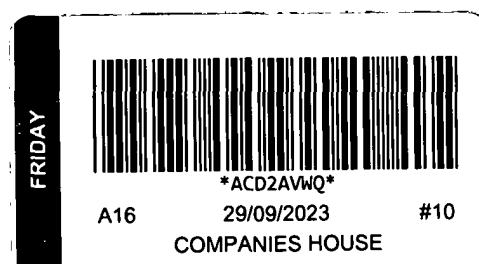


Novartis Pharmaceuticals UK Limited

Annual Report and Financial Statements for the year ended 31 December 2022

Registered no: 119006



Novartis Pharmaceuticals UK Limited

Annual Report and Financial Statements for the year ended 31 December 2022

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Novartis Pharmaceuticals UK Limited

Directors and Advisors

Directors

Jason Brooks
Chinmay Bhatt (Resigned 31 May 2022)
Roland Kreissig (Resigned 31 May 2022)
Marie-Andree Gamache (Appointed 29 June 2022)

Secretary

Richard Cullen (Resigned 20 July 2022)
Timothy Robinson (Appointed 20 July 2022)

Registered office

2nd Floor
The Westworks Building
White City Place
195 Wood Lane
London
W12 7FQ

Independent Auditors

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

Novartis Pharmaceuticals UK Limited

Strategic Report for the year ended 31 December 2022

The Directors present their Strategic Report of the Company for the year ended 31 December 2022.

Review of business and future developments

The results for the Company show a profit for the financial year of £24,321,000 (2021: £29,057,000) and turnover of £713,360,000 (2021: £782,893,000).

The Company had net assets of £144,383,000 as at 31 December 2022 (2021: £105,164,000). No dividends were paid in relation to the year ended 31 December 2022 (2021: £75,000,000).

In 2023, the Company will continue to drive sales in the strategic brands and recent launches within our existing portfolio. The Company will also be preparing to execute successful launches in the Oncology and Pharmaceutical therapeutic areas.

Principal risks and uncertainties

An inherent risk to the pharmaceutical industry is the entry of generic competition. In addition, the government continues to closely monitor pharmaceutical pricing and profitability, with pressure to control spending on NHS medicines.

The Company manages these risks by having a strong pipeline, ensuring that it brings innovative products to market and using competitive pricing strategies while closely monitoring costs.

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:

<u>KPI's</u>	2022	2021	Comments
Increase/(decrease) in turnover (%)	(8.9%)	14.9	Impacted by higher Government mandated rebates. VPAS rate changed from 5% in 2021 to 15% in 2022
Gross margin (%)	27.7	26.3	Driven by product mix and write-offs from Beovu and Leqvio
Market share (%)	5.6%	6.2	Market share is stable

Novartis Pharmaceuticals UK Limited

Strategic Report for the year ended 31 December 2022 (continued)

	2022	2021	
Number of new launches	2	4	Scemblix and Adakveo

Financial risk management

Price risk : The company is party to the Voluntary Scheme for Branded Medicines, Pricing and Access used by the UK Department of Health and Social Care in association with The Association of the British Pharmaceutical Industry which governs the prices of specific products supplied by the Company. The purpose of the scheme is to achieve a balance between reasonable prices for the NHS and a fair return for the pharmaceutical industry. The terms of the scheme is subject to change from time to time.

Credit risk: The Company has detailed procedures for monitoring and managing credit risk, including credit worthiness assessments for new customers and a regular review of the credit worthiness of existing customers.

Liquidity risk: The Company was in a strong position at year end with net current assets of £74,665,000 (2021: £59,758,000). Based on the above, liquidity risk is deemed to be low.

Foreign exchange risk: The Company has no significant foreign exchange exposure.

Interest rate and cash flow risk: The Company has both interest bearing assets and interest bearing liabilities. The Company employs the Novartis global cash pooling arrangement (variable rate linked to SONIA) as its banking facility. The risk is deemed to be low.

On behalf of the Board

DocuSigned by:

Jason Brooks

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J Brooks

Director

Date: 27-Sep-23 | 1:11:33 PM GMT

Novartis Pharmaceuticals UK Limited

Directors' Report for the year ended 31 December 2022

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2022. These financial statements are prepared under United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) in conformity with the requirement of the Companies Act 2006.

The financial risk management has been disclosed in the strategic report.

Directors

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

Jason Brooks
Chinmay Bhatt (Resigned 31 May 2022)
Roland Kreissig (Resigned 31 May 2022)
Marie-Andree Gamache (Appointed 29 June 2022)

Future developments

Commentary over future developments of the business has been included in the Strategic Report.

Going concern

The directors have considered the financial position of the company as at the balance sheet date, including the net assets of £144,383,000 and net current assets of £74,665,000. The company also has a broad customer base, and a strong history of profitable operations. There are no indications that this will not continue to be the case through the foreseeable future.

Noting the considerable financial resources available to the company, alongside the company's access to Novartis's global cash pooling arrangement, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, covering a period of at least 12 months from the issue of the financial statements. Therefore, they have prepared the financial statements on the going concern basis.

Research and development

The Company conducts clinical trials and undertakes other research and development activities aimed at developing new products and new processes. The amounts spent by the Company on research and development activities are shown in note 4.

Novartis Pharmaceuticals UK Limited

Directors' Report for the year ended 31 December 2022 (continued)

Charitable and political donations

Charitable donations of £29,700 (2021: £359,390) were made to local charities during the year. No political donations were made (2021: £Nil).

Dividends

No dividend was paid during the year (2021: £75,000,000). No final dividend were recommended (2021: £Nil).

