TEAM INC
Form 10-K
August 02, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended May 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number 001-08604

TEAM, INC.

(Exact name of registrant as specified in its charter)

TEXAS	**74-1765729**

(State of Incorporation)	(I.R.S. Employer Identification No.)
200 Hermann Drive, Alvin, Texas	**77511**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (281) 331-6154

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of Each Exchange on which Registered
Common Stock, $.30 par value	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

(Check one): Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of the completion of the most recent second quarter:

Voting common stock (November 30, 2010)	$ 252,928,208

For purposes for the foregoing calculation only, all directors, executive officers, the Team, Inc. Salary Deferral Plan and Trust and known 5% or greater beneficial owners have been deemed affiliates.

The Registrant had 19,513,769 shares of common stock, par value $0.30, outstanding and 89,569 shares of treasury stock as of July 28, 2011.

Documents Incorporated by Reference

Portions of our definitive proxy statement for the 2011 Annual Meeting of Stockholders are incorporated by reference into Part III of this report. These will be filed no later than September 28, 2011.

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Certain items required in Part III of this Form 10-K can be found in our 2011 Proxy Statement and are incorporated herein by reference. A copy of the 2011 Proxy Statement will be provided, without charge, to any person who receives a copy of this Form 10-K and submits a written request to Team, Inc., Attn: Corporate Secretary, 200 Hermann Drive, Alvin, Texas, 77511.

PART I

ITEM 1. BUSINESS

General Information

Introduction. Unless otherwise indicated, the terms Team, Inc., Team, the Company, we, our and us are used in this report to refer to T Inc., to one or more of our consolidated subsidiaries or to all of them taken as a whole. We are incorporated in the State of Texas and our company website can be found at *www.teamindustrialservices.com*. Our corporate headquarters is located at 200 Hermann Drive, Alvin, Texas, 77511 and our telephone number is (281) 331-6154. Our stock is traded on the NASDAQ Global Select Market (NASDAQ) under the symbol TISI and our fiscal year ends on May 31 of each calendar year.

We are a leading provider of specialty maintenance and construction services required in maintaining high temperature and high pressure piping systems and vessels that are utilized extensively in heavy industries. We offer an array of complementary services including:

Inspection and Assessment,

Field Heat Treating,

Leak Repair,

Fugitive Emissions Control,

Hot Tapping,

Field Machining,

Technical Bolting, and

Field Valve Repair.

We offer these services in over 100 locations throughout the world. Our industrial services are available 24 hours a day, 7 days a week, 365 days a year. We market our services to companies in a diverse array of heavy industries which include the petrochemical, refining, power, pipeline, steel, pulp and paper industries, as well as municipalities, shipbuilding, original equipment manufacturers (OEMs), distributors, and some of the world s largest engineering and construction firms. Our services are also provided across a broad geographic reach.

Narrative Description of Business

Inspection and Assessment Services. We offer inspection and evaluation of piping, piping components and equipment to determine the present condition and predict remaining operability. Our inspection services use all the common methods of non-destructive testing, including radiography, ultrasound, magnetic particle and dye penetrate, higher end robotic and newly developed advanced technology systems. Many of the visual inspection programs we provide require specialized training to industry and regulatory standards. Inspection services are marketed to our traditional industrial customer base, and customers outside our traditional customer base, such as the aerospace and automotive industries. Inspection services frequently require industry recognized training and certification processes. We maintain training and certification programs which are designed to meet or exceed industry standards.

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Field Heat Treating Services. Our field heat treating services include electric resistance and gas-fired combustion, primarily utilized by industrial users to enhance the metallurgical properties of their process piping and equipment. Electric resistance heating is the transfer of high energy power sources through attached heaters to the plant component to preheat weld joints, to remove contaminates and moisture prior to welding and post-weld heat treatments to relieve metal thermal stresses induced by the welding process. Specialty heat treating processes are performed using gas-fired combustion on large pressure vessels for stress relieving, to bake specialty paint coatings and controlled drying of abrasion and temperature resistant refractories. Special high frequency heating, commonly called induction heating, is used to expand metal parts for assembly or disassembly, expansion of large bolting for industrial turbines and stress relieving projects which is cost prohibitive for electric resistance or gas-fired combustion.

Leak Repair Services. Our leak repair services consist of on-stream repairs of leaks in pipes, valves, flanges and other parts of piping systems and related equipment. Our on-stream repairs utilize both standard and custom-designed clamps and enclosures for piping systems. We use specially developed techniques, sealants and equipment for repairs. Many of our repairs are furnished as interim measures which allow plant systems to continue operating until more permanent repairs can be made during plant shut downs. Our leak repair services involve inspection of the leak by our field crew who records pertinent information about the faulty part of the system and transmits the information to our engineering department for determination of appropriate repair techniques. Repair materials such as clamps and enclosures are custom designed and manufactured at our ISO-9001 certified manufacturing centers and delivered to the job site. We maintain an inventory of raw materials and semi-finished clamps and enclosures to reduce the time required to manufacture the finished product.

Fugitive Emissions Control Services. We provide fugitive volatile organic chemical (VOC) emission leak detection services that include identification, monitoring, data management and reporting primarily for the chemical, refining and natural gas processing industries. These services are designed to monitor and record VOC emissions from specific process equipment and piping components as required by environmental regulations and customer requests, typically assisting the customer in enhancing an ongoing maintenance program and/or complying with present and/or future environmental regulations. We provide specialty trained technicians in the use of portable organic chemical analyzers and data loggers to measure potential leaks at designated plant components maintained in customer or our proprietary databases. The measured data is used to prepare standard reports in compliance with the U.S. Environmental Protection Agency (EPA) and local regulatory requirements. We also provide enhanced custom-designed reports to customer specifications.

Hot Tapping Services. Our hot tapping services consist of providing a full range of hot tapping, Line-stop® and Freeze-stop® services with capabilities for up to 48 diameter pipelines. Hot tapping services involve utilizing special equipment to cut a hole in a pressurized pipeline so that a new branch pipe can be connected onto the existing pipeline without interrupting operations. Line-stop® services permit the line to be depressurized downstream so that maintenance work can be performed on the piping system. We typically perform these services by mechanically cutting into the pipeline similar to a hot tap and installing a special plugging device to stop the process flow. The Hi-stop® is a proprietary and patented procedure that allows stopping of the process flow in extreme pressures and temperatures. In some cases, we may use a line freezing procedure by injecting liquid nitrogen into installed special external chambers around the pipe to stop the process flow.

Field Machining Services and Technical Bolting Services. We use portable machining equipment to repair or modify machinery, equipment, vessels and piping systems not easily removed from a permanent location. As opposed to conventional machining processes where the work piece rotates and the cutting tool is fixed, in field machining, the work piece remains fixed in position and the cutting tool rotates. Other common descriptions for this service are on-site or in-place machining. Field machining services include flange facing, pipe cutting, line boring, journal turning, drilling and milling. We provide customers technical bolting as a complimentary service to field machining during plant shut downs or maintenance activities. These services involve the use of hydraulic or pneumatic equipment with industry standard bolt tightening techniques to achieve

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reliable and leak-free connections following plant maintenance or expansion projects. Additional services include bolt disassembly and hot bolting, which is a process to remove and replace a bolt as the process is operating.

Field Valve Repair Services. We perform on-site repairs to manual and control valves, pressure and safety relief valves as well as specialty valve actuator diagnostics and repair. We are certified and authorized to perform testing and repairs to pressure and safety relief valves by The National Board of Boiler and Pressure Vessel Inspectors. This certification requires specific procedures, testing and documentation to maintain the safe operation of these essential plant valves. We provide special transportable trailers to the plant site which contain specialty machines to manufacture valve components without removing the valve from the piping system. In addition, we provide preventive maintenance programs for VOC specific valves and valve data management programs.

Description of Segment and Divisions

We operate in only one segment industrial services. Within the industrial services segment, we are organized as two divisions. Our TCM division provides the services of inspection and assessments and field heat treating. Our TMS division provides the services of leak repair, fugitive emissions control, hot tapping, field machining, technical bolting and field valve repair. Each division has goodwill relating to past acquisitions and we assess goodwill for impairment at the lower TCM and TMS divisional level. Both divisions derive their revenues from providing specialized labor intensive industrial services and the market for their services is principally dictated by the population of process piping systems in industrial plants and facilities. Services provided by both the TCM and TMS divisions are provided through a network of field branch locations in proximity to industrial plants. The structure of those branch locations is similar, with locations overseen by a branch/regional manager, one or more sales representatives and a cadre of technicians to service the business requirements of our customers. Both divisions share the same chief operating decision maker and both divisions are supported by common and often centralized technical and commercial support staffs, quality assurance, training, finance, legal, human resources and health and safety departments.

Acquisitions

On November 3, 2010, we purchased Quest Integrity Group, LLC (Quest Integrity), a privately held advanced inspection services and engineering assessment company. We effectively purchased 95% of Quest Integrity for a total consideration paid to Quest Integrity shareholders of $41.7 million, consisting of a cash payment of $39.1 million and the issuance of our restricted common stock with a fair value of $2.6 million (approximately 186,000 shares). Additionally, we also assumed debt, net of cash on hand, with a value of $2.3 million. We repaid the debt upon consummation of the purchase. In connection with this transaction, we borrowed $41.4 million under our bank facility which was used to fund the cash portion of the purchase price. We expect to purchase the remaining 5% in fiscal year 2015 for a purchase consideration based upon the future financial performance of Quest Integrity as defined in the purchase agreement. Future consideration would be payable in unregistered shares of our common stock for an aggregate value of no less than $2.4 million, provided the aggregate value of the consideration does not exceed 20% of our outstanding common stock. Our valuation of the remaining 5% equity of Quest Integrity at the date of acquisition was $4.9 million, which is reflected in the shareholders equity section of the Consolidated Balance Sheet as Non-controlling interest . Please see Note 2 to our consolidated audited financial statements.

Headquartered near Seattle, Washington, Quest Integrity has leading technical capabilities related to the measurement and assessment of facility and pipeline mechanical integrity. Quest Integrity has developed several proprietary tools for advanced tube and pipeline inspection and measurement. Supporting and augmenting these proprietary inspection tools, Quest Integrity has an advanced technical team that provides specialized engineering assessments of facility conditions and serviceability. Quest Integrity maintains operations in Seattle, Boulder, and New Zealand, and has service locations in Houston, Calgary, Australia, The Netherlands, and the Middle East. The results of Quest Integrity will be reflected in our TCM division.

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Marketing and Customers

Our industrial services are marketed principally by personnel based at our service locations. We believe that these service locations are situated to facilitate timely responses to customer needs with on-call expertise, which is an important feature of selling and providing our services. Our array of integrated services also allows us to benefit from the procurement trends of many of our customers who are seeking reductions in the number of contractors and vendors in their facilities. No customer accounted for 10% or more of consolidated revenues during any of the last three fiscal years.

Generally, customers are billed on a time and materials basis, although some work may be performed pursuant to a fixed-price bid. Services are usually performed pursuant to purchase orders issued under written customer agreements. While most purchase orders provide for the performance of a single job, some provide for services to be performed on a run and maintain basis. Substantially all our agreements and contracts may be terminated by either party on short notice. The agreements generally specify the range of services to be performed and the hourly rates for labor. While many contracts cover specific plants or locations, we also enter into multiple-site regional or national contracts, which cover multiple plants or locations.

Seasonality

We experience some seasonal fluctuations. Historically, the refining industry has scheduled plant shutdowns (commonly referred to as turnarounds) for the fall and spring seasons. Large turnarounds can significantly impact our revenues.

Employees

At May 31, 2011, we had approximately 3,500 employees in our worldwide operations. Our employees in the U.S. are predominantly not unionized. Our Canadian employees and certain employees outside of North America, primarily Europe, are unionized. There have been no employee work stoppages to date and we believe our relations with our employees and their representative organizations are good.

Regulation

A significant portion of our business activities are subject to foreign, federal, state and local laws and regulations. These regulations are administered by various foreign, federal, state and local health and safety and environmental agencies and authorities, including the Occupational Safety and Health Administration of the U.S. Department of Labor and the EPA. Failure to comply with these laws and regulations may involve civil and criminal liability. From time to time, we are also subject to a wide range of reporting requirements, certifications and compliance as prescribed by various federal and state governmental agencies that include, but are not limited to, the Nuclear Regulatory Commission, Chemical Safety Board, Department of Transportation and Federal Aviation Administration. Expenditures relating to such regulations are made in the normal course of our business and are neither material nor place us at any competitive disadvantage. We do not currently expect that compliance with such laws and regulations will require us to make material expenditures.

From time to time, in the operation of our environmental consulting and engineering services, the assets of which were sold in 1996, we handled small quantities of certain hazardous wastes or other substances generated by our customers. Under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (the Superfund Act), the EPA is authorized to take administrative and judicial action to either cause parties who are responsible under the Superfund Act for cleaning up any unauthorized release of hazardous substances to do so, or to clean up such hazardous substances and to seek reimbursement of the costs thereof from the responsible parties, who are jointly and severally liable for such costs under the Superfund Act. The EPA may also bring suit for treble damages from responsible parties who unreasonably refuse to voluntarily participate in such a clean up or funding thereof. Responsible parties include anyone who owns or operates the

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facility where the release occurred (either currently and/or at the time such hazardous substances were disposed of), or who by contract arranges for disposal, treatment, transportation for disposal or treatment of a hazardous substance, or who accepts hazardous substances for transport to disposal or treatment facilities selected by such person from which there is a release. We believe that our risk of liability is minimized since our handling consisted solely of maintaining and storing small samples of materials for laboratory analysis that are classified as hazardous. Due to its prohibitive costs, we accordingly do not currently carry insurance to cover liabilities which we may incur under the Superfund Act or similar environmental statutes.

Internal Investigation

During an internal management review of our TMS branch operations in Trinidad in the spring of 2009, employees informed us of allegations of improper payments made by local employees of our wholly-owned Trinidad subsidiary to employees of certain customers, including foreign government owned enterprises. In June 2009, the Audit Committee of our Board of Directors (the Board) commenced an internal investigation of our Trinidad operations, focusing on the legality, under the U.S. Foreign Corrupt Practices Act (FCPA) and other laws. In May 2010, we voluntarily disclosed information relating to the initial allegations and the findings of the independent investigation to the U.S. Department of Justice (DOJ) and to the Securities and Exchange Commission (the SEC).

