NOVARTIS AG
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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

(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

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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

OUR MISSION

We want to discover, develop and successfully market innovative products to prevent and cure diseases, to ease suffering and to enhance the quality of life.

We also want to provide a shareholder return that reflects outstanding performance and to adequately reward those who invest ideas and work in our company.

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GROUP

Novartis provides healthcare solutions that address the evolving needs of patients and societies worldwide.

Now focused solely on growth areas in healthcare, Novartis offers a diversified portfolio to best meet these needs innovative medicines, cost-saving generics, preventive vaccines and diagnostic tools, and consumer health products.

FINANCIAL HIGHLIGHTS

KEY FIGURES

(In USD millions, unless indicated otherwise)	2007	2006
Total Group net sales	**39 800**	37 020
Continuing operations (1)		
- Net sales	**38 072**	34 393
- Operating income excluding environmental and restructuring charges (2)	**7 815**	7 642
- Return on net sales (2) (%)	**20.5**	22.2
- Operating income	**6 781**	7 642
- Net income	**6 540**	6 825
Net income Discontinued operations	**5 428**	377
Net income Total Group	**11 968**	7 202
Basic earnings per share (3)		
- Continuing operations (1)	**2.81**	2.90
- Total Group	**5.15**	3.06
R&D investments (1)	**6 430**	5 321
- As % of net sales (1)	**16.9**	15.5
Number of associates (FTE (1), (4))	**98 200**	94 241

SHARE INFORMATION	2007	2006
Return on average equity (%)	**26.4**	19.3
Free cash flow (1)	**3 761**	4 045
Operating cash flow per share (1), (3) (USD)	**3.97**	3.54
ADS price at year-end (USD)	**54.31**	57.44
Share price at year-end (CHF)	**62.10**	70.25
Dividend payment (5) (CHF)	**1.60**	1.35
Payout ratio of net income from continuing operations (%)	**49**	38

(1) Excluding Consumer Health discontinued operations

(2) Excluding in 2007 USD 590 million of Corporate environmental and USD 444 million of Forward initiative restructuring charges

(3) Average number of shares outstanding in 2007: 2 317.5 million (2006: 2 345.2 million)

(4) Full-time equivalent positions

(5) Dividend payment for 2007 proposed to shareholders

Business Review

Overview

NEWS IN 2007

GROUP	Record results in 2007 underscore benefits of strategic healthcare portfolio. Total Group net sales rise 8% (+3% in local currencies) to USD 39.8 billion. Net income reaches USD 12.0 billion. Results include contributions from Medical Nutrition and Gerber until divestment and an after-tax divestment gain of USD 5.2 billion in net income.
	Strong contributions particularly from Sandoz and Vaccines and Diagnostics in continuing operations focused solely on healthcare. Net sales rise 11% (+6% lc) to USD 38.1 billion. Operating income decline reflects US pharmaceuticals slowdown and significant charges of about USD 1 billion for environmental provision as well as Forward initiative to improve competitiveness.
PHARMACEUTICALS	Europe, Latin America and key emerging markets generate double-digit growth and many products strengthen leading positions. Net sales grow 6% (+2% lc) to USD 24.0 billion. However, US impacted by generic competition and *Zelnorm* suspension. Operating income decline reflects lost US contributions and significant charges as well as major investments in new products and pipeline.
VACCINES AND DIAGNOSTICS	Net sales advance to USD 1.5 billion. Key growth drivers are vaccines for TBE (tick-borne encephalitis), pediatric immunization and seasonal influenza as well as NAT (nucleic acid testing) blood testing products. Meningitis vaccines in development progressing toward regulatory submissions.
SANDOZ	Dynamic performance with net sales up 20% (+13% lc) to USD 7.2 billion, providing an incremental increase of USD 1 billion thanks mainly to the US and Eastern Europe. Difficult-to-make generics provide competitive advantage. Operating income advances much faster than net sales, supported by productivity gains.
CONSUMER HEALTH	Solid expansion as OTC and Animal Health deliver double-digit growth from focus on strategic brands, new products and geographic expansion. CIBA Vision grows on improved product availability.
PIPELINE	15 major regulatory approvals in the US and Europe for new pharmaceutical products. Highly respected pipeline with 140 projects in clinical development. Many have potential best-in-class status that would advance or create new treatment standards.
RESEARCH	Novartis Biologics formed to accelerate R&D in biologic therapies, which represent 25% of the Novartis pre-clinical research pipeline. Many projects advancing rapidly at Novartis Institutes for BioMedical Research.
CORPORATE CITIZENSHIP	

	Novartis access-to-medicine programs for those in need reach 66 million patients in 2007 through contributions valued at USD 937 million.
DIVIDEND	Proposal for 19% increase in 2007 dividend to CHF 1.60 per share. Represents 49% payout ratio of net income from continuing operations.