Greenhouse Gas Emissions

The emission and energy consumption data is included in the parent's group (i.e. Novartis UK Limited) report. The Annual Reports and Accounts of the parent group can be obtained from Companies House

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.

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 2022 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 qualifying 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. It has been in place at any time during the financial year and at the date of approval of the Directors' Report.

Novartis Pharmaceuticals UK Limited

Directors' Report for the year ended 31 December 2022 (continued)

Statement in accordance with requirements of S172 Companies Act.

Section 172(1) of the Companies Act 2006 specifies that each director must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to :

- (a) the likely consequences of any decision in the long term,
- (b) the interests of the company's employees,
- (c) the need to foster the company's business relationships with suppliers, customers and others,
- (d) the impact of the company's operations on the community and the environment,
- (e) the desirability of the company maintaining a reputation for high standards of business conduct, and
- (f) the need to act fairly as between members of the company.

Novartis Group, as a global business, of which Novartis Pharmaceuticals UK Limited is a 100% subsidiary, has a culture of high standards of business conduct, which the directors ensure is maintained in the Company's operations. All employees are required to comply with a set of ethical principles, to ensure the business continues to operate to a high standard of behaviour - towards its shareholders, its customers, its employees, its suppliers, its communities and other stakeholders. Each employee is expected to keep up-to-date with these ethical principles, through business-led training, and the directors monitor compliance with the training requirements.

The directors ensure employees are kept up-to-date through streamed and recorded Town Halls, where employees are able to ask questions, or through e-mail to keep them informed on group performance as well as activities specific to Novartis Pharmaceuticals UK Limited. Employee pay is reviewed to ensure there are no gender pay gap for employees doing similar work. and employees are encouraged to share in the success of group through Employee Share Purchase Plan.

The directors strive to ensure that strong business relationships are maintained with customers, by working closely with them to identify their needs, to maximise potential for further contracts, and with suppliers, to try ensure the company receives goods and services on the best terms possible. The directors monitor payment performance to the Company's suppliers, to ensure the Company exceeds the requirements of the Prompt Payment Code, and to demonstrate in our published performance statistics continuing compliance with fair payment policies.

When evaluating new contracts or agreements or changes in business operations, the Directors bear in mind both short- and long-term implications, including any impact on community or environment if relevant, to maximise value of the business to its shareholders and maintain the company/group reputation for high standards.

The Directors consider they have complied with the requirements of S172(1).

Novartis Pharmaceuticals UK Limited

Directors' Report for the year ended 31 December 2022 (continued)

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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 estimates that are reasonable and prudent ;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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 responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Statement of disclosure of information to auditors

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditor

KPMG LLP has been appointed as the Company's auditor for the year ended 31 December 2023 in accordance with section 485 of the Companies Act 2006. PricewaterhouseCoopers LLP resigned as the Company's auditor in 2022 following completion of its procedures on the financial statements for the financial year ending 31 December 2021.

Novartis Pharmaceuticals UK Limited

On behalf of the Board

DocuSigned by:

Jason Brooks

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J Brooks

Director

Date: 27-Sep-23 | 1:11:33 PM GMT

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NOVARTIS PHARMACEUTICALS UK LIMITED

Opinion

We have audited the financial statements of Novartis Pharmaceuticals UK Limited ("the Company") for the year ended 31 December 2022 which comprise the Profit and Loss Account, Statement of Comprehensive Income, Balance Sheet, Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2022 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for the going concern period.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of management as to the Company’s high-level policies and procedures to prevent and detect fraud, and the Novartis Group’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board minutes.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit

Fraud risks

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. We did not identify any additional fraud risks.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. These included, for example, those posted by users not expected to post journals and those containing unusual journal descriptions.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the management (as required by auditing standards), and from inspection of the Company’s regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

Risk communications

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

Firstly, the Company is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation (direct and indirect). We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Company is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: accounting standards regulations, anti-bribery, employment law. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and inspection of regulatory and legal correspondence, if any. Therefore, if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement

when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



Heidi Broom-Hirst (Senior Statutory Auditor)

for and on behalf of

KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London, E14 5GL

27 September 2023

Novartis Pharmaceuticals UK Limited

Profit and Loss Account for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Turnover	3	713,360	782,893
Cost of sales		(515,446)	(576,697)
Gross profit		197,914	206,196
Administrative expenses		(28,340)	(24,962)
Selling and marketing costs		(132,370)	(139,028)
Research and development costs		(19,063)	(14,748)
Other operating income		16,556	19,414
Operating profit	4	34,697	46,872
Interest payable and similar expenses	5	(1,333)	(734)
Profit before taxation		33,364	46,138
Tax on profit	6	(9,043)	(17,081)
Profit for the financial year		24,321	29,057

The notes on pages 18 to 47 are an integral part of these financial statements.

Novartis Pharmaceuticals UK Limited

Statement of Comprehensive Income for the year ended 31 December 2022

	Note	2022 £'000	2021 £'000
Profit for the financial year		24,321	29,057
<i>Items that will not be reclassified to profit or loss:</i>			
Actuarial gain/(loss) on pension obligation	16	16,423	26,192
Deferred tax on actuarial gain	16	(4,106)	(6,548)
ssImpact of rate change on pension related deferred tax		-	9,718
Total other comprehensive income		12,317	29,362
Total comprehensive income		36,638	58,419

The notes on pages 18 to 47 are an integral part of these financial statements.