In May 2010, we met with representatives of the SEC and the DOJ. In a letter to us dated July 12, 2011, the staff of the SEC informed us that it had completed its investigation and did not intend to recommend any enforcement action by the Commission or impose any fines or penalties against the Company. We have not received formal notification from the DOJ, however in July 2011, the staff of the DOJ informed us that it was likely that the staff would not recommend taking any further action or imposing any fines or penalties against the Company.

Since the commencement of the investigation in 2009, we have expended an aggregate of approximately $3.2 million on legal and other professional services related to this investigation. While our and the government s investigations have concluded, we continue to remain committed to and focused on conducting our operations in compliance with the FCPA.

Intellectual Property

While we are the holder of various patents, trademarks, trade secrets and licenses, we have not historically considered any single intellectual property to be material to our consolidated business operations. On November 3, 2011 we purchased Quest Integrity. As a result of independent valuation, a significant portion of the purchase price was determined to be attributable to amortizable intangible assets. Please see Note 2 to the audited consolidated financial statements.

Competition

In general, competition stems from a large number of other outside service contractors. More than 100 different competitors are currently active in our markets. We believe we have a competitive advantage over most service contractors due to the quality, training and experience of our technicians, our nationwide and increasingly international service capability, our broad range of services, and our technical support and manufacturing capabilities supporting the service network. However, there are other competitors that may offer a similar range of coverage or services and include, but are not limited to, Acuren Group, Inc., Furmanite Corporation, Guardian Compliance, Mistras Group, Inc. and T.D. Williamson, Inc.

Available Information

As a public company, we are required to file periodic reports with the SEC within established deadlines. Any document we file with the SEC may be viewed or copied at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Additional information regarding the Public Reference Room can be obtained by calling the SEC at (800) SEC-0330. Our SEC filings are also available to the public through the SEC s website located at *www.sec.gov*.

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Our internet website address is *www.teamindustrialservices.com.* Information contained on our website is not part of this report on Form 10-K. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, Proxy Statements and current reports on Form 8-K filed with (or furnished to) the SEC are available on our website, free of charge, as soon as reasonably practicable after we file or furnish such material. We also post our code of ethical conduct, our governance principles, our social responsibility policy and the charters of our Board s committees on our website. Our governance documents are available in print to any stockholder that makes a written request to Team, Inc., Attn: Corporate Secretary, 200 Hermann Drive, Alvin, Texas, 77511.

ITEM 1A. RISK FACTORS

Past financial performance is not necessarily a reliable indicator of future performance, and investors in our common stock should not use historical performance to anticipate results or future period trends. Investing in our common stock involves a high degree of risk. The risk factors described below should be carefully considered in addition to other information contained or incorporated by reference herein. We operate in a continually changing business environment and new risk factors emerge from time to time. We cannot predict such risk factors, nor can we assess the impact, if any, of such risk factors on our business or the extent to which any factors may cause actual results to differ materially from those projected. The following risks and uncertainties should be considered in evaluating our outlook of future Company performance.

The current economic environment may affect our customers demand for our services. The current economic recession has reduced the availability of liquidity and credit and, in many cases, reduced demand for our customers products. Continued disruption of the credit markets could also adversely affect our customers ability to finance on-going maintenance and new projects, resulting in contract cancellations or suspensions, and project delays. An extended or deepening recession may result in further plant closures or other contractions in our customer base. These factors may also adversely affect our ability to collect payment for work we have previously performed. Furthermore, our ability to expand our business could be limited if, in the future, we are unable to increase our credit capacity under favorable terms or at all. Such disruptions, should they occur, could materially impact our results of operations, financial position or cash flows.

Our revenues are heavily dependent on certain industries. Sales of our services are dependent on customers in certain industries, particularly the refining and petrochemical industries. As experienced in the past, and as expected to occur in the future, downturns characterized by diminished demand for services in these industries could have a material impact on our results of operations, financial position or cash flows.

We sell our services in highly competitive markets, which places pressure on our profit margins and limits our ability to maintain or increase the market share of our services. Our competition generally stems from other outside service contractors, many of whom offer a similar range of services. The current economic recession has generally reduced demand for industrial services and thus created a more competitive bidding environment for new and existing work. No assurances can be made that we will continue to maintain our pricing model and our profit margins or increase our market share.

No assurances can be made that we will be successful in maintaining or renewing our contracts with our customers. A significant portion of our contracts and agreements with customers may be terminated by either party on short notice. Although we actively pursue the renewal of our contracts, we cannot assure that we will be able to renew these contracts or that the terms of the renewed contracts will be as favorable as the existing contracts. If we are unable to renew or replace these contracts, or if we renew on less favorable terms, we may suffer a material reduction in revenue and earnings.

No assurances can be made that we will be successful in hiring or retaining members of a skilled technical workforce. We have a skilled technical workforce and an industry recognized technician training program for each of our service lines that prepares new employees as well as further trains our existing employees. The competition for these individuals is intense. The loss of the services of a number of these

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individuals, or failure to attract new employees, could adversely affect our ability to perform our obligations on our customers projects or maintenance and consequently could negatively impact the demand for our products and services.

Unsatisfactory safety performance can affect customer relationships, result in higher operating costs and negatively impact our ability to hire and retain a skilled technical workforce. Our workers are subject to the normal hazards associated with providing services at industrial facilities. Even with proper safety precautions, these hazards can lead to personal injury, loss of life, destruction of property, plant and equipment, lower employee morale and environmental damage. We are intensely focused on maintaining a strong safety environment and reducing the risk of accidents to the lowest possible level. Poor safety performance may limit or eliminate potential revenue streams from many of our largest customers and may materially increase our future insurance and other operating costs. Although we maintain insurance coverage, such coverage may be inadequate to protect us from all expenses related to these risks.

Our operations and properties are subject to extensive governmental regulation under environmental laws. Environmental laws and regulations can impose substantial sanctions for violations or operational changes that may limit our services. We must conform our operations to applicable regulatory requirements and adapt to changes in such requirements in all locations in which we operate. These actions may increase the overall costs of providing our services. Some of our services involve handling or monitoring highly regulated materials, including hazardous wastes. Environmental laws and regulations generally impose limitations and standards for regulated materials and require us to obtain permits and comply with various other requirements. The improper characterization, handling, disposal or monitoring of regulated materials or any other failure by us to comply with increasingly complex and strictly enforced federal, state and local environmental laws and regulations or associated environmental permits could subject us to the assessment of administrative, civil and criminal penalties, the imposition of investigatory or remedial obligations, or the issuance of injunctions that could restrict or prevent our ability to operate our business and complete contracted services. A defect in our services or faulty workmanship could result in an environmental liability if, as a result of the defect or faulty workmanship, a contaminate is released into the environment.

We currently maintain liability insurance to limit any potential loss, but there can be no assurance that our insurance will fully protect us against a claim or loss. We perform services in hazardous environments on or around high-pressure, high temperature systems and our employees are exposed to a number of hazards, including exposure to hazardous materials, explosion hazards and fire hazards. Incidents that occur at these large industrial facilities or systems, regardless of fault, may be catastrophic and adversely impact our employees and third parties by causing serious personal injury, loss of life, damage to property or the environment, and interruption of operations. Our contracts typically require us to indemnify our customers for injury, damage or loss arising out of our presence at our customers location, regardless of fault, or the performance of our services and provide for warranties for materials and workmanship. We may also be required to name the customer as an additional insured under our insurance policies. We maintain insurance coverage against these and other risks associated with our business. Due to the high cost of general liability coverage, we maintain insurance with a self-insured retention of $5 million per occurrence. This insurance may not protect us against liability for some kinds of events, including events involving pollution, product or professional liability, losses resulting from business interruption or acts of terrorism or damages from breach of contract by the Company. We cannot assure you that our insurance will be adequate in risk coverage or policy limits to cover all losses or liabilities that we may incur. Moreover, in the future, we cannot assure that we will be able to maintain insurance at levels of risk coverage or policy limits that we deem adequate. Any future damages caused by our products or services that are not covered by insurance or are in excess of policy limits could have a material adverse effect on our results of operations, financial position or cash flows.

We are involved and are likely to continue to be involved in legal proceedings, which will increase our costs and, if adversely determined, could have a material effect on our results of operations, financial position or cash flows. We are currently a defendant in legal proceedings arising from the operation of our business and

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it is reasonable to expect that we will be named in future actions. Most of the legal proceedings against us arise out of the normal course of performing services at customer facilities, and include claims for workers compensation, personal injury and property damage. Legal proceedings can be expensive to defend and can divert the attention of management and other personnel for significant periods of time, regardless of the ultimate outcome. An unsuccessful defense of a liability claim could have an adverse effect on our business, results of operations, financial position or cash flows.

Economic, political and other risks associated with international operations could adversely affect our business. A significant portion of our operations are conducted and located outside the United States and, accordingly, our business is subject to risks associated with doing business internationally, including changes in foreign currency exchange rates, instability in political or economic conditions, difficulty in repatriating cash proceeds, differing employee relations, trade protection measures, and difficulty in administering and enforcing corporate policies which may be different than the normal business practices of local cultures. In many foreign countries, particularly in those with developing economies, it is common to engage in business practices that are prohibited by U.S. and foreign anti-corruption regulations applicable to us such as the FCPA and the United Kingdom Bribery Act. Our international business operations may include projects in countries where corruption is prevalent. Although we have, and continue to, implement policies and procedures designed to ensure compliance with these laws, there can be no assurance that all of our employees, contractors or agents, including those representing us in countries where practices which violate such anti-corruption laws may be customary, will not take actions in violation of our policies and procedures. Any violation of foreign or U.S. laws by our employees, contractors or agents, even if such violation is prohibited by our policies and procedures, could have a material adverse effect on our results of operations, financial position or cash flows.

Our growth strategy entails risk for investors. We intend to continue to pursue acquisitions in, or complementary to, the specialty maintenance and construction services industry to complement and diversify our existing business. We may not be able to continue to expand our market presence through attractive acquisitions, and any future acquisitions may present unforeseen integration difficulties or costs. From time to time, we make acquisitions of other businesses that enhance our services or the geographic scope. No assurances can be made that we will realize the cost savings, synergies or revenue enhancements that we may anticipate from any acquisition, or that we will realize such benefits within the time frame that we expect. If we are not able to address the challenges associated with acquisitions and successfully integrate acquired businesses, or if our integrated product and service offerings fail to achieve market acceptance, our business could be adversely affected. The consideration paid in connection with an acquisition may also affect our share price or future financial results depending on the structure of such consideration. To the extent we issue stock or other rights to purchase stock, including options or other rights, existing shareholders may be diluted and earnings per share may decrease. In addition, acquisitions may result in the incurrence of additional debt.

The price of our outstanding securities may be volatile. It is possible that in some future quarter or quarters our revenues, operating results or other measures of financial performance will not meet the expectations of public stock market analysts or investors, which could cause the price of our outstanding securities to decline or be volatile. Historically, our quarterly and annual sales and operating results have fluctuated. We expect fluctuations to continue in the future. In addition to general economic and political conditions, the following factors may affect our sales and operating results: the timing of significant customer orders, the timing of planned maintenance projects at customer facilities, changes in competitive pricing, wide variations in profitability by product line, variations in operating expenses, rapid increases in raw material and labor costs, the timing of announcements or introductions of new products or services by us, our competitors or our respective customers, the acceptance of those services, our ability to adequately meet staffing requirements with qualified personnel, relative variations in manufacturing efficiencies and costs, and the relative strength or weakness of international markets. Since our quarterly and annual revenues and operating results vary, we believe that period-to-period comparisons are not necessarily meaningful and you should not rely on those comparisons as indicators of our future performance.

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Our business may be adversely impacted by work stoppages, staffing shortages and other labor matters. At May 31, 2011, we had approximately 3,500 employees and contractors, approximately 500 of whom were located in Canada and Europe where employees predominantly are represented by unions. Although we believe that our relations with our employees are good and we have had no strikes or work stoppages, no assurances can be made that we will not experience these and other types of conflicts with labor unions, works councils, other groups representing employees, or our employees generally, or that any future negotiations with our labor unions will not result in significant increases in the cost of labor.

Climate change legislation or regulations restricting emissions of greenhouse gases could result in reduced demand for our services and products. Recent scientific studies have suggested that emissions of certain gases, commonly referred to as greenhouse gases may be contributing to warming of the earth s atmosphere. As a result, there have been a variety of regulatory developments, proposals or requirements and legislative initiatives that have been introduced in the United States (and other parts of the world) that are focused on restricting the emission of carbon dioxide, methane and other greenhouse gases. The adoption and implementation of any regulations which impose limiting emissions of carbon dioxide and other greenhouse gases from customers for whom we provide repair and maintenance services could affect demand for our products and services.

Other risk factors. Other risk factors may include interruption of our operations, or the operations of our customers due to fire, hurricanes, earthquakes, power loss, telecommunications failure, terrorist attacks, labor disruptions, health epidemics and other events beyond our control.

Any one of these factors, or a combination of these factors, could materially affect our future results of operations, financial position or cash flows and whether any forward-looking statements in this Form 10-K ultimately prove to be accurate.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own several facilities used in our operations. Our 88,000 square foot facility in Alvin, Texas consists of our corporate office, primary training facility and ISO-9001 certified manufacturing facility for clamps, enclosures and sealants. Our 11,000 square foot facility in Pearland, Texas is used as an equipment distribution center to support regional operations. Our 18,000 square foot facility in Houston, Texas, 10,000 square foot facility in Milwaukee, Wisconsin, and our 17,000 square foot facility in Edmonton, Alberta are offices for our branch service locations in those areas. All other facilities used in our operations are provided through operating leases.

Included in property, plant and equipment is $7.5 million pertaining to land in or around Houston. This primarily consists of $6.8 million attributable to 50 acres purchased in October 2007 to construct future facilities to replace those currently in Alvin, Texas and Pearland, Texas. Due to the 2008 economic recession, we postponed construction of the future facilities until such time as economic conditions and our growth necessitate the addition of the new facilities. Starting in the third quarter of fiscal year 2009, we ceased to further capitalize interest until the project resumes.

We believe that our property and equipment are adequate for our current needs, although additional investments are expected to be made in property and equipment for expansion, replacement of assets at the end of their useful lives and in connection with corporate development activities.

