

NOVARTIS AG  
Form 6-K  
October 20, 2008

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 6-K

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

**Report on Form 6-K dated October 20, 2008**

**(Commission File No. 1-15024)**

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on September 5, 2006 (File No. 333-137112) and on October 1, 2004 (File No. 333-119475), in each case to the extent not superseded by documents or reports subsequently filed by us under the Securities Act of 1933 or the Securities Exchange Act of 1934, in each case as amended*

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**Novartis AG**

(Name of Registrant)

**Lichtstrasse 35**

**4056 Basel**

**Switzerland**

(Address of Principal Executive Offices)

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

**Form 20-F:**  **Form 40-F:**

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

Yes:  **No:**

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

Yes:  **No:**

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

Yes:  **No:**

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Enclosure: **Novartis AG Announces Results for the First Nine Months of 2008**

**Novartis International AG**

Novartis Global Communications

CH-4002 Basel

Switzerland

<http://www.novartis.com>

**FINANCIAL REPORT • RAPPORT TRIMESTRIEL • QUARTALSBERICHT**

**Novartis delivers sustained strong performance in first nine months of 2008 underpinned by accelerating growth in pharmaceuticals**

- *Continuing healthcare operations build momentum in the first nine months of 2008*
- *Net sales advance 12% (+4% in local currencies) to USD 31.4 billion, led by Pharmaceuticals and double-digit growth in Vaccines and Diagnostics*
- *Operating income up 24% to USD 7.3 billion on the solid business expansion, enhanced productivity and currency benefits*
- *Net income up 19% to USD 6.7 billion, impacted by a higher tax rate in 2008 and the start of financing costs for 25% Alcon investment; Basic EPS up 22% to USD 2.93*
- *Strong pipeline: Three submissions receive accelerated US priority review status amid plans for more than 10 major US/EU regulatory submissions in 2008*
- *New Group structure and nominations strengthen top leadership team*
- *Novartis on track to achieve another year of record sales and earnings in 2008*

*Key figures Continuing operations**Nine months to September 30*

|                                       | YTD 2008        |                | YTD 2007 |                | % change |    |
|---------------------------------------|-----------------|----------------|----------|----------------|----------|----|
|                                       | USD m           | % of net sales | USD m    | % of net sales | USD      | lc |
| <b>Net sales</b>                      | <b>31 382</b>   |                | 28 141   |                | 12       | 4  |
| <b>Operating income<sup>(1)</sup></b> | <b>7 284</b>    | 23.2           | 5 884    | 20.9           | 24       |    |
| <b>Net income<sup>(1)</sup></b>       | <b>6 656</b>    | 21.2           | 5 609    | 19.9           | 19       |    |
| <b>Basic earnings per share</b>       | <b>USD 2.93</b> |                | USD 2.40 |                | 22       |    |

*Third quarter*

|                                       | Q3 2008         |                | Q3 2007  |                | % change |    |
|---------------------------------------|-----------------|----------------|----------|----------------|----------|----|
|                                       | USD m           | % of net sales | USD m    | % of net sales | USD      | lc |
| <b>Net sales</b>                      | <b>10 747</b>   |                | 9 613    |                | 12       | 7  |
| <b>Operating income<sup>(1)</sup></b> | <b>2 335</b>    | 21.7           | 1 452    | 15.1           | 61       |    |
| <b>Net income<sup>(1)</sup></b>       | <b>2 082</b>    | 19.4           | 1 574    | 16.4           | 32       |    |
| <b>Basic earnings per share</b>       | <b>USD 0.92</b> |                | USD 0.68 |                | 35       |    |

(1) Operating income and net income for the 2007 periods includes an exceptional pre-tax incremental environmental provision charge of USD 590 million (USD 463 million after taxes) to cover worldwide remediation plans

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**Basel, October 20, 2008** Commenting on the results, Dr. Daniel Vasella, Chairman and CEO of Novartis said: *Led by the enhanced performance of Pharmaceuticals in all regions as well as solid sales growth in Vaccines and Diagnostics and productivity gains in Consumer Health, we have achieved strong results in the third quarter of 2008 despite significant volatility in the global economic environment. We are rejuvenating our portfolio as recently launched pharmaceutical products provided USD 2.1 billion in sales to date in 2008 and several novel medicines have been recognized for their benefits to patients with priority review status at the FDA. Also, with a strong new leadership team, Novartis is positioning itself for continued growth and success in a demanding environment. Despite the economic uncertainty in the world markets, Novartis is on track for another year of record results in 2008, continuing to build momentum by focusing on innovation and performance.*

## **OVERVIEW**

### **Nine months to September 30**

Accelerating Pharmaceuticals growth underpins the strong results in continuing operations now focused solely on healthcare.

