

# Life

## An introduction from your Trustee board

We are again pleased to welcome you to this year's edition of "Life", our annual Trustee's Report to members of the Novartis UK Pension Scheme.

Whilst the remainder of this issue covers the Scheme during the year ended 31 December 2010, we wanted to use this introduction to comment on the Company's current proposal to end future benefit accrual under the Final Salary section of the Scheme. Active members of the Final Salary section will already be aware of the proposal and that, in common with many employers operating defined benefit pension schemes in the UK, the Company is currently consulting with affected employees in relation to the proposal.

**The proposal, if implemented, will not affect deferred or pensioner members of the Final Salary section or members of the Money Purchase section of the Scheme.**

Active members of the Final Salary section will already have received detailed information in relation to the proposal from the Company; however, we wanted to say a few words about the role of the Trustee board in relation to the proposal and how the Trustee board believe they have acted in the best interests of Scheme members.

Whilst the Company could have implemented the proposal without involving the Trustee board via changes to employees' terms and conditions, the Company requested the Trustee board's consent to the proposal. In deciding whether to grant its consent, the Trustee board have a duty to act in the members' best interests. Primarily, this duty is to ensure that members' past service benefits are protected (future service benefits are essentially a matter between the Company and its employees).

Whilst the proposal only directly affects members' future service benefits, the Trustee board believed that the termination of accrual under the Scheme would change the Scheme's membership profile and result in the Final Salary section having a finite lifespan. The Trustee board therefore considered at length what would be reasonable conditions for its consent to the proposal, and negotiated with the Company for a number of months between June 2010 and April 2011 over benefit and funding improvements for the Scheme.

The Trustee board's main focus in negotiating with the Company was to secure funding for accrued benefits, and de-risk the Scheme. Whilst the Company would not agree

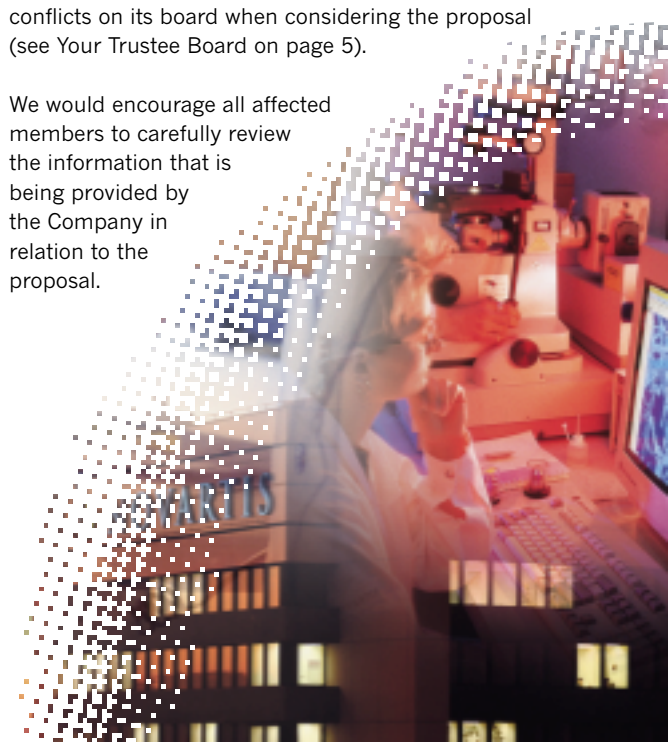
to two of our requests (a parent company guarantee in relation to the Company's liabilities under the Scheme and the maintenance of a continued link to final salary for current active members), we are pleased to say that a number of significant concessions were achieved, primarily in relation to adopting a less risky and volatile investment strategy, more cautious actuarial assumptions and eliminating the Scheme's deficit over a shorter period.

