

Novartis Pharmaceuticals UK Limited
Annual Report and Financial Statements
for the year ended 31 December 2020

Registered no: 119006

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Novartis Pharmaceuticals UK Limited

Annual Report and Financial Statements for the year ended 31 December 2020

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Novartis Pharmaceuticals UK Limited

Directors and Advisors

Directors

H Ahmad (Resigned 1 April 2021)
Jason Brooks
Mari Scheiffele
Chinmay Bhatt (Appointed 1 September 2020)

Secretary

R Weston (Resigned 1 January 2021)
Richard Cullen (Appointed 1 January 2021)

Registered office

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

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
The Portland Building
25 High Street
Crawley
West Sussex
RH10 1BG

Novartis Pharmaceuticals UK Limited

Strategic Report for the year ended 31 December 2020

The Directors present their Strategic Report of the Company for the year ended 31 December 2020.

Review of business and future developments

The results for the Company show a profit for the financial year of £26,180,000 (2019: £49,936,000) and turnover of £681,220,000 (2019: £692,458,000).

The Company had net assets of £122,103,000 as at 31 December 2020 (2019: £95,065,000). During the year no dividend payment was recommended by the Directors in relation to the year ended 31 December 2020 (2019: Nil).

In 2021, 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.

As of the date of approval of these financials, there has been no significant impact of COVID-19 on Novartis Pharmaceuticals UK Limited's financial condition or results of operations.

Novartis Pharmaceuticals UK Limited

Strategic Report

for the year ended 31 December 2020 (continued)

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> | 2020 | 2019 | Comments |
|-------------------------------------|-------|------|---|
| (Decrease)/increase in turnover (%) | (1.6) | 5.9 | Sales impact due to COVID-19 |
| Gross margin (%) | 28.5 | 32.6 | Driven by product mix and higher write-off from product safety label changes |
| Market share (%) | 4.4 | 4.5 | Market share remains flat as growth of strategic brands offsets COVID-19 impact |
| Number of new launches | 3 | 3 | Beovu, Luxturna, Piqray |

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.

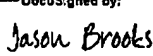
Credit risk: The Company has detailed procedures for monitoring and managing credit risk, including credit worthiness assessments for new customers and a regular review of the credit worthiness of existing customers.

Liquidity risk: The Company was in a strong position at year end with net current assets of £104,275,000 (2019: £85,979,000). 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 EONIA) as its banking facility. The risk is deemed to be low.

On behalf of the Board

DocuSigned by:

 07948CC6E07F4CD.

J Brooks
 Director

Date: 30-Sep-21 | 7:44:30 AM GMT

Novartis Pharmaceuticals UK Limited

Directors' Report for the year ended 31 December 2020

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2020. 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.

Directors

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

H Ahmad (Resigned 1 April 2021)
Jason Brooks
Mari Scheiffele
Chinmay Bhatt (Appointed 1 September 2020)

Future developments

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

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.

Charitable and Political Donations

Charitable donations of £675,153 (2019: £14,407) were paid to local charities during the year. No political donations were made (2019: £Nil).

Dividends

No dividend was paid during the year. (2019: £Nil)

The Directors do not recommend the payment of a final dividend (2019: £Nil)

Novartis Pharmaceuticals UK Limited

Directors' Report for the year ended 31 December 2020 (continued)

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 2020 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 2020 (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 Pharma UK Ltd. 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 2020 (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 the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; 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.

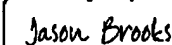
The Directors are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

On behalf of the Board

DocuSigned by:

D7948CC6E07F4CD

J Brooks

Director

Date: 30-Sep-21 | 7:44:30 AM GMT

Novartis Pharmaceuticals UK Limited

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

Report on the audit of the financial statements

Opinion

In our opinion, Novartis Pharmaceuticals UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and financial statements (the "Annual Report"), which comprise: the balance sheet as at 31 December 2020; the profit and loss account, the statement of comprehensive income and the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement

Novartis Pharmaceuticals UK Limited

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

of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also 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.