Group net sales rose 12% (+4% in local currencies) to USD 31.4 billion as higher sales volumes produced five percentage points and positive currency translation contributed eight points. Price changes reduced sales by one percentage point. Acquisitions had no impact.

Operating income advanced 24% to USD 7.3 billion thanks to the strong business expansion, as well as productivity gains from Forward, the Group-wide efficiency initiative that has provided resources for investments in strategic initiatives such as stepping up innovation and expanding in high-growth markets. The 2007 third quarter included an exceptional charge of USD 590 million to increase corporate environmental provisions. The operating income margin rose to 23.2% of net sales from 20.9% in the year-ago period. Excluding the environmental charge, operating income was up 13% in the first nine months of 2008.

Net income rose 19% to USD 6.7 billion in the 2008 nine-month period. Net income growth was slower than operating income growth due to an unusually low tax rate in 2007 that reflected various one-time factors. Also, weighing on the performance were financing costs since July 2008 for the acquisition of an initial 25% stake in Alcon, the world leader in eye care, from Nestlé S.A. Basic earnings per share (EPS) advanced 22% to USD 2.93 on fewer outstanding shares.

### **Third quarter**

Group net sales rose 12% (+7% lc) to USD 10.7 billion as Pharmaceuticals grew ahead of expectations and the US business returned to growth following challenges from products lost to generic competition in 2007 and the *Zelnorm* suspension, which negatively affected results in 2007. Higher sales volumes contributed eight percentage points of growth, while positive currency translation provided five percentage points. Price changes reduced sales by one percentage point.

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Operating income surged 61% to USD 2.3 billion on the solid business expansion along with productivity gains in Pharmaceuticals, Sandoz and Consumer Health as well as from the Forward initiative. The operating income margin rose to 21.7% of net sales from 15.1% in the 2007 period. Excluding the year-ago exceptional corporate environmental charge, operating income rose 14%, above net sales expansion.

Net income rose 32% to USD 2.1 billion, at a slower pace than operating income as a result of the negative impact of a 14% tax rate in the 2008 quarter as compared to 2.3% in the 2007 period, which was very low due to various one-time factors, as well as higher financing costs due to the first stage of the Alcon acquisition in the 2008 third quarter. Basic earnings per share (EPS) rose 35% to USD 0.92. Excluding the corporate environmental charge in 2007, net income in the 2008 third quarter rose 2%.

### **Taking strategic actions for sustainable growth**

In a rapidly changing and increasingly challenging environment, Novartis is implementing longer-term strategic initiatives to deliver sustainable and profitable growth. Key actions include strengthening the Group's healthcare portfolio, driving innovation through novel medicines, expanding in high-growth markets and improving efficiency.

#### **Selectively strengthening healthcare portfolio**

Novartis is strengthening its healthcare portfolio through targeted acquisitions. On July 7, Novartis purchased a 25% stake in **Alcon Inc.** (NYSE: ACL), the world's largest and most profitable eye care company, from Nestlé S.A. for USD 10.4 billion in cash as part of an agreement providing Novartis an opportunity to take majority ownership. In an optional second step, Novartis can acquire, and Nestlé can sell, the remaining 52% Alcon stake held by Nestlé between January 2010 and July 2011 for up to USD 28 billion. Alcon offers a range of pharmaceutical, surgical and consumer products for conditions of the eye. Also in the third quarter, Novartis acquired **Speedel Holding Ltd.** (SWX: SPPN), underpinning the direct renin inhibition program led by *Tekturna/Rasilez* and follow-on programs. Novartis holds 99.8% of Speedel's outstanding shares after a mandatory public tender offer ended in September. The acquisition price for the 90% not previously owned is estimated at CHF 933 million (or currently USD 850 million). Some of Speedel's development projects are being integrated into Pharmaceuticals R&D operations.

#### **Stepping up innovation**

Across the Novartis healthcare portfolio, sustained investments in innovation are delivering benefits for patients as pipeline projects are progressing well. A number of important US and EU submissions are being completed in 2008. *Afinitor* (RAD001), a breakthrough for advanced kidney cancer, is among three compounds accepted by the FDA for priority review. The meningococcal meningitis vaccine *Menveo*, which has the potential to become the first of its kind to protect from infancy to adulthood against four common serogroups in this often-fatal bacterial disease, was submitted for US approval in August. **QAB149**, a once-daily bronchodilator in development and a cornerstone for future respiratory disease therapies, will also be filed in 2008 for use against chronic obstructive pulmonary disease.

