3

Novartis Pharmaceuticals UK Limited

Annual Report
for the year ended 31 December 2009

Registered no: 119006

Novartis Pharmaceuticals UK Limited

Annual Report
for the year ended 31 December 2009

	Pages
Directors and Advisors	1
Directors' Report	2 - 6
Independent Auditors' Report to the Members of Novartis Pharmaceuticals UK Limited	7 - 8
Income Statement	9
Statement of Comprehensive Income & Expense	10
Balance Sheet	11
Statement of Changes in Equity	12
Cash Flow Statement	13
Notes to the Financial Statements	14 - 51

Directors and Advisors

Directors

E Cornut (Chairman)
T Jose
J Symonds
L Prat
S Webb

Secretary

H Roberts

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 2009. 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 £30,734,000 (2008: £22,111,000) and revenue of £497,235,000 (2008: £406,898,000). The Company had net assets of £55,330,000 as at 31 December 2009 (2008: £60,682,000).

The Directors are pleased with the performance of the Company for 2009 given the continued competitive pressure from both branded and generic pharmaceuticals present in the market. A significant portion of the growth in 2009 was achieved through the fast uptake of Lucentis (treatment for wet age-related macular degeneration (AMD)). Two new products were also launched in 2009, Afinitor in Oncology to treat advanced Kidney Cancer and Extavia to treat MS.

The Company has continued to evolve its sales model in 2009 to ensure it meets the changing needs of patients and customers.

Principal risks and uncertainties

More recently the Company have 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 (DH).
In addition the Company continues to face strong competition from both generic and branded pharmaceuticals. Both Neoral and TOBI saw continued generic pressure in 2009, and the expected loss of patents for key competitors will impact sales of both Diovan and Femera in 2010. Despite this the Company has ended 2009 with Lucentis and Glivec performing extremely well, and the key focus for 2010 will be to continue to grow these brands as the Company prepares to launch new molecules and new indications over the next 18 months The strong performance of our key brands and the pipeline of new products ensure that the Company has a strong platform moving forward into 2010.

Novartis Pharmaceuticals UK Limited
Directors' Report
for the year ended 31 December 2009 (continued)

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 £10,000,000 was paid in 2009 (2008. £10,000,000) with dividend per share being 185.19p (2008: 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.

	2009	2008	Comments
Growth in revenue (%)	22.2	22 2	Double digit growth achieved in 2009 principally generated from the growth in Lucentis of 78% on previous year. Growth in the oncology portfolio was mainly driven by Glivec (14%), Femara (16%) and Tasigna (581%), a newly launched product in 2008. The existing hypertension brands also delivered high single digit growth.
Gross margin (%)	27.7	32.2	PPRS reduction of 3.9% reduced the prices over the portfolio in 2009 however write offs in 2008 were higher than 2009 by 2.4m due to accelerated write-off of COGS in 2008 and release of provisions in 2009 of Diovan and Visudyne.
Market share (%)	3.91	3.65*	Continued strong growth in Lucentis and the oncology portfolio which includes Glivec and Femara. Also successful launches of Tasigna and Viladliptin in 2008 offset the decline in mature brands (Famvir, Estra Range and Lamisil).
Number of new launches	2	3	2009: Afinitor (Onco), Extavia (GenMed MS) 2008: Vildagliptin, Vildamet, and Tasigna

* *year to date figures November 2009 (Source· IMS)*

Directors

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

R Brazier	(resigned 1 July 2009)
T Jose	(appointed 1 July 2009)
R Breu	(resigned 31st March 2010)
J Symonds	(appointed 31st March 2010)
E Cornut	
L Prat	
S Saxena	(resigned 26 Aug 2009)
S Webb	(appointed 26 Aug 2009)

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 £32,116 (2008· £36,355) were made to local charities during the year. £20,000 of this was payment to Imperial College Healthcare Charity in relation to refurbishment of the Clinical Research Facility at St Mary's Hospital in London, Paddington. £4,000 related to Horsham in Bloom sponsorship towards local community £2,242 was donation to the companies selected charity, Phyllis Tuckwell All other individual donations were under £2,000

Land and Buildings

The Directors believe there is no significant difference between the market and book value of the land.