In preparing the financial statements, the directors are responsible for 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 the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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 an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to UK tax legislation, UK pensions regulations and the the Voluntary Scheme for Branded Medicines and Pricing and Access ("VPAS regulations") operated by the Department of Health and Social Care ("DHSC"), and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to misstatement of financial information via inappropriate journal entries. Audit procedures performed by the engagement team included:

Novartis Pharmaceuticals UK Limited

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

- audit of taxation related balances and disclosures including review of any correspondence with HM Revenue & Customs;
- audit of pension related balances and disclosures which included agreeing figures back to actuarial reports and assessing the reasonableness of key assumptions;
- inspecting the most recent VPAS return submitted by the company, reviewing any correspondence from the DHSC and making enquiries of management to identify any non-compliance with the VPAS regulations;
- enquiring with management about any litigation and claims and reviewing legal expenses and minutes of meetings to identify any such undisclosed matters;
- testing journals to supporting documentation to identify any inappropriate adjustments; and
- testing the appropriateness of key estimates made by management to identify any deliberate misstatements in the financial statements.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

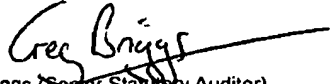
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.


Gregory Briggs (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Crawley

Date: 30 September 2021

Novartis Pharmaceuticals UK Limited

Profit and Loss Account for the year ended 31 December 2020

| | Note | 2020 £'000 | 2019 £'000 |
|--------------------------------|------|---------------|---------------|
| Turnover | 3 | 681,220 | 692,458 |
| Cost of sales | | (486,841) | (466,635) |
| Gross profit | | 194,379 | 225,823 |
| Administrative expenses | | (28,623) | (26,772) |
| Selling and marketing costs | | (132,533) | (141,707) |
| Research and development costs | | (9,872) | (13,430) |
| Other operating income | | 19,460 | 18,909 |
| Operating profit | 4 | 42,811 | 62,823 |
| Interest receivable | 5 | 3 | 48 |
| Interest payable | 5 | (888) | (1,393) |
| Profit before taxation | | 41,926 | 61,478 |
| Tax on profit | 6 | (15,746) | (11,542) |
| Profit for the financial year | | 26,180 | 49,936 |

The notes on pages 16 to 44 are an integral part of these financial statements.

Novartis Pharmaceuticals UK Limited

Statement of Comprehensive Income for the year ended 31 December 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|------|---------------|---------------|
| Profit for the financial year | | 26,180 | 49,936 |
| <i>Items that will not be reclassified to profit or loss:</i> | | | |
| Actuarial loss on pension obligation | 16 | (2,118) | (20,441) |
| Deferred tax on actuarial loss | 16 | 402 | 3,475 |
| Impact of rate change | | 3,201 | - |
| Total other comprehensive income/(expense) | | 1,485 | (16,966) |
| Total comprehensive income | | 27,665 | 32,970 |

The notes on pages 16 to 44 are an integral part of these financial statements.


Novartis Pharmaceuticals UK Limited

Balance Sheet as at 31 December 2020

| | Note | 2020 £'000 | 2019 £'000 |
|---|------|----------------|----------------|
| Non-current assets | | | |
| Tangible assets | 7 | 11,177 | 12,369 |
| Lease Right-of-use of assets | 9 | 21,006 | 21,947 |
| Investments | 8 | 28,100 | 28,100 |
| Deferred tax asset | 10 | 9,390 | 11,735 |
| | | 69,673 | 74,151 |
| Current assets | | | |
| Stocks | 11 | 159,309 | 143,437 |
| Debtors | 12 | 109,442 | 143,106 |
| | | 268,751 | 286,543 |
| Creditors - amounts falling due within one year | | | |
| Financial liabilities: borrowings | 13 | 33,586 | 70,894 |
| Lease liability | 9 | 3,079 | 3,707 |
| Creditors | 14 | 118,176 | 116,911 |
| Provision for liabilities | 15 | 1,173 | 1,389 |
| Current tax liability | | 8,462 | 7,663 |
| | | 164,476 | 200,564 |
| Net current assets | | 104,275 | 85,979 |
| Creditors - amounts falling due after more than one year | | | |
| Retirement benefit liability | 16 | 29,963 | 43,362 |
| Lease liability | 9 | 21,620 | 20,462 |
| Provisions for liabilities | 15 | 262 | 1,241 |
| | | 51,845 | 65,065 |
| Net assets | | 122,103 | 95,065 |
| Capital and reserves | | | |
| Called up share capital | 17 | 5,400 | 5,400 |
| Share option recharge reserve | | (2,895) | (2,268) |
| Profit and loss account | | 119,598 | 91,933 |
| Total shareholders' funds | | 122,103 | 95,065 |

