NOVARTIS AG
Form 6-K
October 21, 2010

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 21, 2010

(Commission File No. 1-15024)

Novartis AG

(Name of Registrant)

Lichtstrasse 35

4056 Basel

Switzerland

(Address of Principal Executive Offices)

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

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

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

Yes: o **No**: **x**

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

Yes: o **No**: **x**

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

Yes: o **No**: **x**

Novartis International AG
Novartis Global Communications
CH-4002 Basel
Switzerland
http://www.novartis.com

FINANCIAL REPORT • RAPPORT FINANCIER • FINANZBERICHT

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

*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.

2

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			