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 2009 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

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 confirm 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 9 September 2010
Director

Independent auditors' report to the members of Novartis Pharmaceuticals Limited

We have audited the financial statements of Novartis Pharmaceuticals Limited for the year ended 31 December 2009 which comprise the Income Statement, the Statement of Comprehensive Income and Expense, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flow 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 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 2009 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 matter

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

10 September 2010

Novartis Pharmaceuticals UK Limited
Income Statement
for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Revenue	4	497,235	406,898
Cost of sales		(359,517)	(275,658)
Gross profit		137,718	131,240
Other operating income		97,150	85,657
Selling and marketing costs		(88,516)	(83,328)
Research and development costs		(99,710)	(90,274)
Administrative expenses		(8,365)	(11,436)
Operating profit	5	38,277	31,859
Finance income	6	4	313
Finance cost	6	(619)	(2,385)
Profit before tax		37,662	29,787
Income tax (charge)	7	(6,928)	(7,676)
Profit for the year attributable to owners of the parent		30,734	22,111

The notes on pages 14 to 51 are an integral part of these financial statements

Novartis Pharmaceuticals UK Limited
Statement of Comprehensive Income and Expense for the year ended 31 December 2009

For the year ended 31 December	Note	2009 £'000	2008 £'000
Profit for the year		30,734	22,111
Other comprehensive income:			
Actuarial loss on pension obligation	19	(36,283)	(6,251)
Deferred tax on actuarial loss	15	10,159	1,750
Gain/(loss) on post retirement medical benefit		45	(165)
Other comprehensive income for the year, net of tax		(26,079)	(4,666)
Total comprehensive income for the year attributable to owners of the parent		4,655	17,445

Cumulative actuarial losses on the pension scheme amount to £63,942,000 (2008.£27,659,000), recognised directly in the statement of comprehensive income

The notes on pages 14 to 51 are an integral part of these financial statements

Novartis Pharmaceuticals UK Limited
Balance Sheet as at 31 December 2009

	Note	2009 £'000	2008 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	107,724	108,481
Retirement benefit asset	19	-	1,137
		107,724	109,618
Current assets			
Inventories	10	55,904	35,959
Trade and other receivables	11	81,037	66,335
Cash and cash equivalents	24	4,316	4,668
		141,257	106,962
Total assets		248,981	216,580
Liabilities			
Current liabilities			
Financial liabilities: borrowings	12	68,000	54,322
Trade and other payables	13	43,479	53,267
Current tax liabilities		8,412	5,577
Provisions	16	288	445
		120,179	113,611
Net current assets / (liabilities)		21,078	(6,649)
Non-current liabilities			
Financial liabilities. borrowings	12	23,000	23,000
Deferred tax liabilities	15	6,671	16,657
Retirement benefit obligations	19	33,118	-
Provisions	16	10,683	2,630
		73,472	42,287
Net assets		55,330	60,682
Shareholders' equity			
Ordinary shares	17	5,400	5,400
Share option recharge reserve		(3,072)	(3,065)
Retained earnings		53,002	58,347
Total shareholders' equity		55,330	60,682

The notes on pages 14 to 51 are an integral part of these financial statements

The financial statements of Novartis Pharmaceuticals UK Limited (registered no. 119006) ~~on~~ pages 9 to 51 were approved by the Board of Directors on 9 September 2010 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 2008	5,400	(2,880)	50,902	53,422
Other comprehensive income				
Profit for the year	-	-	22,111	22,111
Actuarial (loss) on retirement benefit schemes	-	-	(6,251)	(6,251)
Deferred tax on actuarial gain on retirement benefit schemes	-	-	1,750	1,750
(Loss) on post retirement Medical benefit			(165)	(165)
Total comprehensive income			17,445	17,445
Transactions with owners				
Dividends	-	-	(10,000)	(10,000)
Share options	-	(185)	-	(185)
Total transactions with owners		(185)	(10,000)	(10,185)
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 31 December 2009	5,400	(3,072)	53,002	55,330

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.

Novartis Pharmaceuticals UK Limited
Cash Flow Statement
for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Cash flows from operating activities			
Cash generated from operations	24	12,942	38,321
Share based payments		(2,926)	(3,175)
Interest received		4	370
Interest paid		(636)	(2,694)
Tax paid		(3,916)	(2,155)
Net cash generated from operating activities		5,468	30,667
Cash flows from investing activities			
Proceeds from sale of property, plant & equipment		104	263
Purchase of property, plant & equipment	9	(9,674)	(9,569)
Net cash used in investing activities		(9,570)	(9,306)
Cash flows from financing activities			
Increase/(repayment) of borrowings	12	17,000	(7,000)
Dividends paid to shareholders	8	(10,000)	(10,000)
Net cash generated/(used) in financing activities		7,000	(17,000)
Net increase in cash and cash equivalents		2,898	4,361
Cash, cash equivalents and bank overdrafts at 1 January		1,346	(2,287)
Exchange gains/(losses) on cash and cash equivalents		72	(728)
Cash, cash equivalents and bank overdrafts at 31 December	24	4,316	1,346

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) Standards, amendments and interpretations effective in 2009 and relevant to the Company are detailed below:

IAS 1 (revised), 'Presentation of financial statements' (effective 1 January 2009): The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Company presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard.