Novartis Pharmaceuticals UK Limited

Balance Sheet as at 31 December 2022

	Note	2022 £'000	2021 £'000
Non-current assets			
Tangible assets	7	5,469	5,667
Lease Right-of-use of assets	9	15,978	18,499
Investments	8	28,100	28,100
Deferred tax asset	10	-	1,236
Pension surplus	16	45,968	12,277
		95,515	65,779
Current assets			
Stocks	11	228,081	135,212
Debtors	12	114,980	143,233
		343,061	278,445
Current liabilities			
Financial liabilities: borrowings	13	45,082	35,152
Lease liabilities	9	3,484	3,480
Creditors	14	214,839	173,384
Provisions for liabilities	15	4,991	-
Current tax liability		-	6,671
		268,396	218,687
Net current assets		74,665	59,758
Non Current liabilities			
Retirement benefit liability	16	-	-
Lease liability	9	16,450	19,047
Provisions for liabilities	15	80	1,326
Deferred tax liability	10	9,267	-
		25,797	20,373
Net assets		144,383	105,164
Capital and reserves			
Called up share capital	17	5,400	5,400
Share option recharge reserve		(672)	(3,253)
Profit and loss account		139,655	103,017
Total shareholders' funds		144,383	105,164

The notes on pages 18 to 47 are an integral part of these financial statements.

The financial statements of Novartis Pharmaceuticals UK Limited (registered no: 119006) on pages 14 to 47 were approved by the Board of Directors on 27 September 2023 and were signed on its behalf by:

DocuSigned by:

Jason Brooks

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J Brooks
Director

Novartis Pharmaceuticals UK Limited

Statement of Changes in Equity for the year ended 31 December 2022

	Called up Share capital	Share option recharge reserve	Profit and loss account	Total shareholders' fund
	£'000	£'000	£'000	£'000
Balance at 1 January 2021	5,400	(2,895)	119,598	122,103
Profit for the year	-	-	29,057	29,057
Other comprehensive income	-	-	29,362	29,362
Total comprehensive income for the year	-	-	58,419	58,419
Dividends	-	-	(75,000)	(75,000)
Share options	-	(358)	-	(358)
Total transactions with owners recognised in equity	-	(358)	(75,000)	(75,358)
Balance at 31 December 2021	5,400	(3,253)	103,017	105,164
Balance at 1 January 2022	5,400	(3,253)	103,017	105,164
Profit for the year	-	-	24,321	24,321
Other comprehensive income	-	-	12,317	12,317
Total comprehensive income for the year	-	-	36,638	36,638
Dividends	-	-	-	-
Share options	-	2,581	-	2,581
Total transactions with owners recognised in equity	-	2,581	-	2,581
Balance at 31 December 2022	5,400	(672)	139,655	144,383

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 share options and any recharges made by the parent company in respect of options granted are expensed over the vesting period of the options with the corresponding amount being taken to share option reserve.

The notes on pages 18 to 47 are an integral part of these financial statements.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022

1 Principal accounting policies

General information

Novartis Pharmaceuticals UK Limited (the “Company”) is a private limited company incorporated, domiciled and registered in England in the UK. The registered number is 119006 and the registered address is 2nd Floor, The Westworks Building, White City Place, 195 Wood Lane, London, United Kingdom, W12 7FQ

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”).

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of UK-adopted international accounting standards (“UK-adopted IFRS”), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.”

The Company is a qualifying entity for the purposes of FRS 101. Note 20 gives details of the Company’s ultimate parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained.

The Company has adopted the intermediate parent exemption under section 401 of the Companies Act 2006, whereby it is not required to prepare consolidated financial statements as the ultimate parent company prepares publicly available consolidated financial statements in accordance with IFRS.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- Cash Flow Statement and related notes;
- Certain disclosures regarding revenue;
- Certain disclosures regarding leases;
- Comparative period reconciliations for [share capital, tangible fixed assets, intangible assets and investment properties];
- Disclosures in respect of transactions with wholly owned subsidiaries ;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs;
- Disclosures in respect of the compensation of Key Management Personnel;
- Disclosures of transactions with a management entity that provides key management personnel services to the Company; and
- Disclosures required by IFRS 5 Non-current Assets Held for Sale and Discontinued Operations in respect of the cash flows of discontinued operations.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements For the year ended 31 December 2022 (continued)

Basis of preparation (continued)

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.

Going concern

The directors have considered the financial position of the company as at the balance sheet date, including the net assets of £144,383,000 and net current assets of £74,665,000. The company also has a broad customer base, and a strong history of profitable operations. There are no indications that this will not continue to be the case through the foreseeable future.

Noting the considerable financial resources available to the company, alongside the company's access to Novartis's global cash pooling arrangement, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future, covering a period of at least 12 months from the issue of the financial statements. Therefore, they have prepared the financial statements on the going concern basis.

The financial statements have been prepared under the historical cost convention. A summary of the more important accounting policies is set out below.

Turnover

Turnover represents amounts received for packaged drugs sold primarily in the UK, net of trade discounts, rebate provisions, VAT and other related taxes.

All turnover is recognised at the date of delivery when the contractual promise to a customer (performance obligation) has been fulfilled by transferring control over the promised goods to the customers.

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.

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.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements

for the year ended 31 December 2022 (continued)

1 Principal accounting policies (continued)

Research and development

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

Leases

As lessee, the Company assesses whether a contract contains a lease at inception of a contract and upon a modification of a contract. The Company elected to allocate the consideration in the contract to the lease component and non-lease component on the basis of its relative stand-alone price.

The Company recognizes a right-of-use asset and a corresponding lease liability for all arrangements in which it is a lessee, except for leases with a term of twelve months or less (short-term leases) and low value leases. For these short-term and low value leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease. The Company does not include property or vehicle leases within the classification of low value leases. Cash flows for such leases are recognized in cash flows from operating activities.

