

NOVARTIS AG
Form 20-F
January 25, 2017

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As filed with the Securities and Exchange Commission on January 25, 2017

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington D.C. 20549

FORM 20-F

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 for the fiscal year ended December 31, 2016

OR

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

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number 1-15024

NOVARTIS AG

(Exact name of Registrant as specified in its charter)

NOVARTIS Inc.

(Translation of Registrant's name into English)

Switzerland

(Jurisdiction of incorporation or organization)

**Lichtstrasse 35
4056 Basel, Switzerland**

(Address of principal executive offices)

Felix R. Ehrat
Group General Counsel

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Novartis AG

CH-4056 Basel

Switzerland

Tel.: 011-41-61-324-1111

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

| Title of class | Name of each exchange on which registered |
|---|---|
| American Depositary Shares each representing 1 share | New York Stock Exchange |
| Ordinary shares, nominal value CHF 0.50 per share* | New York Stock Exchange* |

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

2,374,059,013 shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

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 No

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

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued by the International Accounting Standards Board

Other

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

*

Not for trading but only in connection with the registration of American Depositary Shares representing such ordinary shares.

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INTRODUCTION AND USE OF CERTAIN TERMS

Novartis AG and its consolidated affiliates publish consolidated financial statements expressed in US dollars. Our consolidated financial statements responsive to Item 18 of this annual report on Form 20-F (Form 20-F) are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Pursuant to Rule 12b-23 of the Securities Exchange Act of 1934, as amended, we incorporate information for certain items of this Form 20-F by reference to the "Excerpts from Novartis Annual Report 2016" included as Exhibit 99.1 to Form 6-K furnished to the SEC on January 25, 2017. Therefore the information in this Form 20-F should be read in conjunction with the "Excerpts from Novartis Annual Report 2016," as furnished to the SEC on Form 6-K on January 25, 2017. References to content not contained within the "Excerpts from Novartis Annual Report 2016" furnished to the SEC on Form 6-K on January 25, 2017, shall not be deemed to be incorporated by reference.

Unless the context requires otherwise, the words "we," "our," "us," "Novartis," "Group," "Company," and similar words or phrases in this Form 20-F refer to Novartis AG and its consolidated affiliates. However, each Group company is legally separate from all other Group companies and manages its business independently through its respective board of directors or similar supervisory body or other top local management body, if applicable. No Group company operates the business of another Group company. Each executive identified in this Form 20-F reports directly to other executives of the Group company which employs the executive, or to that Group company's board of directors.

In this Form 20-F, references to "US dollars" or "\$" are to the lawful currency of the United States of America, and references to "CHF" are to Swiss francs; references to the "United States" or to "US" are to the United States of America, references to the "European Union" or to "EU" are to the European Union and its 28 member states, references to "Latin America" are to Central and South America, including the Caribbean, and references to "Australasia" are to Australia, New Zealand, Melanesia, Micronesia and Polynesia, unless the context otherwise requires; references to the "EC" are to the European Commission; references to "associates" are to employees of our affiliates; references to the "FDA" are to the US Food and Drug Administration, references to "EMA" are to the European Medicines Agency, an agency of the EU, and references to the "CHMP" are to the Committee for Medicinal Products for Human Use of the EMA; references to "ADR" or "ADRs" are to Novartis American Depositary Receipts, and references to "ADS" or "ADSs" are to Novartis American Depositary Shares; references to the "NYSE" are to the New York Stock Exchange, and references to the "SIX" are to the SIX Swiss Exchange; references to "GSK" are to GlaxoSmithKline plc, references to "Lilly" are to Eli Lilly and Company, and references to "CSL" are to CSL Limited.

All product names appearing in *italics* are trademarks owned by or licensed to Group companies. Product names identified by a "@" or a " " are trademarks that are not owned by or licensed to Group companies.