IAS 23 (revised), 'Borrowing costs' (effective 1 January 2009)· The amendments eliminate the option available under the previous version of the Standard to recognise all borrowing costs immediately as an expense. To the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset, the revised Standard requires that they be capitalised as part of the cost of that asset. All other borrowing costs should be expensed as incurred. As required the Company now capitalises borrowing costs associated with the construction of new property, plant and equipment projects are capitalized. Such costs related to projects commencing prior to 1 January 2009 have been expensed.

1 Principal accounting policies (continued)

Amendment to IFRS 7,'Financial instruments. Disclosures' (effective 1 January 2009). The amendment requires enhanced disclosures abut fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy.

IFRS 2 (amendment), 'Share-based payment' (effective 1 January 2009) deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. These features would need to be included in the grant date fair value for transactions with employees and others providing similar services, they would not impact the number of awards expected to vest or valuation there of subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Company has adopted IFRS 2 (amendment) from 1 January 2009 The amendment does not have a material impact on the group or Company's financial statements

IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction' is aimed at correcting an unintended consequence of IFRIC 14. As a result of the interpretation, entities are in some circumstances not permitted to recognise as an asset some prepayments for minimum funding contributions. The Company has adopted the amendment from 1 January 2009. The amendment does not have a material impact on the group or Company's financial statements.

(b) Standards, amendments and interpretations effective in 2009 but not relevant to the Company are detailed below:

IFRS 8, 'Operating segments'(effective 1 January 2009): This standard did not impact the Company as it does not fall within the scope of the standard.

Amendment to IFRIC 9 and IAS 39 regarding embedded derivatives (effective 1 July 2008) This amendment did not impact the Company as it has no embedded derivatives.

Amendment to IFRS 1 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' on the 'Cost of an investment in a subsidiary, jointly controlled entity or associate' (effective 1 January 2009). This amendment did not impact the Company as it does not fall within the scope of the amendment.

Amendment to IAS 32, 'Financial instruments: Presentation', and IAS 1, 'Presentation of financial statements on 'Puttable financial instruments and obligations arising on liquidation' (effective 1 January 2009). This amendment did not impact the Company as it has no instruments that fall within the scope of the standard.

IFRIC 13,'Customer loyalty programmes relating to IAS 18, Revenue' (effective 1 July 2008 but EU endorsed for use 1 January 2009). No impact of this IFRIC on the Company as the Company currently has no such loyalty programmes.

1 Principal accounting policies (continued)

(c) Standards, amendments and interpretations to existing standards that 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 are detailed below:

IFRS 3 (revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair vale or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010

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. IFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable The Company will apply IFRIC 17 from 1 January 2010. It is not expected to have a material impact on the Company's financial statements.

IAS 7 amendment, 'Classification of expenditures on unrecognised assets'. Amendment to require that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities. Effective for periods beginning on or after 1 January 2010. The Company will apply the standard from 1 January 2010 It is not expected to have a material impact on the Company's financial statements.

IAS 17 amendment, 'Classification of leases of land and buildings'. Deletion of specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating, using the general principles of IAS 17. The Company will apply the standard from 1 January 2010 It is not expected to have a material impact on the Company's financial statements.

`IAS 27 (revised), 'Consolidated and separate financial statements', (effective from 1 July 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Company will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010

1 Principal accounting policies (continued)

IAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Company will apply IAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Company's financial statements.

IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'. The amendment is part of the IASB's annual improvements project published in April 2009. The amendment provides clarification that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations It also clarifies that the general requirement of IAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The Company will apply IFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Company's financial statements.

IAS 38 (amendment), 'Intangible Assets'. The amendment is part of the IASB's annual improvements project published in April 2009 and the Company will apply IAS 38 (amendment) from the date IFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Company's financial statements

(d) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Company's operations are given below:

IAS 1,Current/non-current classification of convertible instruments. The Company does not have any convertible instruments.

Amendment to IAS 39, 'Financial instruments: Recognition and measurement', on Eligible hedged items (effective 1 July 2009). The Company does not participate in hedging.

IFRIC 12,'Service concession arrangements' (effective 30 March 2009). The Company has no service concession engagement.

IFRIC 15, 'Arrangements for construction of real estates' (effective 1 January 2009 but EU endorsed for 1 January 2010). The Company is not engaged in construction of real estate.

1 Principal accounting policies (continued)

IFRIC 16, 'Hedges of a net investment in a foreign operation (effective 1 October 2008 but EU endorsed for 1 July 2009). The Company holds no investments in foreign operations.

IFRIC 18, Transfer of assets from customers' (effective 1 July 2009 EU endorsed 31 October 2009). The Company currently has no such arrangements with customers.

Amendment to IAS 36, Unit of accounting for goodwill impairment test. Effective for periods beginning on or after 1 January 2010. The Company has no Goodwill to consider for impairment.

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 is 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:

Freehold land & 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.

