Novartis Pharmaceuticals UK Limited

Annual Report
for the year ended 31 December 2010

Registered no: 119006

Novartis Pharmaceuticals UK Limited

Annual Report
for the year ended 31 December 2010

Novartis Pharmaceuticals UK Limited
Directors and Advisors

Directors

E Cornut (Chairman)
T Jose
R Breu (resigned 31/03/2010)
J Symonds (appointed 31/03/2010)
L Prat
T Jose

Secretary

B Holgate

Registered office

Frimley Business Park
Frimley
Camberley
Surrey
GU16 7SR

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Atrium
1 Harefield Road
Uxbridge
Middlesex
UB8 1EX

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2010. These financial statements are prepared under EU adopted International Financial Reporting Standards ("IFRS").

Principal activity

The principal activities of the Company during the year were the production and distribution of pharmaceutical products and pharmaceutical research and development.

The Company is a limited company, domiciled and incorporated in the United Kingdom. The Company has no overseas branches. The registered office is also the principal place of business with the address as set out on page 1

Review of business and future developments

The results for the Company show a profit for the year of £34,161,000 (2009: £30,734,000) and revenue of £531,969,000 (2009 £497,235,000). The Company had net assets of £91,937,000 as at 31 December 2010 (2009: £55,330,000).

The Directors are pleased with the performance of the Company for 2010 given the continued competitive pressure from both branded and generic pharmaceuticals present in the market A significant portion of the growth in 2010 was achieved through the fast uptake of Lucentis (treatment for wet age-related macular degeneration (AMD) Three new products were launched in 2010, namely Extavia to treat MS, Onbrez to treat COPD and Ilaris to treat CAPS
The Oncology Business Unit also delivered strong financials in 2010. Sales grew 1.1%, whilst absorbing the impact of the PPRS price reduction and significant operational changes The growth drivers were Femara and Exjade Afinitor is gaining traction as it enters the "growth" phase of the product lifecycle. The introduction of a new Government Funded scheme, namely the interim Cancer Drug Fund (iCDF) has provided a unique opportunity to increase revenues. This will continue into 2011.

The Company has continued to evolve its sales model in 2010 to ensure it meets the changing needs of patients and customers.

Principal risks and uncertainties

More recently the Company has seen other industries facing financial uncertainty with the economic downturn. The Directors do not anticipate this downturn will have a significant impact on the business due to the industry in which the Company operates. However growth will be impacted by a mandatory 1.9% cut in the price that the NHS pays for medicines This cut was implemented in January 2010 as part of a five year pricing agreement between the Association of the British Pharmaceuticals Industry (ABPI) and Department of Health (DoH).
The in-market performance (eliminating the trade effect) was a 9.7% growth year on year (YoY) All major brands showed positive growth YoY with the exception of Zometa due to the PPRS price reduction.

Financial & Capital Risk Management

Refer to note 3 for details of the applicable financial and capital risks and the measures in place to manage these risks.

Dividends

An interim dividend of £20,000,000 was paid in 2010 (2009: £10,000,000) with dividend per share being 370.37p (2009: 185.19p)

Key performance indicators ("KPIs")

The Company operates in a highly complex environment and management use and review many performance measures.

Four of the Company's KPIs in line with the long term strategies are as follows:

	2010	2009	Comments
Growth in revenue (%)	7.0	22.2	Sales grew by 7% in the General medicine portfolio with strong growth in CVM, Ophthalmics and Respiratory franchises, which offset the declining sales in the Infection, Transplant and Base Business areas. Growth in the oncology portfolio was mainly driven by Femara (18.3%) and Exjade (21.8%) During 2010 there was a new commercial model which successfully limited parallel export thus impacting YOY growth figures for Traded brands.
Gross margin (%)	25.7	27.7	Gross margins declined by 2ppt vs. 2009. Prices were impacted by a 1.9% price cut agreed under the PPRS.
Market share (%)	4.18	3.91	Novartis continue to outgrow the market driven by strong growth in Lucentis.
Number of new launches	3	2	2010: Onbrez & Ilaris (GenMed) 2009: Afinitor (Onco), Extavia (GenMed MS)

Directors

The Directors who held office during the year and up to the date of signing these financial statements were as follows:

T Jose
J Symonds (appointed 31/03/2010)
E Cornut
L Prat
T Jose

Research and development

The Company maintains laboratories and other facilities and devotes considerable resources to research and development aimed at developing new products and new processes. The amounts spent by the Company on research and development activities are shown in the income statement on page 9

Political and charitable donations

Charitable donations totalling £31,585 (2009: £32,116) were made to local charities during the year. £15,763 of this was payment to the Haiti Earthquake Appeal in support of those affected by the crisis in Haiti. £5,000 related to the PKD Charity in support of continued research of polycystic kidney disease and for the support of those affected. £4,674 was a donation to the companies selected charity, Phyllis Tuckwell. All other individual donations were under £2,000

Land and Buildings

The Directors believe that the accelerated depreciation is keeping the net value of the buildings in line with the market value.

Employees

The Company gives full and fair consideration to applications for employment received from disabled persons, having regard to their particular aptitudes and abilities and wherever possible the Company continues the employment of, and arranges for the appropriate training of, employees who become disabled persons whilst employed by the Company. Disabled employees are treated no differently from other employees as regards training, career development and promotion opportunities. This policy was operated by the Company, where appropriate, throughout the year.

Employees (continued)

The Company recognises the importance of keeping employees informed of the progress of the business. During the year employees were regularly provided with information regarding the financial and economic factors affecting the performance of the Company and on other matters of concern to them as employees. Regular consultations take place with employee representatives. The employee share scheme introduced in 2002 continued to be available in 2010 to encourage employee involvement in the Company's performance. The share scheme relates to shares in Novartis AG, the ultimate parent company of Novartis Pharmaceuticals UK Limited.

Directors Indemnity

The company has entered into indemnity arrangements for the benefit of all its directors in relation to certain losses and liabilities which they may incur to third parties in the course of acting as directors of the company and in compliance with the requirements of the Companies Act 2006

Events after the reporting period

On 16th March 2011 the company announced that it had initiated consultations on proposals to restructure operations at its Horsham site in West Sussex while remaining committed to maintaining the site's respiratory research function. The proposals are part of the company's ongoing efforts to align resources to better respond to patients and customers in a challenging healthcare marketplace. The potential impact of these proposals will be subject to an employee consultation process and final Novartis UK board approval.

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable International Financial Reporting Standards (IFRSs) as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement on disclosure of information to auditors

Each of the directors in office at the date the directors' report is approved confirms that:

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware, and

(b) he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

An elective resolution has been passed to maintain PricewaterhouseCoopers LLP as auditors until such time as the Board decides otherwise.