FORWARD-LOOKING STATEMENTS

This Form 20-F contains certain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Other written materials filed with or furnished to the US Securities and Exchange Commission (SEC) by Novartis, as well as other written and oral statements made to the public, may also contain forward-looking statements. Forward-looking statements can be identified by words such as "potential," "expected," "will," "planned," "pipeline," "outlook," or similar terms, 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; potential shareholder returns or credit ratings; or regarding the potential outcome of the announced review of options being undertaken to maximize shareholder value of the Alcon Division; or regarding the potential financial or other impact on Novartis or any of our divisions of the significant reorganizations of recent years, including the creation of the Pharmaceuticals and Oncology business units to form the Innovative Medicines Division, the creation of the Global Drug Development organization and Novartis Operations (including Novartis Technical Operations and Novartis Business Services), the transfer of the Ophthalmic Pharmaceuticals products of our Alcon Division to the Innovative Medicines Division, the transfer of selected mature, non-promoted pharmaceutical products from the Innovative Medicines Division to the Sandoz Division, and the transactions

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with GSK, Lilly and CSL; or regarding the potential impact of the share buyback plan; or regarding potential future sales or earnings of the Novartis Group or any of its divisions; or by discussions of strategy, plans, expectations or intentions. You should not place undue reliance on these statements.

Such forward-looking statements are based on the current beliefs and expectations of management regarding future events, and are subject to significant known and unknown risks and uncertainties. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those set forth in the forward-looking 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 any existing products in any market, or that any approvals which are obtained will be obtained at any particular time, or that any such products will achieve any particular revenue levels. Nor can there be any guarantee that the review of options being undertaken to maximize shareholder value of the Alcon Division will reach any particular results, or at any particular time. Neither can there be any guarantee that Novartis will be able to realize any of the potential strategic benefits, synergies or opportunities as a result of the significant reorganizations of recent years, including the creation of the Pharmaceuticals and Oncology business units to form the Innovative Medicines Division, the creation of the Global Drug Development organization and Novartis Operations (including Novartis Technical Operations and Novartis Business Services), the transfer of the Ophthalmic Pharmaceuticals products of our Alcon Division to the Innovative Medicines Division, the transfer of selected mature, non-promoted pharmaceutical products from the Innovative Medicines Division to the Sandoz Division, and the transactions with GSK, Lilly and CSL. Neither can there be any guarantee that shareholders will achieve any particular level of shareholder returns. Nor can there be any guarantee that the Group, or any of its divisions, will be commercially successful in the future, or achieve any particular credit rating or financial results.

In particular, management's expectations could be affected by, among other things:

regulatory actions or delays or government regulation generally;

the potential that the strategic benefits, synergies or opportunities expected from the significant reorganizations of recent years, including the creation of the Pharmaceuticals and Oncology business units to form the Innovative Medicines Division, the creation of the Global Drug Development organization and Novartis Operations (including Novartis Technical Operations and Novartis Business Services), the transfer of the Ophthalmic Pharmaceuticals products of our Alcon Division to the Innovative Medicines Division, the transfer of selected mature, non-promoted pharmaceutical products from the Innovative Medicines Division to the Sandoz Division, and the transactions with GSK, Lilly and CSL may not be realized or may take longer to realize than expected;

the inherent uncertainties involved in predicting shareholder returns or credit ratings;

the uncertainties inherent in the research and development of new healthcare products, including clinical trial results and additional analysis of existing clinical data;

our ability to obtain or maintain proprietary intellectual property protection, including the ultimate extent of the impact on Novartis of the loss of patent protection and exclusivity on key products which commenced in prior years and will continue this year;

safety, quality or manufacturing issues;

global trends toward health care cost containment, including ongoing pricing and reimbursement pressures, such as from increased publicity on pharmaceuticals pricing, including in certain large markets;

uncertainties regarding actual or potential legal proceedings, including, among others, actual or potential product liability litigation, litigation and investigations regarding sales and marketing practices, intellectual property disputes and government investigations generally;

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general economic and industry conditions, including uncertainties regarding the effects of the persistently weak economic and financial environment in many countries;

uncertainties regarding future global exchange rates;

uncertainties regarding future demand for our products; and

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uncertainties regarding potential significant breaches of data security or data privacy, or disruptions of our information technology systems.