Long-term provisions

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

1 Principal accounting policies (continued)

Short-term provisions

A restructuring of the sales organisation occurred in 2009 and the costs are provided for in the 2009 financial statements.

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

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 an 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 £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 £ 1,157,998.

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 2009, there would be no material impact, with all other variables held constant, on the Company of movements of 10% of foreign currency denominated cash balances.
The 10% fluctuation of EUR/GBP exchange rates would have had an impact of £0.1m on the Company's Balance Sheet (£0.3m as at 31 December 2008)

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 2009, the Company held £23,000,000 (2008: £23,000,000) of non-interest-bearing borrowings and £68,000,000 (2008: £54,322,000) of interest-bearing borrowings at base rate plus 1%. The interest-bearing borrowings consisted of £nil (2008: £3,322,000) bank overdraft and £68,000,000 (2008 £51,000,000) 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 (2008: 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:

	2009 £'000	2008 £'000
Sale of goods	454,855	366,725
Revenue from services	42,380	40,173
	497,235	406,898

5 Operating profit

	2009 £'000	2008 £'000
The following items have been charged/(credited) in arriving at operating profit:		
Employee benefit expenses (note 18)	106,060	101,654
Depreciation of property, plant and equipment (note 9)	10,037	10,641
Profit on disposal of property, plant and equipment	290	(129)
Other operating lease rentals payable	1,073	406
Repairs and maintenance expenditure on property, plant and equipment	2,639	2,569
Exchange differences	(392)	1,439
Services provided by the Company's auditors		
- fees payable for the audit	172	173

6 Finance costs - net

	2009 £'000	2008 £'000
Interest expense:		
Interest payable on bank overdraft and loans	168	157
Interest payable on loans from group undertakings	451	2,228
Finance costs	619	2,385
Interest income on bank deposits	(4)	(313)
Total finance income	(4)	(313)
Finance costs – net	615	2,072

7 Income Tax

Analysis of charge/(credit) in the year	2009 £'000	2008 £'000
Current tax - continuing operations		
- UK corporation tax on profits of the period	7,236	5,037
- Under/(Over) provision in respect of prior period	(481)	1,488
Total Current Tax	6,755	6,525
Deferred tax		
Origination and reversal of timing differences (accelerated capital allowances and other)	549	2,698
Adjustment in respect of prior years	(376)	(1,547)
Total Deferred Tax charge/(credit)	173	1,151
Total Tax charge/(credit)	6,928	7,676

Tax on components of other comprehensive income	2009 £'000	2008 £'000
Deferred tax charge/(credit) on actuarial losses	(10,159)	(1,750)

Novartis Pharmaceuticals UK Limited
Notes to the Financial Statements
for the year ended 31 December 2009 (continued)

7 Income Tax (continued)

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

	2009 £'000	2008 £'000
Profit on ordinary activities before tax	37,662	29,787
Profit on ordinary activities multiplied by effective rate of corporation tax in the UK of 28% (2008: 28.5%)	10,544	8,489
Effects of·		
Expenses not deductible for tax purposes	903	813
Impact of withdrawal of Industrial Buildings Allowances	0	2,004
Effects of rate changes	0	(38)
Research and development tax credits	(3,662)	(3,533)
Adjustments in respect of prior periods – deferred tax	(376)	(1,547)
Adjustments in respect of prior periods – income tax	(481)	1,488
Tax charge/(credit) for the year	6,928	7,676

Factors that may affect future tax charge

The availability of R&D related tax incentives may affect the future tax rate of the Company. A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement The Finance (No 2) Act 2010 is expected to include legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

8 Dividends

	2009 £'000	2008 £'000
185.19p (2008. 185 19p) per £1 share	10,000	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 2009	11,378	102,833	83,683	4,961	202,855
Additions at cost	-	4,603	6,374	(1,303)	9,674
Disposals		(650)	(6,891)	-	(7,541)
At 31 December 2009	11,378	106,786	83,166	3,658	204,988
Accumulated depreciation					
At 1 January 2009		(40,526)	(53,848)	0	(94,374)
Charge for the year		(3,726)	(6,311)	0	(10,037)
Disposals		485	6,662	0	7,147
At 31 December 2009		(43,767)	(53,497)	0	(97,264)
Net book value					
31 December 2009	11,378	63,019	29,669	3,658	107,724
Cost					
At 1 January 2008	11,378	100,212	77,196	6,972	195,758
Additions at cost	-	733	2,538	6,298	9,569
Transfers	-	2,015	6,294	(8,309)	-
Disposals	-	(127)	(2,345)	-	(2,472)
At 31 December 2008	11,378	102,833	83,683	4,961	202,855
Accumulated depreciation					
At 1 January 2008	-	(37,017)	(49,054)	-	(86,071)
Charge for the year	-	(3,580)	(7,061)	-	(10.641)
Disposals	-	71	2,267	-	2,338
At 31 December 2008	-	(40,526)	(53,848)	-	(94,374)
Net book value					
31 December 2008	11,378	62,307	29,835	4,961	108,481

Included in property, plant and equipment are the following:

(a) Capitalised interest at cost amounting to £523,000 (2008: £523,000).