The notes on pages 16 to 44 are an integral part of these financial statements.

The financial statements of Novartis Pharmaceuticals UK Limited (registered no: 119006) on pages 12 to 44 were approved by the Board of Directors on 29 September 2021 and were signed on its behalf by:

DocuSigned by:

 D794BC6E07F4CD
 J Brooks
 Director

Novartis Pharmaceuticals UK Limited

Statement of Changes in Equity for the year ended 31 December 2020

| | Share capital | Share option | Profit and loss | Total equity |
|--|------------------|-----------------|--------------------|-----------------|
| | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 January 2019 | 5,400 | (1,925) | 58,963 | 62,438 |
| Profit for the year | - | - | 49,936 | 49,936 |
| Other comprehensive income | - | - | (16,966) | (16,966) |
| Total comprehensive income for the year | 5,400 | - | 32,970 | 32,970 |
| Share options | - | (343) | - | (343) |
| Total transactions with owners recognised in equity | - | (343) | - | (343) |
| Balance at 31 December 2019 | 5,400 | (2,268) | 91,933 | 95,065 |
| Balance at 1 January 2020 | 5,400 | (2,268) | 91,933 | 95,065 |
| Profit for the year | - | - | 26,180 | 26,180 |
| Other comprehensive income | - | - | 1,485 | 1,485 |
| Total comprehensive income for the year | 5,400 | - | 27,665 | 27,665 |
| Share options | - | (627) | - | (627) |
| Total transactions with owners recognised in equity | - | (627) | - | (627) |
| Balance at 31 December 2020 | 5,400 | (2,895) | 119,598 | 122,103 |

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 16 to 44 are an integral part of these financial statements.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020

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.

General information

The Company is a private limited company limited by shares. The address of the registered office is 2nd Floor, The Westworks Building, White City Place, 195 Wood Lane, London, United Kingdom, W12 7FQ

Basis of preparation

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006 (the Act) as applicable to companies using FRS 101. FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and presentation requirements of International Accounting Standards in conformity with the requirements of the Companies Act 2006 (IFRS).

The Company is a qualifying entity for the purposes of FRS 101. Note 21 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.

The disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- Statement of cash flows
- Capital risk management
- Related party transactions
- Accounting standards issued but not yet effective
- Certain comparative information in relation of property, plant and equipment
- Key management compensation
- Debtor impairment
- Share options

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

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

1 Principal accounting policies (continued)

The preparation of financial statements in conformity with FRS 101 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.

Consolidation

These separate financial statements contain information about Novartis Pharmaceuticals UK Limited as an individual company and do not contain consolidated financial information as the parent of a group. The Company has taken advantage of the exemption under section 401, of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiaries are included by full consolidation in the consolidated financial statements of its ultimate parent, Novartis AG.

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.

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.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

1 Principal accounting policies (continued)

Exceptional items

When items of income or expense, either individually, or if similar, in aggregate are considered material due to their size or nature, they are separately disclosed and classified as exceptional items.

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 2020 (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 2020 (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

Finished goods and materials and consumables 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 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.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

1 Principal accounting policies (continued)

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 costs

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

The liability 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 19R 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 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 amounts charged or credited to Finance costs is the net interest amount calculated by applying the liability discount rate to the net defined benefit liability or asset.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

1 Principal accounting policies (continued)

Employee benefit costs (continued)

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.

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.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (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 19.

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 2020 (continued)

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 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 Defined Benefit Pension Scheme

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of factors including life expectancy, salary increases, asset valuations and the discount rate. 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 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.