#### **Expanding in high-growth markets**

Novartis is expanding in high-growth emerging markets around the world, particularly the seven priority countries of Brazil, China, India, Mexico, Russia, South Korea and Turkey. The Group's net sales for these priority markets rose 17% to USD 3.3 billion in the first nine months, with all emerging markets worldwide now at about 25% of total net sales.

#### **Improving organizational efficiency**

The **Forward** initiative is advancing quickly to improve speed, flexibility and productivity. More than 150 projects are underway following the start of Forward in December 2007 with the aim of streamlining decision-making and freeing up resources to support future growth. Cost savings of USD 714 million have already been delivered in 2008, exceeding the





planned target of USD 670 million. A pre-tax annual cost savings goal of USD 1.6 billion has been set for 2010 compared to 2007.

#### **New commercial model for US General Medicines business**

As the US market continues to diversify and become more complex, an innovative new program called **Customer Centric Initiative** is underway to implement a new regional US business model that will better address customer needs and differences in local market dynamics. Five new regional units will be created that have cross-functional responsibility for the full primary care product portfolio, replacing the nationally managed sales forces.

This new model is designed to be more effective at driving sales growth by better meeting the diverse needs of multiple customers as well as a more efficient deployment of resources. About 550 full-time equivalent positions in the US sales force organization are planned to be reduced in a socially responsible manner, with more than half of the reductions planned from not filling already vacant positions. The new organization will start on January 1, 2009. A one-time charge of approximately USD 20 million is planned to be taken in the 2008 fourth quarter, with annual cost savings of USD 80 million anticipated from 2010.

#### **New Novartis organizational structure and management changes**

Novartis announced today the appointment of Joerg Reinhardt, PhD, as the new Chief Operating Officer, reporting to Dr. Daniel Vasella, Chairman and CEO. Replacing Joerg Reinhardt as Head of Vaccines and Diagnostics is Andrin Oswald, MD, currently CEO of Speedel and Global Head of Pharmaceutical Development Franchises. Furthermore, the Board has appointed George Gunn, MRCVS, as the new Head of Consumer Health in addition to his current role as Head of the Animal Health business unit. He will replace Thomas Ebeling, who has decided to pursue his career outside the company. Andreas Rummelt, PhD, will assume the newly created position of Group Head of Quality Assurance and Technical Operations and will remain a member of the Executive Committee of Novartis. Jeff George, currently Head of Emerging Markets in the Pharmaceuticals Division, will replace him as the new Head of Sandoz. In addition to his role as Head of the Oncology business unit in the Pharmaceuticals Division, David Epstein will also lead a new unit focusing on innovative molecular diagnostics. These changes will become effective on December 1, 2008. In addition, Thomas Werlen, PhD, who serves as General Counsel, was named a member of the Executive Committee with immediate effect.

William George, a member of the Novartis Board of Directors, has decided not to stand for reelection at the next annual shareholder meeting. At the next meeting, which is scheduled for February 2009, the Board will propose William Brody, MD, PhD, for election. He is President of The Johns Hopkins University and designated President of the Salk Institute. The Board of Directors and Dr. Daniel Vasella have also reached an agreement on the terms of a new contract extending his current position as Chairman and CEO of Novartis.

#### **Group outlook**

##### **(Barring any unforeseen events)**

Novartis reaffirms expectations for another year of record net sales and earnings in 2008 from the Group's continuing operations now focused solely on healthcare. Net sales from continuing operations for the Group are expected to rise at a mid-single-digit rate in local currencies. The strong momentum in Pharmaceuticals has confirmed expectations for a new growth cycle in the second half of 2008, with the Division's net sales now expected to grow at a mid-single-digit rate in 2008 in local currencies. Sandoz net sales are now expected to grow at a low-single-digit rate for the full year in local currencies.