The lease liability is initially measured at the present value of the future lease payments as from the commencement date of the lease to end of the lease term. Where present, if it is highly probable that a lease extension option is to be taken, the option period is included within the lease term and thus, the lease liability. The lease payments are discounted using the interest rate implicit in the lease or, if not readily determinable, the Novartis incremental borrowing rate for the asset subject to the lease in the respective markets. Cash flows for repayment of lease liabilities are recognized in cash flows used in financing activities, whilst cash flows for payment of interest are included in cash flows from operating activities.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever there is, a change to the lease terms or expected payments under the lease, or a modification that is not accounted for as a separate lease.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements

for the year ended 31 December 2022 (continued)

1 Principal accounting policies (continued)

Leases (continued)

The right-of-use assets are initially recognized on the balance sheet at cost, which comprises the amount of the initial measurement of the corresponding lease liability, adjusted for any

lease payments made at or prior to the commencement date of the lease, any lease incentive received and any initial direct costs incurred by Novartis, and expected costs for obligations to dismantle and remove right-of-use assets when they are no longer used.

Right-of-use assets are depreciated on a straight-line basis from the commencement date of the lease over the shorter of the useful life of the right-of-use asset or the end of the lease term. Right-of-use assets are assessed for impairment whenever there is an indication that the balance sheet carrying amount may not be recoverable using cash flow projections for the useful life.

Tangible assets

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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within Other Operating Income/Administrative Expenses in the profit and loss account.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements

for the year ended 31 December 2022 (continued)

1 Principal accounting policies (continued)

Investments

Investments are stated at cost unless, in the opinion of the Directors, an impairment in the value of the investment has occurred. In these circumstances the investment is stated at its written down value and the related impairment is charged to the Profit and Loss Account. Directors perform an impairment review annually.

Inventories

Inventory is valued at the lower of acquisition or production cost determined on a first-in, first-out basis and net realizable value. This value is used for the "Cost of goods sold" in the consolidated income statement. Unsaleable inventory is fully written off in the consolidated income statement under "Cost of goods sold."

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

Trade and other receivables

Debtors are recognised initially at their invoiced amounts, including any related sales taxes less adjustments for estimated revenue deductions such as rebates, chargebacks and cash discounts.

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 Profit and Loss Account within 'Selling and marketing costs'.

When a debtor is uncollectible, it is written off against the allowance account for debtors. Subsequent recoveries of amounts previously written off are credited against 'Selling and marketing costs' in the Profit and Loss Account. Provisions for expected credit losses are established using an expected credit loss model (ECL). The provisions are based on a forward-looking ECL, which includes possible default events on the trade receivables including amounts owed by fellow group undertakings over the entire holding period of the trade receivables. These provisions represent the difference between the trade receivable's carrying amount in the Balance Sheet and the estimated collectible amount.

Cash at bank and in hand

Cash at bank and in hand comprise deposits with banks. In the Balance Sheet, bank overdrafts are included in borrowings in current liabilities.

Employee benefit

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

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements

for the year ended 31 December 2022 (continued)

1 Principal accounting policies (continued)

Employee benefit costs (continued)

The 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.

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 Employee Benefits, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in full as they arise, outside of the Profit and Loss Account. They are presented in the Statement of Comprehensive Income, with the exception of gains and losses arising from changes in the benefits regarding past services, which are recognised in the Profit and Loss Account.

Past service costs are recognised immediately in the Profit and Loss Account.

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 and other payables

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

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements

for the year ended 31 December 2022 (continued)

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.

Provisions for liabilities

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.

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

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.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative, or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements

for the year ended 31 December 2022 (continued)

1 Principal accounting policies (continued)

Deferred taxation

Deferred 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 financial statements. However, the deferred 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 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 tax asset is realised or the deferred income tax liability is settled.

Deferred 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 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 tax assets and liabilities relate to 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 capital

Ordinary shares are classified as equity.

Share-based payments

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.

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 Profit and Loss Account.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

2 Critical accounting estimates and judgements

The Company makes estimates and judgements 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 factors, 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 are addressed below:

2.1 Employee benefits

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, inflation rates and mortality rates.

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.

There is also significant judgement around the valuation of the unquoted pension asset for which the most recent available valuations at the time of approving these financial statements are valuations from the relevant fund managers as at 30 November 2022. That valuation is used, adjusted for any cash movements and rolled forward as appropriate using a suitably-correlated index where one is available.

Other key assumptions and sensitivity analysis for pension obligations are based in part on current market conditions, additional information is disclosed in note 16.

2.2 IFRS 16 leases

The application of IFRS 16 involves the use of several estimates by management which can impact both the performance of the company reported in income statement and the financial position of the company presented in the balance sheet. Such estimates include, but are not limited to, the incremental borrowing rate of the company, estimated lease length and assessing the impact of the lease break clauses and extension.

Novartis Pharmaceuticals UK Limited

3 Turnover

The Directors consider that the operations of the Company fall into one business class, being the sale of goods. All turnover originates in and is destined for the UK market.

	2022 £'000	2021 £'000
Sale of goods	713,360	782,893
	713,360	782,893

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

4 Operating Profit

	2022 £'000	2021 £'000
The following items have been charged in arriving at operating profit:		
Selling and marketing costs	132,370	139,028
Research and Development (included in other operating income)	19,063	14,748
Administrative expenses	28,340	24,962
Loss on disposal of property, plant, and equipment	5,119	-
Depreciation on right of use of assets	3,707	3,883
Audit fees payable to the Company auditors		
- Audit services	332	283

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.

