cc	9M 2010 USD m	9m 2009 USD m	% change USD	cc
Neoral/Sandimmun	207	227	-9	-8	636	675	-6	-8
Reclast/Aclasta	143	125	14	15	408	325	26	25
Myfortic	122	93	31	30	330	256	29	25
Zortress/Certican	35	32	9	19	105	82	28	29
Ilaris	6	1	nm	nm	16	1	nm	nm
Other	74	62	19	19	214	165	30	27
Total strategic products	587	540	9	10	1 709	1 504	14	12
Established medicines	237	249	-5	-6	661	706	-6	-9
Total	824	789	4	5	2 370	2 210	7	5

nm – not meaningful

Reclast/Aclasta (USD 143 million, +15% cc) is the only once-yearly osteoporosis therapy available in over 90 countries. Reinforcing its efficacy and safety profile, new long-term data from a pivotal fracture trial show Aclasta preserved bone mass in patients who received annual infusions for six years and the risk of new morphometric spine fractures was reduced by 52% when measured as a secondary endpoint compared to those who stopped treatment at three years. Aclasta is approved for up to six indications worldwide, treating a broad spectrum of patients from those with early bone loss to patients with more severe forms of this metabolic bone disease. Zoledronic acid, the active ingredient in Reclast/Aclasta, is also available under the trade name Zometa for use in oncology indications.

Zortress/Certican (USD 35 million, +19% cc), a transplantation medicine to prevent organ rejection in adult kidney and heart transplantation, continues to grow based on its availability in more than 80 countries and its US launch for adult kidney transplantation in April, 2010, under the brand name Zortress and is currently in two Phase III studies with global participation in heart transplantation, and also a worldwide study for liver transplantation. Everolimus, the active ingredient in Zortress/Certican, is also available under the trade name Afinitor for use in an oncology indication.

Ilaris (ACZ885, canakinumab) (USD 6 million) is a biologic medicine approved in more than 40 countries to treat adults and children aged four years and older suffering from cryopyrin-associated periodic syndrome (CAPS), a group of rare auto-inflammatory disorders that affect approximately one in one million people. ACZ885 is also in phase III development for the treatment of acute flares associated with gouty arthritis. Trials in other diseases, including type 2 diabetes and systemic juvenile idiopathic arthritis (SJIA), are also ongoing

Vaccines & Diagnostics

	Q3 2010 USD m	Q3 2009 USD m	% change USD	cc	9M 2010 USD m	9M 2009 USD m	% change USD	cc
Net sales	632	543	16	21	2 557	1 037	147	151
Operating income	68	23	196	276	865	-211	nm	nm
As % of net sales	10.8	4.2			33.8	-20.3		
Core operating income	126	102	24	42	1 187	66	nm	nm
As % of net sales	19.9	18.8			46.4	6.4		

nm – Not meaningful

Third quarter

Net sales
Net sales were USD 632 million for the third quarter (+21% cc) compared with USD 543 million in the prior period. The flu season started strongly with revenue of approximately USD 327 million recognized in the period. Novartis Vaccines was able to ship approximately 35 million doses of seasonal influenza vaccine to US customers, an increase of over 40% from the prior period, allowing health care professionals to initiate protection of their patients well in advance of this year's flu season.

Further expansion of the vaccines business in the emerging markets and the first sales of Menveo outside of the US drove the continued growth of the portfolio.

Operating income
Operating income was USD 68 million for the third quarter 2010 compared to USD 23 million for the prior year period driven by strong seasonal flu sales.

Core operating income for the period was USD 126 million compared to USD 102 million in the prior year. Higher flu sales were impacted by poor yields resulting in higher than expected production costs. Marketing and sales spend increased in the quarter to support the global launch of Menveo. In addition, there was higher research and development investment to accelerate MenB and early pipeline candidates.

Nine months to September 30

Net sales
Net sales were USD 2.6 billion for the first nine months 2010 (+151% cc) compared to USD 1.0 billion for the year-ago period. Deliveries for supply contracts with governments around the world for A (H1N1) pandemic flu vaccines and adjuvants generated net sales of USD 1.3 billion, significantly driving the increase over the year-ago period. Excluding A (H1N1) pandemic, the business experienced strong growth (+20% cc) driven by the strong start to the flu season, expansion of the vaccines business in the emerging markets and first sales of Menveo.

Operating income
Operating income in the period was USD 865 million compared to an operating loss of USD 211 million in the year-ago period, driven substantially by contributions of A (H1N1) pandemic vaccines, whereas in the prior year period there were significant expenses related to the start-up of pandemic production.

Core operating income was USD 1.2 billion up from USD 66 million for the same period in 2009.

Sandoz

	Q3 2010 USD m	Q3 2009 USD m	% change USD	cc	9M 2010 USD m	9M 2009 USD m	% change USD	cc
Net sales	2 177	1 850	18	23	6 151	5 350	15	15
Operating income	415	312	33	34	1 014	850	19	18
As % of net sales	19.1	16.9			16.5	15.9		
Core operating income	492	385	28	29	1 306	1 039	26	24
As % of net sales	22.6	20.8			21.2	19.4		

Third quarter

Net sales
Sandoz accelerated its growth (USD 2.2 billion, +18%, +23% cc) versus prior year as 30 percentage points of volume expansion came from new product launches, particularly enoxaparin (generic Lovenox®), which achieved sales of USD 292 million. The inclusion of EBEWE Pharma's specialty generics business contributed 4 percentage points in the quarter. Continued strong results from the US, Canada, Russia, Poland, Italy, the Middle East and North Africa; and biosimilars performance, which more than offset the price erosion of 7 percentage points.

US retail generics and biosimilars (+76% cc) continued to deliver excellent growth due to successful execution of first-to-market launches including enoxaparin, tacrolimus, losartan and lansoprazole. German retail generics and biosimilars (-15% cc) declined compared to the prior year due to negative market growth driven by the impact of statutory health insurance tenders and new lower reference prices. Western Europe retail generics and biosimilars (+13%) grew positively despite government price cuts. Emerging markets growth accelerated particularly in the Middle East, Turkey and Africa (+41% cc) and Asia-Pacific (+19% cc), with Central and Eastern Europe continuing to grow strongly at +19% cc. Sandoz sustained its top position in biosimilars (+41% cc) with good momentum based on key launches in the oncology indications of Binocrit (epoetin alfa) and Zarzio (filgrastim) as well as continued growth in Omnitrope (human growth hormone).

Operating income
Operating income grew 33% (+34 cc) to USD 415 million, as the operating income margin improved 2.2 percentage points to 19.1% of net sales. Operating income margin increased 0.4 percentage points faster than core operating income margin improvement of 1.8 percentage points mainly due to a lower level of intangible asset impairments in 2010 than in the prior year quarter.

Core operating income rose 28% to USD 492 million, resulting in the core operating income margin increase of 1.8 percentage points to 22.6% of net sales. Gross profit margin decreased 3.1 percentage points mainly due to a significantly different sales mix than in the prior year quarter plus higher inventory write-offs. Marketing & Sales (15.8% of net sales; +1.2 percentage points) improved core operating income margin as they rose slower than sales due to higher productivity, while fully funding investments in growing businesses. R&D costs declined (6.0% of net sales; +2.2 percentage points) and also improved core operating income margin due to the recovery of co-development expenses from an external partner as well as continued productivity savings. The savings were achieved even as Sandoz has continued to invest in the development of differentiated generics, such as biosimilars, oncological injectables and respiratory products. General & Administration costs (3.7% of net sales; +1.4 percentage points) decreased due to ongoing cost-containment measures. Other Income & Expense decreased (1.8% of net sales; +0.1

percentage points) mainly due to sundry asset disposals.

Nine months to September 30

Net sales
Sandoz achieved double-digit sales growth in the first nine months (USD 6.2 billion, +15%, +15% cc) versus prior year supported by strong growth in US retail generics and biosimilars (+46% cc) and emerging markets such as Central and Eastern Europe (+15% cc), Asia-Pacific (+21% cc) and the Middle East, Turkey and Africa (+19% cc). Sales volumes expanded 22 percentage points due to new product launches, the inclusion of EBEWE Pharma's specialty generics business (contributing 5 percentage points) and continued strong results from biosimilars which together more than compensated for price erosion of 7 percentage points.

Operating income

Operating income in the first nine months grew 19% versus prior year to USD 1.0 billion. The operating income margin increased 0.6 percentage points to 16.5% of net sales. The operating income margin increase in the first nine months as compared to the growth in core operating income margin of 1.8 percentage points reflected the acquisition-related charges for the integration of EBEWE Pharma, one-time charges for the termination of a co-development agreement and provisions for legal settlements.

Core operating income rose 24% cc to USD 1.3 billion, as the core operating income margin improved by 1.8 percentage points to 21.2% of net sales. There were lower sales to other divisions (-0.4 percentage points), higher Other revenues (+0.1 percentage points) and higher Cost of Goods Sold (-1.1 percentage points). These impacts however were more than offset by a number of positive factors, including: Marketing & Sales costs, which were lower by 0.4 percentage points due to productivity improvements partly offset by investments in growth areas; R&D costs, which decreased (improving +1.2 percentage points) as productivity savings funded continued investment in the development of differentiated generics; General & Administration costs, which decreased (+1.1 percentage points) due to ongoing cost reduction measures; and Other Income and Expenses, which were positive at 0.5 percentage points due to lower legal fees.

Consumer Health

	Q3 2010 USD m	Q3 2009 USD m	% change USD	cc	9M 2010 USD m	9M 2009 USD m	% change USD	cc
Net sales	1 587	1 476	8	9	4 574	4 189	9	8
Operating income	386	303	27	32	944	809	17	16
As % of net sales	24.3	20.5			20.6	19.3		
Core operating income	410	323	27	30	1 016	870	17	16
As % of net sales	25.8	21.9			22.2	20.8		

Third quarter

Net sales
All three Consumer Health businesses – OTC, Animal Health and CIBA Vision – contributed to higher net sales in the third quarter of 2010 (USD 1.6 billion, +8%, +9% cc), as the three businesses continued growing ahead of their respective markets.

Pain medicines were key contributors in OTC. In Europe, Voltaren has been a key business driver, becoming the largest self-medication brand in the German market with a year-to-date 44% market share in the topical analgesic market. In the US, Excedrin and Triaminic are gaining share as a result of solid advertising and promotional campaigns.

Prevacid24HR has become a strong competitive brand in the high-growth US Proton Pump Inhibitor (PPI) category. This category has grown 35% year-to-date and Prevacid24HR maintained a market share of 20% of the US OTC PPI market in the third quarter. Pantoloc Control, the PPI licensed throughout Europe in early 2010, has now been successfully launched as expected in all 14 European markets targeted.

CIBA Vision maintained its growth rate, expanding in all regions driven by sales growth of AirOptix, which was among the top performers worldwide in its sector, helping CIBA Vision to increase its share in the global contact lens market to 23%. The US business increased its market share over 3 percentage points to a record 27%, up from just over 23% in 2009.

Animal Health grew ahead of its market in the US, helped by a strong performance of its top brands Interceptor and Sentinel in the US parasiticides segment and Milbemax in key European markets. Cattle vaccines in the US Farm Animal Business have gained share year-to-date, as well.

The US (USD 0.5 billion, +13% cc) delivered a strong performance across all three businesses, while Europe (USD 0.7 billion, +8% cc) achieved robust growth on the leadership of Germany, and Italy. Net sales in the top six emerging markets grew by 12% (+9% cc) to USD 123 million, with a solid single digit growth in Brazil and double-digit growth in the remaining five markets.

Operating income

Operating income rose 27% (+32% cc) to USD 386 million, with the operating income margin expanding by 3.8 percentage points in the third quarter of 2010 to 24.3% of net sales.

Core operating income grew 27% (+30% cc) to USD 410 million, with a strong operating leverage, resulting in a growth of the core operating income margin by 3.9 percentage points to 25.8% of net sales. Gross profit margin (69.3% of net sales; +1.7 percentage points) improved as a result of pricing and productivity gains. Marketing & Sales expenses (32.8% of net sales; -0.1 percentage points), increased to support investments for new product launches as well as sales force expansions across all the businesses. Investment in R&D (5.6% of net sales; flat as percentage points) continues to strongly support product development across all Consumer Health businesses. General & Administrative expenses (5.8% of net sales; flat as percentage points) are contributing to the strong operational leverage as a result of productivity actions across all the businesses. Other Income & Expense (0.7% of net sales; +2.3 percentage points) improved as a result of the divestment of a non-core brand in OTC US as well as a one-time expense in the year-ago period.

Nine months to September 30

Net sales
Sales grew 9% (8% cc) to USD 4.6 billion and all Consumer Health businesses delivered solid growth ahead of their respective markets.

CIBA Vision continues to be the industry's fastest-growing contact lens and lens care company on the strength of AirOptix across all the regions. OTC grew on the back of Excedrin and Triaminic in the US, Voltaren in Europe and from the new introductions Prevacid24HR and Pantoloc Control in the gastrointestinal category. Animal Health growth has been led mainly by a strong performance in Interceptor and Sentinel in the US and Milbemax in Europe, plus good growth of cattle vaccines in the US livestock market.

Operating income

Operating income rose 17% (16% cc) to USD 944 million, with the operating income margin improving versus the same period in 2009 by 1.3 percentage points to 20.6% of net sales in 2010.

Core operating income rose 17% (16% cc) to USD 1.0 billion, with strong operating leverage, driving the core operating income margin up by 1.4 percentage points to 22.2% of net sales versus the same period in 2009. Gross profit margin improvements, productivity gains, and income from an OTC US non-core brand divestment have been the growth drivers, partially offset by higher investments in Marketing & Sales to support new product launches and sales force expansions.

Alcon, Inc.

	Q3 2010 and 9M 2010 USD m
Net sales	617
Operating income	101
As % of net sales	16.4
Core operating income	222
As % of net sales	36.0

Third quarter and nine months to September 30

Net sales
On August 25, 2010, Novartis acquired an additional 52% of Alcon, raising its stake to a 77% controlling interest in Alcon and thereafter has consolidated Alcon's financial results. Sales consolidated for this period amounted to USD 617 million.

Operating income
Alcon contributed USD 101 million to Novartis operating income.

This amount includes an additional charge of USD 95 million relating to the estimated fair value revaluation of inventory as of the change in majority ownership date; USD 7 million amortization of intangible assets and USD 19 million of costs resulting from the change in majority ownership.

Excluding these items, core operating income totaled USD 222 million.