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ITEM 3. LEGAL PROCEEDINGS

We have, from time to time, provided temporary leak repair services for the steam operations of Consolidated Edison of New York (Con Ed) located in New York City. In July 2007, a Con Ed steam main located in midtown Manhattan ruptured causing one death and other injuries and property damage. As of May 31, 2011, one hundred and six lawsuits have been filed against Con Ed, the City of New York and Team in the Supreme Courts of New York located in Kings, New York and Bronx County, alleging that our temporary leak repair services may have contributed to the cause of the rupture. The lawsuits seek generally unspecified compensatory damages for personal injury, property damage and business interruption. Additionally, on March 31, 2008, we received a letter from Con Ed alleging that our contract with Con Ed requires us to indemnify and defend Con Ed for additional claims filed against Con Ed as a result of the rupture. Con Ed filed an action to join Team and the City of New York as defendants in all lawsuits filed against Con Ed that did not include Team and the City of New York as direct defendants. We are vigorously defending the lawsuits and Con Ed s claim for indemnification. We are unable to estimate the amount of liability to us, if any, associated with these lawsuits and the claim for indemnification. We maintain insurance coverage, subject to a deductible limit of $250,000, which we believe should cover these claims. We have not accrued any liability in excess of the deductible limit for the lawsuits. We do not believe the final resolution of these matters will have a material adverse effect on our results of operations, financial position or cash flows.

We are involved in various other lawsuits and are subject to various claims and proceedings encountered in the normal conduct of business. In our opinion, any uninsured losses that might arise from these lawsuits and proceedings will not have a materially adverse effect on our consolidated financial statements.

ITEM 4. (REMOVED AND RESERVED)

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the NASDAQ Global Select Market under the ticker symbol TISI . The table below reflects the high and low sales prices of our common stock on the NASDAQ Global Select Market by quarter for the fiscal years ended May 31, 2011 and 2010, respectively.

	Sales Price	
	High	**Low**
2011		
Quarter Ended:		
August 31, 2010	$ 16.26	$ 12.64
November 30, 2010	$ 21.88	$ 14.70
February 28, 2011	$ 28.71	$ 20.36
May 31, 2011	$ 28.42	$ 21.31
2010		
Quarter Ended:		
August 31, 2009	$ 18.25	$ 13.75
November 30, 2009	$ 19.69	$ 15.68
February 28, 2010	$ 20.75	$ 15.58
May 31, 2010	$ 18.97	$ 14.70

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Performance Graph

The following performance graph compares the performance of our common stock to the NASDAQ Composite Index, a historical Peer Group Index and the New Peer Group Index. The comparison assumes $100 was invested on May 31, 2006 in our common stock, the NASDAQ Composite Index, Historical Peer Group Index and the New Peer Group Index. The values of each investment are based on share price appreciation, with reinvestment of all dividends, assuming any were paid. For each graph, the investments are assumed to have occurred at the beginning of each period presented. The following companies are included in the Old Peer Group Index used in the graph: Furmanite Corporation, Matrix Service Company and Versar, Inc. The following companies are included in our new peer group index used in the graph: Furmanite Corporation, Matrix Service Company, Englobal Corporation and Mistras Group, Inc.

	5/06	5/07	5/08	5/09	5/10	5/11
Team, Inc.	100.00	124.61	203.75	89.98	95.64	146.26
NASDAQ Composite	100.00	121.55	118.74	83.47	106.84	135.48
Old Peer Group	100.00	194.88	195.00	93.45	90.00	126.95
New Peer Group	100.00	180.00	182.69	85.27	63.67	100.63

Notes: The above information was provided by Research Data Group, Inc.

Holders

There were 220 holders of record of our common stock as of July 28, 2011 excluding beneficial owners of stock held in street name.

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Dividends

No cash dividends were declared or paid during the fiscal years ended May 31, 2011, 2010 and 2009. We are not permitted to pay cash dividends without the consent of our bank syndicate. Accordingly, we have no present intention to pay cash dividends in the foreseeable futhile Japan (USD 0.9 billion, +12% cc) saw strong sales growth due to increased launch momentum and wholesaler safety stocking in light of recent natural disasters. The US (USD 2.4 billion, +2% cc) contributed 31% of total sales for the division. India, China and South Korea led the six top emerging markets (USD 0.8 billion, +6% cc) with double-digit sales growth, partly offset by the impact of cost-containment measures in Turkey.

All strategic franchises contributed to the business expansion. Oncology (USD 2.6 billion, +6% cc), the largest franchise in Pharmaceuticals, benefitted from the sustained growth of Bcr-Abl products Glivec/Gleevec and Tasigna (USD 1.2 billion, +9% cc), Sandostatin (USD 337 million, +7% cc) and Femara (USD 354 million, +2% cc), with the recently launched Afinitor adding USD 90 million (+117% cc). The Cardiovascular and Metabolism franchise (USD 1.9 billion, +5% cc) showed solid growth momentum supported by hypertension medicines (USD 1.8 billion, +2% cc) and continued strong uptake of Galvus (USD 132 million, +72% cc). Neuroscience and Ophthalmics (USD 1.0 billion, +14% cc) benefited from the continued robust growth of Lucentis (USD 444 million, +18% cc), Extavia (USD 34 million, +66% cc), and the recently launched Gilenya, which increased its growth momentum in the US.

Operating income
Operating income increased 10% (+13% cc) to USD 2.5 billion, stronger than core operating income due to divestment income from ophthalmic products related to the Alcon acquisition (USD 81 million), partly offset by restructuring-related charges.

Core operating income grew 8% (+11% cc). The core operating income margin of 33.2% increased by 0.5 percentage points despite a negative currency impact of 1.5 percentage points. Gross margin improved slightly by 0.1 percentage points, while R&D expenses increased by 0.3 percentage points, mainly due to negative currency impact and phasing of clinical trial activities. Marketing & Sales and General & Administration expenses improved by 1.1 percentage points, benefiting from continuing productivity efforts that more than offset significant investments in new product launches. Other Income and Expense, net increased by 0.5 percentage points, primarily due to the fee associated with healthcare reform in the US.

Pharmaceuticals product review

Cardiovascular and Metabolism

	Q1 2011 USD m	Q1 2010 USD m	% change USD	cc
Hypertension medicines				
Diovan	1 405	1 442	-3	-5
Exforge	261	204	28	27
Tekturna/Rasilez	131	89	47	46
Subtotal	1 797	1 735	4	2
Galvus	132	76	74	72
Total strategic products	1 929	1 811	7	5
Established medicines	262	368	-29	-31
Total	2 191	2 179	1	-1

Our Hypertension franchise, consisting of Diovan, Exforge and Tekturna/Rasilez, continued to grow as our portfolio shifts from Diovan to Exforge and Tekturna/Rasilez.

Diovan Group (USD 1.4 billion, -5% cc) worldwide sales started to decline mainly driven by the anticipated entry of generic valsartan in selected markets such as Spain, Canada and Brazil and price pressure. The Diovan Group maintains its position as the top-selling branded anti-hypertensive medication worldwide, and continues to gain global market share with 16.18% of the hypertension market (as of February 2011, IMS).

Exforge Group (USD 261 million, +27% cc) showed strong worldwide growth fueled by continued prescription demand in the EU, US and other key regions, as well as ongoing Exforge HCT launches in European, Asian and Latin American markets. Exforge, a single-pill combination of Diovan (valsartan) and the calcium channel blocker amlodipine, has delivered sustained growth across world markets since its launch in 2007. Exforge HCT, the first modern triple hypertension medication that includes a diuretic in a single pill, is now available for patients in over 30 countries.

Tekturna/Rasilez (USD 131 million, +46% cc) maintained its strong growth driven by performance in the EU and Japan, where a two-week prescription restriction on Rasilez (aliskiren) has been lifted, benefiting monthly sales. The Rasilez Group market share of the total anti-hypertensive market has grown to 1.05% (year-to-date January 2011).

Galvus Group (USD 132 million, +72% cc), which comprises oral treatments containing vildagliptin for type 2 diabetes, continued to deliver strong growth. This performance was driven mainly by the single-pill combination Eucreas/Galvusmet (vildagliptin and metformin), which contributed 65% of total sales and grew at 70% in constant currencies during the first quarter.

Oncology

	Q1 2011 USD m	Q1 2010 USD m	% change USD	cc
Bcr-Abl Franchise				
Gleevec/Glivec	1 076	1 032	4	2
Tasigna	153	75	104	100
Subtotal	1 229	1 107	11	9
Zometa	373	375	-1	-2
Femara	354	344	3	2

Sandostatin	337	310	9	7
Exjade	179	179	0	-2
Afinitor	90	41	120	117
Other	36	49	-27	-27
Total	2 598	2 405	8	6

Our Bcr-Abl franchise, consisting of Gleevec/Glivec and Tasigna, continued to grow strongly, reaching USD 1.2 billion (9% cc) in the first quarter.

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Gleevec/Glivec (USD 1.1 billion, +2% cc), a targeted therapy, grew as a treatment for Philadelphia chromosome-positive chronic myeloid leukemia (Ph+ CML), as well as an adjuvant (post-surgery) treatment of gastrointestinal stromal tumors (GIST), though its pace of growth slowed as patients are increasingly being started on Tasigna for Ph+ CML.

Tasigna (USD 153 million, +100% cc) has been growing rapidly as a next generation targeted therapy for adult patients newly diagnosed with Ph+ CML in chronic phase. Regulatory approvals for Tasigna in the first-line indication have been achieved globally in 40 markets including the US, EU, Japan and Switzerland, with additional submissions pending around the world. Tasigna continues to grow market segment share in the imatinib resistant/intolerant Ph+ CML chronic phase and accelerated phase segments with approvals in over 90 countries and plans for further geographic and market expansion.

Zometa (USD 373 million, -2% cc) is a leading treatment to reduce or delay skeletal-related events in patients with bone metastases from solid tumors and multiple myeloma. In the US, Zometa is facing new competition in the marketplace. In 2010, regulatory filings in the US and EU for the potential use of Zometa for adjuvant breast cancer treatment were withdrawn because two confirmatory registration trials for this indication were required by health authorities.

Femara (USD 354 million, +2% cc) is a treatment for early stage and advanced breast cancer in postmenopausal women. Growth was achieved in the US, Japan and several EU and emerging countries. However, in some countries outside of the US, sales declined due to generic competition. We expect an increase in generic competition as early as the second quarter of 2011.

Sandostatin (USD 337 million, +7% cc) benefited from the increasing use of Sandostatin LAR in treating symptoms of patients with neuroendocrine tumors in key markets.

Exjade (USD 179 million, -2% cc) continues to grow at a mid- to high-single-digit rate outside of the US. The US saw a slow start to sales this quarter, due in part to wholesaler reduction of inventory days on hand. Exjade is currently approved in more than 100 countries as the only once-daily oral therapy for transfusional iron overload.

Afinitor (USD 90 million, +117% cc), an oral inhibitor of the mTOR pathway, continues to achieve strong growth in key markets as an approved treatment for patients with advanced renal cell carcinoma following VEGF-targeted therapy. In the US, Afinitor is also approved for the treatment of patients with subependymal giant cell astrocytoma (SEGA), a benign brain tumor associated with tuberous sclerosis, who require therapeutic intervention but are not candidates for curative surgical resection. Everolimus, the active ingredient in Afinitor, is also available under the trade names Zortress/Certican for use in non-oncology indications. Everolimus is exclusively licensed to Abbott and sublicensed to Boston Scientific for use in drug-eluting stents.

Neuroscience and Ophthalmics

	Q1 2011 USD m	Q1 2010 USD m	% change USD	% change cc
Lucentis	444	364	22	18
Exelon/Exelon Patch	251	251	0	-1
Comtan/Stalevo	146	141	4	2
Gilenya	59	0	nm	nm
Extavia	34	20	70	66
Fanapt	9	21	-57	-57
Other	104	104	0	-3

Total strategic products	1 047	901	16	14
Established medicines	136	133	2	-2
Total	1 183	1 034	14	12

nm – not meaningful

Lucentis (USD 444 million, +18% cc) showed continued strong growth as the only approved medicine to significantly improve vision in patients with wet age-related macular degeneration (AMD), for which it is established as the standard of care, and in patients with visual impairment due to diabetic macular edema (DME). Lucentis is approved in more than 85 countries for the treatment of wet AMD and in more than 30 countries for the treatment of visual impairment due to DME. Genentech holds the rights to Lucentis in the US.

Exelon/Exelon Patch (USD 251 million, -1% cc) combined sales were impacted by oral generic competition in the US, but benefited from patients' continued conversion from oral to transdermal therapy. Exelon Patch, the transdermal form of the medicine, grew 22% and generated more than 75% of total Exelon sales in the first quarter, compared to less than 65% in the same period in 2010. Exelon Patch is approved for the treatment of mild-to-moderate Alzheimer's disease dementia in more than 80 countries, including more than 20 countries where it is also approved for dementia associated with Parkinson's disease.

Gilenya (USD 59 million) was approved this quarter by the European Commission as a disease-modifying therapy for patients with highly active relapsing-remitting multiple sclerosis (RRMS) despite treatment with beta interferon, or in patients with rapidly evolving severe RRMS. Gilenya was also approved in Canada for RRMS patients with an inadequate response or intolerance to other MS therapy, and is currently under regulatory review in countries around the world, including Japan, Turkey and Brazil. Gilenya was approved in the US in 2010. It is licensed from Mitsubishi Tanabe Pharma.

Extavia (USD 34 million, +66% cc), the Novartis-branded version of Betaferon®/Betaseron® (interferon beta-1b) for relapsing forms of multiple sclerosis, continued to grow within key markets. Extavia was launched in the EU and US in 2009, and has been approved in over 30 countries. Betaferon®/Betaseron® are registered trademarks of Bayer.

Respiratory

	Q1 2011 USD m	Q1 2010 USD m	% change USD	% change cc
Xolair	107	80	34	38
TOBI	71	65	9	9
Onbrez Breezhaler	20	2	nm	nm
Total strategic products	198	147	35	37
Established medicines	50	49	2	0
Total	248	196	27	28

nm – not meaningful

Onbrez Breezhaler (USD 20 million) has demonstrated strong sales growth since its approval in the EU in November 2009 as a once-daily long-acting beta-2 agonist for the maintenance bronchodilator treatment of airflow obstruction in patients with chronic obstructive pulmonary disease (COPD). Onbrez Breezhaler 150 and 300 mcg are now approved in more than 50 countries and available in more than 20, with launches continuing throughout 2011. In the US, we are awaiting feedback from the FDA on our filing. The proposed trade name will be Arcapta™ Neohaler™.