(b) Assets amounting to cost of £42,682,000 (2008: £35,919,000) are fully depreciated but still in use.

10 Inventories

	2009 £'000	2008 £'000
Materials & consumables	608	521
Work in progress	1,532	1,254
Finished goods	53,764	34,184
	55,904	35,959

The Company consumed £332,020,000 (2008: £246,797,000) of inventories during the year.

Included above are finished goods of £Nil (2008: £ Nil) carried at net realisable value being lower than cost for which full provision has been made.

The Company reversed amounts totalling £3,588,000 (2008: £1,685,000) 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.	2009 £'000	2008 £'000
Trade receivables	56,577	44,391
Less. Provision for impairment of receivables	(238)	(321)
Trade receivables – net (financial asset)	56,339	44,070
Amounts owed by fellow group undertakings (financial asset)	22,255	20,189
Other receivables (financial asset)	376	297
Prepayments and accrued income	2,067	1,779
	81,037	66,335

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 2009, trade receivables of £6,065,000 (2008: £2,422,000) 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:

	2009 £'000	2008 £'000
Up to 180 days	5,711	2,084
Over 180 days	354	338
	6,065	2,422

As of 31 December 2009, trade receivables of £238,000 (2008. £321,000) 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

	2009 £'000	2008 £'000
Up to 180 days	-	-
Over 180 days	238	321
	238	321

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

	2009 £'000	2008 £'000
At 1 January	321	178
Provision for receivables impairment	463	582
Receivables written off during the year as uncollectible	-	(70)
Unused amounts reversed	(546)	(369)
At 31 December	238	321

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 2009. No other customer accounts for 2% or more of the net sales. The highest amounts of trade receivables are the ones for the largest customers and are approximately 33% of trade receivables at year end (2008: 42%). 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

	2009 £'000	2008 £'000
Current		
Unsecured bank overdrafts due within one year or on demand	-	3,322
Unsecured loans from group undertakings due within one year or on demand	68,000	51,000
	68,000	54,322
Non current		
Unsecured loans from group undertakings due after one year	23,000	23,000
Total financial liabilities - borrowings	91,000	77,322

The Company is party to a composite cross guarantee arrangement in relation to the bank overdrafts, as referred to in note 24. The Company has overdrafts with HSBC which bear interest at the HSBC base rate plus 1%. Loans from group undertakings consist of interest bearing loans with the immediate parent undertaking of £68,000,000 (2008: £51,000,000) which are due within one year or on demand and non interest bearing loans with fellow subsidiaries of £23,000,000 (2008: £23,000,000) which are due on 31 December 2011. Interest bearing loans bear interest at the HSBC base rate plus 1% (2008. 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:

	2009	2008
Bank overdraft	1.5%	3.0%
Interest bearing loans from group undertakings	1.5%	3.0%

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:	2009 £'000	2008 £'000
Trade payables (financial liability)	10,847	13,946
Amounts owed to fellow group undertakings (financial liability)	1,914	1,922
Other tax and social security payable	4,031	7,549
Other payables (financial liability)	323	416
Accruals	1,370	2,060
Deferred income	24,994	27,374
	43,479	53,267

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 2009	
Assets as per balance sheet	
Trade & other receivables excluding prepayments	78,970
Cash & cash equivalents	4,316
Total	83,286

	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	14,454
Total	105,454

	Loans and receivables
31 December 2008	
Assets as per balance sheet	
Trade & other receivables excluding prepayments	64,556
Cash & cash equivalents	4,668
Total	69,224

	Other financial liabilities at amortised cost
31 December 2008	
Liabilities as per balance sheet	
Borrowings	77,322
Trade & other payables excluding statutory liabilities & deferred income	18,344
Total	95,666

15 Deferred tax liabilities

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 28% (2008: 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 28% (prior year: 28%).