FINANCIAL REVIEW

Third quarter and nine months to September 30

	Q3 2010 USD m	Q3 2009 USD m	% change USD	cc	9M 2010 USD m	9M 2009 USD m	% change USD	cc
Net sales	12 578	11 086	13	16	36 425	31 341	16	15
Divisional operating income	2 814	2 849	-1	3	9 432	7 934	19	18
Corporate income & expense, net	-227	-215	6	4	-373	-589	-37	-37
Group operating income	2 587	2 634	-2	3	9 059	7 345	23	23
as % of net sales	20.6	23.8			24.9	23.4		
Income from associated companies	368	-21	nm		629	186	238	
Financial income	27	51	-47		90	94	-4	
Interest expense	-188	-173	9		-496	-395	26	
Taxes	-475	-379	25		-1 578	-1 099	44	
Net income	2 319	2 112	10	14	7 704	6 131	26	24
EPS (USD)	0.99	0.93	6	12	3.34	2.69	24	22
Core operating income	3 699	2 959	25	29	10 840	8 233	32	31
as % of net sales	29.4	26.7			29.8	26.3		
Core net income	3 146	2 679	17	21	9 226	7 375	25	24
Core EPS (USD)	1.36	1.17	16	19	4.00	3.24	23	22

nm – Not meaningful

Third quarter and nine months to September 30 excluding Alcon, Inc.

	Q3 2010 USD m	Q3 2009 USD m	% change USD	cc	9M 2010 USD m	9M2009 USD m	% change USD	cc
Net sales	11 961	11 086	8	10	35 808	31 341	14	13
Operating income	2 582	2 634	-2	3	9 054	7 345	23	23
as % of net sales	21.6	23.8			25.3	23.4		
Core operating income	3 477	2 959	18	22	10 618	8 233	29	28
as % of net sales	29.1	26.7			29.7	26.3		

Third quarter

Net sales

Net sales rose 13% (+16% cc) to USD 12.6 billion with strong contributions from all businesses. Currency movements depressed the result by 3 percentage points. Rapid growth of recently launched products across the Group generated USD 2.3 billion in sales, representing 20%* of total sales. Acquisitions contributed 6 percentage points to growth,

mainly driven by the Alcon sales of USD 617 million. Volumes grew by 11 percentage points offset by a negative price effect of 1 percentage point.

Corporate income & expense, net

Corporate income & expense, which includes the costs of the Group headquarters and costs for corporate research, was impacted by one-time stamp duty and transaction expenses related to the purchase of the additional 52% of Alcon shares of USD 96 million in the third quarter. Excluding this, expenses were 39% below the previous year partially as a result of releasing USD 38 million of environmental and other provisions.

Group operating income

Operating income decreased 2% (+3% cc) to USD 2.6 billion. Currency movements, particularly the strengthening Swiss franc, which increases costs, reduced operating income by 5 percentage points. Included in operating income are intangible asset impairment charges in R&D expenses of USD 593 million principally due to the termination of two development projects, and Alcon related charges of USD 217 million.

Income from associated companies

The income from associated companies in the third quarter of 2010 of USD 368 million compares to a net loss of USD 21 million in 2009. Alcon, Inc, accounted for as an associated company until August 25, and thereafter fully consolidated, contributed USD 235 million compared to a loss of USD 62 million in the prior year period. Included in this total is a revaluation gain of USD 204 million to the currently estimated fair value of the initial 25% Alcon, Inc interest acquired on July 7, 2008, required as a result of acquiring majority control on August 25, 2010. 2009 included an exceptional impairment charge of USD 92 million. The Roche investment contributed USD 138 million in the third quarter compared to USD 43 million in the prior year period which was impacted by a restructuring charge of USD 97 million related to the Genentech acquisition. The following is a summary of the individual components included in the income from associated companies:

	Q3 2010 USD m	Q3 2009 USD m	9M 2010 USD m	9M 2009 USD m
Share of estimated Roche reported net income	173	176	480	461
Catch-up for actual Roche previous year net income				-40
Genentech restructuring impact		-97	-43	-97
Amortization of intangible assets	-35	-36	-101	-98
Net income effect from Roche	138	43	336	226
Share of Alcon, Inc reported US GAAP net income	118	139	400	368
Catch-up for actual up to August 25, 2010 Alcon, Inc net income	-15		-13	5
Revaluation of initial 25% interest to estimated deemed fair value	204		204	
Intangible asset impairment charge		-92		-92
Amortization of intangible assets	-72	-109	-289	-326
Net income effect from Alcon, Inc up to August 25, 2010	235	-62	302	-45
Net income from other associated companies	-5	-2	-9	5
Income from associated companies	368	-21	629	186

Core results for associated companies for the third quarter, which exclude exceptional items and the amortization of intangible assets in both periods, decreased from USD 313 million in the 2009 third quarter to USD 286 million in the current year quarter.

Financial income and interest expense

Financial income decreased from USD 51 million in third quarter of 2009 to USD 27 million in the current third quarter as lower returns on financial investments outweigh the improved currency result. Interest expense increased from USD 173 million to USD 188 million due to the additional fund-raising.

Taxes

The tax rate (taxes as percentage of pre-tax income) was 17.0% in the third quarter compared to 15.2% in the 2009 period.

Net income

Net income advanced 10% (+14% cc) to USD 2.3 billion ahead of operating income growth. Core net income grew 17% (+21%) to USD 3.1 billion.

Earnings per share

Earnings per share (EPS) rose 6% (+12% cc) to USD 0.99 from USD 0.93 in the 2009 period while core EPS was up 16% (+19% cc) to USD 1.36 from USD 1.17 in the year-ago period. The increase in EPS is less than the increase in net income due to 23% of the net income related to Alcon being excluded from the EPS calculation.

The average number of shares outstanding in the third quarter rose 1% to 2,288.1 million from 2,268.2 million in the year-ago period while a total of 2,289.6 million shares were outstanding at September 30.

Nine months to September 30

Net sales
Net sales were up 16% (+15% cc) to USD 36.4 billion with strong improvements across all businesses. Recently launched products provided USD 7.9 billion (versus USD 4.3 billion in the previous year-period), contributing 22%* of total sales. Volumes grew by 13 percentage points and price contributed a negative 1 percentage point for the nine months period. Acquisitions contributed 3 percentage points to growth, mainly driven by Alcon sales of USD 617 million.

Group operating income
Operating income rose 23% (+23% cc) to USD 9.1 billion on the volume-driven sales expansion and by contributions of A(H1N1) pandemic flu vaccines. The operating income margin improved 1.5 percentage points to 24.9% of net sales from 23.4% in the 2009 period. Included in operating income are exceptional charges including intangible asset impairments charged to R&D (USD 762 million) and legal settlements (USD 237 million), offset by a pension gain of USD 265 million.

Income from associated companies
The income from associated companies for the nine-month period of 2010 increased from USD 186 million to USD 629 million. The increase is attributable to higher contributions from the Alcon and Roche investments due to exceptional charges incurred in the prior year period as well as the revaluation gain to the currently estimated fair value of the initial 25% Alcon interest acquired on July 7, 2008.

Core results for associated companies, excluding the exceptional charges due to the Genentech restructuring for Roche and the intangible impairment charge and revaluation gain for Alcon as well as the amortization of intangible assets for both investments, increased from USD 799 million to USD 873 million.

Financial income and interest expense
Financial income decreased by 4% from USD 94 million to USD 90 million. In order to accommodate the payment for the Alcon acquisition financial investments were kept short-term which resulted in lower yields. Interest expense increased by 26% to USD 496 million from USD 395 million in the prior year period as a result of the issuance of US dollar bonds in February 2009 and March 2010, a Euro bond in June 2009 and the increase of short-term debts through the commercial paper program.

Taxes
The tax rate (taxes as percentage of pre-tax income) was 17.0% in the first nine months of 2010 compared to 15.2% in the 2009 period.

Net income
Net income advanced 26% (+24% cc) to USD 7.7 billion ahead of operating income growth. Core net income grew 25% (+24% cc) to USD 9.2 billion.

Earnings per share
Earnings per share (EPS) rose largely in line with net income to USD 3.34 from USD 2.69 in the
2009 period, while core EPS grew 23% (+22% cc) to USD 4.00 from USD 3.24. The average number of shares outstanding in the first nine months 2010 rose 1% to 2,284.4 million from 2,266.2 million in the year-ago period, while a total of 2,289.6 million shares were outstanding at September 30.

Balance sheet
The full consolidation of Alcon has had a significant impact on the Group’s consolidated balance sheet. Non-current assets have increased by USD 35.1 billion since December 31, 2009, of which the major items result from the

preliminary purchase price allocation for the Alcon acquisition, which increased indentified intangible assets by USD 24.2 billion and goodwill by USD 18.1 billion. Furthermore, there was a reduction in the amount of investments in associated companies (included in financial and other non-current assets) by USD 10.1 billion. Current assets decreased by USD 6.0 billion mainly due to USD 9.5 billion lower cash and marketable securities as these funds were used to acquire the additional 52% of Alcon. Trade accounts receivable, inventories and other current assets increased by USD 3.5 billion also mainly due to the consolidation of Alcon. As a result of the consolidation of Alcon and other factors, total assets amounted to USD 124.6 billion at September 30, 2010, an increase of USD 29.1 billion compared to the end of 2009.

Similarly, the consolidation of Alcon and related financing for the additional 52% interest has had a significant impact on the Group's liabilities and equity. Financial debts increased by USD 13.0 billion, which was mainly used to fund the Alcon acquisition. Other current and non-current liabilities increased by USD 7.4 billion of which USD 4.4 billion are additional deferred tax liabilities primarily related to the Alcon identified intangible assets. Principally due to these factors, total liabilities increased by USD 20.4 billion to USD 58.4 billion at September 30, 2010. The Group's equity rose by USD 8.8 billion since the prior year-end to USD 66.2 billion at September 30, and includes the 23% Alcon additional non-controlling interests of USD 6.1 billion. Other movements in equity were the net income of USD 7.7 billion, which was partially offset by the dividend payment for 2009 of USD 4.5 billion and actuarial losses of USD 1.4 billion. An additional increase of USD 1.0 billion was due to the net sale of treasury shares and share-based compensation as well as positive translation effects.

The Group's debt/equity ratio rose to 0.41:1 at September 30, compared to 0.24:1 at the end of 2009, reflecting the higher financial debt for the funding of the Alcon acquisition. The Group's financial debt of USD 27.0 billion consisted of USD 12.6 billion in current and USD 14.4 billion in non-current liabilities. Overall liquidity, including USD 3.2 billion consolidated with Alcon, decreased to USD 8.0 billion from USD 17.4 billion at the end of 2009. Net debt at September 30 was USD 19.0 billion compared to net liquidity of USD 3.5 billion at the end of the previous year.

Cash flow

Cash flow from operating activities for the first nine months rose USD 1.8 billion to USD 9.5 billion based on higher earnings from operations.

The cash flow from investing activities resulted in a net outflow of USD 15.2 billion in 2010. The outflow for acquisitions was USD 26.7 billion. This amount comprised USD 26.1 billion (net of USD 2.2 billion cash received) for the purchase of the additional 52% investment in Alcon and USD 0.5 billion for the acquisition of Corthera, Oriel and for deferred payments related to the EBEWE acquisition. The outflow of cash for investments in property, plant & equipment and in intangible and other assets amounted to USD 1.0 billion and USD 0.5 billion respectively. These outflows were partially compensated by the net inflow from the sale of marketable securities of USD 12.8 billion.

Cash inflow from financing activities was USD 8.2 billion as the USD 12.3 billion proceeds from the bonds and the commercial paper programs were partially offset by the dividend payment of USD 4.5 billion.

Free cash flow before dividends rose 34% to USD 8.2 billion, the increase principally coming from the improved cash flow from operating activities.

INNOVATION REVIEW

Novartis has one of the industry's most competitive pipelines with 143 projects in pharmaceutical clinical development, of which 56 involve new molecular entities.

Among developments in the third quarter of 2010:

- The FDA approved Gilenya, a novel, first-line oral treatment for relapsing forms of multiple sclerosis – the most common forms of the disease. The drug has been shown previously to significantly reduce the relapse rate compared to intra-muscular interferon beta 1a, the current standard of care, and also to delay disability progression versus placebo. Moreover, Gilenya has a well-studied safety and tolerability profile that has been characterized in over 2,600 clinical trial patients.

- The CHMP gave a positive opinion for the approval of Tasigna for the treatment of newly diagnosed patients with chronic myeloid leukemia (CML). The formal EMA approval is expected by the end of this year. Tasigna is already approved in the US and Switzerland, for the treatment of adult patients with newly diagnosed Ph+ CML in chronic phase. Regulatory submissions in the first-line indication have also been submitted in Japan and other countries around the world.

- The FDA approved Tekamlo (aliskiren and amlodipine) tablets, a single-pill combination for the treatment of high blood pressure combining the only approved direct renin inhibitor, Tekturna (aliskiren), with the widely used calcium channel blocker, amlodipine. Tekamlo has been shown to significantly reduce blood pressure as compared to amlodipine or Tekturna alone.

- The CHMP gave a positive opinion for the approval of tobramycin inhalation powder (TOBI Podhaler) for the suppressive therapy of chronic pulmonary infection due to Pseudomonas aeruginosa in adult and children age six years and older with cystic fibrosis. Formal EMA approval is expected by the end of this year.

- Submission for US approval of Diovan (valsartan) for the prevention of new onset diabetes in hypertensive patients with impaired glucose tolerance and increased cardiovascular risk was achieved in July.

- SOM230 (pasireotide) demonstrated significant efficacy in a Phase III trial in reducing the level of urinary free cortisol (UFC) in patients suffering from Cushing's disease, a potentially fatal and debilitating hormonal disorder. This pivotal trial is the largest study to date of a medical therapy in Cushing's disease.

- A dossier for EU approval of Afinitor (everolimus) in patients with subependymal giant cell astrocytoma (SEGA) associated with tuberous sclerosis was also filed in July 2010; the FDA granted everolimus priority review for this indication. The FDA action date is October 29.

- Results from a Phase III study involving Afinitor in pancreatic neuroendocrine tumors (NET), a rare and aggressive form of cancer with limited treatment options, showed that Afinitor extended median progression-free survival from 4.6 to 11 months versus placebo and reduced the risk of cancer progression by 65%. The results of this study, RADIANT-3, were shared at World Congress of Gastrointestinal Cancer (WCGI) on July 1, 2010.

- Results from the Phase III RADIANT-2 study showed Afinitor plus Sandostatin LAR extended time without tumor growth from 11.3 to 16.4 months when compared to Sandostatin LAR alone in patients with advance neuroendocrine tumors (hazard ratio=0.77 [95% confidence interval, 0.59 to 1.00]; p=0.026). The study did not meet the primary endpoint of progression-free survival. Analyses using a well-established statistical model to adjust for imbalances in the treatment arm showed Afinitor plus Sandostatin LAR significantly reduced risk of disease progression.