3 Turnover

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

| | 2020 £'000 | 2019 £'000 |
|---------------|---------------|---------------|
| Sale of goods | 681,220 | 692,458 |
| | 681,220 | 692,458 |

Novartis Pharmaceuticals UK Limited
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

4 Operating Profit and Exceptional Items

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| The following items have been charged in arriving at operating profit: | | |
| Selling and marketing costs | 132,533 | 141,707 |
| Research and Development | 9,872 | 13,430 |
| Administrative expenses | 28,622 | 26,773 |
| Depreciation on right of use of assets | 3,995 | 3,818 |
| Audit fees payable to the Company auditors | | |
| - Audit services | 368 | 333 |
| - Audit related assurance services | - | 40 |

5 Interest

| | 2020 £'000 | 2019 £'000 |
|--|---------------|----------------|
| Interest payable on bank overdraft and loans | (5) | (5) |
| Interest payable on other loans | (354) | (941) |
| Lease liability interest | (529) | (447) |
| Interest payable | (888) | (1,393) |
| Interest receivable on bank deposits | - | 31 |
| Interest receivable on loans to group undertakings | 3 | 17 |
| Interest receivable | 3 | 48 |
| Net interest expense | (885) | (1,345) |

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

6 Tax on profit

| Analysis of charge in the year | 2020 £'000 | 2019 £'000 |
|--|-------------------|-------------------|
| Current tax - continuing operations | | |
| - UK corporation tax on profit of the year | 4,077 | 10,460 |
| - Under/(over) provision in respect of prior period | 6,006 | (1,150) |
| Total current tax | 10,083 | 9,310 |
| Deferred tax | | |
| Origination and reversal of timing differences (accelerated capital allowances and other) | 5,578 | 1,493 |
| Adjustment in respect of prior years | 85 | 739 |
| Total deferred tax (note 10) | 5,663 | 2,232 |
| Total tax charge | 15,746 | 11,542 |
| Tax on items credited to equity | 2020 £'000 | 2019 £'000 |
| Deferred tax credit on actuarial losses | (402) | (3,475) |

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

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Profit before taxation | 41,926 | 61,477 |
| Profit before taxation multiplied by effective rate of corporate tax in the UK of 19% (2019: 19%) | 7,966 | 11,681 |
| Effects of: | | |
| Expenses not deductible for tax purposes | 81 | 448 |
| Deferred tax posted through equity | 209 | - |
| Effects of rate changes | 1,399 | (176) |
| Adjustments in respect of prior years - income tax | 6,006 | (1,150) |
| Adjustments in respect of prior years - deferred tax | 85 | 739 |
| Total charge for the year | 15,746 | 11,542 |

Factors that may affect future tax charge:

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. As the proposal to increase the rate to 25% had not been substantively enacted at the Statement of financial position date, its effects are not included in these financial statements.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

7 Tangible Assets

| | Freehold Land | Buildings | Plant, Machinery & Equipment | Assets Under Construction | Total |
|---------------------------------|------------------|-----------|------------------------------------|------------------------------|----------|
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Cost | | | | | |
| At 1 January 2020 | 11,259 | 23,656 | 14,690 | 6,907 | 56,512 |
| Additions at Cost | - | 461 | 501 | 82 | 1,044 |
| Transfers | - | 5,628 | 1,279 | (6,902) | 5 |
| Disposals | - | - | (36) | - | (36) |
| At 31 December 2020 | 11,259 | 29,745 | 16,434 | 87 | 57,525 |
| Accumulated Depreciation | | | | | |
| At 1 January 2020 | (8,359) | (21,741) | (14,043) | - | (44,143) |
| Depreciation charge | - | (853) | (1,352) | - | (2,205) |
| Reclassification | - | - | - | - | - |
| Disposals | - | - | - | - | - |
| At 31 December 2020 | (8,359) | (22,594) | (15,395) | - | (46,348) |
| Net Book Value | | | | | |
| 31 December 2019 | 2,900 | 1,915 | 653 | 6,902 | 12,369 |
| 31 December 2020 | 2,900 | 7,151 | 1,044 | 82 | 11,177 |