Letter from Daniel Vasella

DEAR SHAREHOLDERS:

It gives me great pleasure in our twelfth business year, which has been the most exceptional in the history of Novartis, to report another set of record results despite a difficult environment for the Pharmaceuticals Division, which experienced disappointments as well as successes.

We took decisive steps in 2007 to focus Novartis solely on healthcare through the divestments of Medical Nutrition and Gerber, which led to net income advancing 66% to USD 12 billion. This includes the after-tax gain of USD 5.2 billion from the divestments.

The sale of these businesses, along with one-time charges of approximately USD 1 billion for environmental provisions and restructuring measures, makes it challenging to compare this performance with the previous year. Therefore I will focus on continuing operations:

- Net sales from continuing operations rose 11% (+6% in local currencies) to USD 38.1 billion

- Operating income from continuing operations rose 2% to USD 7.8 billion excluding these one-time factors

- Earnings per share (EPS) rose 68% to USD 5.15 for the Group, and were up 9% to USD 3.15 for continuing operations when also excluding these one-time factors

- Free cash flow from continuing operations reached USD 3.8 billion

All divisions contributed to another record level of net sales for the Group. However, the overall results were impacted by a weaker performance in the Pharmaceuticals Division, which stood in stark contrast to the dynamic growth of Vaccines and Diagnostics and Sandoz. Consumer Health also delivered substantially improved results.

While the Pharmaceuticals Division faced a challenging year, it is important to note the overall good results, even if these were less likely to make headlines than the setbacks. Europe, Latin America and the priority emerging growth markets all posted double-digit expansion in net sales, while the Oncology and Neuroscience franchises delivered strong double-digit growth. Many of the top ten selling medicines above all *Gleevec/Glivec* for the treatment of chronic myeloid leukemia and the high blood pressure medicine *Diovan* maintained leading positions in their therapeutic areas. In the US, by contrast, net sales declined sharply following the withdrawal of *Zelnorm* in March and the entry of generic competition, which to some extent was unforeseen, for *Lotrel, Lamisil, Trileptal* and *Famvir.* In 2006, these five products together generated annual net sales of approximately USD 3 billion in the US, so these setbacks represent a loss of more than 10% of global Pharmaceuticals Division net sales. Additional challenges included the ongoing delay in gaining US regulatory approval for the new diabetes medicine *Galvus* and a regulatory decision in the US not to approve *Prexige.*

At the same time, all of our other healthcare businesses delivered excellent results.

The **Vaccines and Diagnostics** Division enjoyed dynamic growth in 2007. Strong deliveries of influenza vaccines to the US, as well as vaccines for tick-borne encephalitis and for pediatric immunization, were the most important growth drivers. The pipeline made significant progress, particularly the development of potentially first-in-class vaccines for meningococcal meningitis, and supported by a new strategic alliance with Intercell that provides exclusive access to several promising projects.

The generics Division **Sandoz** also reported dynamic growth, especially in the US. The successful launches of several new difficult-to-make generics, which provide Sandoz a competitive advantage, underpinned the strong expansion. Operating income improved much faster than net sales, benefiting from sustained increases in sales volumes and productivity initiatives.

The **Consumer Health** Division delivered a good performance, as both OTC (non-prescription medicines) and Animal Health achieved attractive growth thanks to a common focus on strategic brands and the launch of new products as well as expansion in Japan and emerging growth markets. CIBA Vision improved its net sales, and in particular operating income, following the resumption of deliveries in 2007 after some recent product shortages. Operating income for the Division improved and supported significant R&D investments and geographic expansion.

The overall good performance in a difficult environment confirms that we are on the right strategic path. The events of 2007 have made clear the advantages of our strategy centered on focused diversification. We are active in fast-growing areas of the healthcare market while reducing risks, such as over-dependence on government-regulated pricing for medicines or the actions of regulatory agencies.

Despite the current industry challenges, the healthcare sector s future continues to promise robust growth. The growing need for medical services and medicines is driven above all by the following factors:

- First and foremost is the **aging of the world s population.** The incidence of chronic and degenerative diseases, such as arthritis, high blood pressure, cancer and, of course, dementia, rises with age. An estimated 80% of people over age 80 suffer from at least one disease, and more than 60% have two or more conditions. The entry of the baby boomer generation into retirement the first members reached the traditional retirement age in 2007 will further support this trend.