- The Phase III study examining AIN457 for non-infectious uveitis in patients with Behcet's disease did not meet its primary endpoint and the data do not support submission of AIN457 for this indication. Based upon analysis of these data, Novartis will stop the extension study in Behcet's uveitis while continuing to explore other indications.

- Novartis decided to discontinue further development of Mycograb (efungumab), an antifungal agent that was being developed for invasive candidiasis in adult patients. Novartis and Human Genome Sciences also agreed to stop further development of albinterferon alfa-2b for the treatment of chronic hepatitis C viral infection. Further development of QAX028 in chronic obstructive pulmonary disease (COPD) was also discontinued in August. These decisions reflect the enhanced focus on portfolio prioritization and productivity within the company.

- Top line Phase III results (Study 2301) from SMC021 in osteoarthritis did not meet the first of three co-primary endpoints. Further analysis of the data is ongoing. The Phase III study in osteoporosis continues.

Q3 2010 selected major approvals: US, Europe and Japan

Product	Active ingredient	Indication	Approval date
Gilenya	fingolimod	Multiple sclerosis	US – September
Tekamlo	aliskiren,amlodipine	Hypertension	US - August

Selected projects awaiting regulatory decisions

		Completed submissions			
Product	Indication	US	EU	Japan	News update
Afinitor	Subependymal giant cell astrocytomas associated with tuberous sclerosis	Q2 2010	Q3 2010		- EU filing achieved in July - US approval expected by end of 2010 based on priority review status
Diovan	Prevention of new onset diabetes	Q3 2010			- US filing achieved in July
Exelon Patch	Alzheimer's disease dementia	Approved	Approved	Q1 2010	- New drug application in Japan (NDA-J) is under review. Pharmaceuticals and Medical Devices Agency (PMDA) decision may come as early as April 2011
Gilenya	Multiple sclerosis	Approved	Q4 2009		- FDA approval received in September with first-line indication for relapsing forms of multiple sclerosis - The European Medicines Agency (EMA) regulatory review and other filings worldwide are ongoing
Lucentis	Diabetic macular edema		Q4 2009		- Phase III RESTORE data presented in May 2010 at the European Association for the Study of Diabetic Eye Complications - Regulatory feedback expected in Q4 2010
Onbrez	Chronic obstructive pulmonary disease	Q4 2008	Approved	Q3 2010	- Clinical trials to address US Food and Drug Administration (FDA) complete response letter (October 2009) completed in Q3 and data generated from these trials was submitted to the FDA in late September - Japan filing achieved in July
Tasigna	Newly diagnosed chronic myeloid leukemia	Approved	Q4 2009	Q1 2010	- Positive Committee for Medicinal Products for Human Use (CHMP) opinion received in

				September - Swiss approval in August after fast-track review - ENESTnd 24 month median follow-up data expected to be presented at the American Society of Hematology in December
Tekturna and amlodipline	Hypertension	Approved	Q4 2009	- FDA approval received in August - EU CHMP opinion expected in Q1 2011and formal approval in Q2 2011 - Application of Rasival withdrawn from EMA
Tekturna, amlodipine and Hydro-chlorothiazide	Hypertension	Q1 2010	Q2 2010	- EU submission achieved in May 2010
TOBI Podhaler	Cystic fibrosis		Q4 2009	- Positive CHMP opinion received in September

Completed submissions

Product	Indication	US	EU	Japan	News update
Zometa	Adjuvant breast cancer	Q4 2009	Q4 2009		- FDA extended the review of sNDA of Zometa in the adjuvant (post-surgery) treatment of premenopausal women with early breast cancer in conjunction with hormonal therapy from Q4 2010 to Q1 2011. Extension is the result of a major amendment to the application to include an additional 12 months of data to provide a median of five years of follow up of the pivotal Austrian Breast & Colorectal Cancer Study Group Trial 12 (ABCSG-12) study. This information has also been submitted to European regulatory authorities.

Selected pharmaceutical pipeline projects

Project/ Compound	Potential indication/ Disease area	Planned submissions	Current Phase	News update
ACZ885	Refractory gout acute flares	2010	III	- On track for 2010 submission
	Systemic onset juvenile idiopathic arthritis	2011	III	
	Type 2 diabetes	≥2014	II	
	Secondary prevention of cardiovascular events	≥2014	III	- Phase III start planned end 2010
Afinitor	Neuroendocrine tumors	2010	III	- On track for 2010 submission - RADIANT 3 study in pancreatic neuroendocrine tumors (NET) met primary endpoint; results shared at World Congress of Gastrointestinal Cancer in July 2010 - RADIANT-2 study did not meet the primary endpoint of progression-free survival. Analyses using a well-established statistical model to adjust for imbalances in the treatment arm showed Afinitor plus Sandostatin LAR significantly reduced risk of disease progression - Results of RADIANT-2 and RADIANT-3 were shared at the European Society for Medical Oncology in October 2010
	Tuberous sclerosis complex	2011	III	
	AML			
	ER+ breast cancer	2012	III	

	HER2+ breast cancer	2013	III	
	Gastric cancer	2012	III	
	HCC (Hepatocellular cancer)	2013	III	
	Lymphoma	≥2014	III	
AFQ056	Parkinson's disease-		II	- Phase III program start planned for
	L-dopa induced dyskinesia	2013		2011
	Fragile X syndrome	2012	II	- Adult pivotal study to start 4Q 2010

Project/ Compound	Potential indication/ Disease area	Planned submissions	Current Phase	News update
AG0178	Major depressive disorder	2012	III	- Sublingual Phase III program initiated May 2010
AIN457	Non-infectious uveitis	2011	III	- Phase III study examining AIN457 for non-infectious uveitis in patients with Behcet's disease did not meet its primary endpoint and the data do not support submission of AIN457 for this indication; based upon analysis of these data, Novartis will stop the extension study in Behcet's uveitis
	Psoriasis	2013	II	- Phase III start planned for 2011
	Rheumatoid arthritis	2013	II	- Phase III start planned for 2011
ASA404	2nd line non-small cell lung cancer	2012	III	- Interim analysis in Q4 2010
BAF312	Multiple sclerosis	≥2014	II	- Phase II data expected in Q1 2011
Certican	Prevention of organ rejection – liver	2011	III	
DEB025	Hepatitis C	2013	II	- Phase III start planned in Q4 2010
Exjade	Non transfusion dependent Thalassemia	2011	II	
HCD122	Hematological tumors	≥2014	I	
INC424	Myelofibrosis	2011	III	- Results from a Phase I/II study published in The New England Journal of Medicine in September showed approximately 75% of myelofibrosis patients receiving INC424 twice-daily experienced rapid reduction in spleen size, which was durable for more than one year of follow-up
	Polycythemia vera	≥2014	II	- Global Phase III study expected to begin in October with US patients; first ex-US patient study expected to start in Q1 2011
LBH589	Hodgkin's lymphoma	2010	III	- On track for 2010 submission - Updated Phase II pivotal study data presented at the American Society of Clinical Oncology and European Hematology Association congresses
	Multiple myeloma	2013	III	- Phase I data oral LBH589 in combination with Velcade (bortezomib) presentation at American Society of Clinical Oncology
	Hematological tumors	≥2014	II	
LCQ908	Diabetes and metabolism	≥2014	II	

LCZ696	Heart failure	≥2014	III	- Phase II data published in Lancet and presented at the American College of Cardiology in March 2010. Demonstrated blood pressure lowering and supports heart failure potential. - Phase III M&M study ongoing since Dec 2009
	Hypertension	≥2014	II	
LDE225	Gorlin's syndrome	2012	II	
Lucentis	Retinal vein occlusion	2010	III	- EU submission on track for Q4 2010

Project/ Compound	Potential indication/ Disease area	Planned submissions	Current Phase	News update
NVA237	Chronic obstructive pulmonary disease	2011	III	
PKC412	Aggressive systemic mastocytosis	2011	II	
	Acute myeloid leukemia	2013	III	
PRT128	Acute coronary syndrome Chronic coronary heart disease	≥2014	II	- Results from INNOVATE-PCI Phase II study were presented at the European Society of Cardiology congress in August 2010. Planned to initiate a Phase III clinical development program in chronic coronary heart disease in Q1 2011
PTK796	Complicated skin and soft tissue infections	2012	III	
QMF149	Chronic obstructive pulmonary disease	≥2014	II	- Filing now planned for ≥2014. Delay due to device switch to Concept 1
	Asthma	≥2014	II	- Filing now planned for ≥2014. Delay due to device switch to Concept 1
QTI571 (Imatinib)	Pulmonary arterial hypertension	2011	III	
QVA149	Chronic obstructive pulmonary disease	2012	III	
RLX030	Acute heart failure	2013	III	
SMC021	Osteoarthritis	2011	III	- Top line Phase III results (Study 2301) from SMC021 in osteoarthritis did not meet the first of three co-primary endpoints . Further analysis of the data is ongoing.
	Osteoporosis	2011	III	- On track for 2011 submission. - Blinded two-year interim analysis expected end 2010
SOM230	Cushing's disease	2010	III	- On track for 2010 submission in EU and H1 2011 in US - Phase III study met endpoint in patients taking SOM230 900 µg; results presented at the European Neuroendocrine Association in September
	Acromegaly	2011	III	
	Refractory / resistant carcinoid syndrome	2011	III	
Tasigna	Gastrointestinal stromal tumor	≥2014	III	
	cKIT melanoma	2012	III	
TKI258	Solid tumors	2013	II	
Xolair	Chronic idiopathic urticaria	2013	II	

	- Phase III planned to start in Q1 2011

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Selected vaccine pipeline projects

Project/ Compound	Potential indication/ Disease area	Planned submissions	Current Phase	News update
Menveo	Prevention of meningococcal disease (serogroups A, C, Y and W-135) in infants	2010 (US) 2011 (EU)	III	US filing planned Q4 2010
MenB (meningococcal serogroups B)	Multi-component vaccine for prevention of meningococcal disease (serogroup B)	2010 (EU)	III	- Results from initial Phase III study presented in September at International Pathogenic Neisseria Conference - EU submission planned to be filed by year-end
Optaflu	Seasonal influenza (cell culture subunit vaccine)	2011 (US)	III	
Fluad	Seasonal influenza (subunit vaccine with MF59 adjuvant)	2010 (EU) 2012 (elderly US)	III	- Trial results to be published at Infectious Diseases Society of America in October 2010 - Phase III trial started

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Disclaimer

These materials contain certain forward-looking statements relating to the Group's business, which can be identified by terminology such as “pipeline,” “momentum,” “prospects,” “potential,” “commitment,” “strategic,” “priorities,” “recomme “promise,” “will,” “on track,” “promising,” “potentially,” “expected,” “opportunities,” “outlook,” “guidance,” “priority revie for filing,” “planned,” 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, business units, or consolidated entities; or regarding potential growth opportunities from the acquisition of a 77% majority ownership in Alcon or regarding the potential full 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, business units, or consolidated entities will achieve any particular financial results. Neither can there be any guarantee that the proposed full 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 either Novartis’ acquisition of a 77% majority ownership in Alcon, or as a result of the proposed full acquisition and merger with Alcon. In particular, management's expectations could be affected by, among other things, unexpected clinical trial results, including additional analyses 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; disruptions from the Alcon 77% implementation, and any potential merger making it more difficult to maintain business and operational relationships, and relationships with key employees; uncertainties regarding actual or potential legal proceedings, including, among others, litigation seeking to prevent the full acquisition and merger from taking place, 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

November 17, 2010	Novartis Strategy and Innovation Forum
January 27, 2011	Fourth quarter and full-year 2010 results

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statements (unaudited)

Third quarter

	Q3 2010 USD m	Q3 2009 USD m	Change USD m	%
Net sales	**12 578**	**11 086**	**1 492**	**13**
Other revenues	242	204	38	19
Cost of Goods Sold	-3 662	-3 103	-559	18
Of which amortization and impairments of product and patent rights and trademarks	*-268*	*-253*	*-15*	*6*
Gross profit	**9 158**	**8 187**	**971**	**12**
Marketing & Sales	-3 202	-2 863	-339	12
Research & Development	-2 548	-1 825	-723	40
General & Administration	-539	-542	3	-1
Other income	97	70	27	39
Other expense	-379	-393	14	-4
Operating income	**2 587**	**2 634**	**-47**	**-2**
Income from associated companies	368	-21	389	nm
Financial income	27	51	-24	-47
Interest expense	-188	-173	-15	9
Income before taxes	**2 794**	**2 491**	**303**	**12**
Taxes	-475	-379	-96	25
Net income	**2 319**	**2 112**	**207**	**10**
Attributable to:				
Shareholders of Novartis AG	*2 275*	*2 098*	*177*	*8*
Non-controlling interests	*44*	*14*	*30*	*214*
Average number of shares outstanding – Basic (million)	**2 288.1**	**2 268.2**	**19.9**	**1**
Basic earnings per share (USD)[1]	**0.99**	**0.93**	**0.06**	**6**
Average number of shares outstanding – Diluted (million)	2 300.3	2 285.4	14.9	1
Diluted earnings per share (USD)[1]	0.99	0.92	0.07	8

[1] Earnings per share (EPS) is calculated on the amount of net income attributable to shareholders of Novartis AG
nm - not meaningful

Consolidated income statements (unaudited)

Nine months to September 30

	9M 2010 USD m	9M 2009 USD m	Change USD m	Change %
Net sales	**36 425**	**31 341**	**5 084**	**16**
Other revenues	672	617	55	9
Cost of Goods Sold	-9 964	-8 512	-1 452	17
Of which amortization and impairments of product and patent rights and trademarks	*-688*	*-709*	*21*	*-3*
Gross profit	**27 133**	**23 446**	**3 687**	**16**
Marketing & Sales	-9 361	-8 574	-787	9
Research & Development	-6 478	-5 321	-1 157	22
General & Administration	-1 652	-1 589	-63	4
Other income	666	421	245	58
Other expense	-1 249	-1 038	-211	20
Operating income	**9 059**	**7 345**	**1 714**	**23**
Income from associated companies	629	186	443	238
Financial income	90	94	-4	-4
Interest expense	-496	-395	-101	26
Income before taxes	**9 282**	**7 230**	**2 052**	**28**
Taxes	-1 578	-1 099	-479	44
Net income	**7 704**	**6 131**	**1 573**	**26**
Attributable to:				
Shareholders of Novartis AG	*7 625*	*6 095*	*1 530*	*25*
Non-controlling interests	*79*	*36*	*43*	*119*
Average number of shares outstanding – Basic (million)	**2 284.4**	**2 266.2**	**18.2**	**1**
Basic earnings per share (USD)[1]	**3.34**	**2.69**	**0.65**	**24**
Average number of shares outstanding – Diluted (million)	2 297.5	2 283.0	14.5	1
Diluted earnings per share (USD)[1]	3.32	2.67	0.65	24