Included in tangible assets are the following:

(a) Capitalised interest at cost amounting to £523,000 (2019: £523,000)

(b) Assets with a cost of £ 3,735,307 (2019: £2,494,562) are fully depreciated but still in use.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

8 Investments

Investments

The investment in subsidiary undertakings is made up as follows:

| | 2020 | 2019 |
|---|--------|--------|
| | £'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 | 200 Frimley Business Park, Frimley, Camberley, Surrey, GU16 7SR |

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 2020 (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

| | 2020 £'000 | 2019 £'000 |
|---------------------|---------------|---------------|
| Buildings | 18,104 | 19,189 |
| Vehicles | 2,902 | 2,758 |
| As at 31st December | 21,006 | 21,947 |

| Lease liability | 2020 £'000 | 2019 £'000 |
|-----------------|---------------|---------------|
| Current | 3,079 | 3,707 |
| Non-Current | 21,620 | 20,462 |
| | 24,699 | 24,169 |

(ii) Amounts recognised in the income statement

| | 2020 £'000 | 2019 £'000 |
|---|---------------|---------------|
| Depreciation charge of right of use of assets | | |
| Buildings | 2,066 | 2,440 |
| Vehicles | 1,929 | 1,378 |
| | 3,995 | 3,818 |

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

9 Leases (continued)

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Interest expenses | 529 | 447 |
| | 529 | 447 |
| Future minimum lease payments as at 31 December 2019 are as follows: | 2020 £'000 | 2019 £'000 |
| Not later than one year | 2,844 | 1,613 |
| Later than one year and not later than five years | 11,657 | 11,969 |
| Later than five years | 9,963 | 13,321 |
| Total gross payments | 24,464 | 26,903 |
| Impact of finance expenses | 235 | (2,733) |
| Carrying amount of liability | 24,699 | 24,170 |

The total cash outflow for leases in 2020 was £1,999,000 (2019: £2,555,000).

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (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. As such, deferred tax assets and liabilities have been recognised at the rate of 19% (2019: 17%).

| | | |
|---|----------|----------|
| The analysis of deferred tax assets is as follows: | 2020 | 2019 |
| | £'000 | £'000 |
| At 1 January | (11,735) | (10,492) |
| Profit and loss account charge | 5,663 | 2,232 |
| Prior year adjustment | 76 | - |
| Tax credited directly to other comprehensive income | (3,394) | (3,475) |
| At 31 December | (9,390) | (11,735) |

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 2019 | (1,228) | (6,402) | (2,862) | (10,492) |
| Charged / (credited) to the income statement | 366 | 1,991 | (125) | 2,232 |
| Credited directly to other comprehensive income | - | (3,475) | - | (3,475) |
| At 31 December 2019 | (862) | (7,886) | (2,987) | (11,735) |
| (Credited)/charged to the income statement | (38) | 5,073 | 704 | 5,663 |
| Prior year adjustment | - | 76 | - | 76 |
| Credited directly to other comprehensive income | - | (3,394) | - | (3,394) |
| At 31 December 2020 | (900) | (6,207) | (2,283) | (9,390) |

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

11 Stocks

| | 2020 £'000 | 2019 £'000 |
|---------------------------|---------------|---------------|
| Materials and consumables | 41 | 45 |
| Finished goods | 163,896 | 149,892 |
| Write down provision | (4,628) | (6,501) |
| | 159,309 | 143,436 |

The Company consumed £470,968,000 (2019: £416,777,000) of stocks during the year.