Some of these factors are discussed in more detail in this Form 20-F, including under "Item 3. Key Information 3.D. Risk Factors," "Item 4. Information on the Company," and "Item 5. Operating and Financial Review and Prospects." Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Form 20-F as anticipated, believed, estimated or expected. We provide the information in this Form 20-F as of the date of its filing. We do not intend, and do not assume any obligation, to update any information or forward-looking statements set out in this Form 20-F as a result of new information, future events or otherwise.

Table of Contents**PART I****Item 1. Identity of Directors, Senior Management and Advisers**

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information**3.A Selected Financial Data**

The selected financial information set out below has been extracted from our consolidated financial statements prepared in accordance with IFRS as issued by the IASB. Our consolidated financial statements for the years ended December 31, 2016, 2015 and 2014, are included under "Novartis Group consolidated financial statements" on pages 178 to 247 of the "Excerpts from Novartis Annual Report 2016" furnished to the SEC on Form 6-K on January 25, 2017, and in "Item 18. Financial Statements" in this Form 20 F.

All financial data should be read in conjunction with "Item 5. Operating and Financial Review and Prospects". All financial data presented in this Form 20-F are qualified in their entirety by reference to the consolidated financial statements and their notes.

| | Year Ended December 31, | | | | |
|--|---|---------------|---------------|---------------|---------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| | (\$ millions, except per share information) | | | | |
| INCOME STATEMENT DATA | | | | | |
| Net sales to third parties from continuing operations | 48,518 | 49,414 | 52,180 | 51,869 | 51,080 |
| Operating income from continuing operations | 8,268 | 8,977 | 11,089 | 10,983 | 11,507 |
| Income from associated companies | 703 | 266 | 1,918 | 599 | 549 |
| Interest expense | (707) | (655) | (704) | (683) | (724) |
| Other financial income and expense | (447) | (454) | (31) | (92) | (96) |
| Income before taxes from continuing operations | 7,817 | 8,134 | 12,272 | 10,807 | 11,236 |
| Taxes | (1,119) | (1,106) | (1,545) | (1,498) | (1,706) |
| Net income from continuing operations | 6,698 | 7,028 | 10,727 | 9,309 | 9,530 |
| Net income/(loss) from discontinued operations | | 10,766 | (447) | (17) | (147) |
| Group net income | 6,698 | 17,794 | 10,280 | 9,292 | 9,383 |
| Attributable to: | | | | | |
| Shareholders of Novartis AG | 6,712 | 17,783 | 10,210 | 9,175 | 9,270 |
| Non-controlling interests | (14) | 11 | 70 | 117 | 113 |
| Basic earnings per share (\$) | | | | | |
| Continuing operations | 2.82 | 2.92 | 4.39 | 3.76 | 3.89 |
| Discontinued operations | | 4.48 | (0.18) | 0.00 | (0.06) |
| Total | 2.82 | 7.40 | 4.21 | 3.76 | 3.83 |
| Diluted earnings per share (\$) | | | | | |

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|--|-------|-------|--------|-------|--------|
| Continuing operations | 2.80 | 2.88 | 4.31 | 3.70 | 3.85 |
| Discontinued operations | | 4.41 | (0.18) | 0.00 | (0.06) |
| Total | 2.80 | 7.29 | 4.13 | 3.70 | 3.79 |
| Cash dividends ⁽¹⁾ | 6,475 | 6,643 | 6,810 | 6,100 | 6,030 |
| Cash dividends per share in CHF ⁽²⁾ | 2.75 | 2.70 | 2.60 | 2.45 | 2.30 |

(1) Cash dividends represent cash payments in the applicable year that generally relates to earnings of the previous year.

(2) Cash dividends per share represent dividends proposed that relate to earnings of the current year. Dividends for 2012 through 2015 were approved at the respective AGMs and dividends for 2016 will be proposed to the Annual General Meeting on February 28, 2017 for approval.