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

Consolidated statements of comprehensive income (unaudited)

Third quarter

	Q3 2010 USD m	Q3 2009 USD m	Change USD m
Net income	**2 319**	**2 112**	**207**
Fair value adjustments on financial instruments, net of taxes	43	124	-81
Net actuarial losses from defined benefit plans, net of taxes	-287	-733	446
Novartis share of equity recognized by associated companies, net of taxes	-29	37	-66
Translation effects	2 006	887	1 119
Comprehensive income	**4 052**	**2 427**	**1 625**
Attributable to:			
Shareholders of Novartis AG	*3 985*	*2 413*	*1 572*
Non-controlling interests	*67*	*14*	*53*

Nine months to September 30

	9M 2010 USD m	9M 2009 USD m	Change USD m
Net income	**7 704**	**6 131**	**1 573**
Fair value adjustments on financial instruments, net of taxes	19	160	-141
Net actuarial losses from defined benefit plans, net of taxes	-1 437	-788	-649
Novartis share of equity recognized by associated companies, net of taxes	-87	-49	-38
Translation effects	127	899	-772
Comprehensive income	**6 326**	**6 353**	**-27**
Attributable to:			
Shareholders of Novartis AG	*6 225*	*6 309*	*-84*
Non-controlling interests	*101*	*44*	*57*

Condensed consolidated balance sheets

	Sept 30, 2010 (unaudited) USD m	Dec 31, 2009 (audited) USD m	Change USD m	Sept 30, 2009 (unaudited) USD m
Assets				
Non-current assets				
Property, plant & equipment	15 904	14 075	1 829	13 870
Goodwill	29 946	12 039	17 907	11 812
Intangible assets other than goodwill	35 230	10 331	24 899	10 540
Financial and other non-current assets	15 832	25 369	-9 537	24 024
Total non-current assets	**96 912**	**61 814**	**35 098**	**60 246**
Current assets				
Inventories	6 756	5 830	926	6 308
Trade receivables	10 391	8 310	2 081	7 817
Other current assets	2 575	2 102	473	2 149
Cash, short-term deposits and marketable securities	7 994	17 449	-9 455	14 166
Total current assets	**27 716**	**33 691**	**-5 975**	**30 440**
Total assets	**124 628**	**95 505**	**29 123**	**90 686**
Equity and liabilities				
Total equity	**66 218**	**57 462**	**8 756**	**53 313**
Non-current liabilities				
Financial debts	14 331	8 675	5 656	8 706
Other non-current liabilities	16 422	9 898	6 524	10 765
Total non-current liabilities	**30 753**	**18 573**	**12 180**	**19 471**
Current liabilities				
Trade payables	3 987	4 012	-25	3 276
Financial debts and derivatives	12 631	5 313	7 318	5 660
Other current liabilities	11 039	10 145	894	8 966
Total current liabilities	**27 657**	**19 470**	**8 187**	**17 902**
Total liabilities	**58 410**	**38 043**	**20 367**	**37 373**
Total equity and liabilities	**124 628**	**95 505**	**29 123**	**90 686**

Condensed consolidated changes in equity (unaudited)

Third quarter

	Q3 2010 USD m	Q3 2009 USD m	Change USD m
Consolidated equity at July 1	**55 816**	**50 488**	**5 328**
Comprehensive income	4 052	2 427	1 625
Sale of treasury shares, net	118	276	-158
Equity-based compensation	141	152	-11
Changes in non-controlling interests	6 091	-30	6 121
Consolidated equity at September 30	**66 218**	**53 313**	**12 905**

Nine months to September 30

	9M 2010 USD m	9M 2009 USD m	Change USD m
Consolidated equity at January 1	**57 462**	**50 437**	**7 025**
Comprehensive income	6 326	6 353	-27
Sale of treasury shares, net	424	80	344
Equity-based compensation	425	450	-25
Dividends	-4 486	-3 941	-545
Changes in non-controlling interests	6 067	-66	6 133
Consolidated equity at September 30	**66 218**	**53 313**	**12 905**

Condensed consolidated cash flow statements (unaudited)

Third quarter

	Q3 2010 USD m	Q3 2009 USD m	Change USD m
Net income	**2 319**	**2 112**	**207**
Reversal of non-cash items			
Taxes	475	379	96
Depreciation, amortization and impairments	1 237	614	623
Change in provisions and other non-current liabilities	-51	201	-252
Net financial expense	161	122	39
Other	-246	141	-387
Net income adjusted for non-cash items	**3 895**	**3 569**	**326**
Interest and other financial receipts	-230	20	-250
Interest and other financial payments	-173	-363	190
Taxes paid	-638	-289	-349
Cash flow before working capital changes	**2 854**	**2 937**	**-83**
Payments out of provisions and other net cash movements in non-current liabilities	-311	-145	-166
Change in net current assets and other operating cash flow items	684	362	322
Cash flow from operating activities	**3 227**	**3 154**	**73**
Investments in property, plant & equipment	-346	-415	69
Investments in intangible, financial and other non-current assets	-46	-101	55
Sale of property, plant & equipment, intangible, financial and other non-current assets	60	37	23
Acquisitions of subsidiaries	-26 167	-859	-25 308
Change in marketable securities	15 837	-3 114	18 951
Cash flow used for investing activities	**-10 662**	**-4 452**	**-6 210**
Change in current and non-current financial debts	7 077	162	6 915
Treasury share transactions	131	276	-145
Other financing cash flows	-4	5	-9
Cash flow from financing activities	**7 204**	**443**	**6 761**
Translation effect on cash and cash equivalents	59	38	21
Change in cash and cash equivalents	**-172**	**-817**	**645**
Cash and cash equivalents at July 1	5 558	3 590	1 968
Cash and cash equivalents at September 30	**5 386**	**2 773**	**2 613**

Condensed consolidated cash flow statements (unaudited)

Nine months to September 30

	9M 2010 USD m	9M 2009 USD m	Change USD m
Net income	**7 704**	**6 131**	**1 573**
Reversal of non-cash items			
Taxes	1 578	1 099	479
Depreciation, amortization and impairments	2 663	1 712	951
Change in provisions and other non-current liabilities	421	436	-15
Net financial expense	406	301	105
Other	-213	248	-461
Net income adjusted for non-cash items	**12 559**	**9 927**	**2 632**
Interest and other financial receipts	719	590	129
Interest and other financial payments	-438	-498	60
Taxes paid	-2 086	-1 217	-869
Cash flow before working capital changes	**10 754**	**8 802**	**1 952**
Payments out of provisions and other net cash movements in non-current liabilities	-711	-567	-144
Change in net current assets and other operating cash flow items	-553	-510	-43
Cash flow from operating activities	**9 490**	**7 725**	**1 765**
Investments in property, plant & equipment	-1 005	-1 268	263
Investments in intangible, financial and other non-current assets	-483	-471	-12
Sale of property, plant & equipment, intangible, financial and other non-current assets	164	111	53
Acquisitions of subsidiaries	-26 666	-890	-25 776
Change in marketable securities	12 821	-7 508	20 329
Cash flow used for investing activities	**-15 169**	**-10 026**	**-5 143**
Change in current and non-current financial debts	12 258	6 810	5 448
Dividends paid to shareholders of Novartis AG	-4 486	-3 941	-545
Treasury share transactions	438	80	358
Other financing cash flows	-34	1	-35
Cash flow from financing activities	**8 176**	**2 950**	**5 226**
Translation effect on cash and cash equivalents	-5	86	-91
Change in cash and cash equivalents	**2 492**	**735**	**1 757**
Cash and cash equivalents at January 1	2 894	2 038	856
Cash and cash equivalents at September 30	**5 386**	**2 773**	**2 613**

Notes to the Condensed Interim Consolidated Financial Statements for the three- and nine-month periods ended September 30, 2010 (unaudited)

1. Basis of preparation

These Condensed Interim Consolidated Financial Statements for the three- and nine-month periods ended September 30, 2010, were prepared in accordance with International Accounting Standard 34 *InterimFinancial Reporting* and accounting policies set out in the 2009 Annual Report published on January 26, 2010, except as indicated below. As of January 1, 2010, the Group adopted IFRS 3 *(revised)"Business Combinations."* The revised standard requires Novartis to include in the purchase consideration the estimated amount of any contingent considerations and the measurement to fair value, through the income statement of any interest in an acquired company that had been previously held. Furthermore, transaction costs are expensed as incurred and no longer form part of the acquisition price. The Group also adopted amendments to *IAS 27: "Consolidated and Separate Financial Statements."* This requires that the result of changes in the Novartis ownership percentage that do not result in a loss of control will be accounted for in equity. The Group also adopted amendments to *IAS 39: "Financial instruments: Recognition and Measurement."* This revised standard requires that any options, including those concerning Alcon, related to acquisitions up to December 31, 2009, that did not require recognition, are recorded at their fair values, in opening equity at January 1, 2010. These new accounting standards did not have a significant impact on the Group's Condensed Interim Consolidated Financial Statements.

2. Selected critical accounting policies

The 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) as issued by the International Accounting Standards Board. 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 4 and 11 of the 2009 Annual Report, investments in associated companies and intangible assets (including goodwill and acquired In-Process Research & Development projects) are reviewed for impairment at least annually, or 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. The determination of the contingent consideration in respect of acquisitions made during 2010 also requires management to make assumptions on the probability and amount of potential payments due to previous owners. If actual payments are different to the estimated amounts recorded for contingent consideration there could be a significant impact, either positive or negative, on the Group's financial results. This accounting policy was applied for the first time in the second quarter of 2010 for the Corthera Inc., and Oriel Therapeutics Inc., acquisitions discussed in note 3 below.

3. Acquisitions, divestments and significant transactions

The following significant transactions occurred during 2010 and 2009:

Acquisitions in 2010

Corporate – Alcon, Inc.
On August 25, Novartis completed the acquisition of a further 52% stake in Alcon, Inc. (Alcon) following on from the January 4, 2010 announcement that Novartis had exercised its call option to acquire Nestlé's remaining 52% Alcon stake for approximately USD 28.3 billion or USD 180 per share. This increases the interest in Alcon to a 77% controlling stake as Novartis acquired a 25% Alcon stake from Nestlé in 2008 for USD 10.4 billion, or USD 143 per share in April 2008. This purchase was funded from available liquidity and external debt financing.

The overall purchase price of USD 38.7 billion includes certain adjustments for dividends and interest until closing. Sources of financing for the 77% ownership, including the initial 25% stake purchased in mid-2008, were USD 17.0 billion of available cash, and USD 13.5 billion from bonds raised in March 2010 as well as in 2008 and 2009, with the remaining USD 8.2 billion financed with US commercial paper issued in 2010.

With the 77% majority ownership, Alcon is fully consolidated in the Novartis financial reporting from the acquisition date. Based on the limited access to Alcon the following accounting implications are estimates and will be finalized for the Novartis 2010 year-end reporting. However, preliminary assessments show that the initial 25% stake in Alcon needs to be revalued to its estimated deemed fair value of USD 10.2 billion resulting in a USD 204 million gain. The preliminary estimate of the additional pre-tax amortization of intangible assets is approximately USD 2.1 billion per year, with an estimated expense for the four months of 2010 of approximately USD 400 million including the required amortization of inventory revalued to its estimated fair value.

A summary of the financial impact of consolidating Alcon from August 26, using preliminary estimates of the fair value of identified assets and liabilities is as follows:

	USD billions	USD billions
Purchase price for acquiring initial 25% of Alcon		10.4
Purchase price for additional 52% of Alcon		28.3
Total purchase price		**38.7**
Equity adjustments since acquiring the initial 25% interest		(0.4)
Revaluation gain on initial 25% interest		0.2
Investment value on date of change of majority ownership		**38.5**
Net assets reported by Alcon (excluding its goodwill but including any US GAAP / IFRS differences)	5.8	
Estimated fair value adjustments		
- property, plant and equipment	0.5	
- intangible assets	24.2	
- inventory	0.4	
- deferred tax liabilities	(4.4)	
Fair value of net assets acquired		(26.5)
Plus fair value attributed to 23% non-controlling interest		6.1
Residual goodwill		**18.1**

The non-controlling interest has no goodwill allocated to it. Estimated stamp-duty and other transaction related costs

for acquiring the additional 52% is USD 96 million.

Alcon has reported net sales for the nine month period to September 30, 2010 of USD 5.4 billion.

The goodwill on Alcon, Inc. is attributable to a number of factors such as the future growth platform and synergies that can be achieved. None of the goodwill is currently expected to be deductible for tax purposes.

Divestments required from regulatory decisions are expected to occur through to the first quarter of 2011. These divestments vary by market and had 2009 sales of approximately USD 100 million.

On January 4, Novartis also announced its proposal, upon completion of the Nestlé transaction, to enter into an all-share direct merger with Alcon for the remaining 23% minority stake. This merger, which is governed under the Swiss Merger Act, proposes a fixed exchange ratio of 2.80 Novartis shares for each remaining Alcon share. The merger requires 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.

Pharmaceuticals – Corthera
On February 3, Novartis *completed* the acquisition of the privately held US based Corthera Inc., gaining worldwide rights to *Relaxin* for the treatment of acute decompensated heart failure and assumed full responsibility for development and commercialization for a total purchase consideration of USD 327 million. This amount consists of an initial cash payment of USD 120 million and USD 207 million of deferred contingent consideration. The deferred contingent consideration is the net present value of the additional milestone payments due to Corthera's previous shareholders which they are eligible to receive contingent upon the achievement of specified development and commercialization milestones. The final purchase price allocation resulted in identified net assets of USD 309 million and goodwill of USD 18 million. Results of operations since the acquisition date were not material.

Sandoz – Oriel Therapeutics
On June 1, Sandoz completed the acquisition of the privately held US based Oriel Therapeutics Inc., to broaden its portfolio of projects in the field of respiratory drugs for a total purchase consideration of USD 332 million. This amount consists of an initial cash payment of USD 74 million and USD 258 million of deferred contingent consideration. Oriel's previous shareholders are eligible to receive milestone payments, which are contingent upon the company achieving future development steps, regulatory approvals and market launches, and sales royalties. The total USD 258 million of deferred contingent consideration represents the net present value of expected milestone and royalty payments. The final purchase price allocation, including the valuation of the contingent payment elements of the purchase price, resulted in identified net assets of USD 281 million and goodwill of USD 51 million. Results of operations since the acquisition date were not material.