Xolair (USD 107 million, +38% cc), a biotechnology drug for severe persistent allergic asthma in Europe and moderate-to-severe persistent allergic asthma in the US, continued to show strong growth in major Latin American markets with sales remaining on track in Europe. Xolair is approved in more than 85 countries, and a Phase III trial to support registration in China is ongoing. Xolair Liquid, a new formulation in pre-filled syringes that enables easier administration than with the original lyophilized formulation, has been launched in more than 10 European countries since January 2011 including France, Germany, Spain and the UK. Novartis co-promotes Xolair with Genentech in the US, and shares a portion of operating income.

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Integrated Hospital Care

	Q1 2011 USD m	Q1 2010 USD m	% change USD	cc
Neoral/Sandimmun	214	212	1	-3
Myfortic	120	100	20	18
Zortress/Certican	42	34	24	21
Ilaris	11	4	nm	nm
Other	86	67	28	26
Total strategic products	473	417	13	11
Established medicines	346	330	5	3
Total	819	747	10	7

nm – not meaningful

Zortress/Certican (USD 42 million, +21% cc) is an immunosuppressive medicine to prevent organ rejection in adult heart and kidney transplant recipients. Available in more than 80 countries, it continues to generate solid growth, particularly in the US market, where it has been available since April 2010 for adult kidney transplantation under the trade name Zortress. Everolimus, the active substance, is also available under the trade name Afinitor for use in certain oncology indications, and is exclusively licensed to Abbott and sublicensed to Boston Scientific for use in drug-eluting stents.

Ilaris (USD 11 million) is available in over 40 countries for the treatment of adults and children four years of age and older who suffer from cryopyrin-associated periodic syndrome (CAPS), a group of rare auto-inflammatory disorders. Ilaris was recently filed for the treatment of CAPS in Japan. Regulatory filings for the use of ACZ885 (Ilaris, canakinumab) in gouty arthritis have been completed in the EU in 2010 and in the US in the first quarter of 2011, based on two Phase III registration studies that met their co-primary endpoints.

Vaccines & Diagnostics

	Q1 2011 USD m	Q1 2010 USD m	% change USD	% change cc
Net sales	371	1 361	-73	-73
Operating income	-101	839	nm	nm
As % of net sales	-27.2	61.6		
Core operating income	-24	923	nm	nm
As % of net sales	-6.5	67.8		

nm – Not meaningful

First quarter

Net sales

Net sales were USD 371 million for the first quarter of 2011 (-73% cc), compared with USD 1.4 billion in the 2010 period. The primary driver of net sales variance against the prior-year period was USD 1.1 billion of A(H1N1) pandemic flu vaccine sales in first quarter of 2010 that were not repeated in the same period in 2011.

Excluding the impact of the A(H1N1) pandemic flu in 2010, there was strong growth in the quarter (+43% cc), including the release of shipments that had been delayed from the fourth quarter of 2010 at one of our production facilities, as well as growth in our meningococcal disease franchise.

Operating income/loss

Reported operating loss was USD 101 million for the quarter, compared to a profit of USD 839 million for the same period in 2010. This was largely due to the operating income associated with A(H1N1) pandemic flu vaccine sales from the prior year not repeated in the first quarter of 2011 and only partially offset by the growth in the base business noted above. In addition to amortization of intangible assets, the operating loss for the quarter included an impairment of USD 19 million related to a financial asset. Excluding the impact of A(H1N1), profitability was additionally impacted by increased investment in our pipeline and the expansion of our meningococcal disease franchise.

Core operating loss for the period was USD 24 million, compared to a profit of USD 923 million for the same period in 2010.

Sandoz

	Q1 2011 USD m	Q1 2010 USD m	% change USD	cc
Net sales	2 318	2 001	16	15
Operating income	390	310	26	28
As % of net sales	16.8	15.5		
Core operating income	492	450	9	11
As % of net sales	21.2	22.5		

First quarter

Net sales
Sandoz sales grew strongly to USD 2.3 billion (+15% cc) versus prior year with 25 percentage points of volume expansion, more than offsetting price erosion of 10 percentage points. Growth was driven by strong sales of recently launched products, such as enoxaparin (generic Lovenox®) and gemcitabine (generic Gemzar®); strong performance in the US, Canada, Russia, France, Spain, Italy, UK and Japan; and accelerating biosimilars growth outside Germany.

US retail generics and biosimilars (USD 754 million, +55% cc) continued its strong sales trajectory, due in part to the recent, successful first-to-market launches of enoxaparin (USD 247 million), gemcitabine and lansoprazole. Sandoz's enoxaparin exclusivity in the US could change at any time, whereas lansoprazole oral dispersible tablets (ODT) and gemcitabine will face increased competition in the US in April and July of 2011, respectively.

German sales of retail generics and biosimilars (USD 310 million, -27% cc) declined compared to the strong prior-year quarter, absorbing the price impact of statutory health insurance tenders and new lower reference prices implemented in 2010. Western Europe retail generics and biosimilars (+19% cc) grew positively, bolstered by strong performances in Spain, France, Italy and UK. Emerging markets growth was strong in Asia-Pacific (+11% cc) and Central and Eastern Europe (+22% cc). Sandoz sustained its leading global position in biosimilars (+32% cc) with good momentum based on recent launches of 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 26% (+28% cc) to USD 390 million. The operating income margin improved 1.3 percentage points to 16.8% of net sales, after provisions relating to legal settlements in the US of -1.2 percentage points of net sales. Operating income margin (+1.3 percentage points) performed more strongly than core operating income margin (-1.3 percentage points) due to charges for the EBEWE Pharma integration and exceptional costs for termination of a co-development agreement in 2010, together with higher provisions for litigation in the prior-year quarter.

Core operating income rose 9% (+11% cc) to USD 492 million, with a decline in core operating income margin by 1.3 percentage points to 21.2% of net sales. Gross profit margin decreased 2.0 percentage points, mainly due to lower sales to other divisions and other revenues (-0.5 percentage points), a negative currency impact (-0.4 percentage points), and a significantly different sales mix than in the prior-year quarter, which particularly reflects higher lower-margin sales in the US and lower higher-margin sales in Germany. Marketing & Sales (16.5% of net sales, +1.5 percentage points) improved core operating income margin due to higher productivity, while fully funding investments in growing businesses. R&D costs (6.9% of net sales, +0.1 percentage points) were slightly lower as productivity savings offset continued investment in the development of differentiated generics such as biosimilars and respiratory products. General & Administration costs (3.8% of net sales, +0.7 percentage points) improved through ongoing cost-containment measures. Other Income & Expense, net (1.5% of net sales, -1.5 percentage points) increased mainly due to exceptional income in 2010 and higher net cost of litigation and legal settlements in 2011 (below the threshold for exclusion from core).

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Consumer Health

	Q1 2011 USD m	Q1 2010 USD m	% change USD	cc
Net sales	1 642	1 478	11	9
Operating income	562	264	113	119
As % of net sales	34.2	17.9		
Core operating income	358	288	24	30
As % of net sales	21.8	19.5		

First quarter

Net sales
The three Consumer Health businesses – OTC, Animal Health and CIBA Vision – together delivered double-digit growth in the first quarter of 2011 (+9% cc). OTC and Animal Health, in particular, delivered strong performances, continuing to grow significantly faster than their respective markets.

OTC delivered double-digit net sales growth in the first quarter, with key contributions from the US and emerging markets. Prior-year investments in advertising and promotional support, as well as the continued focus on key brands and markets, further supported the growth momentum. Prevacid24HR benefited from normalized quarterly stock movement compared with the first quarter of 2010, and is maintaining a solid market share in the large and growing US proton pump inhibitor heartburn market. Theraflu, Otrivin and Triaminic, key brands in the cough and cold portfolio, delivered double-digit growth as a result of a focused investment strategy and a strong cough and cold and flu season in key markets.

Continued strong performance in Animal Health led to above-market growth for the first quarter. Sales in the US continued to expand, underpinned by strategic sales programs to support the key parasiticide brands Sentinel and Interceptor against new competitive entries. Milbemax continued to be a growth driver throughout European companion animal markets, and the farm animal business grew dynamically with the continued success of Zolvix and double-digit growth from the pig therapeutic Denagard.

CIBA Vision maintained its strategic focus on key brands AirOptix and Dailies. AirOptix extended its strong growth momentum in all regions. In Japan and key emerging markets, CIBA Vision sales grew at double-digit rates, significantly faster than the respective markets, while Europe delivered modest growth in a difficult market environment.

Operating income
Operating income rose 113% (+119% cc) to USD 562 million, with the operating income margin in the first quarter of 2011 rising to 34.2% of net sales. Operating income in the quarter includes exceptional income from a litigation settlement in CIBA Vision (USD 183 million), divestment of non-core brands in OTC (USD 43 million), and an Alcon antitrust-related divestment in CIBA Vision (USD 21 million).

Core operating income increased 24% (+30% cc) to USD 358 million, delivering strong operating leverage in the Consumer Health businesses with the core operating income margin up 2.3 percentage points to 21.8% of net sales. The core gross margin (67.5% of net sales, -1.2 percentage points) declined mainly as a result of product mix and the appreciation of the Swiss franc versus the prior year, which more than offset the positive impact of price increases and productivity gains. Marketing & Sales expenses (34.5% of net sales, +2.0 percentage points) improved as a result of the sales performance and high investments in the prior-year quarter due to the launch of Prevacid24HR in the US. R&D (5.6% of net sales, +0.2 percentage points) and General & Administration expenses (6.2% of net sales, +0.3 percentage points) both benefited from productivity initiatives and strong sales leverage, while Other Income &

Expense, net (0.5% of net sales, +0.9 percentage points) improved due to a divestment gain of small non-core brands.

Alcon

	Q1 2011 USD m	Q1 2010 1 USD m	% change USD	cc
Net sales	1 931	1 721	12	10
Operating income	207	165	25	24
As % of net sales	10.7	9.6		
Core operating income	722	649	11	11
As % of net sales	37.4	37.7		

1 Q1 2010 is comprised of the figures reported by Alcon, Inc., on April 26, 2010, adjusted on a pro forma basis as from January 1, 2010 for the impact of the change in control and related purchase price allocation arising from the Novartis acquisition of 77% majority ownership on August 25, 2010. These Q1 2010 pro forma figures of Alcon, Inc., do not form part of the consolidated financial statements summarized elsewhere in this release, and are given solely for the purpose of providing a basis of comparison for the Q1 2011 results disclosed in this section.

First quarter

Net sales
Net sales rose 12% (+10% cc) to USD 1.9 billion for the first quarter of 2011. Alcon's double-digit sales growth was broad-based, with balanced contributions across its geographies and products, and fueled by the successful execution of new product launches.

US sales increased 8% to USD 783 million, driven mainly by strong sales of pharmaceutical products, which grew 17% over the same period last year. US sales growth was adversely affected by winter weather conditions, which had a negative impact on cataract surgery procedure volume, partially offset by strong sales of allergy products due to an earlier onset of the season. Sales in non-US markets rose 16% (+12% cc) to USD 1.2 billion with key contributions from the pharmaceutical and surgical product categories. Sales in emerging markets increased 21% (+19% cc), led by Brazil, Russia, India and China, which together reported sales growth of 30% (+24% cc).

Operating income
Operating income rose 25% (+24% cc) to USD 207 million, or 10.7% of net sales. This amount includes USD 501 million in amortization of intangible assets and other items (USD 14 million) arising from the purchase price allocation related to Novartis obtaining majority ownership of Alcon and the full merger between Novartis and Alcon (pro forma amounts for the first quarter of 2010 are USD 491 million for the purchase price allocation and USD -7 million for other items).

Core operating income increased by 11% (+11% cc) to USD 722 million, or 37.4% of net sales. The increase reflects the success of Alcon's business model focusing on eye care with a diversified portfolio of high-margin products across the major eye care categories. Continued diligence in spending management allowed Alcon to achieve operating leverage on a constant currency basis, even while reallocating significant spending to R&D and other growth initiatives. On a core basis, gross margin declined from 75.9% to 75.1% of net sales due primarily to the impact of currency fluctuations on COGS. R&D expenses increased 11% to 10% of net sales, reflecting Alcon's continued commitment to investing in innovation. Marketing & Sales expenses increased 13% to 23% of net sales, with a significant portion of the increase stemming from sales force investments in fast-growing emerging markets. General & Administration expenses were 5% of net sales, flat compared to last year due to a continued focus on organizational productivity.

Alcon product review

Surgical

	Q1 2011 USD m	Q1 2010 USD m	% change USD	cc
Intraocular lenses	309	291	6	4
Cataract/vitreoretinal	498	453	10	8
Refractive	38	28	36	36
Total	845	772	9	7

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Global surgical sales were USD 845 million, an increase of 9% (+7% cc). Fast growing emerging markets led to faster sales growth outside the US, while US growth was negatively affected by inclement winter weather and the expiration of the new technology reimbursement program for intraocular lenses. Global sales of advanced technology intraocular lenses rose 15%, mostly due to increased adoption by cataract surgeons of the AcrySof IQ Toric and AcrySof IQ ReSTOR+3.0 intraocular lenses. Sales of AcrySof IQ ReSTOR Toric intraocular lenses, which are only available outside the US, contributed to faster growth in advanced technology lenses in international markets. These positive trends toward advanced technology intraocular lens adoption are important because they offset pricing pressure in the monofocal segment arising primarily from government reimbursement changes. Finally, the resumption of full commercial activity behind the Constellation vitreoretinal surgical system contributed to sales growth of 23% in this category.