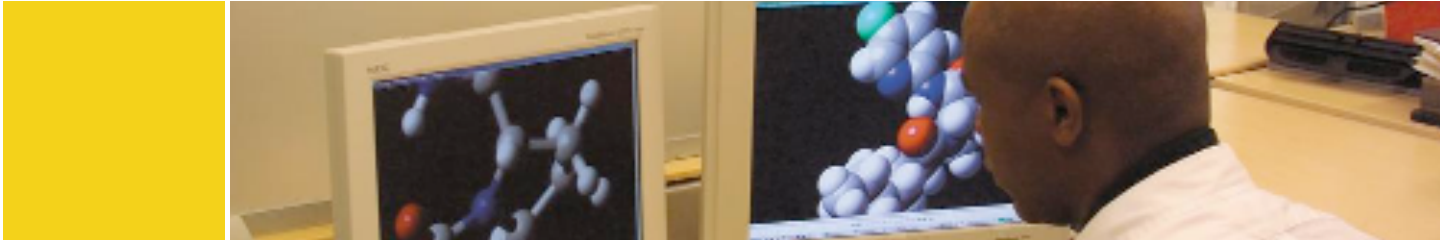
Additional concessions were achieved in relation to enhanced early retirement terms, final pensionable salary, cash lump sums on retirement and death in service benefits for current active members of the Final Salary section, who will also be eligible for enhanced contribution rates in the Money Purchase section for future service. It was also agreed that the Company would consult with affected employees in relation to the proposal. That consultation is currently ongoing.

The Trustee board believe that all these concessions provide enhanced protection for members' past service accrual which will enable the Trustee board to consent to the proposal if it is implemented after satisfactory consultation.

The Trustee board saw the management of conflicts of interest as being a key part of its consideration of the proposal. We obtained independent legal and actuarial advice in relation to the proposal and also obtained an independent covenant assessment in relation to the Company. The Trustee board have a conflicts policy in place and at all times monitored and dealt with conflicts on its board when considering the proposal (see Your Trustee Board on page 5).

We would encourage all affected members to carefully review the information that is being provided by the Company in relation to the proposal.





# Scheme Finances

The Scheme's income and expenditure in the financial year to 31 December 2010, and other detailed financial information, are given in the formal, audited Trustee's Report and Accounts. In that document the Scheme's auditors have given an unqualified opinion that the financial statements give a true and fair view of the financial transactions that have taken place, and that both Company and member contributions have been fully paid in accordance with the schedule of contributions agreed with the Scheme's Actuary. You can ask to see a copy of the Report and Accounts if you wish by contacting the Pensions Manager (at the address on page 6). The chart below, however, is intended to show the key highlights of the Accounts and to give you a commentary on what the figures actually mean in layman's language.

	2009	2010
<b>THE VALUE OF THE FUND AT THE START OF THE YEAR WAS</b>	<b>£585,656,349</b>	<b>£697,720,393</b>
<b>THE MONEY RECEIVED BY THE FUND DURING THE YEAR WAS:</b>		
Company contributions (including member contributions paid through salary sacrifice arrangement)	£18,433,234	<b>£19,189,304</b>
Members' Additional Voluntary Contributions	£814,015	<b>£949,220</b>
Transfers-in of individual members' benefits from other schemes	£1,398,337	<b>£1,535,495</b>
Other income	£479	<b>£1,620</b>
Income from our investments ( <i>dividends, interest etc.</i> )	£2,819,908	<b>£3,323,882</b>
<b>TOTAL INCOME</b>	<b>£23,465,973</b>	<b>£24,999,521</b>
<b>THE MONEY PAID OUT FROM THE FUND DURING THE YEAR WAS:</b>		
Pension payments	£13,118,855	<b>£14,070,329</b>
Tax-free lump sum retirement benefits	£3,897,927	<b>£4,415,350</b>
Lump sum benefits on members' deaths in service or retirement	£72,698	<b>£1,079,158</b>
Contributions refunded in respect of members leaving with less than two years' Pensionable Service	£34,062	<b>£4,441</b>
Reinstatement of State Scheme benefits for members leaving	£812	<b>£214</b>
Transfers of leaving members' benefits to other schemes	£1,781,025	<b>£2,035,622</b>
Investment Management fees	£848,009	<b>£1,024,926</b>
Administrative expenses ( <i>including administration, consultancy, actuarial, legal, auditing, etc.</i> )	£1,295,132	<b>£1,616,294</b>
<b>TOTAL EXPENDITURE</b>	<b>£21,048,520</b>	<b>£24,246,334</b>
<b>THIS GIVES NET INCOME (INCOME LESS EXPENDITURE) OF</b>	<b>£2,417,453</b>	<b>£753,187</b>
Increase in market value of assets	£109,646,591	<b>£81,347,658</b>
<b>SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS</b>	<b>£697,720,393</b>	<b>£779,821,238*</b>

So the Scheme's income from its normal dealings with members was again slightly higher than its expenditure, and the fund's value was further increased by the investment income and gains of over £84.6 million which were achieved during the year. More information about the Scheme's investment performance is provided opposite.