By order of the Board

T Jose
Director

Independent auditors' report to the members of Novartis Pharmaceuticals Limited

We have audited the financial statements of Novartis Pharmaceuticals UK Limited for the year ended 31 December 2010 which comprise the Income Statement, the Statement of Comprehensive Income and Expense, the Balance Sheet, the Statement of Changes in Equity, the Cash Flow Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors
As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent auditors' report to the members of Novartis Pharmaceuticals UK Limited (continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

The Company has passed a resolution in accordance with section 506 of the Companies Act 2006 that the senior statutory auditor's name should not be stated.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Uxbridge, Middlesex

Date: 30 June 2011

Novartis Pharmaceuticals UK Limited
Income Statement
for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Revenue	4	531,969	497,235
Cost of sales		(395,064)	(359,517)
Gross profit		136,905	137,718
Other operating income		100,679	97,150
Selling and marketing costs		(90,777)	(88,516)
Research and development costs		(100,666)	(99,710)
Administrative expenses		(5,888)	(8,365)
Operating profit	5	40,253	38,277
Finance income	6	81	4
Finance cost	6	(523)	(619)
Profit before tax		39,811	37,662
Income tax (charge)	7	(5,650)	(6,928)
Profit for the year attributable to owners of the parent		34,161	30,734

The notes on pages 14 to 48 are an integral part of these financial statements.

Novartis Pharmaceuticals UK Limited
Statement of Comprehensive Income and Expense
for the year ended 31 December 2010

For the year ended 31 December	Note	2010 £'000	2009 £'000
Profit for the year		34,161	30,734
Other comprehensive income:			
Actuarial gain / (loss) on pension obligation	19	31,534	(36,283)
Deferred tax on actuarial (gain) / loss	15	(9,168)	10,159
Gain on post retirement medical benefit		248	45
Other comprehensive income for the year, net of tax		22,614	(26,079)
Total comprehensive income for the year attributable to owners of the parent		56,775	4,655

Cumulative actuarial losses on the pension scheme amount to £32,408,000 (2009 £63,942,000), recognised directly in the statement of comprehensive income.

The notes on pages 14 to 48 are an integral part of these financial statements.

Novartis Pharmaceuticals UK Limited
Balance Sheet as at 31 December 2010

	Note	2010 £'000	2009 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	107,027	107,724
		107,027	107,724
Current assets			
Inventories	10	45,567	55,904
Trade and other receivables	11	113,926	81,037
Cash and cash equivalents	24	2,297	4,316
		161,790	141,257
Total assets		268,817	248,981
Liabilities			
Current liabilities			
Financial liabilities: borrowings	12	31,000	68,000
Trade and other payables	13	75,482	43,479
Current tax liabilities		4,179	8,412
Provisions	16	6,860	288
		117,521	120,179
Net current assets		44,269	21,078
Non-current liabilities			
Financial liabilities. borrowings	12	23,000	23,000
Deferred tax liabilities	15	14,181	6,671
Retirement benefit obligations	19	2,372	33,118
Provisions	16	19,806	10,683
		59,359	73,472
Net assets		91,937	55,330
Shareholders' equity			
Ordinary shares	17	5,400	5,400
Share option recharge reserve		(3,240)	(3,072)
Retained earnings		89,777	53,002
Total shareholders' equity		91,937	55,330

The notes on pages 14 to 48 are an integral part of these financial statements.

The financial statements of Novartis Pharmaceuticals UK Limited (registered no: 119006) on pages 10 to 48 were approved by the Board of Directors on 30 / 6 /2011 and were signed on its behalf by:

T Jose, Director

Novartis Pharmaceuticals UK Limited
Statement of Changes in Equity

	Share capital £'000	Share option recharge reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2009	5,400	(3,065)	58,347	**60,682**
Other comprehensive income				
Profit for the year	-	-	30,734	30,734
Actuarial loss on retirement benefit schemes	-	-	(36,283)	(36,283)
Deferred tax on actuarial loss on retirement benefit schemes	-	-	10,159	10,159
Gain on post retirement medical benefit	-	-	45	45
Total comprehensive income	-	-	**4,655**	**4,655**
Transactions with owners				
Dividends	-	-	(10,000)	(10,000)
Share options	-	(7)		(7)
Total transactions with owners	-	(7)	(10,000)	(10,007)
At 1 January 2010	5,400	(3,072)	53,002	55,330
Other comprehensive income				
Profit for the year	-	-	34,161	34,161
Actuarial gain on retirement benefit schemes	-	-	31,534	31,534
Deferred tax on actuarial gain on retirement benefit schemes	-	-	(9,168)	(9,168)
Gain on post retirement medical benefit	-	-	248	248
Total comprehensive income	-	-	56,775	56,775
Transactions with owners				
Dividends	-	-	(20,000)	(20,000)
Share options	-	(168)	-	(168)
Total transactions with owners	-	(168)	(20,000)	(20,168)
At 31 December 2010	5,400	(3,240)	89,777	91,937

The share option recharge reserve represents shares and options purchased on behalf of qualifying employees, from either the open market or the ultimate parent company, which are still to vest in future years.

The notes on pages 14 to 48 are an integral part of these financial statements.

Novartis Pharmaceuticals UK Limited
Cash Flow Statement
for the year ended 31 December 2010

	Note	2010 £'000	2009 £'000
Cash flows from operating activities			
Cash generated from operations	24	79,074	12,942
Share based payments		(3,147)	(2,926)
Interest received		81	4
Interest paid		(533)	(636)
Tax paid		(11,531)	(3,916)
Net cash generated from operating activities		63,944	5,468
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment		854	104
Purchase of property, plant & equipment	9	(9,819)	(9,674)
Net cash used in investing activities		(8,965)	(9,570)
Cash flows from financing activities			
(Repayment) / increase of borrowings	12	(37,000)	17,000
Dividends paid to shareholders	8	(20,000)	(10,000)
Net cash (used) in / generated from financing activities		(57,000)	7,000
Net (decrease) / increase in cash and cash equivalents		(2,021)	2,898
Cash, cash equivalents and bank overdrafts at 1 January		4,316	1,346
Exchange gains on cash and cash equivalents		2	72
Cash, cash equivalents and bank overdrafts at 31 December	24	2,297	4,316

The notes on pages 14 to 48 are an integral part of these financial statements.

1 Principal accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements were prepared on a going concern basis.

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Union (EU), IFRIC interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The financial statements have been prepared under the historical cost convention. A summary of the more important accounting policies is set out below.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The critical accounting policies for Novartis Pharmaceuticals UK Limited pertain primarily to revenue recognition, pensions and provisions which are described in further detail below.