12 Debtors

| | | |
|---|---------------|---------------|
| Amounts falling due within one year: | 2020 £'000 | 2019 £'000 |
| Trade debtors (financial assets) | 99,750 | 115,980 |
| Less: Provision for impairment of trade debtors | (220) | (169) |
| Net Trade debtors | 99,530 | 115,811 |
| Amounts owed by fellow group undertakings | 6,695 | 16,606 |
| Other receivables | 531 | 7,112 |
| Prepayments and accrued income | 2,686 | 3,577 |
| Total trade and other debtors | 109,442 | 143,106 |

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 are charged interest at LIBOR GBP -25 bps therefore the rate at 31 December 2020 was 0% (2019: 0.43%). These are all unsecured and repayable on demand.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

13 Financial liabilities: borrowings

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Current | | |
| Unsecured loans from group undertakings due within one year or on demand | 33,586 | 70,894 |
| Total financial liabilities - borrowings | 33,586 | 70,894 |

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. This amount is interest free and due on demand.

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.

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

14 Creditors

| | 2020 £'000 | 2019 £'000 |
|---|----------------|----------------|
| Trade creditors (financial liability) | 22,756 | 44,220 |
| Amounts owed to fellow group undertakings (financial liability) | 24,161 | 10,636 |
| Other tax and social security payable | 20,806 | 17,402 |
| Other creditors (financial liability) | 6,108 | 1,574 |
| Accrued share based payment | 538 | 332 |
| Accruals and other liabilities (financial liability) | 43,807 | 42,747 |
| | 118,176 | 116,911 |

Creditors 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 creditors subject to different terms. The Company has no derivative financial liabilities.

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.

15 Provisions for liabilities

| | Post Retirement Medical Benefit £'000 | Restructuring £'000 | Dilapidation £'000 | Total £'000 |
|--------------------------|---|------------------------|-----------------------|----------------|
| At 1 January 2020 | 241 | 1,337 | 1,052 | 2,630 |
| Additional provisions | 21 | - | 1,026 | 1,047 |
| Utilised in the year | - | (1,190) | - | (1,190) |
| Reclassified in the year | - | - | (1,052) | (1,052) |
| At 31 December 2020 | 262 | 147 | 1,026 | 1,435 |

Analysis of total provisions for liabilities:

| | 2020 | 2019 |
|--------------|--------------|--------------|
| Current | 1,173 | 1,389 |
| Non-current | 262 | 1,241 |
| Total | 1,435 | 2,630 |

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

16 Retirement benefit liability

The Company operates pension schemes (with defined benefit and defined contributions sections) 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. 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 defined benefit sections of the scheme are closed to future accrual with no member contributions nor company service cost contributions in 2020 (2019: nil).

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. The current allocation is deemed reasonable due to the consistency of approach applied year.

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 2020 is the 31 December 2019 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 2020 (2019: nil). Net interest cost for 2020 is calculated by applying the discount rate to the end of 2019 Defined Benefit Obligation and plan assets respectively that are applicable to each division.

Pension costs for defined contribution schemes are as follows:

| | 2020 | 2019 |
|------------------------------|-------|-------|
| | £'000 | £'000 |
| Defined contribution schemes | 6,832 | 6,373 |

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

16 Retirement benefit liability (continued)

Defined benefit plans

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

| | 2020 | 2019 |
|---|---|---|
| | %pa | %pa |
| Discount rate | 1.25% | 2.00% |
| Salary growth | n/a | n/a |
| RPI | 2.80% | 3.00% |
| Pension-in payment increases | 2.80% | 3.00% |
| Post retirement mortality assumption | 97.0% of S3PMA/94. 0% of S3PFA_M | 97.0% of S3PMA/94. 0% of S3PFA_M |
| Current life expectancy for a 65 year old male/female | 22.4/24.3 | 22.3/24.2 |

⁽¹⁾ These are standard Self-Administered Pension Scheme (SAPS) mortality tables as published by the Institute and Faculty of Actuaries' Continuous Mortality Investigation (CMI) unit. The standard tables have been projected forward in line with CMI 2013 default projections (converging to a long term rate of 1.25% pa) from 2002 onwards based on each members' year of birth.

⁽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 2020 (continued)

16 Retirement benefit liability (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 19% (2019: 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. A decrease in corporate bond yields will lead to lower discount rates which in turn will result in a higher DBO and a lower funded status.

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. Furthermore, the scheme assets also include significant holdings of equity instruments. Share prices tend to rise when interest rates decrease and, therefore, often counteract the negative impact of the rising DBO on the funded status although correlation of interest rates with equities is not as strong as with bonds, especially in the short term.