Acquisitions in 2009

Sandoz – EBEWE Pharma
On September 22, Sandoz completed the acquisition of the specialty generic injectables business of EBEWE Pharma. The final amount paid in cash for this business after adjusting for the net debt assumed was EUR 0.8 billion (USD 1.2 billion). The first payment of EUR 0.6 billion (USD 0.9 billion) was made in 2009, with the balance paid in 2010. Based on a final purchase price allocation, EBEWE's identified net assets were USD 0.7 billion and goodwill was USD 0.5 billion. 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 or early 2011, is subject to certain closing conditions, including receipt of government and regulatory approvals in China.

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Other significant transactions in 2010

Corporate – Issuance of bond in US dollars
On March 9, Novartis issued a three-tranche bond totaling USD 5.0 billion registered with the US Securities and Exchange Commission as part of a shelf registration statement filed by Novartis in 2008. A 1.9% three-year tranche totaling USD 2.0 billion, a 2.9% five-year tranche totaling USD 2.0 billion and a 4.4% 10-year tranche totaling USD 1.0 billion were issued by the Group's US entity, Novartis Capital Corp. All tranches are unconditionally guaranteed by Novartis AG.

Corporate – Change of pension plan in Switzerland
On April 23, the Board of Trustees of the Novartis Swiss Pension Fund agreed to amend the conditions and insured benefits of the current Swiss pension plan with effect from January 1, 2011. These amendments do not have an impact on existing pensions in payment or on plan members born before January 1, 1956. Under the previous rules, benefits from the plan are primarily linked to the level of salary in the years prior to retirement while under the new rules benefits are also partially linked to the level of contributions made by the members during their active service period up to their retirement. This has led to changes, recorded in the second quarter of 2010, in the amounts that need to be included in the Group's consolidated financial statements prepared using IFRS in respect of the Swiss Pension Fund.

As part of this change, Novartis, supported by the Swiss Pension Fund, will make transitional payments, which vary according to the member's age and years of service. As a result, it is estimated that exceptional payments will be made over a ten-year period of up to approximately USD 463 million (CHF 453 million) depending on whether or not all current members affected by the change remain in the plan over this ten-year period.

The accounting consequence of this change in the Swiss pension plan rules results in the Group's consolidated financial statements prepared under IFRS reflecting a net pre-tax curtailment gain of USD 265 million (CHF 283 million) in the second quarter of 2010. This calculation only takes into account the discounted value of transition payments of USD 202 million (CHF 219 million) attributed to already completed years of service of the affected plan members as calculated in accordance with IFRS requirements. It does not take into account any amount for transitional payments related to their future years of service.

Other significant transactions in 2009

Corporate – Issuance of bond in US dollars
On February 5, Novartis issued a two-tranche bond totaling USD 5.0 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 2.0 billion was issued by the Group's US entity, Novartis Capital Corp., while a 5.125% 10-year tranche totaling USD 3.0 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.

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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. Idenix has been accounted for on an equity basis since this date, which had no material impact on the Group's consolidated income statement.

4. Principal currency translation rates

Third quarter

	Average rates Q3 2010 USD	Average rates Q3 2009 USD	Period-end rates Sept 30, 2010 USD	Period-end rates Sept 30, 2009 USD
1 CHF	**0.969**	0.941	**1.022**	0.967
1 EUR	**1.291**	1.430	**1.359**	1.462
1 GBP	**1.550**	1.641	**1.584**	1.606
100 JPY	**1.166**	1.069	**1.201**	1.114

Nine months to September 30

	Average rates 9M 2010 USD	Average rates 9M 2009 USD	Period-end rates Sept 30, 2010 USD	Period-end rates Sept 30, 2009 USD
1 CHF	**0.939**	0.904	**1.022**	0.967
1 EUR	**1.316**	1.365	**1.359**	1.462
1 GBP	**1.534**	1.541	**1.584**	1.606
100 JPY	**1.118**	1.056	**1.201**	1.114

5. Consolidated income statements – Divisional segmentation – Third quarter (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Total of divisions excl. Alcon, Inc.		Alcon, Inc.	Corporate (incl. eliminations)		Tota
	Q3 2010 USD m	Q3 2009 USD m	Q3 2010 USD m	Q3 2009 USD m	Q3 2010 USD m	Q3 2009 USD m	Q3 2010 USD m	Q3 2009 USD m	Q3 2010 USD m	Q3 2009 USD m	Q3 2010 USD m	Q3 2010 USD m	Q3 2009 USD m	Q 201 USD m
Net sales to third parties	**7 565**	**7 217**	**632**	**543**	**2 177**	**1 850**	**1 587**	**1 476**	**11 961**	**11 086**	**617**			**12 57**
Sales to other Divisions	41	45	20	11	69	62	12	8	142	126		-142	-126	
Sales of Divisions	**7 606**	**7 262**	**652**	**554**	**2 246**	**1 912**	**1 599**	**1 484**	**12 103**	**11 212**	**617**	**-142**	**-126**	**12 57**
Other revenues	108	98	117	90	2	2	15	14	242	204	1	-1		24
Cost of Goods Sold	-1 350	-1 305	-432	-396	-1 231	-1 001	-537	-520	-3 550	-3 222	-256	144	119	-3 66
Of which amortization and impairments of product and patent rights and trademarks	*-115*	*-92*	*-53*	*-73*	*-70*	*-68*	*-23*	*-20*	*-261*	*-253*	*-7*			*-26*
Gross profit	**6 364**	**6 055**	**337**	**248**	**1 017**	**913**	**1 077**	**978**	**8 795**	**8 194**	**362**	**1**	**-7**	**9 15**
Marketing & Sales	-2 069	-2 009	-86	-57	-344	-314	-522	-483	-3 021	-2 863	-182	1		-3 20
Research & Development	-2 083	-1 424	-135	-118	-135	-157	-89	-82	-2 442	-1 781	-60	-46	-44	-2 54
General & Administration	-222	-210	-32	-39	-80	-94	-92	-86	-426	-429		-113	-113	-53
Other income	30	39	1	4	21	5	23	6	75	54		22	16	9
Other expense	-176	-240	-17	-15	-64	-41	-11	-30	-268	-326	-19	-92	-67	-37
Amortization and impairments of capitalized intangible assets included in above function costs	*-598*	*-33*	*-5*	*-6*	*-4*	*-5*	*-1*		*-608*	*-44*				*-60*
Operating income	**1 844**	**2 211**	**68**	**23**	**415**	**312**	**386**	**303**	**2 713**	**2 849**	**101**	**-227**	**-215**	**2 58**
as % of net sales	*24.4%*	*30.6%*	*10.8%*	*4.2%*	*19.1%*	*16.9%*	*24.3%*	*20.5%*	*22.7%*	*25.7%*	*16.4%*			*20.6*
Income from associated companies	-4	-3				2			-4	-1		372	-20	36

Financial income														2
Interest expense														-18
Income before taxes														**2 79**
Taxes														-47
Net income														**2 31**
Additions to:														
– Property, plant and equipment [1]	*172*	*207*	*19*	*68*	*69*	*63*	*33*	*39*	*293*	*377*	*57*	*25*	*20*	*37*
– Other intangible assets (excluding goodwill) [1]	*36*	*136*	*3*		*4*	*16*		*12*	*43*	*164*	*16*	*1*	*-45*	*6*

[1] Excluding impact of business acquisitions

Consolidated income statements – Divisional segmentation – Nine months to September 30 (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Total of divisions excl. Alcon, Inc.		Alcon, Inc.	Corporate (incl. eliminations)		
	9M 2010 USD m	9M 2009 USD m	9M 2010 USD m	9M 2009 USD m	9M 2010 USD m	9M 2009 USD m	9M 2010 USD m	9M 2009 USD m	9M 2010 USD m	9M 2009 USD m	9M 2010 USD m	9M 2010 USD m	9M 2009 USD m	U
Net sales to third parties	**22 526**	**20 765**	**2 557**	**1 037**	**6 151**	**5 350**	**4 574**	**4 189**	**35 808**	**31 341**	**617**			**3**
Sales to other Divisions	115	137	49	26	199	190	42	31	405	384		-405	-384	
Sales of Divisions	**22 641**	**20 902**	**2 606**	**1 063**	**6 350**	**5 540**	**4 616**	**4 220**	**36 213**	**31 725**	**617**	**-405**	**-384**	**3**
Other revenues	303	284	312	282	10	8	47	43	672	617	1	-1		
Cost of Goods Sold	-3 900	-3 573	-1 158	-863	-3 465	-2 948	-1 593	-1 497	-10 116	-8 881	-256	408	369	-
Of which amortization and impairments of product and patent rights and trademarks	*-209*	*-254*	*-189*	*-214*	*-212*	*-180*	*-71*	*-61*	*-681*	*-709*	*-7*			
Gross profit	**19 044**	**17 613**	**1 760**	**482**	**2 895**	**2 600**	**3 070**	**2 766**	**26 769**	**23 461**	**362**	**2**	**-15**	**2**
Marketing & Sales	-6 293	-6 013	-248	-188	-1 049	-934	-1 590	-1 439	-9 180	-8 574	-182	1		-
Research & Development	-5 180	-4 208	-385	-309	-455	-441	-260	-244	-6 280	-5 202	-60	-138	-119	-
General & Administration	-639	-609	-107	-115	-255	-276	-282	-256	-1 283	-1 256		-369	-333	-
Other income	217	245	27	21	54	19	37	43	335	328		331	93	
Other expense	-641	-542	-182	-102	-176	-118	-31	-61	-1 030	-823	-19	-200	-215	-
Amortization and impairments of capitalized intangible assets included in above function costs	*-874*	*-85*	*-13*	*-18*	*-18*	*-11*	*-1*		*-906*	*-114*		*-2*	*-2*	
Operating income	**6 508**	**6 486**	**865**	**-211**	**1 014**	**850**	**944**	**809**	**9 331**	**7 934**	**101**	**-373**	**-589**	
as % of net sales	*28.9%*	*31.2%*	*33.8%*	*-20.3%*	*16.5%*	*15.9%*	*20.6%*	*19.3%*	*26.1%*	*25.3%*	*16.4%*			*2*
Income from associated companies	-16	-6			2	5			-14	-1		643	187	

Financial income													
Interest expense													
Income before taxes													
Taxes													-
Net income													
Additions to:													
– Property, plant and equipment [1]	*465*	*613*	*118*	*294*	*180*	*178*	*79*	*98*	*842*	*1 183*	*57*	*97*	*50*
– Other intangible assets (excluding goodwill) [1]	*306*	*282*	*6*	*12*	*23*	*28*	*11*	*80*	*346*	*402*	*16*	*4*	*3*

[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 other cases of significance, and includes information as of October 21, 2010:

Governmental investigations
In 2005, the US Attorney's Office for the Eastern District of Pennsylvania (EDPA) served an administrative subpoena pursuant to the Health Insurance Portability and Accountability Act (HIPAA) on Novartis Pharmaceuticals Corporation (NPC). 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 has also been 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, i.e. *Diovan*, *Exforge*, *Sandostatin*, *Tekturna* and *Zelnorm* (Five Products). On September 30, 2010, NPC reached a global settlement bringing the EDPA's investigations into *Trileptal* and the Five Products to a close. As part of the settlement, NPC agreed to plead guilty to one misdemeanor violation of misbranding under the US Food, Drug and Cosmetic Act and to pay a fine of USD 185 million for *Trileptal*. NPC also resolved civil allegations under the False Claims Act relating to *Trileptal* and the Five Products and agreed to pay USD 237.5 million. Moreover, NPC entered into a Corporate Integrity Agreement (CIA) with the Office of the Inspector General of the US Department of Health and Human Services. Under the terms of the CIA, which has a fixed term of five years, NPC will implement additional compliance-related measures. The entry of NPC's guilty plea is expected to take place on November 2, 2010, at a hearing in the US Federal District Court for the EDPA. The total overall settlement amount of USD 422.5 million was fully provisioned for as of the end of the second quarter of 2010.

The US Attorney's Office for the Northern District of California in 2007 served an administrative subpoena pursuant to HIPAA 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 to pay USD 72.5 million to resolve all federal civil claims and state Medicaid claims relating to this investigation. After the settlement agreement with the relevant federal government offices had been executed on April 29, 2010, the execution of the settlement agreements with various states followed on September 14, 2010.

Zometa/Aredia product liability litigation
NPC is a defendant in approximately 690 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. On October 6, 2010, after a trial in New Jersey state court, the jury returned a verdict in favor of NPC. The next trial is scheduled to begin in federal court in North Carolina in November 2010. Two trials are currently scheduled for 2011.

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 (CV) silicone hydrogel patents (JUMP patents). CV filed counter-claims for infringement of its JUMP patents. In August 2009, after the US trial court had rendered a decision finding the JUMP patents valid, enforceable and infringed, CV moved for permanent injunction. J&J has appealed the decision of the US trial court. On April 29, 2010, CV's motion for permanent injunction was denied by the trial court. CV has appealed that decision.

There is also ongoing patent litigation in several European countries including, among others, France, Germany, the Netherlands, the United Kingdom and Spain. Courts in the Netherlands (February 2009) and France (March 2009) issued rulings holding that CV's JUMP patents were valid and infringed by J&J, whereas the trial courts in the UK (July 2009) and in Germany (December 2009) held that the JUMP patents were invalid. The trial court rulings in the Netherlands, France and Germany are currently on appeal. The UK trial court's invalidity ruling was upheld by the UK appeals court on September 30, 2010. The next trial will take place in Spain in early 2011.

Average Wholesale Price litigation
Claims have been brought against various pharmaceutical companies, including NPC and certain Sandoz entities, 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. In some cases, motions to dismiss or (cross-) motions for summary judgment have been made and are currently pending.

Sandoz Inc. (Sandoz) was a defendant in a trial in Alabama in 2009. The jury rendered a verdict against it and awarded compensatory damages of USD 28 million and punitive damages of USD 50 million. Sandoz appealed the verdict to the Supreme Court of Alabama in January 2010. The appeal is fully briefed. On September 1, 2010, plaintiff-appellee filed a motion seeking recusal and disqualification of all the justices on the Alabama Supreme Court and for the appointment of a special supreme court to handle Sandoz's appeal. On September 29, 2010, this motion was unanimously denied by the Alabama Supreme Court. A decision is expected in due course. The second trial involving Sandoz took place in Kentucky in June 2009. The jury rendered a verdict against it and imposed USD 16 million of compensatory damages, and the Court awarded USD 13.6 million in penalties, which were subsequently reduced to USD 11.2 million. No punitive damages were awarded. Sandoz appealed this verdict in March 2010. In Texas, Sandoz entities have reached an agreement in principle to settle all of the State's claims. This agreement, which is still contingent on US Department of Justice approval, resulted in a provision of USD 38 million in the first quarter of 2010, which remains unchanged as of September 30, 2010. The next trial against Sandoz is currently expected to take place in Mississippi in April 2011.