Pharmaceuticals

	Q1 2011 USD m	Q1 2010 USD m	% change USD	cc
Infection/inflammation	248	215	15	14
Glaucoma	337	293	15	13
Allergy	161	123	31	26
Otic/nasal	82	72	14	13
Other pharmaceuticals/ rebates	35	27	30	24
Total	863	730	18	16

Global sales of pharmaceutical products increased 18% (+16% cc) to USD 863 million. Sales of allergy products rose 31%, fueled by increased demand for Patanol and Pataday ophthalmic solutions due to the early onset of the spring allergy season. Glaucoma product sales increased 15% on the strong performance of glaucoma combinations (+48%) and continued solid performance of TRAVATAN and TRAVATAN Z ophthalmic solutions. Infection/inflammation product sales rose 15% led by market share gains for NEVANAC ophthalmic suspension, as well as the inclusion of DUREZOL ophthalmic suspension in the first quarter of 2011 following its launch in the second quarter of 2010. Sales of otic/nasal products increased 14% due to strong sales of Patanase nasal spray for nasal allergies. Alcon also received several important product approvals including the anti-infective Moxeza ophthalmic solution in the US and formulations of Travatan and DuoTrav ophthalmic solutions without benzalkonium chloride in the EU.

Consumer Eye Care

	Q1 2011 USD m	Q1 2010 USD m	% change USD	cc
Contact lens disinfectants	107	112	-4	-6
Artificial tears	90	79	14	11
Other	26	28	-7	-8
Total	223	219	2	0

Global sales of consumer eye care products rose 2% (0% cc) to USD 223 million. Strong sales of the Systane family of artificial tears offset declines in contact lens care and other consumer products. The sales decline in contact lens disinfectants was the result of a continuing trend toward the use of hydrogen peroxide solutions and increased competitive activity in the multipurpose market.

FINANCIAL REVIEW

First quarter

	Q1 2011 USD m	Q1 2010 USD m	% change USD	cc
Net sales	14 027	12 131	16	14
Divisional operating income	3 557	3 693	-4	-1
Corporate income & expense, net	-149	-182	-18	-25
Group operating income	3 408	3 511	-3	0
as % of net sales	24.3	28.9		
Income from associated companies	117	103	14	1
Financial income	22	49	-55	-70
Interest expense	-189	-133	42	42
Taxes	-537	-582	-8	-5
Net income	2 821	2 948	-4	-1
EPS (USD)	1.21	1.29	-6	-3
Core operating income	4 012	3 865	4	6
as % of net sales	28.6	31.9		
Core net income	3 376	3 309	2	4
Core EPS (USD)	1.41	1.45	-3	0

Net sales
Net sales rose 16% (+14% cc) to USD 14.0 billion. Currency benefited sales by 2% as the dollar weakened against most currencies. Excluding A(H1N1) pandemic flu vaccine sales and Alcon, net sales grew 10% (+8% cc). Recently launched products provided USD 3.1 billion of net sales in the first quarter, representing 26% of total net sales excluding Alcon.

Corporate income & expense, net
Corporate income & expense includes the costs of Group headquarters. These net expenses of USD 149 million are 18% less than the prior year, primarily due to lower corporate management and insurance costs.

Group operating income
Operating income was down by 3% (0% cc). Currency had a negative impact of 3%, as the dollar weakened against the Swiss franc (-12%) and increased slightly against the euro (+1%). Excluding A(H1N1) pandemic flu vaccine and Alcon, underlying operating income was up 25% (+30% cc). Exceptional items in operating income in the first quarter of 2011 include: divestment gains of USD 102 million on the sale of ophthalmic pharmaceuticals and lens care products required for the approval of the Alcon merger and an exceptional CIBA Vision gain of USD 183 million from a legal settlement, offset by exceptional charges relating to legal settlements (Sandoz USD 28 million) and restructuring charges relating to the streamlining of our manufacturing network (USD 55 million). Alcon contributed USD 207 million to operating income in the first quarter.

Income from associated companies
Income from associated companies increased 14% to USD 117 million from USD 103 million. The income from Roche increased to USD 118 million from USD 81 million in the prior-year period. This increase was partially offset by Alcon, which contributed USD 32 million in the prior-year period, but since it has been fully consolidated from August 25, 2010, its result is no longer included in income from associated companies.

The following is a summary of the individual components included in the income from associated companies:

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	Q1 2011 USD m	Q1 2010 USD m
Share of estimated Roche reported net income	197	158
Restructuring impact	-41	-43
Amortization of intangible assets	-38	-34
Net income effect from Roche	118	81
Share of Alcon, Inc. reported net income		138
Catch-up for actual Alcon previous year net income		2
Amortization of intangible assets		-108
Net income effect from Alcon		32
Net income from other associated companies	-1	-10
Income from associated companies	117	103

On a comparable basis, excluding the impact of Alcon, the core results from associated companies, which exclude the exceptional charges due to restructuring and the amortization of intangible assets, increased by USD 48 million compared to the prior-year period.

Financial income and interest expense
For the first quarter of 2011, financial income decreased 55% from USD 49 million to USD 22 million due to significantly lower average liquidity, partly offset by currency gains. Interest expense of USD 189 million increased by 42% mainly due to the issuance of US dollar bonds in March 2010 and due to the negative translation impact on non-USD denominated interest expenses as a result of the weakening of the US dollar.

Taxes
The tax rate (taxes as percentage of pre-tax income) slightly decreased in the first quarter of 2011 to 16.0% from 16.5% in the prior-year period partly due to the favorable impact of fully consolidating Alcon.

Net income
Net income was down by 4% (-1% cc) due to additional financing costs related to Alcon, partially offset by an improved tax rate of 16.0%; core net income increased 2% (4% cc).

Earnings per share
EPS was down 6% (-3% cc) and core EPS declined 3% (0% cc) due to the impact of the allocation of Alcon net income to its non-controlling shareholders. The average number of shares outstanding in 2011 rose 0.5% to 2,290.2 million from 2,279.1 million in the year-ago period, while a total of 2,286.0 million shares were outstanding at March 31, 2011.

Balance sheet
Compared to December 31, 2010 non-current assets increased by USD 1.5 billion of which USD 0.7 billion relates to goodwill arising from the consolidation of Genoptix, Inc. and Zhejiang Tianyuan Bio-Pharmaceutical Co., Ltd. Current assets increased by USD 2.4 billion since December 31, 2010 due to working capital requirements to support strong underlying business expansion. As a result, total assets amounted to USD 127.2 billion at March 31, 2011, an increase of USD 3.9 billion compared to December 31, 2010.

Financial debt increased to USD 31.1 billion at March 31, 2011 from USD 23.0 billion at December 31, 2010 mainly as a result of the cash used for the dividend payment (USD 5.4 billion), cash outflow for share repurchases (USD 2.8 billion) and acquisitions (USD 0.6 billion). The long-term financial debt comprises bonds and Euro Medium Term Notes totaling USD 13.7 billion and other long-term financial loans of USD 0.8 billion. The short-term financial debt comprises commercial paper of USD 8.7 billion and other short-term borrowings totaling USD 7.9 billion. Other

current and non-current liabilities of USD 30.8 billion remained constant during the first quarter of 2011 compared to the 2010 year end. Total liabilities increased to USD 61.9 billion at March 31, 2011 from USD 53.5 billion at December 31, 2010.

The Group's equity fell by USD 4.4 billion during the first quarter of 2011 to USD 65.3 billion at March 31, 2011, mainly driven by the dividend payment for 2010 of USD 5.4 billion and the reduction to equity as a result of acquiring an additional 4.8% of Alcon, Inc. for USD 2.4 billion in the first quarter. The acquisition of the additional Alcon interest had two impacts: the value of the outstanding non-controlling shareholders' interest was reduced by USD 1.3 billion and at the same time there was a charge to retained earnings of USD 1.1 billion for the difference between the consideration paid and the value of the non-controlling interests acquired. Net purchases of treasury shares resulted in an additional equity reduction of USD 0.6 billion. These impacts were partially offset by the net income of USD 2.8 billion as well as positive currency translation differences of USD 0.9 billion with an additional increase of USD 0.2 billion related to share-based compensation.

The Group's debt/equity ratio rose to 0.48:1 at March 31, 2011, compared to 0.33:1 at the end of 2010, reflecting the higher financial debt for the funding of the Alcon acquisition. The Group's liquidity increased from USD 8.1 billion at the end of 2010 to USD 8.8 billion at March 31, 2011. It includes USD 4.1 billion consolidated with Alcon. Net debt at March 31, 2011 was USD 22.3 billion compared to USD 14.9 billion at the end of the previous year.

Cash flow

Cash flow from operating activities generated USD 1.9 billion for the first quarter, impacted by the increase in working capital from the low year-end level and the payment of legal and restructuring provisions made in 2010 (USD 0.6 billion). Free cash flow was USD 1.6 billion for the quarter, a decline of 44% over the previous year, primarily due to the cash collection for A(H1N1) pandemic flu vaccine in the first quarter of 2010 (USD 1.3 billion), the payment of legal and restructuring provisions made in 2010 (USD 0.6 billion) and an increase in working capital from the low year-end level.

Proceeds from the sale of marketable securities of USD 1.4 billon led to a cash inflow from investing activities rising to USD 0.5 billion in the first quarter against a cash outflow of USD 1.1 billon in the year-ago period. Additions to property, plant and equipment and intangible assets in 2011 resulted in a cash outflow of USD 0.5 billion partially compensated by proceeds of USD 0.2 billion from sales of property, plant and equipment and other assets. In addition, the acquisitions of Genoptix, Inc. and Zhejiang Tianyuan Bio-Pharmaceutical Co., Ltd. resulted in cash outflows of USD 0.6 billion net of cash acquired.

Cash outflow for financing activities was a net USD 0.5 billion as the USD 7.7 billion increase in net financial debts was fully compensated by the 2010 dividend payment of USD 5.4 billion, net repurchases of treasury shares of USD 0.4 billion (USD 0.6 billion less USD 0.2 billion withholding tax payable in April) and purchases of Alcon shares of USD 2.4 billion including the payment of USD 0.2 billion for shares acquired in December 2010 but settled in 2011.

INNOVATION REVIEW

Key developments reported in the first quarter of 2011:

- In March, the European Commission approved Gilenya for patients with highly active relapsing-remitting multiple sclerosis (RRMS) despite treatment with beta interferon, or in patients with rapidly evolving severe RRMS.

- In February, the EMA's Committee for Medicinal Products for Human Use (CHMP) adopted a positive opinion for Rasilamlo (aliskiren and amlodipine single-pill combination) for the treatment of hypertension in patients whose blood pressure cannot be adequately controlled with any of its individual components.

- In March, CHMP granted a positive opinion for Lucentis (ranibizumab) to treat patients with visual impairment due to macular edema secondary to retinal vein occlusion.

- In March, the FDA’s Pulmonary-Allergy Drugs Advisory Committee recommended approval for QAB149 (indacaterol) in the US as the first once-daily long-term maintenance bronchodilator treatment of airflow obstruction in patients with chronic obstructive pulmonary disease (COPD), including chronic bronchitis and/or emphysema. While the Committee recommended that the FDA approve the 75 mcg dose, it voted against recommending approval for the 150 mcg dose. Nonetheless, the Committee endorsed the safety profile and recognized the improvement in health-related quality of life (measured with St. George’s Respiratory Questionnaire, or SGRQ) of both doses. Also in March, the FDA extended the review period for a new drug application for QAB149 by three months to July 2011, indicating that it needed more time to examine the large amount of data from the comprehensive clinical trial program. If approved in the US, the proposed trade name will be Arcapta™ Neohaler™.

- In February, Novartis filed for US regulatory approval of ACZ885 (Ilaris, canakinumab) for the treatment of gouty arthritis based on data from two Phase III registration studies that met their primary endpoints. This follows the EU submission for the same indication in December 2010. Data from the two Phase III registration studies will be presented at the European League Against Rheumatism Congress in May 2011. A Phase III study in systemic juvenile idiopathic arthritis also met its primary endpoint and will be presented later this year, while a second pivotal study is ongoing.

- In February, Novartis submitted a dossier for regulatory approval of Zortress/Certican (everolimus) in Japan for the prevention of organ rejection in patients with kidney transplant. Phase III development with everolimus is also ongoing for liver transplantation.

- A Phase II study with the first-in-class antiviral DEB025 (alisporivir) met its primary endpoint for achieving sustained viral response, also referred to as viral cure, 24 weeks after stopping treatment in 76% of patients with chronic hepatitis C. The study involved nearly 300 previously untreated patients infected with the most common form of hepatitis C virus (HCV), genotype 1. DEB025 plus standard of care (pegylated-interferon alfa 2a/ribavirin) showed superior viral cure versus standard of care alone (p=0.008). A Phase III study with DEB025 recently commenced with previously untreated patients infected by genotype 1 HCV.

- The Phase III INC424 (ruxolitinib) trial met its primary endpoint, demonstrating that INC424 significantly reduced spleen size in patients with primary myelofibrosis, post-polycythemia vera myelofibrosis or post-essential thrombocythemia myelofibrosis when compared to best available therapy.

- Results of a Phase III head-to-head study comparing SOM230 long-acting release (LAR) (pasireotide) to Sandostatin LAR (octreotide), representing the current standard of care, met the primary endpoint of normalization

of IGF-1 and growth hormone levels in the treatment of patients with acromegaly.

- Results from the first Phase III clinical trial with once-daily NVA237 (glycopyrronium bromide) show that it significantly improved lung function while demonstrating a good safety profile in patients with moderate-to-severe chronic obstructive pulmonary disease (COPD). NVA237 is an investigational compound in the long-acting muscarinic antagonist class. The pivotal double-blind 26-week GLOW1 study met its primary endpoint by demonstrating superior bronchodilation to placebo at 12 weeks measured by trough FEV1 ($p<0.001$). The incidence of adverse events was similar in NVA237-treated patients and in those receiving placebo. Data will be presented at a scientific congresse in second half of 2011.

- Results from the RADIANT-3 trial published in the February 10 issue of The New England Journal of Medicine showed Afinitor (everolimus) tablets plus best supportive care (BSC) more than doubled progression-free survival versus placebo plus BSC in patients with advanced pancreatic neuroendocrine tumors (NET). Worldwide regulatory submissions based on this data are underway for Afinitor as a treatment for patients with advanced NET.

- The FDA granted priority review for Afinitor in the treatment of patients with advanced neuroendocrine tumors (NET). Based on feedback from the FDA, Novartis amended its application on April 8 to only seek approval for the treatment of advanced NET of pancreatic origin. At a meeting on April 12, the FDA's Oncologic Drugs Advisory Committee unanimously recommended approval of Afinitor for this indication. The current median survival duration for patients with advanced pancreatic NET is only 24 months, and Afinitor holds promise for addressing this critical area of patient need.