5 Interest payable and similar expenses

	2022 £'000	2021 £'000
Interest payable on bank overdraft and loans	(10)	(4)
Interest payable on other loans	(848)	(177)
Lease liability interest	(488)	(553)
Interest payable	(1,346)	(734)
Interest receivable on loans to group undertakings	13	-
Interest receivable	13	-
Net interest expense	(1,333)	(734)

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

6 Tax on profit

Analysis of charge in the year	2022 £'000	2021 £'000
Current tax - continuing operations		
- UK corporation tax on profit of the year	2,413	5,597
- Adjustments in respect of prior years	233	160
Total current tax	2,646	5,757
Gyroscope tax losses utilised	(2,646)	-
Total current tax liability after tax losses utilised	-	5,757

Deferred tax		
Origination and reversal of timing differences (accelerated capital allowances and other)	5,256	11,067
Adjustment in respect of prior years	1,141	257
Total deferred tax (note 10)	6,397	11,324
Total tax charge	9,043	17,081

Tax on items credited to equity	2022 £'000	2021 £'000
Deferred Tax on Actuarial gains/(losses)	4,106	(3,170)

The charge for the year can be reconciled to the profit per the profit and loss account as follows:

	2022 £'000	2021 £'000
Profit before taxation	33,364	46,138
Profit before taxation multiplied by effective rate of corporate tax in the UK of 19% (2021: 19%)	6,339	8,766
Effects of:		
Expenses not deductible for tax purposes	59	(681)
Deferred tax on actuarial posted to Profit and Loss	-	7,921
Effects of rate changes	1,272	658
Adjustments in respect of prior years – income tax	233	160
Adjustments in respect of prior years – deferred tax	1,141	257
Total charge for the year	9,043	17,081

Factors that may affect future tax charge:

An increase to the main rate of UK corporation tax to 25% (from 19%) with effect from 1 April 2023 was substantively enacted on 24 May 2021 and received Royal Assent on 10 June 2021. Where relevant, the deferred tax balances have been calculated using the applicable blended tax rate based upon when these temporary differences are expected to unwind.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

7 Tangible Assets

	Freehold Land	Buildings	Plant, Machinery & Equipment	Assets Under Construction	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 January 2022	-	6,175	9,068	123	15,366
Additions at Cost	-	-	907	-	907
Transfers	-	-	119	(119)	-
Disposals	-	-	(6,848)	-	(6,848)
At 31 December 2021	-	6,175	3,246	4	9,425
Accumulated Depreciation					
At 1 January 2022	-	(1,280)	(8,419)	-	(9,699)
Depreciation charge	-	(646)	(454)	-	(1,100)
Disposals	-	-	6,843	-	6,843
At 31 December 2022	-	(1,926)	(2,030)	-	(3,956)
Net Book Value					
31 December 2021	-	4,895	649	123	5,667
31 December 2022	-	4,249	1,216	4	5,469

Included in tangible assets are the following:

- (a) Capitalised interest at cost amounting to £nil (2021: £nil)
- (b) Assets with a cost of £ 1,483,850 (2021: £7,101,844) are fully depreciated but still in use.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

8 Investments

Investments

The investment in subsidiary undertakings is made up as follows:

	2022	2021
	£'000	£'000
Investment at 1 January and 31 December	28,100	28,100

	% of Voting rights and Issued Share capital (ordinary shares)	Nature of Business	Registered Office
Neutec Pharma Limited	100%	Non-trading	2 nd Floor, The Westworks Building, White City Place, 195 Wood Lane, London W12 7FQ

The Directors have concluded that the carrying value of the investment is supported by its underlying assets.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

9 Leases

The company has lease contracts and the amounts recognized in the financial statements in relation to the leases are as follows:

(i) Amounts recognised in the balance sheet

Right of use of assets	2022 £'000	2021 £'000
Buildings	13,718	15,911
Vehicles	2,260	2,588
As at 31 December	15,978	18,499

Lease liability	2022 £'000	2021 £'000
Current	3,484	3,480
Non-Current	16,450	19,047
	19,934	22,527

(ii) Amounts recognised in the income statement

	2022 £'000	2021 £'000
Depreciation charge of right of use of assets		
Buildings	2,193	2,193
Vehicles	1,514	1,690
	3,707	3,883

Interest Expenses

	2022 £'000	2021 £'000
Interest expenses	488	553
	488	553

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

9 Leases (continued)

Future minimum lease payments as at 31 December are as follows:	2022 £'000	2021 £'000
Not later than one year	3,910	3,954
Later than one year and not later than five years	13,350	13,145
Later than five years	4,084	7,251
Total gross payments	21,343	24,350
Impact of finance expenses	(1,409)	(1,823)
Carrying amount of liability	19,934	22,527

The total cash outflow for leases in 2022 was £4,141,000 (2021: £3,679,000).

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements

for the year ended 31 December 2022 (continued)

10 Deferred tax assets

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior year.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year 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.

The movement in deferred tax assets is as follows:	2022	2021
	£'000	£'000
At 1 January	(1,236)	(9,390)
Profit and loss account charge	6,397	11,324
Deferred tax loss/(gain) on actuarial (gain)/loss	4,106	6,548
Impact of rate change on pension related deferred tax	-	(9,718)
At 31 December	9,267	(1,236)

The movement in deferred tax assets and liabilities during the year without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

Deferred tax assets	Accelerated tax depreciation £'000	Retirement benefit obligation £'000	Share Options £'000	Total £'000
At 1 January 2021	(901)	(6,206)	(2,283)	(9,390)
(Credited)/charged to the income statement	(87)	11,933	(522)	11,324
Credited directly to other comprehensive income	-	(3,170)	-	(3,170)
At 31 December 2021	(988)	2,557	(2,805)	(1,236)
(Credited)/charged to the income statement	891	4,317	1,189	6,397
Charged directly to other comprehensive income	-	4,106	-	4,106
At 31 December 2022	(97)	10,980	(1,616)	9,267

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

11 Stocks

	2022 £'000	2021 £'000
Materials and consumables	48	32
Finished goods	240,327	138,516
Write down provision	(12,294)	(3,336)
	228,081	135,212

The Company consumed £422,577,000 (2021: £600,794,000) of stocks during the year.