Wage and Hour litigation
Certain pharmaceutical sales representatives filed suit in a state court in California and in the US Federal District Court for the Southern District of New York (SDNY) against NPC alleging that NPC violated wage and hour laws by misclassifying the pharmaceutical sales representatives as "exempt" employees, and by failing to pay overtime compensation. These lawsuits were consolidated and certified as a class action. They are part of a number of actions pending against pharmaceutical companies that challenge the industry's long-term practice of treating pharmaceutical sales representatives as salaried employees. In January 2009, the SDNY held that the pharmaceutical sales representatives were not entitled to overtime pay under the federal Fair Labor Standards Act and corresponding state wage and hour laws. Plaintiffs appealed that judgment to the US Court of Appeals for the Second Circuit (Second Circuit). Amicus briefs supporting the plaintiffs' position were filed by the National Employment Lawyers Association and by the US Department of Labor, and the US Chamber of Commerce filed a brief in support of NPC. On July 6, 2010, the Second Circuit vacated the judgment of the SDNY and remanded the case to the SDNY for further proceedings. On August 2, 2010, the remand mandate was stayed because NPC had decided to appeal the Second Circuit's opinion to the US Supreme Court. On October 4, 2010, NPC filed its petition for a writ of certiorari with the

US Supreme Court. Amicus briefs in support of NPC's certiorari petition are expected to be filed in early November 2010 inter alia by the US Chamber of Commerce, Pharmaceutical Research and Manufacturers of America (PhRMA) and some of NPC's peer companies.

Gender discrimination litigation

In November 2004, certain female pharmaceutical sales representatives brought a class action lawsuit in the SDNY against NPC, Novartis Corporation and a Novartis executive alleging claims of gender discrimination. Novartis Corporation and the Novartis executive were subsequently dismissed from the lawsuit. The trial against NPC began in April 2010. On May 17 and 19, 2010, the jury rendered a liability verdict and awarded USD 3.4 million in individual compensatory damages to the class members testifying at trial and USD 250 million in punitive damages. On July 14, 2010, the SDNY preliminarily approved a class action settlement agreement between NPC and the plaintiffs to end the ongoing proceedings. According to the agreement, which remains subject to final approval by the SDNY, NPC will make monetary payments to eligible class members for backpay and compensatory damages in the amount of up to USD 152.5 million and will fund, over three years, improvements to policies and programs valued at an estimated USD 22.5 million. As part of the measures, NPC will enhance many of its ongoing commitments to all employees and will add additional programs and initiatives to further strengthen its commitment to a diverse and inclusive environment. NPC will for example revise its sexual harassment policy and training, strengthen its complaint process to ensure employees can safely raise concerns and that those concerns will be addressed in a timely and thorough fashion, retain an external specialist to conduct adverse impact analyses aimed at identifying and remedying, with recommendations from plaintiffs' counsel, unjustified gender disparities and it will revise its performance management process to ensure it is fair to all employees.

On September 8, 2010, notice of the settlement was sent to all class members. The fairness hearing in the SDNY is currently scheduled for November 19, 2010.

Alcon minority shareholder litigation

Beginning on January 7, 2010, shareholder class action complaints relating to the Alcon transactions announced on January 4, 2010, were filed against Novartis AG and others by minority shareholders of Alcon, Inc. These actions were filed in the SDNY, in the US Federal District Courts for the Eastern District of New York (EDNY) and the Northern District of Texas (NDTX) and in several Texas state courts. The case in the EDNY was voluntarily dismissed without prejudice by the plaintiffs on March 18, 2010. The case in the NDTX was transferred to the SDNY and formally consolidated with the actions pending there on June 25, 2010. In the SDNY, Novartis AG's motion to dismiss all cases pending there based on the doctrine of forum non conveniens (FNC) was granted and the case was dismissed on July 2, 2010. On July 14, 2010, plaintiffs appealed this decision to the Second Circuit. The actions pending in Texas state courts were consolidated for pre-trial proceedings in a Multi District Litigation on April 16, 2010. Novartis AG's motion to dismiss the consolidated Texas state court actions based on FNC was filed on June 30, 2010, and is still pending.

7. Subsequent event

On October 18, 2010 Novartis finalized the sale of the US rights for *Enablex* (clarifenacin) to Warner Chilcott for USD 400 million. As a result a gain of approximately USD 390 million will be recognized in the fourth quarter of 2010.

Supplementary information

Non-IFRS disclosures

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

Third quarter

	Q3 2010 USD m	Q3 2009 USD m	Change USD m
Change in cash and cash equivalents	**-172**	**-817**	**645**
Change in marketable securities, financial debt and financial derivatives	-23 151	2 671	-25 822
Change in net debt/liquidity	**-23 323**	**1 854**	**-25 177**
Net liquidity/debt at July 1	4 355	-2 054	6 409
Net debt at September 30	**-18 968**	**-200**	**-18 768**

Nine months to September 30

	9M 2010 USD m	9M 2009 USD m	Change USD m
Change in cash and cash equivalents	**2 492**	**735**	**1 757**
Change in marketable securities, financial debt and financial derivatives	-24 921	312	-25 233
Change in net debt/liquidity	**-22 429**	**1 047**	**-23 476**
Net liquidity/debt at January 1	3 461	-1 247	4 708
Net debt at September 30	**-18 968**	**-200**	**-18 768**

Free cash flow (unaudited)

Third quarter

	Q3 2010 USD m	Q3 2009 USD m	Change USD m
Cash flow from operating activities	**3 227**	**3 154**	**73**
Purchase of property, plant & equipment	-346	-415	69
Purchase of intangible, financial and other non-current assets	-46	-101	55
Sale of property, plant & equipment, intangible, financial and other non-current assets	60	37	23
Free cash flow	**2 895**	**2 675**	**220**

Nine months to September 30

	9M 2010 USD m	9M 2009 USD m	Change USD m
Cash flow from operating activities	**9 490**	**7 725**	**1 765**
Purchase of property, plant & equipment	-1 005	-1 268	263
Purchase of intangible, financial and other non-current assets	-483	-471	-12
Sale of property, plant & equipment, intangible, financial and other non-current assets	164	111	53
Free cash flow before dividends	**8 166**	**6 097**	**2 069**
Dividends	-4 486	-3 941	-545
Free cash flow	**3 680**	**2 156**	**1 524**

Share information (unaudited)

	Sept 30, 2010	Sept 30, 2009
Number of shares outstanding (million)	**2 289.6**	2 271.2
Registered share price (CHF)	**56.35**	51.85
ADS price (USD)	**57.67**	50.38
Market capitalization (USD billion)	**131.9**	113.9
Market capitalization (CHF billion)	**129.0**	117.8

Core results

The Group's core results – including core operating income, core net income and core earnings per share – exclude 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. Novartis believes investor understanding of the Group's performance is enhanced by disclosing these supplemental performance measures.

Novartis uses 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 are utilized:

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

• Annual budgets are prepared that include targets for both IFRS and core measures.

Despite the use of these measures by 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 – Group – Third quarter 2010 (unaudited)

	Q3 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items[3] USD m	Exceptional items[4] USD m	Q3 2010 Core results USD m	Q3 2009 Core results[7] USD m
Net sales to third parties	**12 578**					**12 578**	**11 086**
Other revenues	242					242	204
Cost of Goods Sold	-3 662	265	3	95		-3 299	-2 850
Gross profit	**9 158**	**265**	**3**	**95**		**9 521**	**8 440**
Marketing & Sales	-3 202	1				-3 201	-2 863
Research & Development	-2 548	14	593			-1 941	-1 781
General & Administration	-539					-539	-542
Other income	97		2			99	82
Other expense	-379		20	115	4	-240	-377
Operating income	**2 587**	**280**	**618**	**210**	**4**	**3 699**	**2 959**
Income from associated companies	368	107		-189		286	313
Financial income	27					27	51
Interest expense	-188					-188	-173
Income before taxes	**2 794**	**387**	**618**	**21**	**4**	**3 824**	**3 150**
Taxes[5]	-475					-678	-471
Net income	**2 319**					**3 146**	**2 679**
EPS (USD)[6]	**0.99**					**1.36**	**1.17**

[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; Research & Ddevelopment includes the recurring amortization of acquired rights for core technology platforms; Marketing & Sales includes the recurring amortization of intangible assets; Income from associated companies includes the recurring amortization of the purchase price allocation related to intangible assets, primarily for the Roche and Alcon, Inc. investments.
[2] Impairments: Cost of Goods Sold includes impairment charges for acquired rights to in-market products and other production-related impairment charges; Research & Development includes write-offs related to in-process Research & Development, thereof a USD 584 million charge for the discontinuation of *Mycograb* and Albuferon development projects; Other income includes adjustments to impairments, primarily for property, plant & equipment; Other expense includes impairments, primarily for financial assets.
[3] Acquisition-related restructuring and integration items: Cost of Goods Sold includes charges of USD 95 million related to the required inventory step-up to estimated fair value in Alcon, Inc.; Other expense includes mainly charges of USD 96 million related to the acquisition of Alcon, Inc. and USD 19 million related to the change of majority ownership of Alcon, Inc.; Income from associated companies includes a USD 204 million revaluation gain on the initial 25% stake in Alcon, Inc. as well as a USD 15 million charge for the change of majority ownership of Alcon, Inc..

[4] Exceptional items: Other expense includes initial charges for an IT restructuring project which over time will exceed the USD 25 million threshold.
[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.
[7] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

CORE RESULTS
Reconciliation from IFRS results to core results – Group – Nine months to September 30, 2010 (unaudited)

	9M 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items[3] USD m	Exceptional items[4] USD m	9M 2010 Core results USD m	9M 2009 Core results[7] USD m
Net sales to third parties	**36 425**					**36 425**	**31 341**
Other revenues	672					672	617
Cost of Goods Sold	-9 964	785	-97	99		-9 177	-7 803
Gross profit	**27 133**	**785**	**-97**	**99**		**27 920**	**24 155**
Marketing & Sales	-9 361	1				-9 360	-8 574
Research & Development	-6 478	47	762		18	-5 651	-5 205
General & Administration	-1 652					-1 652	-1 589
Other income	666		-3		-345	318	421
Other expense	-1 249		103	115	296	-735	-975
Operating income	**9 059**	**833**	**765**	**214**	**-31**	**10 840**	**8 233**
Income from associated companies	629	390		-189	43	873	799
Financial income	90					90	94
Interest expense	-496					-496	-395
Income before taxes	**9 282**	**1 223**	**765**	**25**	**12**	**11 307**	**8 731**
Taxes[5]	-1 578					-2 081	-1 356
Net income	**7 704**					**9 226**	**7 375**
EPS (USD)[6]	**3.34**					**4.00**	**3.24**

[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; Research & Development includes the recurring amortization of acquired rights for core technology platforms; Marketing & Sales includes the recurring amortization of intangible assets; Income from associated companies includes the recurring amortization of the purchase price allocation related to intangible assets, primarily for the Roche and Alcon, Inc. investments.
[2] Impairments: Cost of Goods Sold includes impairment charges for acquired rights to in-market products and production-related impairment charges, including an additional reversal of USD 100 million in pharmaceuticals for an impairment charge taken in 2007 for *Famvir;* Research & Development includes write-offs related to in-process Research & Development, mainly a USD 736 million charge for the discontinuation of *Mycograb*, Albuferon and PTZ601 development projects; Other income includes the reversal of impairments, primarily for property, plant & equipment; Other expense includes impairments, mainly a charge of USD 75 million in Vaccines and Diagnostics for a financial asset
[3] Acquisition-related restructuring and integration items: Cost of Goods Sold includes mainly charges of USD 95 million related to the required inventory step-up to estimated fair value in Alcon, Inc.; Other expense includes charges of USD 96 million related to the acquisition of Alcon, Inc. and USD 19 million related to the change of majority ownership of Alcon, Inc.; Income from associated companies includes a USD 204 million revaluation gain on the initial 25% stake in Alcon, Inc. as well as a USD 15 million charge for the change of majority ownership of Alcon,

Inc..

[4] Exceptional items: Other income includes mainly a Swiss pension curtailment gain of USD 265 million in Corporate, proceeds of USD 42 million from a legal settlement in Pharmaceuticals with Teva regarding *Famvir* and a divestment gain of USD 33 million for *Tofranil* in Pharmaceuticals; Other expense includes mainly a USD 152.5 million provision for a gender discrimination case in the US in Pharmaceuticals, a USD 26 million charge for restructuring in the US in Pharmaceuticals, a USD 25.5 million provision in connection with a government investigation in the US in Pharmaceuticals, USD 45 million for a legal settlement in Vaccines and Diagnostics, and a USD 38 million charge for a legal settlement in Sandoz; Income from associated companies reflects an additional charge of USD 43 million for the Novartis share of Roche's restructuring charges for Genentech taken in the second half of 2009.

[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.