Movement on deferred taxation balance in the period	2009 £'000	2008 £'000
At 1 January	16,657	17,256
Income statement	173	1,151
Retained earnings - retirement benefit obligations	(10,159)	(1,750)
At 31 December	6,671	16,657

	2009 £'000	2008 £'000
Capital allowance in excess of depreciation	18,648	18,385
Retirement benefit obligations	(9,276)	317
Share based payments	(2,677)	(2,029)
Other short term timing difference	(24)	(16)
Total deferred tax	6,671	16,657

	2009 £'000	2008 £'000
Deferred tax assets	(11,977)	(2,045)
Deferred tax liability	18,648	18,702
Net deferred tax liability	6,671	16,657

All of the deferred tax assets were available for offset against deferred tax liabilities and hence the net deferred tax liability at 31 December 2009 was £6,671,000 (2008· £16,657,000)

16 Provisions

	Post-retirement medical benefit	RSS Provision	Other	Restructuring	Total
	£'000	£'000	£'000	£'000	£'000
At 1 January 2009	395	2,117	118	445	3,075
Additional provisions		8,109	14	742	8,865
Utilised in the year	39	-		(749)	(710)
Released in the year	(109)	-		(150)	(259)
At 31 December 2009	325	10,226	132	288	10,971

Analysis of total provisions:

	2009	2008
Non-current	10,683	2,630
Current (restructuring)	288	445
	10,971	3,075

Short term provisions relate to restructuring.

a) Post retirement medical benefit

The Company currently provides contributions towards the medical insurance cost of certain ex-employees beyond their retirement date. The balance of the provision is expected to cover the liability accruing to those remaining in the scheme.

The short-term rate of increase in annual claim costs is calculated at 8% (2008 valuation: 8.7%). The long-term medical risk cost trend assumed at 4.5% (2008 valuation: 6.0%) These are based on the analysis of the history of the Mercer client medical portfolio The discount rate of 5 5% (2008: 6.25%) is based on AA corporate bond yields in accordance with the IFRS accounting requirements

Company contributions to the scheme in 2010 will amount to £44,000.

b) RSS provision

See Note 2

16 Provisions (continued)

c) Restructuring Provision

In 2009, the short-term provision of £288,000 relates to a restructuring of our sales organisation function.

In 2008, the short-term provision of £445,000 related to a restructuring of both our sales organisation and development organisation.

17 Called up share capital

Authorised	2009 £'000	2008 £'000
6,000,000 ordinary shares of £1 each	6,000	6,000
	6,000	6,000

Issued and fully paid	Shares	2009 £'000	Shares	2008 £'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	2009 £'000	2008 £'000
Wages and salaries	87,845	84,199
Share based payments	2,830	2,463
Social security costs	8,828	8,257
Other pension costs	6,557	6,735
	106,060	101,654

Average monthly number of people (including executive directors) employed	2009 no.	2008 no.
Manufacturing	265	321
Research & development	635	591
Administration & marketing	723	755
	1,623	1,667

Directors	2009 £'000	2008 £'000
Aggregate emoluments	843	644
Company contributions to money purchase pension schemes	14	-
	857	644

Mr R Breu, 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 (2008· none) who is remunerated in the UK exercised options and no Director (2008: none) received shares under a long term incentive scheme in 2009.

18 Employees and directors (continued)

Aggregate emoluments for the highest paid Director were £310,000 (2008· £393,000) The accrued pension for the highest paid Director was £nil (2008: £739,000) per annum under the defined benefit scheme and £14,100 (2008: £nil) accrued lump sum under the money purchase scheme at the end of the year. No share options (2008: 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 (2008: none).

Three Directors (2008: two) are accruing benefits under the ultimate parent company's defined benefit scheme, the costs of which are recharged to the Company. No Directors (2008· none) are accruing benefits under defined contribution schemes.

Key management compensation	2009 £'000	2008 £'000
Salaries and short-term employee benefits	2,093	1,924
Post-employment benefits	511	157
Share based payments	390	282
	2,994	2,363

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.

18 Employees and directors (continued)

General employee share plans

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.

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 2009 employees received 2,061 (2008: 1,504) shares under the scheme.

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

	2009 Number of shares	2008 Number of shares
At 1 January	165,760	124,034
Shares bought	45,882	63,816
Shares distributed	(418)	(22,090)
At 31 December	211,224	165,760

The market value of the shares held in trust at year end was £7,240,000. (2008: £5,710,000).

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:

	2009	2008
Valuation date	11 January 2009	11 January 2008
Expiration date	10 January 2019	10 January 2018
Closing share price on grant date	CHF 53.65	CHF 64.05
Exercise price	CHF 53.65	CHF 64.05
Volatility	21.00%	17.00%
Expected dividend yield	4.52%	3.30%
Interest rate	2.47%	3.34%
Market value of option at grant date	CHF 8.83	CHF 11.62

18 Employees and directors (continued)

	2009		2008	
Senior management share plans	Number of Options	Weighted average exercise price CHF	Numbe r of Options	Weighted average exercise price CHF
Options outstanding at 1 January	1,037,651	63.80	888,253	63 45
Granted	270,524	53.65	280,284	64 05
Exercised	(27,344)	60.62	(48,358)	57 37
Cancelled	(23,424)	63.74	(82,528)	64 61
Outstanding at 31 December	1,257,407	61.69	1,037,651	63 80
Exercisable at 31 December	367,716	34.78	385,356	55 02
Fair value of options granted during the year in CHF	8.83		11.62	

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 2009 income statement related to the general employee share plans amounted to £2,312,000 (2008: £2,341,000).