(a) New and amended standards adopted by the company:

There were no applicable new standards and amendments to standards applied for the first time for the financial year beginning 1 January 2010.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the company (although they may affect the accounting for future transactions and events):

The following standards and amendments to existing standards have been published and are mandatory for the company's accounting periods beginning on or after 1 January 2010 or later periods, but the company has not early adopted them

IFRIC 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation was published in November 2008 This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends.

1 Principal accounting policies (continued)

FRIC 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009 This interpretation clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water).

IFRIC 9, 'Reassessment of embedded derivatives and IAS 39, Financial instruments: Recognition and measurement', effective 1 July 2009. This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative should be separated from a host contract when the entity reclassifies a hybrid financial asset out of the 'fair value through profit or loss' category.

IFRIC 16, 'Hedges of a net investment in a foreign operation' effective 1 July 2009 This amendment states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of IAS 39 that relate to a net investment hedge are satisfied.

IAS 1 (amendment), 'Presentation of financial statements' The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current.

IAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, ' Operating segments' (that is, before the aggregation of segments with similar economic characteristics).

IFRS 2 (amendments), 'Group cash-settled share-based payment transactions', effective form 1 January 2010. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 – Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation.

IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations.

(c) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted:

1 Principal accounting policies (continued)

The entity's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace IAS 39, 'Financial instruments recognition and measurement'. IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the company

Revenue recognition

Revenue represents amounts received for packaged drugs sold primarily in the UK (90%), net of trade discounts, rebate provisions, VAT and other related taxes. All revenue is recognised at the date of delivery. Rebate provisions are calculated to represent management's best estimate of the likely rebate payments that will be required, taking into account historical rebate rates and expected drug efficacy In addition, the Company also provides manufacturing services on a toll basis to fellow group undertakings, revenue from which is recognised at the point of shipment

Other operating income

Other operating income represents the reimbursement of costs from other group companies, primarily relating to certain costs incurred in research and development activities These amounts are recognised at a mark up when research and development costs are incurred.

Research and development

Research and development expenditure incurred on behalf of the ultimate parent company in Switzerland is written off to the income statement in the year in which it is incurred unless the development project meets the recognition criteria specified in IAS 38 in which case these costs are capitalised This expenditure is recovered from the ultimate parent company and recorded in other operating income.

Leases

Costs in respect of operating leases, that is where the risks and rewards of ownership remain with the lessor, are charged on a straight line basis over the term of the lease in arriving at the operating profit for the year.

1 Principal accounting policies (continued)

Property, plant and equipment

All property, plant and equipment are carried at cost less accumulated depreciation and impairment losses. Cost represents the original purchase price of the asset and any costs attributable to bringing the asset to its working condition for its intended use No provision is made for depreciation on freehold land Depreciation is calculated so as to write off the cost less estimated residual value of other assets on a straight line basis over the expected economic useful lives, commencing when the assets are first brought into use. The principal annual rates used for this purpose are

Buildings	20 - 40 years
Plant, machinery and equipment	3 - 15 years
Assets under construction	Not depreciated until brought into use

The residual values and the remaining useful economic lives are reviewed on an annual basis

Assets are tested for impairment wherever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the assets carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Inventories

Inventory and work in progress are valued at the lower of cost and net realisable value

Cost includes expenditure which is incurred in the normal course of business in bringing the product or service to its present location and condition and a due proportion of overhead expenses Net realisable value is the estimated selling price less all further costs to completion and estimated selling costs.

Provision is made for obsolescent, slow moving and defective inventory.

Cash and cash equivalents

Cash and cash equivalents comprise deposits with banks. For the purpose of the cash flow statement cash and cash equivalents include bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities

1 Principal accounting policies (continued)

Trade receivables

Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 180 days overdue) are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'selling and marketing costs'

When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'selling and marketing costs' in the income statement.

Employee benefit costs

The Company contributes to the group defined contribution and defined benefit pension schemes, which are operated by Novartis UK Limited.

The liability or asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for any actuarial gains or losses and unrecognised past service costs

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability

The Company recognises, in accordance with IAS 19, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in full as they arise, outside of the income statement. They are presented in the statement of comprehensive income and expense, with the exception of gains and losses arising from changes in the benefits regarding past services, which are recognised in the income statement.

1 Principal accounting policies (continued)

Employee benefit costs (continued)

Past service costs are recognised immediately in the income statement unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time In this case, the past service costs are amortised on a straight line basis over the vesting period.

The interest and service costs associated with defined benefit schemes are recognised in the income statement.

The contributions to defined contribution plans are recognised as an expense as the costs are incurred. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available. Amounts in respect of these plans are held in separately administered funds.

Trade Payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are charged to the income statement in the period in which they are incurred

Provisions for liabilities and charges

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably measured.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Post retirement medical benefits are paid to certain former employees and full provision is made in the financial statements.

1 Principal accounting policies (continued)

Current taxation

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for, if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.
Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised
Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis

Share-based payments

In accordance with IFRS 2 the fair value of the equity-settled share-based payments to employees is determined at the date of grant and is expensed on a straight line basis over the vesting period based on the estimate of shares and options that will eventually vest. In the case of options granted, fair value is measured by use of the trinomial model. Further details are set out in note 18

1 Principal accounting policies (continued)

Share Capital

Ordinary shares are classified as equity.

Dividends

Dividends are recorded in the financial statements once they have been authorised and the Company is committed to making the payment. Interim dividends are recorded when paid.

Foreign currencies

Foreign currency transactions during the year are translated into sterling at the rates of exchange in force at the time they arise Both the functional and presentational currency is sterling

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. Translation differences are taken to the income statement.

Related party disclosures

The Company is a wholly owned subsidiary of Novartis UK Limited, which itself is a wholly owned subsidiary of Novartis AG, a company incorporated in Switzerland.

All intra group and other related party disclosure as required under IAS 24 is included in note 23

2 Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual related results. Estimates and judgements are continually evaluated and are based on historical experience and other factor, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year are addressed below

2 Critical accounting estimates and assumptions (continued)

a) RRS Provision (which mainly consists of Femara and Lucentis, but is not limited to these brands)

Lucentis

In 2008 Novartis entered into an agreement with NICE (National Institute for Health & Clinical Excellence) to supply Lucentis (a treatment for Wet AMD) for use by the NHS. As part of the agreement where doses per patient exceed a pre-defined threshold Novartis will reimburse the NHS either in the form of stock or cash equal to the cash price. As a result of the agreement a provision is required for potential reimbursements. Given the limited data available on treatment and reimbursement rates management have made a best estimate of the required provision using available market data and accumulated industry knowledge. Management have arrived at a percentage which is applied to Lucentis sales to arrive at the required provision. The key assumptions in arriving at this percentage are in relation to:

- the average treatment rates among patients
- the number of patients continuing treatment using Lucentis from one year to the next
- the reimbursement method i.e. cash or stock

In the year a charge of £10,746,000 (2009. £8,109,000) has been taken to the income statement in relation to this provision (See Note 16). Had the 7% applied to sales during the year been higher by 1 percentage point this would have resulted in an increase in the liability of £1,535,000 (2009. £ 1,157,998).