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 2020 (continued)

16 Retirement benefit liability (continued)

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):

| | 2020 £'000 | 2019 £'000 |
|---|---------------|---------------|
| Change in year end defined benefit obligation | | |
| 25 basis point increase in discount rate | (45,259) | (42,958) |
| 25 basis point decrease in discount rate | 47,808 | 45,471 |
| 1 year increase in life expectancy | 38,244 | 31,277 |
| 25 basis point increase in rate of pension increase | 29,423 | 39,442 |
| 25 basis point decrease in rate of pension increase | (37,097) | (37,716) |

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

| Asset Category | 2020 £'000 | % | 2019 £'000 | % |
|--------------------------|---------------|-------|---------------|-------|
| Equities and hedge funds | - | 0.0% | 40,829 | 5.1% |
| Bonds | 784,617 | 86.6% | 676,485 | 84.5% |
| Other | 121,407 | 13.4% | 83,260 | 10.4% |
| | 906,024 | 100% | 800,574 | 100% |

Equities, hedge funds and bonds are quoted assets. Other category is made up of cash and real estates which is unquoted.

The amounts recognised in the Balance Sheet are determined as follows:

| | 2020 £'000 | 2019 £'000 |
|---|---------------|---------------|
| Fair value of plan assets | 906,024 | 800,574 |
| Present value of defined benefit obligation | (935,987) | (843,936) |
| Deficit in the Balance Sheet | (29,963) | (43,362) |

The Directors have recognised the pension deficit as at the year-end of £29,963,000 (2019: £43,362,000 deficit).

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

16 Retirement benefit liability (continued)

The amounts recognised in the Profit and Loss Account are as follows:

| | 2020 £'000 | 2019 £'000 |
|--------------------------------|---------------|---------------|
| Administrative cost | 1,246 | 1,070 |
| Interest cost | 16,725 | 17,542 |
| Interest income on plan assets | (16,234) | (16,770) |
| Total | 1,737 | 1,842 |

Change in the defined benefit obligation:

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Present value of defined benefit obligation at start of year | 843,936 | 643,759 |
| Administrative cost | 1,246 | 1,070 |
| Interest paid | 16,725 | 17,542 |
| Actuarial loss | 102,631 | 204,241 |
| Benefit payments | (28,551) | (22,676) |
| Past service charge | - | - |
| Present value of defined benefit obligation at end of year | 935,987 | 843,936 |

Change in plan assets:

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Fair value of plan assets at start of year | 800,574 | 609,128 |
| Interest income on plan assets | 16,234 | 16,770 |
| Actual return less expected return on assets | 100,513 | 183,800 |
| Employer contributions | 17,254 | 13,552 |
| Benefit payments including administrative cost | (28,551) | (22,676) |
| Fair value of plan assets at end of year | 906,024 | 800,574 |

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

16 Retirement benefit liability (continued)

Amount recognised in the Statement of Comprehensive Income:

| | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| Actuarial loss on defined benefit obligation | (102,631) | (204,241) |
| Actual return less expected return on assets | 100,513 | 183,800 |
| Actuarial - net | (2,118) | (20,441) |
| Deferred tax on actuarial loss | 402 | 3,475 |
| Net actuarial loss recognised in the Statement of comprehensive income | (1,716) | (16,966) |

The history of experience gains/(losses):

| | 2020 | 2019 | 2018 | 2017 | 2016 |
|---|-----------|-----------|----------|----------|-----------|
| Experience gains/(losses) on plan assets (£'000) | 100,513 | 194,242 | (16,221) | 35,198 | 84,662 |
| Percentage of plan assets (%) | 11.09% | 22.95% | (2.66)% | 5.58% | 14.58% |
| Experience (losses)/gains on plan liabilities (£'000) | (102,631) | (204,241) | 22,167 | 9,077 | (162,806) |
| Percentage of plan obligation (%) | (10.97)% | (24.20)% | 3.44% | 1.36% | (23.56)% |
| Fair value of plan assets (£'000) | 906,024 | 800,574 | 609,128 | 620,954 | 580,597 |
| Present value of plan obligation (£'000) | 935,987 | 843,936 | 643,759 | 669,842 | 690,886 |
| Deficit (£'000) | (29,963) | (43,362) | (34,631) | (48,888) | (110,289) |

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.