[7] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

CORE RESULTS – Reconciliation from IFRS results to core results – Pharmaceuticals (unaudited)

Third quarter 2010

	Q3 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items USD m	Exceptional items USD m	Q3 2010 Core results USD m	Q3 2009 Core results[3] USD m
Net sales to third parties	**7 565**					**7 565**	**7 217**
Sales to other divisions	41					41	45
Other revenues	108					108	98
Cost of Goods Sold	-1 350	115				-1 235	-1 213
Gross profit	**6 364**	**115**				**6 479**	**6 147**
Marketing & Sales	-2 069					-2 069	-2 009
Research & Development	-2 083	6	592			-1 485	-1 391
General & Administration	-222					-222	-210
Other income	30					30	40
Other expense	-176		11			-165	-213
Operating income	**1 844**	**121**	**603**			**2 568**	**2 364**

[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; Research & Development includes the recurring amortization of acquired rights for core technology platforms.
[2] Impairments: Research & Development includes write-offs related to in-process Research & Development, thereof a USD 584 million charge for the discontinuation of *Mycograb* and Albuferon development projects; Other expense includes impairments, primarily for financial assets.
[3] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

CORE RESULTS – Reconciliation from IFRS results to core results – Pharmaceuticals (unaudited)

Nine months to September 30

	9M 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items USD m	Exceptional items[3] USD m	9M 2010 Core results USD m	9M 2009 Core results[4] USD m
Net sales to third parties	**22 526**					**22 526**	**20 765**
Sales to other divisions	115					115	137
Other revenues	303					303	284
Cost of Goods Sold	-3 900	309	-100			-3 691	-3 319
Gross profit	**19 044**	**309**	**-100**			**19 253**	**17 867**
Marketing & Sales	-6 293					-6 293	-6 013
Research & Development	-5 180	21	755			-4 404	-4 123
General & Administration	-639					-639	-609
Other income	217		-4		-80	133	245
Other expense	-641		17		209	-415	-514
Operating income	**6 508**	**330**	**668**		**129**	**7 635**	**6 853**

[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; Research & Development includes the recurring amortization of acquired rights for core technology platforms.
[2] Impairments: Cost of Goods Sold includes impairment charges for acquired rights to in-market products and other production-related impairment charges, including an additional reversal of USD 100 million for an impairment charge taken in 2007 for *Famvir;* Research & Development includes write-offs related to in-process Research & Development, mainly a USD 584 million charge for the discontinuation of *Mycograb* and Albuferon development projects and a net pre-tax impairment charge of USD 152 million (USD 250 million related to the value of the intangible asset offset by a release of a USD 98 million liability related to the estimated value of a contingent milestone consideration) for termination of the PTZ601 development project; Other income includes the reversal of impairments, primarily for financial assets; Other expense includes impairments, primarily for financial assets.
[3] Exceptional items: Other income reflects proceeds of USD 42 million from a legal settlement with Teva regarding *Famvir* and a divestment gain of USD 33 million for *Tofranil*; Other expense includes a USD 152.5 million provision for a gender discrimination case in the US, a USD 26 million charge for restructuring in the US as well as a USD 25.5 million provision in connection with a government investigation in the US.
[4] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

CORE RESULTS – Reconciliation from IFRS results to core results – Vaccines and Diagnostics (unaudited)

Third quarter 2010

	Q3 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments USD m	Acquisition-related restructuring and integration items USD m	Exceptional items USD m	Q3 2010 Core results USD m	Q3 2009 Core results[2] USD m
Net sales to third parties	**632**					**632**	**543**
Sales to other divisions	20					20	11
Other revenues	117					117	90
Cost of Goods Sold	-432	53				-379	-323
Gross profit	**337**	**53**				**390**	**321**
Marketing & Sales	-86					-86	-57
Research & Development	-135	5				-130	-112
General & Administration	-32					-32	-39
Other income	1					1	4
Other expense	-17					-17	-15
Operating income	**68**	**58**				**126**	**102**

[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; Research & Development includes the recurring amortization of acquired rights for core technology platforms.
[2] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

CORE RESULTS – Reconciliation from IFRS results to core results – Vaccines and Diagnostics (unaudited)

Nine months to September 30

	9M 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items USD m	Exceptional items[3] USD m	9M 2010 Core results USD m	9M 2009 Core results[4] USD m
Net sales to third parties	**2 557**					**2 557**	**1 037**
Sales to other divisions	49					49	26
Other revenues	312					312	282
Cost of Goods Sold	-1 158	189				-969	-649
Gross profit	**1 760**	**189**				**1 949**	**696**
Marketing & Sales	-248					-248	-188
Research & Development	-385	13				-372	-291
General & Administration	-107					-107	-115
Other income	27					27	21
Other expense	-182		75		45	-62	-57
Operating income	**865**	**202**	**75**		**45**	**1 187**	**66**

[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; Research & Development includes the recurring amortization of acquired rights for core technology platforms.
[2] Impairments: Other expense relates to a charge of USD 75 million for a financial asset.
[3] Exceptional items: Other expense relates to a USD 45 million expense for a legal settlement.
[4] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

CORE RESULTS – Reconciliation from IFRS results to core results – Sandoz (unaudited)

Third quarter 2010

	Q3 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items USD m	Exceptional items USD m	Q3 2010 Core results USD m	Q3 2009 Core results[3] USD m
Net sales to third parties	**2 177**					**2 177**	**1 850**
Sales to other divisions	69					69	62
Other revenues	2					2	2
Cost of Goods Sold	-1 231	67	3			-1 161	-933
Gross profit	**1 017**	**67**	**3**			**1 087**	**981**
Marketing & Sales	-344					-344	-314
Research & Development	-135	3	1			-131	-152
General & Administration	-80					-80	-94
Other income	21		2			23	8
Other expense	-64		1			-63	-44
Operating income	**415**	**70**	**7**			**492**	**385**

[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; Research & Development includes the recurring amortization of acquired rights for core technology platforms.
[2] Impairments: Cost of Goods Sold includes impairment charges for acquired rights to in-market products and other production-related impairment charges; Research & Development includes write-offs related to in-process Research & Development; Other income includes adjustments to impairment reversals, primarily for property, plant & equipment; Other expense includes impairments, primarily for property, plant & equipment.
[3] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

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CORE RESULTS – Reconciliation from IFRS results to core results – Sandoz (unaudited)

Nine months to September 30

	9M 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related restructuring and integration items[3] USD m	Exceptional items[4] USD m	9M 2010 Core results USD m	9M 2009 Core results[5] USD m
Net sales to third parties	**6 151**					**6 151**	**5 350**
Sales to other divisions	199					199	190
Other revenues	10					10	8
Cost of Goods Sold	-3 465	209	3	4		-3 249	-2 768
Gross profit	**2 895**	**209**	**3**	**4**		**3 111**	**2 780**
Marketing & Sales	-1 049					-1 049	-934
Research & Development	-455	11	7		18	-419	-430
General & Administration	-255					-255	-276
Other income	54		1			55	19
Other expense	-176		1		38	-137	-120
Operating income	**1 014**	**220**	**12**	**4**	**56**	**1 306**	**1 039**

[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; Research & Development includes the recurring amortization of acquired rights for core technology platforms.
[2] Impairments: Cost of Goods Sold includes impairment charges for acquired rights to in-market products and other production-related impairment charges; Research & Development includes write-offs related to in-process Research & Development; Other income includes adjustments to impairment reversals, primarily for property, plant & equipment; Other expense includes impairments, primarily for property, plant & equipment.
[3] Acquisition-related restructuring and integration items: Cost of Goods Sold includes charges of USD 4 million related to business acquisitions.
[4] Exceptional items: Research & Development includes an expense for termination of a co-development contract; Other expense represents a USD 38 million charge for a legal settlement in the US.
[5] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

CORE RESULTS – Reconciliation from IFRS results to core results – Consumer Health (unaudited)

Third quarter 2010

	Q3 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments USD m	Acquisition-related restructuring and integration items USD m	Exceptional items USD m	Q3 2010 Core results USD m	Q3 2009 Core results[2] USD m
Net sales to third parties	**1 587**					**1 587**	**1 476**
Sales to other divisions	12					12	8
Other revenues	15					15	14
Cost of Goods Sold	-537	23				-514	-500
Gross profit	**1 077**	**23**				**1 100**	**998**
Marketing & Sales	-522	1				-521	-483
Research & Development	-89					-89	-82
General & Administration	-92					-92	-86
Other income	23					23	6
Other expense	-11					-11	-30
Operating income	**386**	**24**				**410**	**323**

[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; Marketing & Sales includes the recurring amortization of intangible assets.
[2] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

Nine months to September 30

	9M 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments USD m	Acquisition-related restructuring and integration items USD m	Exceptional items USD m	9M 2010 Core results USD m	9M 2009 Core results[2] USD m
Net sales to third parties	**4 574**					**4 574**	**4 189**
Sales to other divisions	42					42	31
Other revenues	47					47	43
Cost of Goods Sold	-1 593	71				-1 522	-1 436
Gross profit	**3 070**	**71**				**3 141**	**2 827**
Marketing & Sales	-1 590	1				-1 589	-1 439
	-260					-260	-244

Research & Development					
General & Administration	-282			-282	-256
Other income	37			37	43
Other expense	-31			-31	-61
Operating income	**944**	**72**		**1 016**	**870**

[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; Marketing & Sales includes the recurring amortization of intangible assets.
[2] Detailed reconciliation information for the 2009 period from IFRS results to core results has been published on the Group's website at www.novartis.com.

CORE RESULTS – Reconciliation from IFRS results to core results – Alcon, Inc. (unaudited)

Third quarter / Nine months to September 30, 2010

	Q3 2010 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments USD m	Acquisition-related restructuring and integration items[2] USD m	Exceptional items USD m	Q3 2010 Core results USD m
Net sales to third parties	**617**					**617**
Sales to other divisions						
Other revenues	1					1
Cost of Goods Sold	-256	7		95		-154
Gross profit	**362**	**7**		**95**		**464**
Marketing & Sales (including General & Administration)	-182					-182
Research & Development	-60					-60
Other income						
Other expense	-19			19		
Operating income	**101**	**7**		**114**		**222**

[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.
[2] Acquisition-related restructuring and integration items: Cost of Goods Sold includes charges of USD 95 million related to the required inventory step-up to estimated fair value; Other expense includes charges of USD 19 million related to the change of majority ownership.

CORE RESULTS

Reconciliation of operating income to core operating income and net income – Third quarter (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Alcon, Inc.	Corporate		Total	
	Q3 2010 USD m	Q3 2009 USD m	Q3 2010 USD m	Q3 2009 USD m	Q3 2010 USD m	Q3 2009 USD m	Q3 2010 USD m	Q3 2009 USD m	Q3 2010 USD m	Q3 2010 USD m	Q3 2009 USD m	Q3 2010 USD m	Q3 2009 USD m
Operating income	**1 844**	**2 211**	**68**	**23**	**415**	**312**	**386**	**303**	**101**	**-227**	**-215**	**2 587**	**2 634**
Amortization of intangible assets	**121**	**94**	**58**	**79**	**70**	**63**	**24**	**20**	**7**			**280**	**256**
Impairments													
Intangible assets	592	31			4	10						596	41
Property, plant & equipment	1	1			3							4	1
Financial assets	10									8		18	
Total impairment charges	**603**	**32**			**7**	**10**				**8**		**618**	**42**
Acquisition-related restructuring and integration items (including acquisition-related accounting impact of inventory adjustments), net									**114**	**96**		**210**	
Exceptional items													
Legal provisions, litigations and exceptional settlements		27											27
Other exceptional items										4		4	
Total exceptional items		**27**								**4**		**4**	**27**
Total adjustments	**724**	**153**	**58**	**79**	**77**	**73**	**24**	**20**	**121**	**108**		**1 112**	**325**
Core operating income	**2 568**	**2 364**	**126**	**102**	**492**	**385**	**410**	**323**	**222**	**-119**	**-215**	**3 699**	**2 959**
as % of net sales	*33.9%*	*32.8%*	*19.9%*	*18.8%*	*22.6%*	*20.8%*	*25.8%*	*21.9%*	*36.0%*			*29.4%*	*26.7%*
Income from associated companies	-4	-3				2				372	-20	368	-21
Recurring amortization, exceptional impairments and restructuring												-82	334

expenses related to income from associated companies, net of tax		
Financial income	27	51
Interest expenses	-188	-173
Taxes (adjusted for above items)	-678	-471
Core net income	**3 146**	**2 679**
Core net income attributable to shareholders	**3 102**	**2 665**
Core EPS (USD)	**1.36**	**1.17**

CORE RESULTS

Reconciliation of operating income to core operating income and net income – Nine months to September 30 (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Alcon, Inc.	Corporate		Total	
	9M 2010 USD m	9M 2009 USD m	9M 2010 USD m	9M 2009 USD m	9M 2010 USD m	9M 2009 USD m	9M 2010 USD m	9M 2009 USD m	9M 2010 USD m	9M 2010 USD m	9M 2009 USD m	9M 2010 USD m	9M 2009 USD m
Operating income	**6 508**	**6 486**	**865**	**-211**	**1 014**	**850**	**944**	**809**	**101**	**-373**	**-589**	**9 059**	**7 345**
Amortization of intangible assets	**330**	**284**	**202**	**232**	**220**	**181**	**72**	**61**	**7**	**2**	**2**	**833**	**760**
Impairments													
Intangible assets	655	55			10	10						665	65
Property, plant & equipment	-3				2	-2						-1	-2
Financial assets	16	1	75							10	-8	101	-7
Total impairment charges	**668**	**56**	**75**		**12**	**8**				**10**	**-8**	**765**	**56**
Acquisition-related restructuring and integration items (including acquisition-related accounting impact of inventory adjustments), net					**4**				**114**	**96**		**214**	
Exceptional items													
Exceptional gains from divesting brands, subsidiaries and financial investments	-33											-33	
Other restructuring expenses	26											26	
Legal provisions, litigations and exceptional settlements	136	27	45	45	56							237	72
Swiss pension curtailment gain										-265		-265	
Other exceptional items										4		4	
Total exceptional items	**129**	**27**	**45**	**45**	**56**					**-261**		**-31**	**72**
Total adjustments	**1 127**	**367**	**322**	**277**	**292**	**189**	**72**	**61**	**121**	**-153**	**-6**	**1 781**	**888**
	7 635	**6 853**	**1 187**	**66**	**1 306**	**1 039**	**1 016**	**870**	**222**	**-526**	**-595**	**10 840**	**8 233**

Core operating income												
as % of net sales	*33.9%*	*33.0%*	*46.4%*	*6.4%*	*21.2%*	*19.4%*	*22.2%*	*20.8%*	*36.0%*		*29.8%*	*26.3%*
Income from associated companies	-16	-6			2	5				643	187	629	186
Recurring amortization, exceptional impairments and restructuring expenses related to income from associated companies, net of tax												244	613
Financial income												90	94
Interest expenses												-496	-395
Taxes (adjusted for above items)												-2 081	-1 356
Core net income												**9 226**	**7 375**
Core net income attributable to shareholders												**9 147**	**7 339**
Core EPS (USD)												**4.00**	**3.24**

Supplementary tables: Third quarter 2010 – Net sales of top 20 pharmaceutical products (unaudited)

		US		Rest of world		Total		
Brands		USD m	% change in constant currencies	USD m	% change in constant currencies	USD m	% change in USD	% change in constant currencies
Diovan/Co–Diovan	Hypertension	627	4	856	0	1 483	1	2
Gleevec/Glivec	Chronic myeloid leukemia	333	22	682	-1	1 015	4	6
Lucentis	Age-related macular degeneration			398	22	398	19	22
Zometa	Cancer complications	176	-5	187	0	363	-3	-3
Femara	Breast cancer	169	13	174	1	343	4	6
Sandostatin	Acromegaly and neuroendocrine tumors	124	6	194	9	318	6	8
Exelon/Exelon Patch	Alzheimer's disease	89	-8	155	5	244	-3	0
Exforge	Hypertension	73	22	149	40	222	30	33
Neoral/Sandimmun	Transplantation	20	0	187	-9	207	-9	-8
Voltaren (excl. OTC)	Inflammation/pain		nm	202	1	202	-1	0
Top ten products total		**1 611**	**7**	**3 184**	**4**	**4 795**	**4**	**5**
Exjade	Iron chelator	65	7	117	8	182	5	7
Comtan/Stalevo	Parkinson’s disease	58	9	94	9	152	8	9
Reclast/Aclasta	Osteoporosis	100	12	43	22	143	14	15
Ritalin/Focalin	Attention Deficit/Hyperactivity Disorder	71	-11	29	11	100	-6	-5
Lescol	Cholesterol reduction	24	-17	79	-25	103	-24	-24
Myfortic	Transplantation	43	19	79	37	122	31	30
Tekturna/Rasilez	Hypertension	55	20	58	72	113	36	42
Tasigna	Chronic myeloid leukemia	36	100	73	93	109	95	97
Galvus	Diabetes			101	114	101	102	114
Xolair	Asthma	11	-35	86	42	97	24	32
Top 20 products total		**2 074**	**7**	**3 943**	**8**	**6 017**	**6**	**8**
Rest of portfolio		490	1	1 058	2	1 548	0	1
Total Division sales		**2 564**	**6**	**5 001**	**6**	**7 565**	**5**	**6**

nm – Not meaningful

Supplementary tables: Nine months to September 30, 2010 – Net sales of top 20 pharmaceutical products (unaudited)