12 Debtors

Amounts falling due within one year:	2022 £'000	2021 £'000
Trade debtors (financial assets)	99,414	110,375
Less: Provision for impairment of trade debtors	(38)	(345)
Net trade debtors	99,376	110,030
Amounts owed by fellow group undertakings	6,378	29,593
Other receivables	575	1,495
Prepayments and accrued income	8,651	2,115
Total trade and other debtors	114,980	143,233

Concentrations of credit risk with respect to trade debtors 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 debtors.

All debtors are stated at book value which approximates to fair value and are denominated in pounds.

Amounts owed by fellow group undertakings were charged interest based on SONIA plus 25 basis points which at 31 December 2022 was 3.68 % (2021: 0.44%).

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

13 Financial liabilities: borrowings

	2022 £'000	2021 £'000
Current		
Unsecured loans from group undertakings due within one year or on demand	45,082	35,152
Total financial liabilities - borrowings	45,082	35,152

The Company is party to a composite cross guarantee arrangement in relation to the bank overdrafts, as referred to in note 19. The balance above relates to a group cash pooling arrangement.

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.

Novartis Pharmaceuticals UK Limited has access to Group Composite facility of £11,000,000. Novartis Pharmaceuticals has utilised £430,000 of the total credit limit.

14 Creditors

	2022 £'000	2021 £'000
Trade creditors (financial liability)	29,585	30,271
Amounts owed to fellow group undertakings (financial liability)	83,574	44,346
Other tax and social security payable	28,033	31,615
Other creditors (financial liability)	11,355	2,442
Accrued share based payment	1,471	736
Accruals and other liabilities (financial liability)	60,821	63,974
	214,839	173,384

Creditors are stated at book value which approximates to their fair value. 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 creditors subject to different terms. The Company has no derivative financial liabilities.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements

for the year ended 31 December 2022 (continued)

14 Creditors (continued)

The above creditors including amounts owed to fellow group undertakings are due within one year based on the remaining period at the balance sheet date 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. These balances are unsecured and a rate of 0.50% interest is applied.

15 Provisions for liabilities

	Post Retirement Medical Benefit	Restructuring	Dilapidation	Total
	£'000	£'000	£'000	£'000
At 1 January 2022	282	-	1,044	1,327
Additional provisions	-	3,915	32	3,947
Write back in the year	17	-	-	17
Paid in the year	(219)	-	-	(219)
At 31 December 2022	80	3,915	1,076	5,072

Analysis of total provisions for liabilities:

	2022 £'000	2021 £'000
Current	5,072	-
Non-current	-	1,326
Total	5,072	1,326

16 Employee Benefits

The Company participates in the defined benefit and defined contribution pension schemes for the UK employees of the wider Novartis Group, with assets held in a separately administered fund. The defined benefit costs and contributions attributable to the Company are calculated on a pro-rata basis on employee numbers. Willis Towers Watson are the actuarial advisors to the Company. All actuarial gains and losses are recognised through the Statement of comprehensive income, with the exception of gains and losses arising from changes in the benefits regarding past services, which are recognised in the profit and loss account. The Company's liabilities are in respect of former employees.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

16 Employee Benefits (continued)

Allocation of plan assets between companies within the Novartis UK Pension Scheme

The total assets of the scheme were initially pro-rated to each employer on the introduction of changes in IAS19 based on defined benefit obligation at that time. The first year this applied for the statutory financial statements of the Company was year ending 31 December 2004. Those assets are then rolled forward each year allowing for a share of overall scheme asset returns, contributions attributed to that division and a proportion of overall Scheme benefit payments based on a divisional split of liability information provided by the Scheme Actuary. Assets previously belonging to employers who have left the scheme are allocated to Novartis UK Limited.

Allocation of defined benefit obligation between employers in the Novartis UK Pension Scheme

The split of defined benefit obligation is based upon the latest actuarial funding valuation results, which for the year-end 31 December 2022 is the 31 December 2021 valuation. Any deferred or pensioner members who cannot be allocated to any currently participating division have been assigned to Novartis UK Limited.

The defined benefit obligation for each division is projected forward by adding interest on the opening defined benefit obligation, less a share of the benefit payments. Benefit payments from the Scheme are not recorded by division and, therefore, a pro-rata approach is taken based upon the total defined benefit obligation at the start of the year from the valuation split by division and member status. As the Scheme is closed to future accrual, there is no service cost over 2022 (2021: nil). Net interest cost for 2022 is calculated by applying the discount rate to the end of 2021 defined benefit obligation and plan assets respectively that are applicable to each division.

The formal rules of the scheme give Companies the unconditional right to any surplus once all participants have received their benefits in full and the scheme is wound-up. Although the allocation of the surplus between the Companies would be decided by the scheme trustee at that time, the participating employers have agreed through their allocation policy that the final allocation would align with the reported surplus position in each Company's financial statements.