The Company expects to contribute £17,215,000 to the Group pension scheme in 2020 (2019: £16,840,000).

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

17 Called up share capital

| Authorised | 2020 £'000 | 2019 £'000 |
|--|---------------|---------------|
| 6,000,000 (2019 6,000,000) ordinary shares of £1 each | 6,000 | 6,000 |
| | 6,000 | 6,000 |

| Issued and fully paid | 2020 No. of shares | £'000 | 2019 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 | 2020 £'000 | 2019 £'000 |
|---|---------------|---------------|
| Wages and salaries | 78,973 | 80,703 |
| Share based payments | 2,681 | 2,074 |
| Social security costs | 10,756 | 9,830 |
| Other pension costs - defined contribution plans | 6,832 | 6,373 |
| Other pension costs - defined benefit plans (note 16) | 1,737 | 1,842 |
| | 100,979 | 100,822 |

| Average monthly number of people employed (including executive directors) | 2020 Number | 2019 Number |
|---|----------------|----------------|
| Research and development | 248 | 206 |
| Administration and marketing | 614 | 976 |
| | 862 | 1,182 |

| Directors aggregate emoluments | 2020 £'000 | 2019 £'000 |
|--------------------------------|---------------|---------------|
| Aggregate emoluments | 1,518 | 1,565 |
| | 1,518 | 1,565 |

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

18 Employees and Directors (continued)

No Director (2019: none) who is remunerated in the UK exercised options and 4 Director (2019: 4) received shares under a long term incentive scheme in 2020.

Aggregate emoluments for the highest paid Director were £556,217 (2019: £794,544). The accrued pension for the highest paid Director was £ nil (2019: £ nil) per annum under the defined benefit scheme and £ nil (2019: £ 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 (2019: £ nil). 3,995 shares were received by the highest paid Director in respect of qualifying services under a long-term incentive scheme during the year (2019: 5,365).

No Director (2019: None) is accruing benefits under the ultimate parent company's defined benefit scheme, the costs of which are recharged to the Company. No Directors (2019: 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 2020 employees received 3,609 (2019: 2,618) shares under the scheme.

The market value of the shares held in trust at year end was £11,815,117 (2019: £11,576,057).

Novartis Pharmaceuticals UK Limited

Notes to the Financial Statements for the year ended 31 December 2020 (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 2020 profit and loss account related to the general employee share plans amounted to £2,681,000 (2019: £2,074,000).

The weighted average exercise price for options that were sold or exercised in the year was CHF 57.1 (2019: 56.40).

The following table summarises information about the share options outstanding at 31 December 2020

| 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 | 44,900 | 1.50 | 54.29 | 44,900 | 54.29 |
| 60 - 69 | 27,170 | 3.00 | 61.70 | 27,170 | 61.70 |
| 70 - 79 | 0 | 0.00 | 0.00 | 0 | 0.00 |
| Total | 72,070 | 2.25 | 57.1 | 72,070 | 57.1 |

2019

| 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 | 75,511 | 1.00 | 54.71 | 75,511 | 54.71 |
| 60 - 69 | 17,691 | 2.00 | 61.81 | 17,691 | 61.81 |
| 70 - 79 | 1,931 | 0.00 | 71.77 | 1,931 | 71.77 |
| Total | 95,133 | 1.00 | 56.04 | 95,133 | 56.04 |

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 2020 (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 (2019: £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 2020 the net cash position of the relevant UK companies was £Nil (2019: £Nil).

The total overdraft facility for the UK group companies who are party to the cross guarantee is £6m (2019: £6m).

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.

21 Post Balance sheet events

As of the release date of these financials, there has been no significant impact of COVID-19 on Novartis Pharmaceuticals UK Limited's financial condition or results of operations.