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| | Year Ended December 31, | | | | |
|--|-------------------------|----------------|----------------|----------------|----------------|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| | (\$ millions) | | | | |
| BALANCE SHEET DATA | | | | | |
| Cash, cash equivalents and marketable securities & derivative financial instruments. | 7,777 | 5,447 | 13,862 | 9,222 | 8,119 |
| Inventories | 6,255 | 6,226 | 6,093 | 7,267 | 6,744 |
| Other current assets | 10,899 | 11,172 | 10,805 | 13,294 | 13,141 |
| Non-current assets | 105,193 | 108,711 | 87,826 | 95,712 | 96,187 |
| Assets related to discontinued operations | | | 6,801 | 759 | |
| Total assets | 130,124 | 131,556 | 125,387 | 126,254 | 124,191 |
| Trade accounts payable | 4,873 | 5,668 | 5,419 | 6,148 | 5,593 |
| Other current liabilities | 17,336 | 18,040 | 19,136 | 20,170 | 18,458 |
| Non-current liabilities | 33,024 | 30,726 | 27,570 | 25,414 | 30,877 |
| Liabilities related to discontinued operations | | | 2,418 | 50 | |
| Total liabilities | 55,233 | 54,434 | 54,543 | 51,782 | 54,928 |
| Issued share capital and reserves attributable to shareholders of Novartis AG | 74,832 | 77,046 | 70,766 | 74,343 | 69,137 |
| Non-controlling interests | 59 | 76 | 78 | 129 | 126 |
| Total equity | 74,891 | 77,122 | 70,844 | 74,472 | 69,263 |
| Total liabilities and equity | 130,124 | 131,556 | 125,387 | 126,254 | 124,191 |
| Net assets | 74,891 | 77,122 | 70,844 | 74,472 | 69,263 |
| Outstanding share capital | 896 | 890 | 898 | 912 | 909 |
| Total outstanding shares (millions) | 2,374 | 2,374 | 2,399 | 2,426 | 2,421 |
| Cash Dividends per Share | | | | | |

Cash dividends are translated into US dollars at the Bloomberg Market System Rate on the payment date. Because we pay dividends in Swiss francs, exchange rate fluctuations will affect the US dollar amounts received by holders of ADRs.

| Year Earned | Month and Year Paid | Total Dividend per share (CHF) | Total Dividend per share (\$) |
|---------------------|---------------------|--------------------------------|-------------------------------|
| 2012 | March 2013 | 2.30 | 2.44 |
| 2013 | March 2014 | 2.45 | 2.76 |
| 2014 | March 2015 | 2.60 | 2.67 |
| 2015 | March 2016 | 2.70 | 2.70 |
| 2016 ⁽¹⁾ | March 2017 | 2.75 | 2.69 ⁽²⁾ |

(1) Dividend to be proposed at the Annual General Meeting on February 28, 2017 and to be distributed March 6, 2017

(2) Translated into US dollars at the December 31, 2016 rate of \$0.978 to the Swiss franc. This translation is an example only, and should not be construed as a representation that the Swiss franc amount represents, or has been or could be converted into US dollars at that or any other rate.

Table of Contents**Exchange Rates**

The following table shows, for the years and dates indicated, certain information concerning the rate of exchange of US dollar per Swiss franc based on exchange rate information found on Bloomberg Market System. The exchange rate in effect on January 17, 2017, as found on Bloomberg Market System, was CHF 1.00 = \$0.99.

| Year ended December 31, (\$ per CHF) | Period End | Average⁽¹⁾ | Low⁽²⁾ | High⁽²⁾ |
|---|-------------------|------------------------------|--------------------------|---------------------------|
| 2012 | 1.09 | 1.07 | 1.02 | 1.12 |
| 2013 | 1.12 | 1.08 | 1.05 | 1.12 |
| 2014 | 1.01 | 1.09 | 1.01 | 1.13 |
| 2015 | 1.01 | 1.04 | 0.97 | 1.08 |
| 2016 | 0.98 | 1.01 | 0.98 | 1.04 |

| Month | | | |
|----------------|--|------|------|
| August 2016 | | 1.02 | 1.05 |
| September 2016 | | 1.02 | 1.04 |
| October 2016 | | 1.01 | 1.03 |
| November 2016 | | 0.98 | 1.03 |
| December 2016 | | | |