So this was a pleasing outcome for the year. A fuller picture of the Final Salary section of the Scheme's longer-term financial position, however, was provided by the actuarial valuation carried out at 31 December 2009. The results of this were reported in the Summary Funding Statement which you will have received in June 2011. They indicated that - due to a number of negative factors like poor investment returns during 2007/8, increased life expectancy and higher inflation - the Scheme's liabilities now exceeded its assets by a deficit figure of £96.0 million. To address the deficit, a "recovery plan" has been agreed under which the Company will pay in extra contributions of £15 million each year for the next nine years, and has also increased its regular contributions from 14.8% to 20% of all members' Pensionable Salaries.

\* This overall fund value is made up of £730,248,954 in the Final Salary section and £49,572,284 in the Money Purchase section.

## SCHEME MEMBERSHIP

Total membership of the Scheme increased to 10786, a rise of 114 on last year (2009 figures in brackets):

Active members - Final Salary section	<b>1272</b> (1435)	Members with deferred pensions	<b>5888</b> (5746)
- Money Purchase section	<b>1482</b> (1418)	Pensioners and dependants	<b>2144</b> (2073)

290 new employees joined the Scheme during the year (becoming members of the Money Purchase section), all of whom we welcome warmly.

# Scheme Investment

## Final Salary Section

During the year (as illustrated opposite), the Scheme receives money through contributions, transfers-in and so on, and pays money out in the form of benefits, transfers-out and fees and expenses. The balance is then invested through professional investment managers; here we report on the investment climate which prevailed during 2010, the strategy followed, and the performance which resulted:

### Climate

Continuing the recovery seen in 2009, 2010 was another year of steady growth in most of the world's investment markets.

As far as the equity markets were concerned, the FTSE All-Share Index in the UK, for instance, rose by 14.5% over the year. In North America, the Dow Jones Industrial Average rose by 11%. In Continental Europe the DAX index in Germany, for example, grew by over 15.5%. And in Asia the BSE100 index in India saw growth of slightly less than 16%, while the Hang Seng Index in Hong Kong rose by just over 5%. The FTSE World equities index rose by 16.3% in sterling terms.

The bond markets also delivered satisfactory results, with the FTSE All Stocks Gilts index rising by 7.2%, and corporate bonds (as measured by the BofA Merrill Lynch Non-Gilts Index) producing a return of 8.4%.

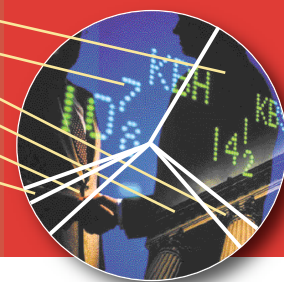
### Strategy

During 2010, as in the previous year, the assets of the Final Salary section were invested through four different investment managers, and across a wide range of investment types with a target split of 65% equities/25% bonds and cash/10% property:

- Around 82% of the assets were managed by **Legal & General**, partly in "index-tracking" funds covering equities, bonds and property, and partly in "actively managed" corporate bonds.
- **Taube Hodson Stonex** managed a portfolio of global equities accounting for a further 5% of the assets.
- **Aviva Fund Management** were responsible for a portfolio of High Lease Value and European property, comprising another 8% of the assets.
- The remaining 5% of the assets were managed by **BlueCrest Capital Management**, investing largely in "hedge funds".