Femara

In 2010 Novartis agreed a new pricing mechanism with the Department of Health in respect to Femara (a treatment for early stage breast cancer). The agreement is in place in order to reimburse the NHS for industry-wide price increases. Based on prescription data Novartis will reimburse the NHS on a quarterly basis so that the net cost to the NHS remains relatively constant. In the year a charge of £6,135,000 has been taken to the income statement in relation to this provision.

b) Pensions

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions The assumptions used in determining the net cost for pensions include the discount rate Any changes in these assumptions will impact the carrying amount of pension obligations

The company determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the company considers the interest rates of high quality (AA rated) bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions, additional information is disclosed in note 19

3 Financial Risk Management

3.1 Financial risk factors

The Company's activities expose it to a variety of financial risks: currency risk, price risk, credit risk and liquidity risk. The Company's overall risk management programme seeks to minimise potential adverse effects on the Company's financial performance.
The Company is exposed to market risk, primarily related to foreign currency exchange rates, interest rates and the market value of investments of liquid funds.
The immediate parent company actively monitors these exposures and manages the volatility relating to these exposures, by entering into a variety of derivative financial instruments

a) Market Risk

(i) Foreign exchange risk

The Company has limited foreign exchange risk due to invoicing all third-party sales in sterling. All inventory purchased from fellow group undertakings is also invoiced in sterling. Foreign denominated cash balances are monitored and controlled by the immediate parent of the Company to limit exchange rate exposure on cash balances. The immediate parent company enters into various contracts that reflect the changes in value of foreign currency exchange rates to preserve the value of assets, commitments and anticipated transactions. The immediate parent also uses forward contracts and foreign currency option contracts to hedge certain anticipated net revenues in foreign currencies.

As at 31 December 2010, there would be no material impact, with all other variables held constant, on the Company of movements of 10% of foreign currency denominated financial assets.

ii) Price risk

This is not material for the Company as it holds no assets or receivables that vary with market price change other than the retirement benefit obligations which are managed by the Trustees with the key assumptions set out in note 19.

iii) Interest rate risk

The Company's interest rate risk arises from long-term borrowings It is the immediate parent that manages the interest rate risk profile of the Company. As at 31st December 2010, the Company held £23,000,000 (2009 £23,000,000) of non-interest-bearing borrowings and £31,000,000 (2009: £68,000,000) of interest-bearing borrowings at base rate plus 1%. The interest-bearing borrowings consisted of £Nil (2009: £nil) bank overdraft and £31,000,000 (2009· £68,000,000) borrowings from the immediate parent. The Company has no significant interest-bearing assets.

3 Financial Risk Management (continued)

The immediate parent addresses its net exposure to interest rate risk mainly through the proportion of fixed rate financial debt and variable rate financial debt ratio in its total debt portfolio To manage this mix, the immediate parent may enter into interest rate swaps agreements, in which it exchanges periodic payments based on a notional amount and agreed upon fixed and variable interest rates.

b) Credit risk

Credit risk arises from cash and cash equivalents as well as credit exposures to wholesale customers and distributors in respect of outstanding receivables To manager the risk the Company periodically assesses the financial reliability of customers, taking into account their past financial track record, their market potential, their management and their competitors
Please refer to Note 11 for details of the credit risk policy in relation to trade receivables and the credit quality of these assets. The company is also exposed to credit risks in the form of cross guarantees it is party to in relation to fellow UK Group companies See note 21 for further details of this arrangement There are no other material risks identified in relation to credit risk.

The credit rating of HSBC is AA- (2009: AA) as per Standard & Poor's rating guide.

c) Liquidity risk

The Company's liquidity is managed by the immediate parent by adjusting inter-company loan balances in line with cash-flow requirements of the Company, monitored on a regular basis An analysis of borrowings, applicable interest rates and repayment dates are given in note 12.

3.2 Capital risk management

The Company manages cash and cash equivalents as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Company is a wholly owned subsidiary, and its borrowing is controlled by its immediate parent.

4 Revenue

The Directors consider that the operations of the Company fall into one business class, being the production and distribution of pharmaceutical products and pharmaceutical research and development.

The categories of revenue are as follows

	2010 £'000	2009 £'000
Sale of goods	489,561	454,855
Revenue from services	42,408	42,380
	531,969	497,235

5 Operating profit

	2010 £'000	2009 £'000
The following items have been charged/(credited) in arriving at operating profit:		
Employee benefit expenses (note 18)	113,215	106,060
Depreciation of property, plant and equipment (note 9)	9,638	10,037
Loss on disposal of property, plant and equipment	24	290
Other operating lease rentals payable	1,839	1,073
Repairs and maintenance expenditure on property, plant and equipment	3,343	2,639
Exchange differences	74	(392)
Services provided by the Company's auditors		
- fees payable for the audit	106	108

6 Finance costs - net

	2010 £'000	2009 £'000
Interest expense		
Interest payable on bank overdraft and loans	293	168
Interest payable on loans from group undertakings	230	451
Finance costs	523	619
Interest income on bank deposits	(81)	(4)
Total finance income	(81)	(4)
Finance costs – net	442	615

7 Income Tax

Analysis of charge in the year	2010 £'000	2009 £'000
Current tax - continuing operations		
- UK corporation tax on profits of the period	8,004	7,236
- Over provision in respect of prior period	(696)-	(481)
Total Current Tax	7,308	6,755
Deferred tax		
Origination and reversal of timing differences (accelerated capital allowances and other)	(1,486)	549
Adjustment in respect of prior years	(172)	(376)
Total Deferred Tax (credit) / charge	(1,658)	173
Total Tax charge	5,650	6,928

Tax on components of other comprehensive income	2010 £'000	2009 £'000
Deferred tax charge/(credit) on actuarial losses	9,168	(10,159)

7 Income Tax (continued)

The charge for the year can be reconciled to the profit per the income statement as follows:

	2010 £'000	2009 £'000
Profit on ordinary activities before tax	39,811	37,662
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 28% (2009: 28%)	11,147	10,544
Effects of:		
Expenses not deductible for tax purposes	696	903
Effects of rate changes	(1,001)	-
Research and development tax credits	(4,324)	(3,662)
Adjustments in respect of prior periods – deferred tax	(172)	(376)
Adjustments in respect of prior periods – income tax	(696)	(481)
Tax charge/(credit) for the year	5,650	6,928

Factors that may affect future tax charge:

The availability of R&D related tax incentives may affect the future tax rate of the Company. The Finance Act (No.2) Act 2010, enacted 27 July 2010, includes a reduction in the standard rate of UK Corporation tax from 28% to 27% from 1 April 2011 which is the rate utilised for the 31 December 2010 deferred tax valuation. Further reductions are proposed to reduce the standard rate to 23% by 1 April 2014. The changes had not been substantively enacted by the balance sheet date and are, therefore, not included in these financial statements. On 23 March 2011 it was announced that from 1 April 2011 the corporation tax rate would reduce to 26% from 27% This change will not have a significant impact on the company's financial statements.