- Younger generations are also being impacted by **health-related changes in society.** Changes in dietary habits and an increasingly sedentary lifestyle are having an impact. The number of over-weight people is not only rising in the US but also in Europe and many developing countries. Negative health consequences linked to obesity are becoming increasingly visible, especially cardiovascular disease and diabetes. At the same time, environmental pollution is causing more cases of cancer and pulmonary disease.

- **Strong economic growth in emerging markets** with large populations, particularly China, India and Russia, has led to rapid expansion of the middle class and greater demands for better healthcare services.

- Finally, **new technological discoveries and trends** are continuously enabling the development of innovative medicines to address a range of diseases that previously could not be adequately treated.

Although these developments reaffirm prospects for rising demand for healthcare and our products, a number of challenges exist:

- **Increased pressure on costs:** Political resistance to high-price medicines is likely to grow throughout the world as the overall cost of healthcare keeps rising. Although doctors, pharmacies and hospitals will not be able to escape political pressures, the pharmaceuticals industry unduly suffers due to its status as the most visible and tangible participant in the healthcare system. This makes us an easy scapegoat for rising costs.

• **Erosion of patent rights:** Our industry has recently found itself confronted by aggressive behavior from certain generics manufacturers. Some have launched copies of medicines before the expiry of patents because they consider these patents to be contestable, and in many instances courts have not yet stepped in to stop them.

• **Growing mistrust**: The pharmaceuticals industry has faced for some time a conservative attitude from the US Food and Drug Administration (FDA), which appears to be a reaction to public criticism. This conservatism is reflected in the agency s demands for growing volumes of data aimed at guaranteeing an unparalleled degree of safety. In the long term, this approach will be detrimental to medical progress since it is simply not possible to provide medicines that are completely free of side effects in all patients. The benefits and risks of any treatment must in the end be weighed individually by the physician and patient.

A strategy ignoring these trends, which to some extent overlap and are at times contradictory, will fail sooner rather than later. We are convinced that our diversified portfolio yet one focused on growth areas of healthcare ideally positions Novartis for the future and reduces risks. We have been steadfast in pursuing this strategy in recent years, for example, by purchasing Chiron in 2006 as well as by divesting the remaining non-core nutrition businesses in 2007.

The most decisive factor remains our strength in innovation. Our overall performance in gaining new product approvals was positive. It goes without saying that the delays in approvals for *Galvus* have been particularly disappointing. It is important, nonetheless, to recognize the overall successes during the year. Novartis received six positive regulatory decisions in the US and nine in the EU (15 positive decisions out of a total of 17). These included approvals for *Rasilez/Tekturna* and *Exforge* (high blood pressure), *Exelon* Patch (Alzheimer s disease) and *Aclasta/Reclast* (osteoporosis) in the US and Europe. In addition, *Lucentis* (wet age-related macular degeneration, a leading cause of blindness) and *Sebivo/Tyzeka* (hepatitis B) were both approved in Europe. In the third quarter, *Galvus* received European approval as a new oral treatment option for patients with type 2 diabetes. At the end of 2007, the US and EU both granted approvals for *Tasigna* as a new medicine for patients with chronic myeloid leukemia no longer responding to *Gleevec/Glivec.*

Novartis is widely recognized as having one of the industry s most attractive development pipelines. Research and Development activities are focused in particular on cardiovascular and metabolic diseases, oncology and neurology as well as respiratory and infectious diseases. Our portfolio includes 140 projects in clinical development, more than ever before. Several late-stage projects are progressing on track toward regulatory submissions. These include **FTY720** (multiple sclerosis), **QAB149** (respiratory diseases), **RAD001** (cancer), **ACZ885** (Muckle-Wells syndrome) and **SOM230** (Cushing s disease).

Breakthroughs have also been achieved in Sandoz and Vaccines and Diagnostics: Thanks to improvements in innovation and productivity, Sandoz has strengthened its leading position in bringing difficult-to-make generics to the market. European approval was granted in 2007 for epoetin alfa a further milestone following the US approval of the growth hormone *Omnitrope* in 2006 as the world s first follow-on version of a previously approved biotechnology drug. As an affordable, high-quality biogeneric, epoetin alfa could be used to provide benefits to approximately 250 000 patients in Europe.

In 2007, Vaccines and Diagnostics gained European approval for the new pandemic flu vaccine *Focetria.* Novartis also gained a leading position in cell-culture flu vaccines with the European approval of *Optaflu,* which utilizes new technologies representing the most important innovation in influenza vaccine manufacturing in more than 50 years.