The weighted average exercise price for options that were sold or exercised in the year was CHF 60.62.

18 Employees and directors (continued)

The followıng table summarızes ınformatıon about the share optıons outstandıng at 31 December 2009:

Range of exercıse prıces CHF	Optıons outstandıng: Number outstandıng	Optıons outstandıng: Weıghted average remaınıng contractual lıfe	Optıons outstandıng: Weıghted average exercıse prıce	Optıons exercısable: Number exercısable	Optıons exercısable: Weıghted average exercıse prıce
40 – 49	104,600	2 08	49 00	104,600	49.00
50 – 59	525,983	5 53	55 55	263,116	29 12
60 – 69	252,958	8 08	64 05	-	-
70 – 79	373,866	6 72	72 28	-	-
Total	1,257,407	6 11	61 69	367,716	34 78

The weıghted average exercıse prıces and the faır value of optıons granted are quoted ın Swıss Francs (CHF), the currency of ıssue of such optıons ın the ultımate parent company.

19 Retirement benefit obligations

The Company partıcıpates ın defıned benefıt and defıned contrıbutıon pensıon schemes operated by Novartıs UK Lımıted for ıts UK employees, wıth assets held ın a separately admınıstered fund. The defıned benefıt costs and contrıbutıons attrıbutable to Novartıs Pharmaceutıcals Lımıted ıs calculated on a pro-rata basıs on employee numbers.
Watson Wyatt are the advısıng actuarıes for the Company scheme. All actuarıal gaıns and losses are recognısed through the statement of comprehensıve ıncome, wıth the exceptıon of gaıns and losses arısıng from changes ın the benefıts regardıng past servıces, whıch are recognısed ın the ıncome statement

In the defıned benefıt plan (fınal salary scheme) contrıbutıons over the year ended 31 December 2009 were paid by members at a rate of 4%(mınımum) or 6% (voluntary) of pensıonable pay per annum (2008: 4% (mınımum) or 6% (voluntary)) and by the Company of 15% of pensıonable pay per annum (2008: 15%).

Pensıon costs for defıned contrıbutıon schemes are as follows:

	2009 £'000	2008 £'000
Defıned contrıbutıon schemes	3,019	2,818

19 Retirement benefit obligations (continued)

Defined benefit plans

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

	2009	2008	2006	2005	2004
Discount rate	5.75% pa	6 25% pa	5.70% pa	5.00% pa	4.75% pa
Salary growth	4.80% pa	4.10% pa	4 30% pa	4.40% pa	4.20% pa
RPI	3.80% pa	3 10% pa	3 30% pa	2 90% pa	2.70% pa
Pension-in payment increases	3.80% pa	3 10% pa	3 30% pa	2 90% pa	2.70% pa
Post retirement mortality assumption	PNMA00/ PNFA00(1)	PNMA00/ PNFA00(1)	PNMA00/ PNFA00(1)	PA92B85/ PA92B45(2)	PA92B85/ PA92B45(2)
Expected return on assets	7.50% pa	7 20% pa	7 00% pa	6.50% pa	6.30% 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. The expected return on assets for 2009 is 7.5%.

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% (2008: 15%) conversion rate since it is not expected that all employees will take the maximum cash lump sum.

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

Asset category	2009	2008	2006	2005	2004
Equities and hedge funds	68%	66%	70%	70%	75%
Bonds	25%	26%	25%	30%	23%
Other	7%	8%	5%	-	2%
Total	100%	100%	100%	100%	100%

19 Retirement benefit obligations (continued)

The amounts recognised in the balance sheet are determined as follows

	2009 £'000	2008 £'000
Fair value of plan assets	268,794	221,118
Present value of defined benefit obligation	(301,912)	(219,981)
(Liability)/ asset in the balance sheet	(33,118)	1,137

The amounts recognised in the income statement are as follows:

	2009 £'000	2008 £'000
Current service cost	5,360	7,439
Interest cost	13,682	14,137
Expected return on plan assets	(15,504)	(17,659)
Total included within employee benefit expenses (note 16)	3,538	3,917

Of the £3,538,000 (2008: £3,917,000), £75,000 (2008. £86,000) was recharged to other group entities and a further £106,000 (2008: £101,000) has been accrued/(released) in relation to the 2009 bonus and is included in other pension costs in Note 19.