8 Dividends

	2010 £'000	2009 £'000
370.37p (2009: 185.19p) per £1 share	20,000	10,000

9 Property, plant and equipment

	Freehold land	Buildings	Plant, machinery & equipment	Assets under construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2010	11,378	106,786	83,166	3,658	204,988
Additions at cost	-	18	1,966	7,835	9,819
Transfers	-	3,558	870	(4,428)	-
Disposals	-	(140)	(3,767)	-	(3,907)
At 31 December 2010	11,378	110,222	82,235	7,065	210,900
Accumulated depreciation					
At 1 January 2010	-	43,767	53,497	-	97,264
Charge for the year	-	3,902	5,736	-	9,638
Disposals	-	(122)	(2,907)	-	(3,029)
At 31 December 2010	-	47,547	56,326	-	103,873
Net book value					
31 December 2010	11,378	62,675	25,909	7,065	107,027
31 December 2009	11,378	63,019	29,669	3,658	107,724

Included in property, plant and equipment are the following:

(a) Capitalised interest at cost amounting to £523,000 (2009: £523,000).

(b) Assets amounting to cost of £46,491,000 (2009: £42,682,000) are fully depreciated but still in use.

10 Inventories

	2010 £'000	2009 £'000
Materials & consumables	676	608
Work in progress	1,422	1,532
Finished goods	43,469	53,764
	45,567	55,904

The Company consumed £371,116,327 (2009: £332,020,000) of inventories during the year.

Included above are finished goods of £Nil (2009: £ Nil) carried at net realisable value being lower than cost for which full provision has been made.

The Company reversed amounts totalling £1,700,490 (2009: £3,588,000) being part of the inventory write down provision, which were no longer required due to changes in market conditions and sales levels.

11 Trade and other receivables

Amounts falling due within one year	2010 £'000	2009 £'000
Trade receivables (financial assets)	62,954	56,577
Less: Provision for impairment of receivables	(692)	(238)
Trade receivables – net	62,262	56,339
Amounts owed by fellow group undertakings (financial asset)	48,244	22,255
Other receivables (financial asset)	1,584	376
Prepayments and accrued income	1,836	2,067
	113,926	81,037

Concentrations of credit risk with respect to trade receivables are limited due to the Company's customer base being large and unrelated Due to this, management believes there is no further credit risk provision required in excess of normal provision for doubtful receivables.

All trade and other receivables are stated at book value which approximate to fair value and are denominated in pounds.

11 Trade and other receivables (continued)

Trade receivables that are less than 180 days past due are not considered impaired unless specific circumstances indicate otherwise. As of 31 December 2010, trade receivables of £2,248,000 (2009: £6,065,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2010 £'000	2009 £'000
Up to 180 days	1,815	5,711
Over 180 days	433	354
	2,248	6,065

As of 31 December 2010, trade receivables of £692,000 (2009 £238,000) were impaired and fully provided for. The provisions mainly relate to wholesaler debt over 180 days past due and in dispute Management are uncertain of the proportion of these receivables that will be recovered. The ageing of these receivables is as follows

	2010 £'000	2009 £'000
Up to 180 days	259	-
Over 180 days	433	238
	692	238

Movements on the provision for impairment of trade receivables are as follows.

	2010 £'000	2009 £'000
At 1 January	238	321
Provision for receivables impairment	1,215	463
Receivables written off during the year as uncollectible	-	-
Unused amounts reversed	(761)	(546)
At 31 December	692	238

The creation and release of provision for impaired receivables have been included in selling and marketing costs in the income statement.

None of the financial assets that are fully performing have been renegotiated in the last year

11 Trade and other receivables (continued)

Where customers are independently rated, these ratings are used to determine credit risk. Otherwise, if there is no independent rating, the Company's credit control department assesses the credit quality of the customer, taking into account its financial position, past experience and other factors Individual risk limits are set based on internal or external ratings in accordance with limits set by management. The utilisation of credit limits is regularly monitored.

Credit risks arise from the possibility that customers may not be able to settle their obligations as agreed. To manage this risk the Group periodically assesses the financial reliability of customers, taking into account the financial position, past experience and other factors. Individual risk limits are set accordingly. Four customers account for approximately 34% of net sales in 2010. No other customer accounts for 1.5% or more of the net sales. The highest amounts of trade receivables are the ones for the largest customers and are approximately 31% of trade receivables at year end (2009: 33%). These customers all have the highest rating of 1A from Dun & Bradstreet There are no other significant concentrations of credit risk.

The other classes of assets within trade and other receivables do not contain impaired assets.

12 Financial liabilities - borrowings

	2010 £'000	2009 £'000
Current		
Unsecured loans from group undertakings due within one year or on demand	31,000	68,000
	31,000	68,000
Non current		
Unsecured loans from group undertakings due after one year	23,000	23,000
Total financial liabilities – borrowings	54,000	91,000

The Company is party to a composite cross guarantee arrangement in relation to the bank overdrafts, as referred to in note 24. Loans from group undertakings consist of interest bearing loans with the immediate parent undertaking of £31,000,000 (2009: £68,000,000) which are due within one year or on demand and non interest bearing loans with fellow subsidiaries of £23,000,000 (2009: £23,000,000) which are due on 31 December 2011. Interest bearing loans bear interest at the HSBC base rate plus 1% (2009: plus 1%). All loans are unsecured.

12 Financial liabilities – borrowings (continued)

The borrower will repay on demand the balance of the loan outstanding at the date of the demand.

The effective interest rates at the balance sheet dates were as follows:

	2010	2009
Interest bearing loans from group undertakings	1.5%	1.5%

The carrying value of borrowings approximates to fair value as the impact of discounting is not significant

The note above analyses the Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

13 Trade and other payables - current

Amounts falling due within one year:	2010 £'000	2009 £'000
Trade payables (financial liability)	20,708	10,847
Amounts owed to fellow group undertakings (financial liability)	14,829	1,914
Other tax and social security payable	9,016	4,031
Other payables (financial liability)	329	323
Accruals and other liabilities (financial liability)	30,600	26,364
	75,482	43,479

Trade and other payables are stated at book value which approximates to their fair value No security has been given by the Company in respect of the payables detailed above The Company has standard payment terms for trade suppliers of settlement of account by last day of the following month These payment terms are on all purchase orders raised by the Company and there are no material trade suppliers subject to different terms. The company has no derivative financial liabilities.