Pension costs for defined contribution schemes are as follows:

	2022	2021
	£'000	£'000
Defined contribution schemes	6,028	6,564

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

16 Employee Benefits (continued)

Defined benefit plans

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

	2022	2021
	%pa	%pa
Discount rate	4.80%	1.75%
Consumer Prices Index	2.70%	2.80%
Salary growth	n/a ⁽²⁾	n/a ⁽²⁾
Retail Price Index	3.20%	3.30%
Pension-in payment increases	3.20%	3.30%
Post retirement mortality assumption	99.0% of S3PMA/97. 0% of S3PFA_M	97.0% of S3PMA/94. 0% of S3PFA_M
Current life expectancy for a 65 year old male/female	21.8/23.8	22.4/24.4

⁽¹⁾ The mortality assumptions reflect the analysis carried out by the Scheme Trustee's actuary in preparation for the Scheme's actuarial funding valuation as at 31 December 2021, but with the margin for prudence removed. The base mortality table is S3PMA for males and S3PFA_M for females (with a multiplier of 99.0%/97.0% applied to mortality rates for males/females respectively). Mortality improvements are assumed to be in line with the CMI_2021 default projections from 2013 onwards, converging to 1.25% pa with a smoothing parameter of 7.0.

⁽²⁾ Following the closure of the scheme, pension payments are linked to RPI rather than salary growth and hence this measure is no longer applicable.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

16 Employee Benefits (continued)

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% (2021: 19%) conversion rate since it is not expected that all employees will take the maximum cash lump sum.

Changes in the actuarial assumptions can result in significant volatility in the accounting for the Company's pension obligations. This can result in substantial changes in the Company's recognised gains and losses and long-term liabilities and pension costs.

The defined benefit obligation (DBO) is significantly impacted by assumptions regarding the rate that is used to discount projected benefit payments. This rate is based on yields of high quality corporate bonds. An increase in bond yields will lead to higher discount rates which in turn will result in a lower DBO.

The impact of decreasing interest rates on scheme assets is more difficult to predict. A significant portion of scheme assets is invested in bonds. Bond values usually rise when interest rates decrease and may, therefore, partially compensate for the decrease in funded status.

The expected rate for pension increases, which in turn depends on the expected rate of future inflation, significantly affects the DBO. Higher expected pension increases decrease the funded status. A proportion of the scheme assets are hedged against changes in the expected rate of future inflation. For the remaining assets, in the short-term, there is no strong correlation between the value of the scheme assets and pension/inflation increases.

Assumptions regarding life expectancy significantly impact the DBO with an increase in expected longevity increasing the DBO. There is no offsetting impact from the plan assets as no longevity bonds or swaps are held by the pension scheme. The assumptions allow for anticipated future improvements in longevity.

The following table shows the sensitivity of the Company's DBO to the main actuarial assumptions for its participation in the Novartis UK Pension Scheme on an aggregated basis which is being allocated to Novartis Pharmaceuticals UK Limited based on the number of its employees and individual pension schemes:

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

16 Employee Benefits (continued)

	2022 £'000	2021 £'000
Change in year end defined benefit obligation		
25 basis point increase in discount rate	(19,533)	(44,309)
25 basis point decrease in discount rate	20,712	46,864
1 year increase in life expectancy	17,651	37,084
25 basis point increase in rate of pension increase	15,994	26,505
25 basis point decrease in rate of pension increase	(16,999)	(37,762)

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

	2022			2021		
	Quoted market priced in active market	No quoted market price in active market	% Allocation	Quoted market priced in active market	No quoted market price in active market	% Allocation
	£m	£m		£m	£m	
Fixed Income	444.1	39.5	83.4%	790.7	47.8	90.8%
Real Estate	-	71.4	12.3%	-	79.8	8.6%
Others	5.0	19.5	4.2%	2.8	2.1	0.5%
Total	449.1	130.4	100%	793.5	129.7	100%

Others include cash and liquidity fund

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

	2022 £'000	2021 £'000
Fair value of plan assets	579,503	923,165
Present value of defined benefit obligation	(533,535)	(910,888)
Net surplus/(deficit) in the balance sheet	45,968	12,277

The Directors have recognised the pension asset as at the year-end of £45,968,000 (2021: £12,277,000) as the Company has received legal advice which interprets the rules of the Scheme as giving the Company the unconditional right to any surplus once all participants have received their benefits in full and the Scheme is wound-up.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements

for the year ended 31 December 2022 (continued)

16 Employee Benefits (continued)

Due to large movements in bond yields (up c.240bps over 11 months to 30 November 2022) and current high levels of inflation, the Company saw significant movements in both the gross defined benefit obligation and fair value of plan assets over the year. For the Novartis UK Pension Scheme, the company saw a 41% reduction in the gross amount of defined benefit obligation and a 37% decrease in fair value of plan assets year on year.

The amounts recognised in the profit and loss account are as follows:

	2022 £'000	2021 £'000
Administrative cost	1,216	1,015
Interest cost	15,785	11,604
Interest income on plan assets	(16,158)	(11,336)
Total	843	1,283

Change in the defined benefit obligation:

	2021 £'000	2021 £'000
Present value of defined benefit obligation at start of year	910,888	935,987
Administrative cost	1,216	1,015
Interest paid	15,785	11,604
Actuarial (gain)/loss	(368,856)	(13,974)
Benefit payments	(25,498)	(23,744)
Present value of defined benefit obligation at end of year	533,535	910,888

Change in plan assets:

	2022 £'000	2021 £'000
Fair value of plan assets at start of year	923,165	906,024
Interest income on plan assets	16,158	11,336
Actual return less expected return on assets	(352,433)	12,218
Employer contributions	18,111	17,331
Benefit payments including administrative cost	(25,498)	(23,744)
Fair value of plan assets at end of year	579,503	923,165