**BUSINESS REVIEW****Nine months to September 30****Net sales**

|  | YTD 2008      | YTD 2007      | % change  |           |
|--|---------------|---------------|-----------|-----------|
|  | USD m         | USD m         | USD       | lc        |
| <b>Pharmaceuticals</b>                       | <b>19 901</b> | <b>17 873</b> | <b>11</b> | <b>4</b>  |
| <b>Vaccines and Diagnostics</b>              | <b>1 268</b>  | <b>1 054</b>  | <b>20</b> | <b>15</b> |
| <b>Sandoz</b>                                | <b>5 753</b>  | <b>5 198</b>  | <b>11</b> | <b>1</b>  |
| <b>Consumer Health continuing operations</b> | <b>4 460</b>  | <b>4 016</b>  | <b>11</b> | <b>4</b>  |
| <b>Net sales from continuing operations</b>  | <b>31 382</b> | <b>28 141</b> | <b>12</b> | <b>4</b>  |

**Pharmaceuticals: +11% (+4% lc) to USD 19.9 billion**

Accelerating momentum in Pharmaceuticals has been driven by ongoing dynamic growth from Novartis Oncology, the portfolio of high blood pressure medicines and USD 2.1 billion of contributions from recently launched products.

Outside North America, all regions achieved strong growth, led by Europe at USD 7.8 billion (+9% lc), Japan at USD 1.9 billion (+5% lc), Latin America at USD 1.3 billion (+7% lc) and the rest of the world at USD 2.0 billion (+16% lc). US net sales fell 5%, but have been recovering from the negative impact of lower sales during 2007 from four products (*Lotrel*, *Lamisil*, *Trileptal* and *Famvir*) that face generic competition as well as the suspension of *Zelnorm*.

Oncology (USD 6.2 billion, +14% lc) represented 31% of Pharmaceuticals net sales in the first nine months of 2008, and provided four of the five top-selling medicines with *Gleevec/Glivec* (USD 2.8 billion, +16% lc) as the flagship product. Cardiovascular strategic products (USD 5.0 billion, +8% lc) advanced on further gains for *Diovan* (USD 4.3 billion, +11% lc) and increasing contributions from the new high blood pressure medicines *Exforge* and *Tekturna/Rasilez*.

More than 100 new product launches have been completed in the top 20 countries so far in 2008 following the 15 major US and European regulatory approvals in 2007. Among top performers were the once-yearly osteoporosis therapy *Aclasta/Reclast* (USD 169 million), the age-related blindness medicine *Lucentis* (USD 658 million) and the addition of a once-daily skin patch that has reinvigorated the *Exelon* franchise (USD 606 million, +21% lc).

**Vaccines and Diagnostics: +20% (+15% lc) to USD 1.3 billion**

Deliveries of H5N1 pandemic influenza vaccines to the US government in 2008 as well as a solid performance from the blood testing diagnostics business led the double-digit expansion, with additional growth from pediatric vaccines, the Menjugate meningitis C vaccine and tick-borne encephalitis (TBE) vaccines.

**Sandoz: +11% (+1% lc) to USD 5.8 billion**

Improving performances in many key markets offset the US, where net sales fell 9% on a lack of new product launches in 2008 and lower prices. Central and Eastern European sales rose over 16% lc, with Russia among the top five Sandoz countries worldwide. In Germany, net sales were largely unchanged, but market share rose nearly three percentage points. Canada, Turkey and Brazil were among top-performing emerging generics markets.

**Consumer Health continuing operations: +11% (+4% lc) to USD 4.5 billion**

CIBA Vision delivered the strongest performance, benefiting from new contact lens product launches in key regions in 2008. Animal Health expanded its companion animal business, while OTC growth in key emerging markets more than offset lower sales in the US that have been hampered by factors that include changes in consumer spending.

**Operating income**

|  | YTD 2008     |                | YTD 2007 |                | Change |
|--|--------------|----------------|----------|----------------|--------|
|  | USD m        | % of net sales | USD m    | % of net sales |        |
| <b>Pharmaceuticals</b>   | <b>6 017</b> | 30.2           | 5 161    | 28.9           | 17     |
| <b>Vaccines and Diagnostics</b>                                  | <b>52</b>    | 4.1            | 179      | 17.0           | 71     |
| <b>Sandoz</b>  | <b>884</b>   | 15.4           | 789      | 15.2           | 12     |
| <b>Consumer Health continuing operations</b>                     | <b>858</b>   | 19.2           | 727      | 18.1           | 18     |
| Corporate income & expense, net <sup>(1)</sup>                   | 527          |                | 972      |                | 46     |
| <b>Operating income from continuing operations<sup>(1)</sup></b> | <b>7 284</b> | 23.2           | 5 884    |                |        |