14 Financial instruments by category

	Loans and receivables
31 December 2010	
Assets as per balance sheet	
Trade & other receivables excluding prepayments	112,782
Cash & cash equivalents	2,297
Total	115,079

	Other financial liabilities at amortised cost
31 December 2010	
Liabilities as per balance sheet	
Borrowings	54,000
Trade & other payables excluding statutory liabilities & deferred income	66,466
Total	120,466

	Loans and receivables
31 December 2009	
Assets as per balance sheet	
Trade & other receivables excluding prepayments	79,208
Cash & cash equivalents	4,316
Total	83,524

	Other financial liabilities at amortised cost
31 December 2009	
Liabilities as per balance sheet	
Borrowings	91,000
Trade & other payables excluding statutory liabilities & deferred income	39,448
Total	130,448

Novartis Pharmaceuticals UK Limited
Notes to the Financial Statements
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15 Deferred tax liabilities and assets

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior period. Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 27% (2009: 28%).

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date As such, deferred tax assets and liabilities have been recognised at the rate of 27% (prior year: 28%)

Movement on deferred taxation balance in the period	2010 £'000	2009 £'000
At 1 January	6,671	16,657
Income statement	(1,658)	173
Retained earnings - retirement benefit obligations	9,168	(10,159)
At 31 December	14,181	6,671

	2010 £'000	2009 £'000
Capital allowance in excess of depreciation	18,268	18,648
Retirement benefit obligations	(645)	(9,276)
Share based payments	(3,402)	(2,677)
Other short term timing difference	(40)	(24)
Total deferred tax	14,181	6,671

	2010 £'000	2009 £'000
Deferred tax assets	(4,087)	(11,977)
Deferred tax liability	18,268	18,648
Net deferred tax liability	14,181	6,671

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax liability at 31 December 2010 was £14,181,000 (2009 £6,671,000)

16 Provisions

	Post-retirement medical benefit	RRS Provision	Other	Restructuring	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2010	325	10,226	132	288	10,971
Additional provisions	52	17,202	-	2,905	20,159
Utilised in the year	-	(885)	(132)	(1,687)	(2,704)
Released in the year	(7)	(973)	-	(780)	(1,760)
At 31 December 2010	370	25,570	-	726	26,666

Analysis of total provisions:

	2010	2009
Non-current	19,806	10,683
Current (restructuring provision and the current part of the RRS provision)	6,860	288
	26,666	10,971

a) RSS provision

See Note 2 for further details

b) Restructuring Provision

In 2010, the short-term provision of £726,000 (2009: £288,000) relates to a restructuring of our sales & marketing organisation function.

17 Called up share capital

Authorised	2010 £'000	2009 £'000
6,000,000 ordinary shares of £1 each	6,000	6,000
	6,000	6,000

Issued and fully paid	2010 Shares	2010 £'000	2009 Shares	2009 £'000
Ordinary shares of £1 each				
At 1 January	5,400,000	5,400	5,400,000	5,400
At 31 December	5,400,000	5,400	5,400,000	5,400

18 Employees and directors

Employee benefit expenses during the year	2010 £'000	2009 £'000
Wages and salaries	89,022	87,845
Share based payments	2,866	2,830
Social security costs	8,649	8,828
Other pension costs	12,678	6,557
	113,215	106,060

Average monthly number of people (including executive directors) employed	2010 no	2009 no.
Manufacturing	229	265
Research & development	644	635
Administration & marketing	726	723
	1,599	1,623

Directors	2010 £'000	2009 £'000
Aggregate emoluments	647	843
Company contributions to money purchase pension schemes	15	14
	662	857

Mr R Breu, Mr J Symonds, Mr E Cornut, and Mr L Prat are remunerated by the ultimate parent company in Switzerland for their services in the Novartis Group and no recharge is made to the Company Their remuneration is therefore not included in the above figures.

No Director (2009: none) who is remunerated in the UK exercised options and no Director (2009. none) received shares under a long term incentive scheme in 2010.

Aggregate emoluments for the highest paid Director were £322,000 (2009: £310,000). The accrued pension for the highest paid Director was nil (2009· £nil) per annum under the defined benefit scheme and £15,467 (2009 £14,100) accrued lump sum under the money purchase scheme at the end of the year. No share options (2009: none) were exercised by the highest paid Director No shares were received by the highest paid Director in respect of qualifying services under a long-term incentive scheme during the year (2009· none)

18 Employees and directors (continued)

One Director (2009: three) is accruing benefits under the ultimate parent company's defined benefit scheme, the costs of which are recharged to the Company No directors (2009: none) are accruing benefits under defined contribution schemes.

Key management compensation	2010 £'000	2009 £'000
Salaries and short-term employee benefits	1,867	2,093
Post-employment benefits	740	511
Share based payments	474	390
	3,081	2,994

The key management figures given above include the Directors and business unit heads. A number of identified key management are remunerated by the ultimate parent company with no recharge to the Company The disclosure above therefore excludes these amounts.

Employee Share Participation Plans

Employee and management share participation plans consist of both share option plans and share plans

Senior management share plans

Under the current plan, tradable share options and restricted stock are granted annually as part of remuneration of executives and other employees, as selected by senior management and reviewed and agreed by the Equity Schemes Board of Novartis International AG. Both the option and restricted stock grants have a three year vesting period Options must be exercised within 10 years from grant date. Each option entitles the holder to acquire one Novartis AG share at the exercise price, being the market value of the shares on grant date.

The Novartis Share Incentive Plan ("SIP") is an HMRC approved plan open to all UK permanent employees. Eligible employees may contribute up to £125 each month and the trustee of the plan uses the money to buy shares on their behalf. For every two shares purchased the Company purchases another matching share at market price on grant date. The shares received under this plan have a three year vesting period. UK based directors are eligible to participate in the SIP.

18 Employees and directors (continued)

General employee share plans

The Incentive Conversion Plan provides incentive for certain employees where 10% of the annual bonus can be converted to shares Shares received under the plan have a three year vesting period and are matched with one share for every two shares purchased at market price on due date. In 2010 employees received 2,217 (2009: 2,061) shares under the scheme.