Change in the defined benefit obligation:

	2009 £'000	2008 £'000
Present value of defined benefit obligation at start of year	219,981	248,824
Current service cost	5,360	7,439
Interest cost	13,682	14,137
Contributions by plan participants	2,118	2,271
Actuarial loss/(gain)	62,861	(50,651)
Benefit payments	(2,090)	(2,039)
Present value of defined benefit obligation at end of year	301,912	219,981

19 Retirement benefit obligations (continued)

Change in plan assets:

	2009 £'000	2008 £'000
Fair value of plan assets at start of year	221,118	254,197
Expected return on plan assets	15,504	17,659
Actual return less expected return on plan assets	26,578	(56,902)
Employer contributions	5,566	5,932
Plan participants' contributions	2,118	2,271
Benefit payments	(2,090)	(2,039)
Fair value of plan assets at end of year	268,794	221,118

Amount recognised in the statement of comprehensive income:

	2009 £'000	2008 £'000
Actuarial loss /(gain) on defined benefit obligation	62,861	(50,651)
Actual return less expected return on plan assets	(26,578)	56,902
Actuarial loss	36,283	6,251
Deferred tax on actuarial loss	(10,159)	(1,750)
Net actuarial loss recognised in the Statement of Comprehensive Income and Expense	26,124	4,501

Cumulative actuarial losses on the pension scheme amount to £63,942,000 (2008:£27,659,000), recognised directly in the statement of comprehensive income

The history of experience (gains)/ losses:

	2009	2008	2006	2005	2004
Experience gains/(losses) on plan assets (£'000)	26,578	(56,902)	(920)	(14,929)	(13,985)
Percentage of plan assets	9.89%	25.73%	0.36%	6.42%	7.14%
Experience losses/(gains) on plan obligation (£'000)	62,861	(50,651)	(22,940)	(6,860)	27,066
Percentage of plan obligation	20 82%	23.03%	9.22%	2.76%	11.59%
Fair value of plan assets (£'000)	268,794	221,118	254,197	232,612	195,755
Present value of plan obligation (£'000)	301,912	219,981	248,824	248,861	233,505
Surplus/(Deficit) (£'000)	(33,118)	1,137	5,373	(16,249)	(37,750)

19 Retirement benefit obligations (continued)

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 £33,118 (2008. £1,137,000)

The Company expects to contribute £6,521,000 to the group pension scheme in 2010.

20 Operating lease commitments – minimum lease payments

Commitments under non-cancellable operating leases expiring	2009 £'000	2008 £'000
Vehicles and Other assets		
- within one year	1,201	641
- two to five years	2,264	1,305
	3,465	1,946

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 2009, the Company was in a net overdraft position having taken cleared funds into account and therefore no contingent liability existed (2008 nil). 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 2009 the net deposit and cash position of the UK companies was £33,040,000 (2008: net loan and overdraft £8,975,000)

The total facility for the total UK group is £65million (2008: £65million).

22 Capital and other financial commitments

	2009 £'000	2008 £'000
Contracts placed for future capital expenditure not provided in the financial statements	409	2,437

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

23 Related party transactions

	2009 £'000	2008 £'000
Interest payable/(receivable) to/from related parties	-	-

	2009 £'000	2008 £'000
Sales of goods to related parties		
Fellow group undertakings	6,356	7,716
Sales of services to related parties		
Fellow group undertakings	177,446	150,509
Purchase of goods from related parties		
Fellow group undertakings	337,982	232,805
Purchase of services from related parties		
Fellow group undertakings	13,619	19,920
Interest payable/(receivable) to/(from) related parties		
Immediate parent	6,200	10,900
Fellow group undertakings	(1,800)	(7,900)
Fellow group undertakings	900	4,200
Movement in financing (to)/from related parties		
Immediate parent	17,000	(1,000)
Fellow group undertakings	-	(6,000)

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:

23 Related party transactions (continued)

	2009 £'000	2008 £'000
Receivables from related parties		
Fellow group undertakings	14,403	20,189
Payables to related parties		
Fellow group undertakings	1,713	1,922
Financing from related parties		
Immediate parent	68,000	51,000
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	2009 £'000	2008 £'000
Net profit	30,734	22,111
Adjustments for:		
Tax	6,928	7,676
Depreciation	10,037	10,641
Profit / (loss) on disposal of property, plant & equipment	290	(129)
Interest income	(4)	(313)
Interest expense	619	2,385
Foreign exchange differences	(395)	1,439
Non cash pension charge	(2,020)	(2,023)
Non cash share based compensation charge	2,919	2,990
Changes in working capital:		
(Increase) / decrease in inventories	(19,945)	6,705
Increase in trade and other receivables	(14,702)	(9,307)
Decrease in payables	(9,452)	(4,071)
Increase in provisions	7,933	217
Cash generated from continuing operations	12,942	38,321

Analysis of cash and cash equivalents		2009 £'000
Cash at bank and other liquid funds	4,316	4,668
Bank overdrafts (note 12)	-	(3,322)
	4,316	1,346

The carrying value of cash and cash equivalents approximates fair value

25 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.