Innovation is our core competency this comprises the development of novel medicines and the creation of new R&D strategies. Driven by the increasing number of therapeutic proteins discovered by our researchers, we established a new Biologics R&D unit in 2007 to unify our core capabilities in biologics within one group.

It takes courage during uncertain times to follow your own path and be true to your convictions, rather than just keeping an anxious eye on competition. Novartis has steadfast positions and stands by them. Our points of view often do not win popularity contests. The tendency toward group thinking has sometimes been confused with the practice of benchmarking. This approach can often lead to errors in judgment. In such a situation, one rarely has the courage to review a situation objectively, draw conclusions and also take responsibility.

One of the fundamental aspects of the Novartis culture is being true to our values, ensuring that we remain committed ultimately to the needs of patients while engaging in social and political debates. It is critical to differentiate between legitimate discussions about healthcare costs and those that appear to address this issue but instead actually mask hostility toward innovation.

Pressure on healthcare prices is simply a reality that must be accepted. Given the demographic trends, one can appreciate the cost reduction efforts. But there is a limit, and crossing it endangers incentives needed to drive innovation. Going beyond this limit would have dramatic consequences, massively weakening long-term investments that have led to historical advances in medicine. Progress is only possible in an environment that values innovation. I personally feel the level of hostility toward innovation goes too far when industrialized countries take for granted that they have the healthiest populations in the history of mankind but at the same time demand breakthrough medicines with no side effects and offered at minimal prices.

Aging societies are precisely those that can neither support such ill-considered views toward innovation nor the political conditions that facilitate them. On the contrary, aging societies must embrace innovation. One of the most urgent challenges in many critical markets for Novartis is the cost of healthcare, coupled with overall care of the elderly. Concern for the healthcare needs of the elderly could be reasonably addressed through innovation, especially if one eventually wants to avoid rationing. One interesting example is the link between Alzheimer s disease and the rise in life expectancy. If an effective treatment is not found, the costs of treating and caring for these patients could quickly skyrocket to absolutely unaffordable levels. The annual costs of caring for the estimated five million people in the US with Alzheimer s disease already represents about USD 150 billion of the nation s healthcare budget. Consider the implications of estimates forecasting the number of patients will rise to an unimaginable 100 million in 2025.

One would surmise that society would encourage research into these types of diseases, creating more attractive rewards for those who make significant R&D investments. This might seem counter-intuitive at first, but from a long-term perspective it could be the only viable approach.

Another development eroding the vital culture of innovation is the increasing aversion to any conceivable risk. This reflects several societal trends, and manifests itself mainly in relation to our products. Let me be clear: No medicine exists today that is completely free of side effects in all patients. Of course, this poses a dilemma for those involved doctors and patients. During my time as a physician working in hospitals, I was confronted every day by this dilemma. I still firmly believe that one of the core capabilities of physicians is to take responsibility for decisions that involve their patients. When regulatory agencies take over these responsibilities, as is increasingly the case in the US, then healthcare policies will move toward a patronizing system where physicians and the pharmaceuticals industry are viewed with distrust instead of as important partners. These developments oppose the consistent demand for industry and individuals to take more responsibility for their actions, coupled with a corresponding reduction in the role of governments. Strict control systems are appropriate and important and opinions should not differ on this point. But excessive anxiety will slow the pace of medical progress over the long term, and lead to suffering that will impact our entire society.

A sustained commitment to social responsibility is a fundamental value of Novartis. Our actions in corporate citizenship are too critical to be linked to business cycles. Last year, for example, our access-to-medicine programs reached 66 million patients worldwide, with contributions totaling USD 937 million and representing about 2.5% of annual net sales from continuing operations.

Important Novartis initiatives are focused on neglected diseases, especially malaria, leprosy, dengue fever and treatment-resistant tuberculosis. In 2007 in more than 40 African countries, Novartis provided 66 million treatments of the anti-malaria medicine *Coartem* below costs, which saved an estimated 200 000 lives, a majority of which were children. Moreover, annual production capacity has been ramped up to deliver 100 million treatments of *Coartem.*

I would also like to take an opportunity to provide an industry perspective as well: An impressive 1.3 billion health-related interventions ranging from medicines to vaccines and disease awareness campaigns worth billions of dollars were distributed between 2000 and 2006 in developing countries considered to be of little commercial interest.

Attracting the best talent from around the world is critical for a global company like Novartis, ensuring