- Novartis received a Refusal to File letter from the FDA for LBH589 in relapsed/refractory Hodgkin's lymphoma and will not proceed with the EU submission for LBH589 in this indication. Novartis remains committed to the continued development of LBH589 across multiple indications, including multiple myeloma.

- Clinical trial ENESTg1 comparing Tasigna to Gleevec/Glivec in newly diagnosed patients with unresectable and/or metastatic gastrointestinal stromal tumors was discontinued, following the recommendation of an independent data monitoring committee. Interim efficacy results indicate Tasigna is unlikely to show superiority.

- Novartis withdrew its European application for Joicela (lumiraxcoxib) in combination with a genetic biomarker test. The decision was based on the inability to provide additional requested data within the timeframe of the current procedure. Novartis remains committed to personalized medicines and biomarker testing programs.

    - In Vaccines & Diagnostics, our meningococcal vaccine Menveo was approved for use in the US for children from 2 to 10 years of age in the prevention of this deadly disease.

- Novartis received a Refusal to File letter from the FDA for the use of Menveo in infants aged 2 to 12 months. In April, we have submitted a new file in infants and toddlers for the age from 2 to 24 months and are awaiting acceptance from the FDA of our resubmitted application for the expanded use of the vaccine.

    - Aflunov, an influenza vaccine to help prevent avian flu (H5N1), was approved for use in the EU.

A full pipeline update can be found on our website at http://www.novartis.com.

Disclaimer

The foregoing release contains forward-looking statements that can be identified by terminology such as "growth platform," "to be mitigated," "recommendations," "potential," "pipeline," "promise," "recommendation," "promising," "strategy," "will," "commitment," "goal," "recommended," "priority review," "seek," "promise," "may," "committed," "opportunities," "expected," "strategic," “awaiting,” “ongoing,” "expect," "plan," "launched," "can," "could," "outlook," "expectations," "would," "momentum," "underway," recommend," "opinion," "recommending," 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 regarding potential growth opportunities from the merger of Alcon and Novartis, or the potential impact on Alcon or Novartis of the merger; , or any potential synergies, strategic benefits or opportunities as a result of the merger; or regarding potential future sales or earnings of the Novartis Group or any of its divisions as a result of the merger or otherwise; 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 Novartis will be able to realize any of the potential synergies, strategic benefits or opportunities as a result of the merger with Alcon. Nor can there be any guarantee that the Novartis Group, or any of its divisions, will achieve any particular financial results, whether as a result of the merger or otherwise. In particular, management's expectations could be affected by, among other things, unexpected regulatory actions or delays or government regulation generally; unexpected clinical trial results, including additional analyses of existing clinical data or unexpected new clinical data; the Group's ability to obtain or maintain patent or other proprietary intellectual property protection; disruptions from the merger and integration with Alcon making it more difficult to maintain business and operational relationships, and relationships with key employees; unexpected product manufacturing issues; uncertainties regarding actual or potential legal proceedings, including, among others, litigation seeking to prevent the 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 healthcare 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 this release 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, eye care, cost-saving generic pharmaceuticals, consumer health products, preventive vaccines and diagnostic tools. Novartis is the only company with leading positions in these areas. In 2010, the Group’s continuing operations achieved net sales of USD 50.6 billion, while approximately USD 9.1 billion (USD 8.1 billion excluding impairment and amortization charges) was invested in R&D throughout the Group. Headquartered in Basel, Switzerland, Novartis Group companies employ approximately 119,000 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

May 18, 2011	Novartis investor call on Alcon full pro forma comparatives
July 19, 2011	Second quarter and half year results 2011
September 13, 2011	Investor Day on Alcon Division
October 25, 2011	Third quarter results 2011

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CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statements (unaudited)

First quarter

	Q1 2011 USD m	Q1 2010 USD m	% change (USD)
Net sales	**14 027**	**12 131**	**16**
Other revenues	195	225	-13
Cost of Goods Sold	-4 458	-3 096	44
Gross profit	**9 764**	**9 260**	**5**
Marketing & Sales	-3 524	-3 014	17
Research & Development	-2 188	-2 037	7
General & Administration	-694	-570	22
Other income	549	180	205
Other expense	-499	-308	62
Operating income	**3 408**	**3 511**	**-3**
Income from associated companies	117	103	14
Financial income	22	49	-55
Interest expense	-189	-133	42
Income before taxes	**3 358**	**3 530**	**-5**
Taxes	-537	-582	-8
Net income	**2 821**	**2 948**	**-4**
Attributable to:			
Shareholders of Novartis AG	*2 770*	*2 933*	*-6*
Non-controlling interests	*51*	*15*	*240*
Average number of shares outstanding – Basic (million)	**2 290.2**	**2 279.1**	**0**
Basic earnings per share (USD)[1]	**1.21**	**1.29**	**-6**
Average number of shares outstanding – Diluted (million)	2 304.5	2 290.3	1
Diluted earnings per share (USD)[1]	1.20	1.28	-6

[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)

First quarter

	Q1 2011 USD m	Q1 2010 USD m	Change USD m
Net income	**2 821**	**2 948**	**-127**
Fair value adjustments on financial instruments, net of taxes		5	-5
Net actuarial losses from defined benefit plans, net of taxes	-1	-178	177
Novartis share of other items recorded in comprehensive income recognized by associated companies, net of taxes	8	-48	56
Translation effects	914	-997	1 911
Comprehensive income	**3 742**	**1 730**	**2 012**
Attributable to:			
Shareholders of Novartis AG	*3 674*	*1 714*	*1 960*
Non-controlling interests	*68*	*16*	*52*

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Condensed consolidated balance sheets

	March 31, 2011 (unaudited) USD m	Dec 31, 2010 (audited) USD m	Change USD m	March 31, 2010 (unaudited) USD m
Assets				
Non-current assets				
Property, plant & equipment	16 344	15 840	504	13 577
Goodwill	30 346	29 692	654	11 688
Intangible assets other than goodwill	34 983	35 231	-248	9 883
Financial and other non-current assets	16 445	15 870	575	24 847
Total non-current assets	**98 118**	**96 633**	**1 485**	**59 995**
Current assets				
Inventories	6 621	6 093	528	5 658
Trade receivables	10 861	9 873	988	7 773
Other current assets	2 854	2 585	269	2 471
Cash, short-term deposits and marketable securities	8 764	8 134	630	19 898
Total current assets	**29 100**	**26 685**	**2 415**	**35 800**
Total assets	**127 218**	**123 318**	**3 900**	**95 795**
Equity and liabilities				
Total equity	**65 340**	**69 769**	**-4 429**	**55 216**
Non-current liabilities				
Financial debts	14 532	14 360	172	13 445
Other non-current liabilities	15 130	14 531	599	9 702
Total non-current liabilities	**29 662**	**28 891**	**771**	**23 147**
Current liabilities				
Trade payables	4 496	4 788	-292	3 561
Financial debts and derivatives	16 581	8 627	7 954	4 484
Other current liabilities	11 139	11 243	-104	9 387
Total current liabilities	**32 216**	**24 658**	**7 558**	**17 432**
Total liabilities	**61 878**	**53 549**	**8 329**	**40 579**
Total equity and liabilities	**127 218**	**123 318**	**3 900**	**95 795**

Condensed consolidated changes in equity (unaudited)

First quarter

	Q1 2011 USD m	Q1 2010 USD m	Change USD m
Consolidated equity at January 1	**69 769**	**57 462**	**12 307**
Comprehensive income	3 742	1 730	2 012
(Purchase)/sale of treasury shares, net	-582	366	-948
Equity-based compensation	171	141	30
Dividends	-5 352	-4 468	-884
Excess of the purchase price for acquiring Alcon non-controlling interests compared to their recorded values	-1 095		-1 095
Reduction in non-controlling interests	-1 313	-15	-1 298
Consolidated equity at March 31	**65 340**	**55 216**	**10 124**

Condensed consolidated cash flow statements (unaudited)

First quarter

	Q1 2011 USD m	Q1 2010 USD m	Change USD m
Net income	**2 821**	**2 948**	**-127**
Reversal of non-cash items			
Taxes	537	582	-45
Depreciation, amortization and impairments	1 205	761	444
Change in provisions and other non-current liabilities	122	189	-67
Net financial income	167	84	83
Other	-77	75	-152
Net income adjusted for non-cash items	**4 775**	**4 639**	**136**
Interest and other financial receipts	395	340	55
Interest and other financial payments	-202	-137	-65
Taxes paid	-770	-469	-301
Cash flows before working capital changes	**4 198**	**4 373**	**-175**
Payments out of provisions and other net cash movements in non-current liabilities	-598	-127	-471
Change in net current assets and other operating cash flow items	-1 693	-939	-754
Cash flows from operating activities	**1 907**	**3 307**	**-1 400**
Purchase of property, plant & equipment	-419	-304	-115
Purchase of intangible, financial and other non-current assets	-87	-144	57
Proceeds from sales of property, plant & equipment, intangible, financial and other non-current assets	221	44	177
Acquisitions of subsidiaries	-589	-413	-176
Change in marketable securities	1 365	-319	1 684
Cash flows from / used in investing activities	**491**	**-1 136**	**1 627**
Change in current and non-current financial debts	7 718	4 234	3 484
Dividends paid to shareholders of Novartis AG	-5 352	-4 468	-884
Treasury share transactions	-392	368	-760
Acquisition of Alcon non-controlling interests	-2 437		-2 437
Other financing cash flows	-24	-112	88
Cash flows used in / from financing activities	**-487**	**22**	**-509**
Translation effect on cash and cash equivalents	-56	-21	-35
Change in cash and cash equivalents	**1 855**	**2 172**	**-317**
Cash and cash equivalents at January 1	5 319	2 894	2 425
Cash and cash equivalents at March 31	**7 174**	**5 066**	**2 108**

Notes to the Condensed Interim Consolidated Financial Statements for the three-month period ended March 31, 2011 (unaudited)

1. Basis of preparation

These Condensed Interim Consolidated Financial Statements for the three-month period ended March 31, 2011, were prepared in accordance with International Accounting Standard 34 *InterimFinancial Reporting* and accounting policies set out in the 2010 Annual Report published on January 27, 2011.

2. Selected critical accounting policies

The Group's principal accounting policies are set out in note 1 to the Consolidated Financial Statements in the 2010 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 2010 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, 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.

3. Acquisitions, divestments and significant transactions

The following significant transactions occurred during 2011 and 2010:

Acquisitions in 2011

Pharmaceuticals – Genoptix, Inc.
On January 24, Novartis announced that it has entered into a definitive agreement for the acquisition of Genoptix, Inc (NASDAQ: GXDX), a specialized laboratory providing personalized diagnostic services to community-based hematologists and oncologists. Genoptix employs approximately 500 people and will become part of the Novartis Molecular Diagnostics unit within the Pharmaceuticals Division.

On March 7, Novartis completed the final cash tender offer, and as a result acquired 100% of the shares of Genoptix for a total purchase price of USD 458 million, excluding the USD 24 million of cash acquired. The preliminary purchase price allocation resulted in net identified assets of USD 238 million and goodwill of USD 220 million. Results of operations since the acquisition date were not material.

Vaccines and Diagnostics – Zhejiang Tianyuan
On March 22, Novartis completed the acquisition in cash of an 85% stake in the Chinese vaccines company Zhejiang Tianyuan Bio-Pharmaceutical Co. Ltd. The acquisition provides Novartis with an expanded presence in the Chinese vaccines market and is expected to facilitate the introduction of additional Novartis vaccines into China. The total amount paid for the 85% interest was USD 194 million, excluding USD 39 million of cash acquired. The preliminary purchase price allocation resulted in net identified assets of USD 157 million and a goodwill of USD 60 million. Non-controlling interests have increased by USD 23 million from this transaction. Results of operations since the acquisition date were not material.

Acquisitions in 2010

Corporate – Alcon, Inc.
Novartis acquired an initial 25% Alcon stake from Nestlé for USD 10.4 billion or USD 143 per share in July 2008. On January 4, 2010 Novartis announced that it had exercised its call option to acquire Nestlé's remaining 52% Alcon interest for approximately USD 28.3 billion or USD 180 per share. On August 25, Novartis completed the acquisition of a further 52% interest in Alcon, Inc. This increases the interest in Alcon to a 77% majority ownership.

The overall purchase price of USD 38.7 billion includes certain adjustments for dividends and interest up to the August 25, 2010 closing date. Sources of financing for the 77% majority ownership, including the initial 25% interest 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. In addition, during 2010, Novartis raised funds through the commercial paper program, which was used for general corporate purposes of the Novartis Group, as well as for intercompany financing purposes in connection with the acquisition of the 52% interest in Alcon.

A detailed summary of the financial impact of consolidating Alcon from August 25 is provided in note 2 of the Consolidated Financial Statements included in the 2010 Annual Report.

Other Significant Transaction in 2011

Consumer Health – Settlement of litigation
On January 3, Novartis and Johnson & Johnson signed an agreement to settle all litigations related to silicone hydrogel patents (JUMP patents). Under the agreement, Novartis received a settlement payment and each party

granted to the other party a fully paid up, irrevocable, worldwide non-exclusive license with no right to sub-license under the respective patent rights. Novartis recorded a net gain of USD 183 million from this settlement.