Movements in Novartis AG shares held in trust for employee participation were as follows:

	2010 Number of shares	2009 Number of shares
At 1 January	211,224	165,760
Shares bought	66,099	45,882
Shares distributed	(2,566)	(418)
At 31 December	274,757	211,224

The market value of the shares held in trust at year end was £11,128,848 (2009: £7,240,000)

The following table shows the assumptions on which the valuation of share options granted under senior management share plans during the period was based on:

	2010	2009
Valuation date	19 January 2010	11 January 2009
Expiration date	17 January 2020	10 January 2019
Closing share price on grant date	CHF 55 85	CHF 53.65
Exercise price	CHF 55.85	CHF 53.65
Volatility	16.00%	21.00%
Expected dividend yield	4.74%	4.52%
Interest rate	2.29%	2 47%
Market value of option at grant date	CHF 6 13	CHF 8.83

18 Employees and directors (continued)

	2010		2009	
Senior management share plans	Number of Options	Weighted average exercise price CHF	Number of Options	Weighted average exercise price CHF
Options outstanding at 1 January	1,257,407	61.69	1,037,651	63 80
Granted	352,050	55.85	270,524	53 65
Exercised	(84,358)	66.80	(27,344)	60 62
Cancelled	(57,647)	57.19	(23,424)	63 74
Outstanding at 31 December	1,467,452	60.17	1,257,407	61 69
Exercisable at 31 December	672,877	63.34	367,716	34 78
Fair value of options granted during the year in CHF	6 13		8 83	

All options were granted at an exercise price which was equal to or greater than the market price of the Group's shares at the grant date.

The expenses recorded in the 2010 income statement related to the general employee share plans amounted to £2,394,000 (2009: £2,312,000).

The weighted average exercise price for options that were sold or exercised in the year was CHF 66.80.

18 Employees and directors (continued)

The following table summarizes information about the share options outstanding at 31 December 2010

	Options outstanding			Options exercisable	
Range of exercise prices CHF	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
40 – 49	95,645	1.08	49 00	95,645	49 00
50 – 59	825,996	7 06	55.70	255,566	29 70
60 – 69	224,145	7 00	64.05	-	64.05
70 – 79	321,666	5 71	72.27	321,666	72 27
Total	1,467,452	6.37	60 17	672,877	52 79

The weighted average exercise prices and the fair value of options granted are quoted in Swiss Francs (CHF), the currency of issue of such options in the ultimate parent company.

19 Retirement benefit obligations

The Company participates in defined benefit and defined contribution pension schemes operated by Novartis UK Limited for its UK employees, with assets held in a separately administered fund. The defined benefit costs and contributions attributable to Novartis Pharmaceuticals UK Limited are calculated on a pro-rata basis based on employee numbers

Towers Watson (formerly Watson Wyatt) are the advising actuaries for the Company scheme. All actuarial gains and losses are recognised through the statement of comprehensive income and expense, with the exception of gains and losses arising from changes in the benefits regarding past services, which are recognised in the income statement.

In the defined benefit plan (final salary scheme) contributions over the year ended 31 December 2010 were paid by members at a rate of 4%(minimum) or 6% (voluntary) of pensionable pay per annum (2009 4% (minimum) or 6% (voluntary)) and by the Company of 15% of pensionable pay per annum (2009. 15%).

Pension costs for defined contribution schemes are as follows:

	2010 £'000	2009 £'000
Defined contribution schemes	3,565	3,019

19 Retirement benefit obligations (continued)

Defined benefit plans

In calculating the liabilities of the defined benefit scheme, the following financial assumptions have been used:

	2010	2009	2008	2006	2005
Discount rate	5 75% pa	5.75% pa	6.25% pa	5 70% pa	5.00% pa
Salary growth	4 70% pa	4.80% pa	4 10% pa	4 30% pa	4.40% pa
RPI	3.70% pa	3.80% pa	3 10% pa	3 30% pa	2 90% pa
Pension-in payment increases	3.70% pa	3.80% pa	3 10% pa	3 30% pa	2.90% pa
Post retirement mortality assumption	S1NMA/S1 NFA	PNMA00/ PNFA00(1)	PNMA00/ PNFA00(1)	PNMA00/ PNFA00(1)	PA92B85/ PA92B45(2)
Expected return on assets	7 2% pa	7.50% pa	7 20% pa	7 00% pa	6.50% pa

(1) These are updated versions of the PA92 standard mortality tables to allow for more recent mortality experience The standard table has been projected forward in line with the medium cohort projection from 2000 onwards based on each member's year of birth.

(2) These are standard mortality tables which use an assumed year of birth of 1985 for non-pensioners and 1945 for pensioners.

The expected return on plan assets is a blended average of projected long term returns for the various asset classes Asset classes are based on the forward looking building block approach Equity returns are developed based on the selection of an equity risk premium above the risk free rate which is measured in accordance with the yield on government bonds. Bond returns are selected by reference to the yields on government and corporate debt as appropriate to the plan's holdings of these instruments.

Under the current pension scheme rules, retiring employees are allowed to take up to a maximum of 25% of the value of their pension fund as a lump sum The scheme valuation has assumed a 15% (2009 15%) conversion rate since it is not expected that all employees will take the maximum cash lump sum.

The expected return on assets for 2011 is 7.2%.

The major categories of assets as a percentage of total plan assets are as follows:

Asset category	2010	2009	2008	2006	2005
Equities and hedge funds	66%	68%	66%	70%	70%
Bonds	26%	25%	26%	25%	30%
Other	8%	7%	8%	5%	-
Total	100%	100%	100%	100%	100%

19 Retirement benefit obligations (continued)

The amounts recognised in the balance sheet are determined as follows:

	2010 £'000	2009 £'000
Fair value of plan assets	244,091	268,794
Present value of defined benefit obligation	(246,463)	(301,912)
Liability in the balance sheet	(2,372)	(33,118)

The amounts recognised in the income statement are as follows:

	2010 £'000	2009 £'000
Current service cost	8,853	5,360
Interest cost	17,299	13,682
Expected return on plan assets	(20,235)	(15,504)
Total included within employee benefit expenses (note 18)	5,917	3,538

Change in the defined benefit obligation.

	2010 £'000	2009 £'000
Present value of defined benefit obligation at start of year	301,912	219,981
Current service cost	8,853	5,360
Interest cost	17,299	13,682
Contributions by plan participants	1,940	2,118
Actuarial (gain) / loss	(17,183)	62,861
Benefit payments	0	(2,090)
Reallocation of the defined benefit obligation and the fair value of plan assets	(66,358)	0
Present value of defined benefit obligation at end of year	246,463	301,912

19 Retirement benefit obligations (continued)

Change in plan assets.