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

16 Employee Benefits (continued)

Amount recognised in the Statement of Comprehensive Income:

	2022 £'000	2021 £'000
Actuarial gain/(loss) on defined benefit obligation	368,856	13,974
Actual return less expected return on assets	(352,433)	12,218
Net Actuarial gain/(loss)	16,423	26,192
Deferred tax on actuarial gain/(loss)	(4,106)	(6,548)
Net actuarial gain/(loss) recognised in the Statement of comprehensive income	12,317	19,644

The history of experience gains/(losses):

	2022	2021	2020	2019	2018
Experience gains/(losses) on plan assets (£'000)	(352,433)	12,218	100,513	194,242	(16,221)
Percentage of plan assets (%)	(60.82%)	1.32%	11.09%	22.95%	(2.66)%
Experience gains/(losses) on plan liabilities (£'000)	368,856	13,974	(102,631)	(204,241)	22,167
Percentage of plan obligation (%)	69.13%	1.53%	(10.97)%	(24.20)%	3.44%
Fair value of plan assets (£'000)	579,503	923,165	906,024	800,574	609,128
Present value of plan obligation (£'000)	533,535	910,888	935,987	843,936	643,759
Surplus/(deficit) (£'000)	45,968	12,277	(29,963)	(43,362)	(34,631)

The liabilities of the scheme are gradually settled over time until all members have left.

The Company expects to contribute £18,759,000 to the Group pension scheme in 2023 (2022: £18,052,000).

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

17 Called up share capital

Authorised	2022	2021
	£'000	£'000
6,000,000 (2021: 6,000,000) ordinary shares of £1 each	6,000	6,000
	6,000	6,000

Issued and fully paid	2022		2021	
	No. of shares	£'000	No. of shares	£'000
Ordinary shares of £1 each	5,400,000	5,400	5,400,000	5,400
	5,400,000	5,400	5,400,000	5,400

18 Employees and Directors

Employee benefit expenses during the year	2022	2021
	£'000	£'000
Wages and salaries	92,380	80,502
Share based payments	4,119	3,413
Social security costs	13,831	10,926
Other pension costs - defined contribution plans (note 16)	6,028	6,564
Other pension costs - defined benefit plans (note 16)	1,216	1,283
	117,574	102,688

Average monthly number of people employed (including executive directors)	2022	2021
	Number	Number
Research and development	264	230
Administration and marketing	654	639
	918	869

Directors aggregate emoluments	2022	2021
	£'000	£'000
Aggregate emoluments	2,791	3,595
Company contributions to directors' pension	107	206
	2,898	3,801

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

18 Employees and Directors (continued)

No Director (2021: none) who is remunerated in the UK exercised options and 4 Directors (2021: 4) received shares under a long term incentive scheme in 2022.

Aggregate emoluments for the highest paid Director were £520,853 (2021: £1,553,455). The accrued pension for the highest paid Director was £ nil (2021: £ nil) per annum under the defined benefit scheme and £44,219 (2021: £ nil) accrued lump sum under the money purchase scheme at the end of the year. Share options exercised by the highest paid Director were £nil (2021: £ nil). No shares were received by the highest paid Director in respect of qualifying services under a long-term incentive scheme during the year (2021: 5,883).

No Director (2021: None) is accruing benefits under the ultimate parent company's defined benefit scheme, the costs of which are recharged to the Company. No Directors (2021: none) are accruing benefits under defined contribution schemes.

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 £150 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.

General employee share plans

The Incentive Conversion Plan provides incentive for certain employees where 50% of the annual bonus can be converted to shares. All options were granted at an exercise price which was equal to or greater than the market price of the Groups shares at the grant date. In 2022 employees received 2,456 (2021: 2,807) shares under the scheme.

The market value of the shares held in trust at year end was £14,044,905 (2021: £12,470,643).

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

18 Employees and directors (continued)

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 2022 profit and loss account related to the general employee share plans amounted to £4,119,000 (2021: £3,413,000).

The weighted average exercise price for options that were sold or exercised in the year was CHF 61.7 (2021: 58.7).

The following table summarises information about the share options outstanding at 31 December:

2022

Range of exercise prices CHF	<u>Options Outstanding</u>		Weighted average exercise price	<u>Options exercisable</u>	
	Number outstanding	Weighted average remaining contractual life		Number exercisable	Weighted average exercise price
60 - 69	18,443	0.04	61.70	18,443	61.70
Total	18,443	0.04	61.70	18,443	61.70

2021

Range of exercise prices CHF	<u>Options Outstanding</u>		Weighted average exercise price	<u>Options exercisable</u>	
	Number outstanding	Weighted average remaining contractual life		Number exercisable	Weighted average exercise price
50 - 59	19,373	0.50	54.20	19,373	54.20
60 - 69	29,769	2.00	61.70	29,769	61.70
Total	49,142	1.25	58.74	49,142	58.74

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.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements

for the year ended 31 December 2022 (continued)

19 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 certain of its fellow UK group companies. The contingent liability is limited to the net positive cash position of the Company's own HSBC bank accounts of £Nil (2021: £Nil), to the extent that it is required to cover the total liabilities of the group companies who are party to the cross guarantee.

The maximum total potential liability for the UK group companies who are party to the cross guarantee is limited to their total overdraft calculated on cleared funds. As at 31 December 2022 the net cash position of the relevant UK companies was £Nil (2021: £Nil).

The total overdraft facility for the UK group companies who are party to the cross guarantee is £Nil (2021: £Nil).

20 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 financial statements can be obtained from Novartis AG, Building S-210, CH-4002, Basel, 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 financial statements 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.