4. Principal currency translation rates

First quarter

	Average rates Q1 2011 USD	Average rates Q1 2010 USD	Period-end rates March 31, 2011 USD	Period-end rates March 31, 2010 USD
1 CHF	**1.062**	0.946	**1.090**	0.937
1 EUR	**1.367**	1.385	**1.417**	1.342
1 GBP	**1.602**	1.562	**1.612**	1.507
100 JPY	**1.215**	1.102	**1.209**	1.073

5. Consolidated income statements – Segmentation – First quarter (unaudited)

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Alcon, Inc.	Corporate (incl. eliminations)		Total Group	
	Q1 2011 USD m	Q1 2010 USD m	Q1 2011 USD m	Q1 2010 USD m	Q1 2011 USD m	Q1 2010 USD m	Q1 2011 USD m	Q1 2010 USD m	Q1 2011 USD m	Q1 2011 USD m	Q1 2010 USD m	Q1 2011 USD m	Q1 2010 USD m
Net sales to third parties	**7 765**	**7 291**	**371**	**1 361**	**2 318**	**2 001**	**1 642**	**1 478**	**1 931**			**14 027**	**12 131**
Sales to other segments	60	38	17	17	65	74	8	17		-150	-146		
Net sales of segments	**7 825**	**7 329**	**388**	**1 378**	**2 383**	**2 075**	**1 650**	**1 495**	**1 931**	**-150**	**-146**	**14 027**	**12 131**
Other revenues	112	84	74	123	3	4	6	14	2	-2		195	225
Cost of Goods Sold	-1 452	-1 206	-299	-392	-1 297	-1 118	-587	-518	-984	161	138	-4 458	-3 096
Gross profit	**6 485**	**6 207**	**163**	**1 109**	**1 089**	**961**	**1 069**	**991**	**949**	**9**	**-8**	**9 764**	**9 260**
Marketing & Sales	-2 057	-2 036	-77	-78	-382	-360	-566	-540	-444	2		-3 524	-3 014
Research & Development[1]	-1 622	-1 655	-121	-135	-165	-161	-92	-86	-188			-2 188	-2 037
General & Administration	-246	-213	-35	-38	-89	-91	-101	-96	-99	-124	-132	-694	-570
Other income	151	120	4	18	22	25	306	5		66	12	549	180
Other expense	-212	-143	-35	-37	-85	-64	-54	-10	-11	-102	-54	-499	-308
Operating income	**2 499**	**2 280**	**-101**	**839**	**390**	**310**	**562**	**264**	**207**	**-149**	**-182**	**3 408**	**3 511**
as % of net sales	*32.2%*	*31.3%*	*-27.2%*	*61.6%*	*16.8%*	*15.5%*	*34.2%*	*17.9%*	*10.7%*			*24.3%*	*28.9%*
Income from associated companies		-6			1					116	109	117	103
Financial income												22	49
Interest expense												-189	-133
Income before taxes												**3 358**	**3 530**
Taxes												-537	-582
Net income												**2 821**	**2 948**
Additions to:													
– Property, plant and equipment[2]	*207*	*136*	*46*	*58*	*40*	*50*	*23*	*18*	*66*	*44*	*13*	*426*	*275*
– Other intangible	*130*	*143*	*5*	*2*	*8*	*10*		*6*	*4*		*3*	*147*	*164*

assets[2]

[1] Figures of 2010 were restated to reflect the transfer of USD 47 million of Research & Development expenses from Corporate to the Pharmaceuticals Division as they are responsible for these activities.
[2] 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 sometimes 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 2010 Annual Report for a summary of major legal proceedings. The following is a non-exhaustive list relating to some cases reported in the 2010 Annual Report and includes information as of April 18, 2011:

Governmental investigations
On September 30, 2010, Novartis Pharmaceuticals Corporation (NPC) reached a global settlement in order to bring to a close the US Attorney's Office (USAO) for the Eastern District of Pennsylvania's (EDPA) investigations into marketing practices and payments made to healthcare providers in connection with *Trileptal* and in connection with five other products, i.e. *Diovan*, *Exforge*, *Sandostatin*, *Tekturna* and *Zelnorm* (Five Products). 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. As the fine was formally imposed on NPC at the sentencing hearing in the US District Court for the EDPA on January 28, 2011, and payment of the total overall settlement amount of USD 422.5 million, which had been fully provisioned for as of the end of the second quarter of 2010, has been completed in the first quarter of 2011, these investigations are closed now.

Zometa/Aredia product liability litigation
NPC together with other Novartis subsidiaries are defendants in approximately 695 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. A trial that began in Montana state court in October 2009 resulted in a plaintiff's verdict which NPC appealed to the Montana Supreme Court. On December 30, 2010, the Montana Supreme Court affirmed the trial court's verdict. On March 30, 2011, NPC filed a petition for review with the US Supreme Court. On October 6, 2010, after a trial in New Jersey state court, the jury returned a verdict in favor of NPC. This verdict is currently on appeal. Another trial took place in November 2010 in North Carolina federal court and resulted in a plaintiffs' verdict. NPC filed post-trial motions and will, if necessary, file an appeal against this latest verdict. Several trials are currently scheduled throughout 2011. The next trial is expected to begin on May 16, 2011, in the US District Court for the Eastern District of New York.

Zelnorm product liability litigation
NPC together with other Novartis subsidiaries are defendants in approximately 128 cases brought in US and Canadian courts in which plaintiffs claim to have experienced cardiovascular injuries after being treated with *Zelnorm*, a medicine for irritable bowel syndrome and chronic constipation. A purported national class action was filed against a Novartis subsidiary in Canada. A statement to defend was filed in this action. In May 2010, NPC reached a tentative group settlement agreement, which is contingent on obtaining consents from the 118 individual plaintiffs subject to the settlement. NPC has not yet received all the consents. A case scheduled for trial in April 2011 was settled for a nominal amount.

Wage and Hour litigation
Certain pharmaceutical sales representatives filed suit in a state court in California and in the US 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 actions are part of a number of lawsuits pending against pharmaceutical companies that challenge the industry's long-term practice of treating pharmaceutical sales representatives as salaried employees.

After the California state court action had been removed to the US District Court for the Central District of California, these collective and class action lawsuits were consolidated in the US District Court for the SDNY for coordinated pre-trial proceedings. A class was certified. In January 2009, after the case had been bifurcated into a liability and a damages phase, the US District Court for the SDNY granted NPC’s summary judgment

motion holding that NPC's 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 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 lower court. On October 4, 2010, NPC filed its petition for review by the US Supreme Court. Amicus briefs in support of NPC's petition were filed on November 5, 2010, by the US Chamber of Commerce and Pharmaceutical Research and Manufacturers of America (PhRMA). On February 28, 2011, NPC was informed that the US Supreme Court decided not to take this case. The case has now been remanded to the US District Court for the SDNY for pre-trial proceedings relating to damages.

Average Wholesale Price litigation
Claims have been brought against various pharmaceutical companies, including certain Sandoz entities and NPC, alleging that they fraudulently overstated the Average Wholesale Price and "best price", respectively, which are, or have been, used by the US federal and state governments in the calculation of Medicare reimbursements and Medicaid rebates. In some cases, motions to dismiss or (cross-) motions for summary judgment have been made and are currently pending.

A bench trial against Sandoz Inc. in Mississippi state court ended on April 15, 2011. A decision is expected in due course.

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. All federal actions were consolidated in the SDNY and were dismissed by the SDNY based on the doctrine of forum non conveniens (FNC) on May 24, 2010. On July 14, 2010, plaintiffs appealed this decision to the Second Circuit. On January 6, 2011, upon a motion made by plaintiffs, the Second Circuit dismissed this appeal. All actions pending in Texas state courts were consolidated for pre-trial proceedings in a Multi District Litigation and were dismissed based on FNC on November 17, 2010. On December 17, 2010, plaintiffs appealed this decision to the Texas Fifth District Court of Appeals. On March 21, 2011, upon a motion made by plaintiffs, the Texas Fifth District Court of Appeals dismissed the appeal.

7. Subsequent events

Alcon merger
On April 8, the Novartis Extraordinary General Meeting agreed the merger with Alcon, Inc. (Alcon; NYSE: ACL), creating the global leader in eye care. The new Alcon eye care division creates the fifth growth platform in Novartis' strategically diversified healthcare portfolio and will address a broad range of consumer needs in eye care including pharmaceuticals, surgical, contact lenses and consumer products covering 70% of eye care segment. Also the Extraordinary General Meeting authorised the issuance of 108 million new shares.

Under the terms of the December 14, 2010 agreement, Alcon shareholders will receive 2.9228 Novartis shares (which includes the dividend adjustment) and USD 8.20 in cash for each share of Alcon, resulting in a total consideration of US 168 per share.

Subsequent to the announcement of the merger on December 15, 2010, Novartis has purchased 16.1 million Alcon shares in the open market, resulting in 165 million Novartis shares needing to be issued to complete the merger. These shares came from 108 million newly issued shares out of the authorized share capital and 57 million shares already held as treasury shares.

The acquisition of the remaining outstanding non-controlling interests in Alcon via the merger is considered to be a separate transaction following the previous acquisition of majority ownership in Alcon by Novartis. It will change the Novartis ownership in Alcon but will not result in a change of control, so it will be accounted for as an equity transaction as required by IAS 27R, meaning assets and liabilities are not revalued as of the date of the acquisition of the outstanding non-controlling interests via the merger, goodwill does not arise and any excess of the consideration paid to acquire

the outstanding non-controlling interest over the proportionate share of the outstanding non-controlling interests' net assets is recognized against equity.

As a result of the merger, the remaining non-controlling interests in Alcon, valued at USD 5.2 billion at March 31, 2011, will disappear from the Group's equity.

In total approximately USD 9.6 billion have been exchanged as consideration for the remaining outstanding interest in Alcon of 18.7%. This consists of the fair value of the exchanged Novartis shares of approximately USD 9.1 billion and USD 0.5 billion for the contingent value amount payment.

The USD 4.4 billion difference between the consideration exchanged for the outstanding non-controlling interests and their current value, together with costs related to the issue of new shares of approximately USD 0.1 billion will be deducted from the Group's equity.

The total reduction in the Group's equity arising from the merger will therefore be approximately USD 9.7 billion. This will be offset by the fair value of the newly issued shares of approximately USD 9.1 billion resulting in a net reduction in the Group's equity of approximately USD 0.6 billion arising from the merger and share issuance.

Divestment of *Elidel*
On April 7, Novartis announced that it has signed an agreement to sell to Meda the global rights to manufacture, market and commercialize *Elidel* Cream 1%, a medicine to treat mild to moderate atopic dermatitis. This agreement reflects Novartis strategy to focus commercialization on its new launch portfolio and core brands.

Upon closing, Novartis will receive an upfront payment of USD 420 million from Meda which will assume the global manufacturing of *Elidel* within three years after closing. The accounting gain is expected to be about USD 406 million – approximately USD 345 million to be recognized by the end of 2011 and the remainder in 2012 and 2013.

The agreement will be filed for review with the US and certain antitrust authorities and, subject to certain closing conditions set forth in the agreement, the transaction is expected to close during the second quarter 2011.

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/liquidity (unaudited)

First quarter

	Q1 2011 USD m	Q1 2010 USD m
Change in cash and cash equivalents	**1 855**	**2 172**
Change in marketable securities, financial debt and financial derivatives	-9 351	-3 664
Change in net debt/liquidity	**-7 496**	**-1 492**
Net debt/liquidity at January 1	-14 853	3 461
Net debt/liquidity at March 31	**-22 349**	**1 969**

Free cash flow (unaudited)

First quarter

	Q1 2011 USD m	Q1 2010 USD m	Change USD m
Cash flows from operating activities	**1 907**	**3 307**	**-1 400**
Purchase of property, plant & equipment	-419	-304	-115
Purchase of intangible, financial and other non-current assets	-87	-144	57
Proceeds from sales of property, plant & equipment, intangible, financial and other non-current assets	221	44	177
Free cash flow before dividends	**1 622**	**2 903**	**-1 281**
Dividends	-5 352	-4 468	-884
Free cash flow	**-3 730**	**-1 565**	**-2 165**

Share information (unaudited)

	March 31, 2011	March 31, 2010
Number of shares outstanding (million)	**2 286.0**	2 287.9
Registered share price (CHF)	**49.82**	56.95
ADS price (USD)	**54.35**	54.10
Market capitalization (USD billion)	**124.1**	122.1
Market capitalization (CHF billion)	**113.9**	130.3

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 that are, or are expected to accumulate to be, 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 – First quarter (unaudited)

	Q1 2011 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related divestment gains, restructuring and integration charges[3] USD m	Exceptional items[4] USD m	Q1 2011 Core results USD m	Q1 2010 Core results USD m
Gross profit	**9 764**	**754**			**23**	**10 541**	**9 426**
Operating income	**3 408**	**781**	**24**	**-79**	**-122**	**4 012**	**3 865**
Income before taxes	**3 358**	**819**	**24**	**-79**	**-81**	**4 041**	**4 069**
Taxes[5]	-537					-665	-760
Net income	**2 821**					**3 376**	**3 309**
EPS (USD)[6]	**1.21**					**1.41**	**1.45**
The following are adjustments to arrive at Core Gross Profit							
Cost of Goods Sold	-4 458	754			23	-3 681	-2 930
The following are adjustments to arrive at Core Operating Income							
Research & Development	-2 188	23			2	-2 163	-1 848
General & Administration	-694	3				-691	-570
Other income	549			-102	-273	174	134
Other expense	-499	1	24	23	126	-325	-263
The following are adjustments to arrive at Core Income before taxes							
Income from associated companies	117	38			41	196	288

[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 technology platforms; General & Administration includes amortization of software costs; Other expense includes impairments of financial assets; Income from associated companies includes the recurring amortization of the purchase price allocation related to intangible assets, primarily for the investment in Roche.
[2] Impairments: Other expense includes impairments primarily for financial assets.
[3] Acquisition-related divestment gains, restructuring and integration charges: Other income includes a gain from

product sales required by regulators to approve the Alcon merger; Other expense relates primarily to Alcon integration cost.

[4] Exceptional items: Cost of Goods Sold, Research & Development and Other expense include a total of USD 55 million restructuring charge related to the Group-wide rationalization of manufacturing sites; Other income and expense includes a net USD 183 million gain from the Jump litigation settlement, a USD 43 million product divestment gain, a USD 28 million charge for increasing the provision for a US litigation and USD 21 million for IT restructuring projects.; Income from associated companies reflects an estimated charge of USD 41 million for the Novartis share of Roche's restructuring.

[5] Taxes on the adjustments between IFRS and core results take into account, for each individual item included in the adjustment, the tax rate that is applicable to the item in the jurisdiction where the adjustment arises. Generally this results in amortization of intangible assets and acquisition-related restructuring and integration items having a full tax impact whereas tax impacts on impairments can only be taken into account if the changes in value in the underlying asset are tax deductible in the respective jurisdiction where the asset is recorded. There is usually a tax impact on exceptional items although this is not the case for items arising from criminal settlements in certain jurisdictions. Adjustments related to income from associated companies are recorded net of any related tax effect. Due to these factors and the differing effective tax rates in the various jurisdictions, the tax on the total adjustments of USD 683 million to arrive at the core results before tax amounts to USD 128 million. This results in the average tax rate on the adjustments being 18.7%.