		US		Rest of world		Total		
Brands		USD m	% change in constant currencies	USD m	% change in constant currencies	USD m	% change in USD	% change in constant currencies
Diovan/Co–Diovan	Hypertension	1 872	2	2 605	0	4 477	2	1
Gleevec/Glivec	Chronic myeloid leukemia	938	19	2 184	3	3 122	9	8
Lucentis	Age-related macular degeneration			1 139	30	1 139	33	30
Zometa	Cancer complications	538	0	578	5	1 116	4	3
Femara	Breast cancer	491	16	534	6	1 025	11	11
Sandostatin	Acromegaly and neuroendocrine tumors	371	11	569	11	940	12	11
Exelon/Exelon Patch	Alzheimer's disease	290	10	457	7	747	9	8
Exforge	Hypertension	211	27	442	43	653	37	37
Neoral/Sandimmun	Transplantation	62	-6	574	-8	636	-6	-8
Voltaren (excl. OTC)	Inflammation/pain	1	-67	586	2	587	2	1
Top ten products total		**4 774**	**8**	**9 668**	**6**	**14 442**	**8**	**7**
Exjade	Iron chelator	197	10	356	22	553	18	17
Comtan/Stalevo	Parkinson’s disease	172	9	271	9	443	10	9
Reclast/Aclasta	Osteoporosis	278	22	130	31	408	26	25
Ritalin/Focalin	Attention Deficit/Hyperactivity Disorder	250	-2	89	15	339	3	2
Lescol	Cholesterol reduction	73	-19	257	-24	330	-22	-23
Myfortic	Transplantation	120	21	210	27	330	29	25
Tekturna/Rasilez	Hypertension	148	24	157	94	305	51	53
Tasigna	Chronic myeloid leukemia	89	102	184	83	273	90	89
Galvus	Diabetes			267	136	267	132	136
Xolair	Asthma	19	-66	248	56	267	22	24
Top 20 products total		**6 120**	**8**	**11 837**	**10**	**17 957**	**10**	**9**
Rest of portfolio		1 396	-2	3 173	0	4 569	1	0
Total Division sales		**7 516**	**6**	**15 010**	**8**	**22 526**	**8**	**7**

Pharmaceuticals Division net sales by therapeutic area – Third quarter (unaudited)

	Q3 2010 USD m	Q3 2009 USD m	% change USD	% change cc
Cardiovascular and Metabolism				
Diovan	1 483	1 464	1	2
Exforge	222	171	30	33
Tekturna/Rasilez	113	83	36	42
Subtotal	**1 818**	**1 718**	**6**	**7**
Galvus	101	50	102	114
Lotrel	80	75	7	4
Total strategic franchise products	**1 999**	**1 843**	**8**	**10**
Established medicines (including *Lescol*)	**264**	**320**	**-18**	**-17**
Total Cardiovascular and Metabolism products	**2 263**	**2 163**	**5**	**6**
Oncology				
Gleevec/Glivec	1 015	974	4	6
Zometa	363	376	-3	-3
Femara	343	329	4	6
Sandostatin	318	300	6	8
Exjade	182	174	5	7
Tasigna	109	56	95	97
Afinitor	67	26	nm	nm
Other	54	61	-11	-9
Total Oncology products	**2 451**	**2 296**	**7**	**9**
Neuroscience and Ophthalmics				
Lucentis	398	335	19	22
Exelon/Exelon Patch	244	251	-3	0
Comtan/Stalevo	152	141	8	9
Extavia	26	14	86	102
Other	111	108	3	6
Total strategic franchise products	**931**	**849**	**10**	**13**
Established medicines	**137**	**145**	**-6**	**-6**
Total Neuroscience and Ophthalmics products	**1 068**	**994**	**7**	**10**
Respiratory				
Xolair	97	78	24	32
TOBI	70	76	-8	-5
Onbrez	8	0	nm	nm
Other		-2	nm	nm
Total strategic franchise products	**175**	**152**	**15**	**20**
Established medicines	**37**	**40**	**-8**	**-4**
Total Respiratory products	**212**	**192**	**10**	**15**
Integrated Hospital Care				
Neoral/Sandimmun	207	227	-9	-8

Reclast/Aclasta	143	125	14	15
Myfortic	122	93	31	30
Zortress/Certican	35	32	9	19
Ilaris	6	1	nm	nm
Other	74	62	19	19
Total strategic franchise products	**587**	**540**	**9**	**10**
Established medicines	**237**	**249**	**-5**	**-6**
Total Integrated Hospital Care products	**824**	**789**	**4**	**5**
Additional products				
Voltaren (excluding OTC)	202	205	-1	0
Ritalin/Focalin	100	106	-6	-5
Tegretol	86	96	-10	-11
Foradil	85	85	0	4
Trileptal	62	80	-23	-21
Everolimus sales to stent manufacturers	63	67	-6	-9
Other	149	144	3	-7
Total additional products	**747**	**783**	**-5**	**1**
Total strategic franchise products	**6 143**	**5 680**	**8**	**10**
Total established medicines and additional products	**1 422**	**1 537**	**-7**	**-7**
Total Division net sales	**7 565**	**7 217**	**5**	**6**

nm – Not meaningful

Pharmaceuticals Division net sales by therapeutic area – Nine months to September 30 (unaudited)

	9M 2010 USD m	9M 2009 USD m	% change USD	% change cc
Cardiovascular and Metabolism				
Diovan	4 477	4 399	2	1
Exforge	653	475	37	37
Tekturna/Rasilez	305	202	51	53
Subtotal	**5 435**	**5 076**	**7**	**6**
Galvus	267	115	132	136
Lotrel	224	244	-8	-9
Total strategic franchise products	**5 926**	**5 435**	**9**	**8**
Established medicines (including *Lescol*)	**836**	**997**	**-16**	**-17**
Total Cardiovascular and Metabolism products	**6 762**	**6 432**	**5**	**4**
Oncology				
Gleevec/Glivec	3 122	2 858	9	8
Zometa	1 116	1 077	4	3
Femara	1 025	925	11	11
Sandostatin	940	839	12	11
Exjade	553	469	18	17
Tasigna	273	144	90	89
Afinitor	163	38	nm	nm
Other	144	180	-20	-21
Total Oncology products	**7 336**	**6 530**	**12**	**11**
Neuroscience and Ophthalmics				
Lucentis	1 139	858	33	30
Exelon/Exelon Patch	747	687	9	8
Comtan/Stalevo	443	402	10	9
Extavia	84	26	nm	nm
Other	343	343	0	-1
Total strategic franchise products	**2 756**	**2 316**	**19**	**17**
Established medicines	**419**	**426**	**-2**	**-5**
Total Neuroscience and Ophthalmics products	**3 175**	**2 742**	**16**	**14**
Respiratory				
Xolair	267	218	22	24
TOBI	207	219	-5	-5
Onbrez	16	0	nm	nm
Other		-1	nm	nm
Total strategic franchise products	**490**	**436**	**12**	**13**
Established medicines	**126**	**136**	**-7**	**-9**
Total Respiratory products	**616**	**572**	**8**	**8**
Integrated Hospital Care				
Neoral/Sandimmun	636	675	-6	-8

Reclast/Aclasta	408	325	26	25
Myfortic	330	256	29	25
Zortress/Certican	105	82	28	29
Ilaris	16	1	nm	nm
Other	214	165	30	27
Total strategic franchise products	**1 709**	**1 504**	**14**	**12**
Established medicines	**661**	**706**	**-6**	**-9**
Total Integrated Hospital Care products	**2 370**	**2 210**	**7**	**5**
Additional products				
Voltaren (excluding OTC)	587	577	2	1
Ritalin/Focalin	339	329	3	2
Tegretol	265	283	-6	-9
Foradil	260	264	-2	-2
Trileptal	189	227	-17	-18
Everolimus sales to stent manufacturers	197	183	8	3
Other	430	416	3	2
Total additional products	**2 267**	**2 279**	**-1**	**-2**
Total strategic franchise products	**18 217**	**16 221**	**12**	**11**
Total established medicines and additional products	**4 309**	**4 544**	**-5**	**-7**
Total Division net sales	**22 526**	**20 765**	**8**	**7**

nm – Not meaningful

Net sales by region[1] (unaudited)

Third quarter

	Q3 2010 USD m	Q3 2009 USD m	% change USD	% change cc	Q3 2010 % of total	Q3 2009 % of total
Pharmaceuticals						
US	2 564	2 416	6	6	34	34
Europe	2 572	2 630	-2	6	34	36
Asia/Africa/Australasia	1 670	1 526	9	3	22	21
Canada and Latin America	759	645	18	16	10	9
Total	**7 565**	**7 217**	**5**	**6**	**100**	**100**
Vaccines and Diagnostics						
US	348	200	74	74	55	37
Europe	165	244	-32	-26	26	45
Asia/Africa/Australasia	94	81	16	25	15	15
Canada and Latin America	25	18	39	51	4	3
Total	**632**	**543**	**16**	**21**	**100**	**100**
Sandoz						
US	768	431	78	79	35	23
Europe	1 009	1 074	-6	2	46	58
Asia/Africa/Australasia	259	205	26	28	12	11
Canada and Latin America	141	140	1	-2	7	8
Total	**2 177**	**1 850**	**18**	**23**	**100**	**100**
Consumer Health						
US	521	461	13	13	33	31
Europe	664	659	1	8	42	45
Asia/Africa/Australasia	263	226	16	9	16	15
Canada and Latin America	139	130	7	5	9	9
Total	**1 587**	**1 476**	**8**	**9**	**100**	**100**
Novartis Group excluding Alcon, Inc.						
US	4 201	3 508	20	20	35	32
Europe	4 410	4 607	-4	4	37	42
Asia/Africa/Australasia	2 286	2 038	12	7	19	18
Canada and Latin America	1 064	933	14	12	9	8
Total	**11 961**	**11 086**	**8**	**10**	**100**	**100**
Alcon, Inc.	**617**					
Group Total	**12 578**	**11 086**	**13**	**16**	**100**	**100**

[1] Net sales from operations by location of third party customer

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Net sales by region[1] (unaudited)

Nine months to September 30

	9M 2010 USD m	9M 2009 USD m	% change USD	% change cc	9M 2010 % of total	9M 2009 % of total
Pharmaceuticals						
US	7 516	7 064	6	6	33	34
Europe	7 999	7 558	6	8	35	36
Asia/Africa/Australasia	4 868	4 383	11	5	22	21
Canada and Latin America	2 143	1 760	22	14	10	9
Total	**22 526**	**20 765**	**8**	**7**	**100**	**100**
Vaccines and Diagnostics						
US	1 076	382	182	184	42	37
Europe	632	436	45	51	25	42
Asia/Africa/Australasia	573	176	226	227	22	17
Canada and Latin America	276	43	542	555	11	4
Total	**2 557**	**1 037**	**147**	**151**	**100**	**100**
Sandoz						
US	1 879	1 311	43	43	30	25
Europe	3 122	3 075	2	3	51	57
Asia/Africa/Australasia	729	575	27	23	12	11
Canada and Latin America	421	389	8	-1	7	7
Total	**6 151**	**5 350**	**15**	**15**	**100**	**100**
Consumer Health						
US	1 488	1 329	12	12	33	32
Europe	1 961	1 866	5	6	43	45
Asia/Africa/Australasia	735	644	14	6	16	15
Canada and Latin America	390	350	11	3	8	8
Total	**4 574**	**4 189**	**9**	**8**	**100**	**100**
Novartis Group excluding Alcon, Inc.						
US	11 959	10 086	19	18	34	32
Europe	13 714	12 935	6	8	38	41
Asia/Africa/Australasia	6 905	5 778	20	13	19	19
Canada and Latin America	3 230	2 542	27	20	9	8
Total	**35 808**	**31 341**	**14**	**13**	**100**	**100**
Alcon, Inc.	**617**					
Group Total	**36 425**	**31 341**	**16**	**15**	**100**	**100**

[1] Net sales from operations by location of third party customer

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Quarterly analysis (unaudited)

Key figures by quarter

	Q3 2010 USD m	Q2 2010 USD m	Change USD m	Change %
Net sales	**12 578**	11 716	862	7
Operating income	**2 587**	2 961	-374	-13
Financial income	**27**	14	13	93
Interest expense	**-188**	-175	-13	7
Taxes	**-475**	-521	46	-9
Net income	**2 319**	2 437	-118	-5

Net sales by region

	Q3 2010 USD m	Q2 2010 USD m	Change USD m	Change %
US	**4 201**	3 831	370	10
Europe	**4 410**	4 431	-21	0
Asia/Africa/Australasia	**2 286**	2 374	-88	-4
Canada and Latin America	**1 064**	1 080	-16	-1
Novartis Group excl. Alcon, Inc.	**11 961**	11 716	245	2
Alcon, Inc.	**617**		617	
Total Group	**12 578**	11 716	862	7

Net sales by division

	Q3 2010 USD m	Q2 2010 USD m	Change USD m	Change %
Pharmaceuticals	**7 565**	7 670	-105	-1
Vaccines and Diagnostics	**632**	564	68	12
Sandoz	**2 177**	1 973	204	10
Consumer Health	**1 587**	1 509	78	5
Alcon, Inc.	**617**		617	
Total	**12 578**	11 716	862	7

Core operating income by division

	Q3 2010 USD m	Q2 2010 USD m	Change USD m	Change %
Pharmaceuticals	**2 568**	2 636	-68	-3
Vaccines and Diagnostics	**126**	138	-12	-9
Sandoz	**492**	364	128	35
Consumer Health	**410**	318	92	29
Alcon, Inc.	**222**		222	
Corporate Income & Expense, net	-119	-180	61	-34
Core operating income	**3 699**	3 276	423	13

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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: October 21, 2010

By: /s/ MALCOLM B. CHEETHAM

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