	2010 £'000	2009 £'000
Fair value of plan assets at start of year	268,794	221,118
Expected return on plan assets	20,235	15,504
Actuarial return less expected return on plan assets	14,351	26,578
Employer contributions	5,129	5,566
Plan participants' contributions	1,940	2,118
Benefit payments	0	(2,090)
Reallocation of the defined benefit obligation and the fair value of plan assets	(66,358)	0
Fair value of plan assets at end of year	244,091	268,794

A full actuarial valuation of the Novartis UK Pension Scheme was carried out as at 31 December 2009 As part of the valuation, updated data on the allocation of the Scheme's members to each of the employers participating in the Scheme was used. This has led to a reallocation of the defined benefit obligation and the fair value of plan assets amongst the employers, effective as at 31 December 2010 The above disclosures show a decrease in both the defined benefit obligation and fair value of plan assets at the year end of £66,358,000 (2009: £nil) As the defined benefit obligation and fair value of plan assets have been adjusted by equal amounts, there is no impact on the overall pension liability shown in these accounts, nor has there been any effect on the income statement for the current year.

Amount recognised in the statement of comprehensive income:

	2010 £'000	2009 £'000
Actuarial (gain) / loss on defined benefit obligation	(17,183)	62,861
Actual return less expected return on plan assets	(14,351)	(26,578)
Actuarial (gain) / loss	(31,534)	36,283
Deferred tax on actuarial gain / (loss)	9,168	(10,159)
Net actuarial loss recognised in the Statement of Comprehensive Income and Expense	(22,366)	26,124

Cumulative actuarial losses on the pension scheme amount to £32,408,000 (2009· £63,942,000), recognised directly in the statement of comprehensive income

19 Retirement benefit obligations (continued)

The history of experience (gains)/ losses:

	2010	2009	2008	2006	2005
Experience (gains)/losses on plan assets (£'000)	(14,351)	26,578	(56,902)	(920)	(14,929)
Percentage of plan assets	5 88%	9.89%	25.73%	0.36%	6.42%
Experience (gains)/losses on plan obligation (£'000)	(17,183)	62,861	(50,651)	(22,940)	(6,860)
Percentage of plan obligation	6.97%	20 82%	23.03%	9.22%	2.76%
Fair value of plan assets (£'000)	244,091	268,794	221,118	254,197	232,612
Present value of plan obligation (£'000)	246,463	301,912	219,981	248,824	248,861
(Deficit)/Surplus (£'000)	(2,372)	(33,118)	1,137	5,373	(16,249)

The liabilities of the scheme are gradually settled over time until all members have left. As per the wind-up rule, any remaining assets must be distributed to the companies in the scheme. As a result, the Directors have concluded that the pension liability has a future economic benefit and therefore recognised the pension liability as at year end of £2,372,000 (2009: £33,118,000).

The Company expects to contribute £5,251,072 to the group pension scheme in 2011 (2010 £6,521,000).

20 Operating lease commitments – minimum lease payments

Commitments under non-cancellable operating leases expiring	2010 £'000	2009 £'000
Vehicles and Other assets		
- within one year	1,797	1,201
- two to five years	4,632	2,264
	6,429	3,465

21 Contingent liabilities

The Company is party to a composite cross-undertaking to its principal banker (HSBC plc) to secure the liabilities to the bank of its fellow UK group companies. The contingent liability is limited to the net cash position of the Company's own bank account, to the extent that it is required to cover the total liabilities of the group companies who are party to the cross guarantee.

At 31 December 2010, the Company was in a net overdraft position having taken cleared funds into account and therefore no contingent liability existed (2009: net overdraft position and therefore no contingent liability). The maximum potential liability for the total UK group is limited to the net loan and overdraft position of the UK companies bank accounts calculated on cleared funds. As at 31 December 2010 the net deposit and cash position of the UK companies was £934,000 (2009: net borrowing and overdraft £33,040,000).

The total facility for the total UK group is £65million (2009: £65million).

22 Capital and other financial commitments

	2010 £'000	2009 £'000
Contracts placed for future capital expenditure not provided in the financial statements	1,405	409

The contracts placed above are in relation to property, plant and equipment.

23 Related party transactions

	2010 £'000	2009 £'000
Sales of goods to related parties		
Fellow group undertakings	7,645	6,356
Sales of services to related parties		
Fellow group undertakings	178,417	177,446
Purchase of goods from related parties		
Fellow group undertakings	345,537	337,982
Purchase of services from related parties		
Fellow group undertakings	16,774	13,619
Interest payable/(receivable) to/(from) related parties		
Immediate parent (prior year restated)	230	451
Immediate parent (prior year restated)	(81)	(4)
Movement in financing (to)/from related parties		
Immediate parent	(37,000)	17,000
Dividend payment	(20,000)	(10,000)

Sales and purchases to and from fellow group undertakings were carried out on commercial terms and at market prices.

Year end balances arising from sales, purchases of goods and services and financing activities are as follows:

	2010 £'000	2009 £'000
Receivables from related parties		
Fellow group undertakings	48,244	22,255
Payables to related parties		
Fellow group undertakings	14,829	1,713
Financing from related parties		
Immediate parent	31,000	68,000
Fellow group undertakings	23,000	23,000

Key Management compensation is disclosed in Note 18.

24 Cash flow from operating activities

Reconciliation of profit to cash generated from operations	2010 £'000	2009 £'000
Net profit	34,161	30,734
Adjustments for:		
Tax	5,650	6,928
Depreciation	9,638	10,037
Profit / (loss) on disposal of property, plant & equipment	24	290
Interest income	(81)	(4)
Interest expense	523	619
Foreign exchange differences	(4)	(395)
Non cash pension charge	789	(2,020)
Non cash share based compensation charge	2,980	2,919
Changes in working capital:		
Decrease / (increase) in inventories	10,337	(19,945)
(Increase) in trade and other receivables	(32,727)	(14,702)
Increase / (decrease) in payables	32,089	(9,452)
Increase in provisions	15,695	7,933
Cash generated from continuing operations	79,074	12,942

Analysis of cash and cash equivalents

Cash at bank and other liquid funds	2,297	4,316
	2,297	4,316

The carrying value of cash and cash equivalents approximates fair value.

25 Events after the reporting period

On 16th March 2011 the company announced that it had initiated consultations on proposals to restructure operations at its Horsham site in West Sussex while remaining committed to maintaining the site's respiratory research function. The proposals are part of the company's ongoing efforts to align resources to better respond to patients and customers in a challenging healthcare marketplace. The potential impact of these proposals will be subject to an employee consultation process and final Novartis UK board approval.

Novartis Pharmaceuticals UK Limited
Notes to the Financial Statements
for the year ended 31 December 2010 (continued)

26 Ultimate parent company and controlling party

Novartis AG, a company incorporated in Switzerland, is the Company's ultimate parent undertaking and controlling party. Copies of the group accounts can be obtained from Novartis AG, Building S-210, CH-4002, Basle, Switzerland.

Novartis AG is the parent undertaking of the largest and smallest group of which Novartis Pharmaceuticals UK Limited is a member and for which group accounts are drawn up.

Novartis UK Limited, incorporated in Great Britain, is the parent undertaking of the smallest group of which Novartis Pharmaceuticals UK Limited is a member.