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

CORE RESULTS

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

	Pharmaceuticals		Vaccines and Diagnostics		Sandoz		Consumer Health		Alcon, Inc.	Corporate		Total	
	Q1 2011 USD m	Q1 2010 USD m	Q1 2011 USD m	Q1 2010 USD m	Q1 2011 USD m	Q1 2010 USD m	Q1 2011 USD m	Q1 2010 USD m	Q1 2011 USD m	Q1 2011 USD m	Q1 2010 USD m	Q1 2011 USD m	Q1 2010 USD m
Operating income	**2 499**	**2 280**	**-101**	**839**	**390**	**310**	**562**	**264**	**207**	**-149**	**-182**	**3 408**	**3 511**
Amortization of intangible assets	**122**	**95**	**56**	**80**	**74**	**80**	**23**	**24**	**505**	**1**		**781**	**279**
Impairments													
Intangible assets		55				7							62
Property, plant & equipment		-4	1			1						1	-3
Financial assets	4	1	19	4							1	23	6
Total impairment charges	**4**	**52**	**20**	**4**		**8**					**1**	**24**	**65**
Acquisition-related divestment gains, restructuring and integration charges (including acquisition-related accounting impact of inventory adjustments), net	**-81**					**4**	**-19**		**10**	**11**		**-79**	**4**
Exceptional items													
Exceptional gains from divesting brands, subsidiaries and financial investments							-43					-43	
Other restructuring expenses	36		1				18					55	
Legal provisions, litigations and exceptional settlements		-42			28	48	-183					-155	6
Other exceptional items										21		21	
Total exceptional items	**36**	**-42**	**1**		**28**	**48**	**-208**			**21**		**-122**	**6**
Total adjustments	**81**	**105**	**77**	**84**	**102**	**140**	**-204**	**24**	**515**	**33**	**1**	**604**	**354**
Core operating income	**2 580**	**2 385**	**-24**	**923**	**492**	**450**	**358**	**288**	**722**	**-116**	**-181**	**4 012**	**3 865**
as % of net sales	*33.2%*	*32.7%*	*-6.5%*	*67.8%*	*21.2%*	*22.5%*	*21.8%*	*19.5%*	*37.4%*			*28.6%*	*31.9%*

Income from associated companies	-6	1	116	109	117	103
Recurring amortization, exceptional impairments and restructuring expenses related to income from associated companies, net of tax					79	185
Financial income					22	49
Interest expenses					-189	-133
Taxes (adjusted for above items)					-665	-760
Core net income					**3 376**	**3 309**
Core net income attributable to shareholders					**3 240**	**3 294**
Core EPS (USD)					**1.41**	**1.45**

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

First quarter

	Q1 2011 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related divestment gains, restructuring and integration charges[3] USD m	Exceptional items[4] USD m	Q1 2011 Core results USD m	Q1 2010 Core results USD m
Gross profit	**6 485**	**109**			**6**	**6 600**	**6 193**
Operating income	**2 499**	**122**	**4**	**-81**	**36**	**2 580**	**2 385**
The following are adjustments to arrive at Core Gross Profit							
Cost of Goods Sold	-1 452	109			6	-1 337	-1 220
The following are adjustments to arrive at Core Operating Income							
Research & Development	-1 622	13			2	-1 607	-1 491
Other income	151			-81		70	74
Other expense	-212		4		28	-180	-142

[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 technology platforms.
[2] Impairments: Other expense includes impairments primarily for financial assets.
[3] Acquisition-related divestment gains, restructuring and integration charges: Other income includes a gain from a product sale required by regulators to approve the Alcon merger.
[4] Exceptional items: Cost of Goods Sold, Research & Development and Other Expense represent a USD 36 million restructuring charge related to the Group-wide rationalization of manufacturing sites.

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

First quarter

	Q1 2011 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments[2] USD m	Acquisition-related divestment gains, restructuring and integration charges USD m	Exceptional items[3] USD m	Q1 2011 Core results USD m	Q1 2010 Core results USD m
Gross profit	**163**	**51**			**1**	**215**	**1 185**
Operating income	**-101**	**56**	**20**		**1**	**-24**	**923**
The following are adjustments to arrive at Core Gross Profit							
Cost of Goods Sold	-299	51			1	-247	-316
The following are adjustments to arrive at Core Operating Income							
Research & Development	-121	5				-116	-131
Other expense	-35		20			-15	-33

[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 technology platforms.
[2] Impairments: Other expense includes an impairment charge primarily for a financial asset.
[3] Exceptional items: Cost of Goods Sold represents a USD 1 million restructuring charge related to the Group-wide rationalization of manufacturing sites.

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

First quarter

	Q1 2011 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments USD m	Acquisition-related divestment gains, restructuring and integration charges USD m	Exceptional items[2] USD m	Q1 2011 Core results USD m	Q1 2010 Core results USD m
Gross profit	**1 089**	**70**				**1 159**	**1 041**
Operating income	**390**	**74**			**28**	**492**	**450**
The following are adjustments to arrive at Core Gross Profit							
Cost of Goods Sold	-1 297	70				-1 227	-1 038
The following are adjustments to arrive at Core Operating Income							
Research & Development	-165	4				-161	-140
Other expense	-85				28	-57	-25

[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 technology platforms.
[2] Exceptional items: Other expense includes a USD 28 million charge for increasing the provision for a US litigation.

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

First quarter

	Q1 2011 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments USD m	Acquisition-related divestment gains, restructuring and integration charges[2] USD m	Exceptional items[3] USD m	Q1 2011 Core results USD m	Q1 2010 Core results USD m
Gross profit	**1 069**	**23**			**16**	**1 108**	**1 015**
Operating income	**562**	**23**		**-19**	**-208**	**358**	**288**
The following are adjustments to arrive at Core Gross Profit							
Cost of Goods Sold	-587	23			16	-548	-494
The following are adjustments to arrive at Core Operating Income							
Other income	306			-21	-273	12	5
Other expense	-54			2	49	-3	-10

[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 divestment gains, restructuring and integration charges: Other income includes a gain from a product sale required by regulators to approve the Alcon merger; Other expense includes a loss from an Alcon-related divestment.
[3] Exceptional items: Cost of Goods Sold and Other Expense represent a total of USD 18 million principally an inventory write-down related to the Group-wide rationalization of manufacturing sites; Other income and expense includes a net USD 183 million gain from the Jump litigation settlement and USD 43 million product divestment gain.

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

First quarter

	Q1 2011 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments USD m	Acquisition-related divestment gains, restructuring and integration charges[2] USD m	Exceptional items USD m	Q1 2011 Core results USD m
Gross profit	**949**	**501**				**1 450**
Operating income	**207**	**505**		**10**		**722**
The following are adjustments to arrive at Core Gross Profit						
Cost of Goods Sold	-984	501				-483
The following are adjustments to arrive at Core Operating Income						
Research & Development	-188	1				-187
General & Administration	-99	3				-96
Other expense	-11			10		-1

[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 technology platforms; General & Administration includes amortization of software costs.
[2] Acquisition-related divestment gains, restructuring and integration charges: Other expense relates to Alcon integration costs.

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

First quarter

	Q1 2011 IFRS results USD m	Amortization of intangible assets[1] USD m	Impairments USD m	Acquisition-related divestment gains, restructuring and integration charges[2] USD m	Exceptional items[3] USD m	Q1 2011 Core results USD m	Q1 2010 Core results USD m
Gross profit	**9**					**9**	**-8**
Operating income	**-149**	**1**		**11**	**21**	**-116**	**-181**
The following are adjustments to arrive at Core Operating Income							
Other expense	-102	1		11	21	-69	-53

[1] Amortization of intangible assets: Other Expense includes impairments of financial assets.
[2] Acquisition-related divestment gains, restructuring and integration charges: Other expense principally represents Alcon-related charges.
[3] Exceptional items: Other expense includes charges for IT restructuring projects.

Supplementary tables: First quarter 2011 – 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	557	-5	848	-4	1 405	-3	-5
Gleevec/Glivec	Chronic myeloid leukemia	318	11	758	-1	1 076	4	2
Lucentis	Age-related macular degeneration			444	18	444	22	18
Zometa	Cancer complications	174	-2	199	-2	373	-1	-2
Femara	Breast cancer	169	6	185	-2	354	3	2
Sandostatin	Acromegaly	130	7	207	8	337	9	7
Exforge	Hypertension	74	12	187	34	261	28	27
Exelon/Exelon Patch	Alzheimer's disease	90	-8	161	4	251	0	-1
Neoral/Sandimmun	Transplantation	17	-23	197	0	214	1	-3
Voltaren (excl. OTC)	Inflammation/pain	1	0	187	3	188	2	3
Top ten products total		**1 530**	**1**	**3 373**	**3**	**4 903**	**4**	**2**
Exjade	Iron chelator	51	-18	128	7	179	0	-2
Tasigna	Chronic myeloid leukemia	59	146	94	80	153	104	100
Comtan/Stalevo	Parkinson’s disease	52	-4	94	6	146	4	2
Reclast/Aclasta	Osteoporosis	86	9	49	12	135	10	10
Ritalin/Focalin	Attention deficit/hyperactivity disorder	99	10	34	14	133	12	11
Galvus	Diabetes			132	72	132	74	72
Tekturna/Rasilez	Hypertension	57	33	74	57	131	47	46
Myfortic	Transplantation	45	22	75	18	120	20	18
Xolair	Asthma	3	0	104	35	107	34	38
Afinitor	Advanced renal cell carcinoma	31	48	59	193	90	120	117
Top 20 products total		**2 013**	**4**	**4 216**	**8**	**6 229**	**9**	**7**
Rest of portfolio		414	-8	1 122	-1	1 536	-1	-4
Total Division sales		**2 427**	**2**	**5 338**	**6**	**7 765**	**7**	**5**

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

	Q1 2011 USD m	Q1 2010 USD m	% change USD	% change cc
Cardiovascular and Metabolism				
Hypertension medicines				
Diovan	1 405	1 442	-3	-5
Exforge	261	204	28	27
Tekturna/Rasilez	131	89	47	46
Subtotal	**1 797**	**1 735**	**4**	**2**
Galvus	132	76	74	72
Total strategic franchise products	**1 929**	**1 811**	**7**	**5**
Established medicines	262	368	-29	-31
Total Cardiovascular and Metabolism products	**2 191**	**2 179**	**1**	**-1**
Oncology				
BCR-Abl franchise				
Gleevec/Glivec	1 076	1 032	4	2
Tasigna	153	75	104	100
Subtotal	**1 229**	**1 107**	**11**	**9**
Zometa	373	375	-1	-2
Femara	354	344	3	2
Sandostatin	337	310	9	7
Exjade	179	179	0	-2
Afinitor	90	41	120	117
Other	36	49	-27	-27
Total Oncology products	**2 598**	**2 405**	**8**	**6**
Neuroscience and Ophthalmics				
Lucentis	444	364	22	18
Exelon/Exelon Patch	251	251	0	-1
Comtan/Stalevo	146	141	4	2
Gilenya	59		nm	nm
Extavia	34	20	70	66
Fanapt	9	21	-57	-57
Other	104	104	0	-3
Total strategic franchise products	**1 047**	**901**	**16**	**14**
Established medicines	136	133	2	-2
Total Neuroscience and Ophthalmics products	**1 183**	**1 034**	**14**	**12**
Respiratory				
Xolair	107	80	34	38
TOBI	71	65	9	9
Onbrez Breezhaler	20	2	nm	nm
Total strategic franchise products	**198**	**147**	**35**	**37**
Established medicines	50	49	2	0
Total Respiratory products	**248**	**196**	**27**	**28**

Integrated Hospital Care (IHC)*				
Neoral/Sandimmun	214	212	1	-3
Myfortic	120	100	20	18
Zortress/Certican	42	34	24	21
Ilaris	11	4	nm	nm
Other	86	67	28	26
Total strategic franchise products	**473**	**417**	**13**	**11**
Established medicines	346	330	5	3
Total IHC products	**819**	**747**	**10**	**7**
Additional products				
Voltaren (excl. OTC)	188	185	2	3
Ritalin/Focalin	133	119	12	11
Tegretol	85	88	-3	-5
Everolimus stent drug	83	63	32	16
Foradil	72	87	-17	-16
Trileptal	61	64	-5	-5
Other	104	124	-16	-18
Total additional products	**726**	**730**	**-1**	**-2**
Total strategic franchise products	**6 245**	**5 681**	**10**	**8**
Total established medicines and additional products	1 520	1 610	-6	-8
Total Division net sales	**7 765**	**7 291**	**7**	**5**

* includes Transplantation
nm – Not meaningful

Net sales by region[1] (unaudited)

First quarter

	Q1 2011 USD m	Q1 2010 USD m	% change USD	% change cc	Q1 2011 % of total	Q1 2010 % of total
Pharmaceuticals						
US	2 427	2 380	2	2	31	32
Europe	2 833	2 755	3	3	37	38
Asia/Africa/Australasia	1 783	1 510	18	9	23	21
Canada and Latin America	722	646	12	13	9	9
Total	**7 765**	**7 291**	**7**	**5**	**100**	**100**
Vaccines and Diagnostics						
US	105	562	-81	-81	28	41
Europe	137	326	-58	-58	37	24
Asia/Africa/Australasia	66	289	-77	-78	18	21
Canada and Latin America	63	184	-66	-66	17	14
Total	**371**	**1 361**	**-73**	**-73**	**100**	**100**
Sandoz						
US	790	517	53	53	34	26
Europe	1 114	1 124	-1	-1	48	56
Asia/Africa/Australasia	252	227	11	8	11	11
Canada and Latin America	162	133	22	18	7	7
Total	**2 318**	**2 001**	**16**	**15**	**100**	**100**
Consumer Health						
US	545	468	16	16	33	32
Europe	689	668	3	2	42	45
Asia/Africa/Australasia	262	219	20	11	16	15
Canada and Latin America	146	123	19	16	9	8
Total	**1 642**	**1 478**	**11**	**9**	**100**	**100**
Novartis Group excluding Alcon, Inc.						
US	3 867	3 927	-2	-2	32	32
Europe	4 773	4 873	-2	-2	39	40
Asia/Africa/Australasia	2 363	2 245	5	-2	20	19
Canada and Latin America	1 093	1 086	1	0	9	9
Total	**12 096**	**12 131**	**0**	**-2**	**100**	**100**
Alcon, Inc.	**1 931**					
Group Total	**14 027**	**12 131**	**16**	**14**		

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

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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: April 19, 2011

By: /s/ MALCOLM B. CHEETHAM

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