The breakdown of the overall portfolio between asset types at 31 December 2010 was as follows (2009 figures in brackets):

UK Equities	26% (27%)
Overseas Equities	35% (35%)
Hedge Funds	5% (5%)
UK Corporate Bonds	26% (25%)
Property	7% (7%)
Cash Deposits	1% (1%)



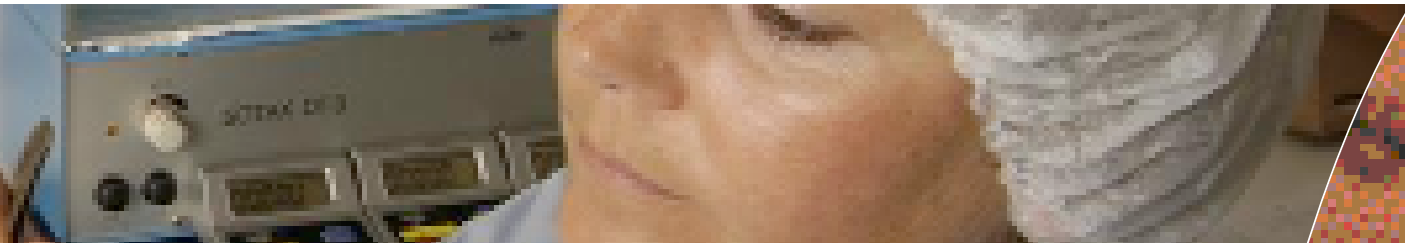
## Money Purchase Section

Members can choose between four funds for the investment of their Money Purchase section contributions, Money Purchase AVCs and/or extra contributions from Variable Pay. These are a global equities fund, a fixed-interest government bonds fund, an index-linked government bonds fund and a cash fund (operating like a bank or building society deposit account). At 31 December 2010 these funds had a combined market value of nearly £48.5 million (up from £35.3 million the previous year).

The performance of each of the funds during the year to 31 December 2010 was generally in line with the wider markets, as follows:

	BENCHMARK	2010 PERFORMANCE
Global Equities fund	14.7%	14.7%*
Fixed-interest bonds fund	8.8%	8.7%*
Index-linked bonds fund	9.0%	9.0%*
Cash fund	0.4%	0.4%*

\* Please note these figures are after the deduction of investment management fees.



## Performance

The Trustee board monitor the performance of our investment managers closely, and assess it by reference to pre-set “benchmarks”. For Legal & General, primarily following an “index-tracking” strategy, their “benchmarks” are the indices of the markets in which they invest. The performance of our “active” managers is monitored by BNY Mellon, an independent investment monitoring service. The Trustee board set specific “benchmarks” which each manager individually is expected to match or exceed, and Mellon assess on a quarterly basis whether those “benchmarks” are in fact being achieved. The following results were delivered during the year:

	2010		Average over last 3 years	
	BENCHMARK	PERFORMANCE	BENCHMARK	PERFORMANCE
Legal & General Equities	n/a*	13.4%	n/a*	5.3%
Legal & General Corporate Bonds	8.4%	8.8%	4.8%	6.8%
Legal & General Energy ETF	23.4%	25.5%	3.1%	4.2%
Taube Hodson Stonex	15.3%	10.5%	3.1%	2.2%
Aviva (HLV)	9.0%	9.7%	6.7%	2.2%
Aviva (European)	4.8%	6.9%	2.7%	-8.8%
BlueCrest	0.7%	8.4%	n/a	n/a
<b>TOTAL SCHEME</b>	<b>11.0%</b>	<b>12.0%</b>	<b>3.9%</b>	<b>4.3%</b>

\* It is not possible to give benchmark figures for Legal & General's equities portfolio since they are tasked to use a combination of both passive and active management strategies.

So the Scheme exceeded its investment performance target for 2010, and we regard this as a very satisfactory overall result. However, Taube Hodson Stonex did perform considerably behind their individual benchmark, and for this reason after the year end the Trustee board decided to terminate their appointment (with effect from 11 May 2011).

Going forward, one of the concessions which the Trustee board negotiated in return for their consent to the proposal, if implemented, was a clear commitment from the Company to support moves towards lower risk and less volatile investment strategies while leaving the implementation remaining in the Trustee board's hands. There is now an acknowledged target to move towards having sufficient assets to cover the liabilities based on a return of only 0.3% per annum above gilts which, when attained, will significantly reduce the volatility of the funding of the Scheme and the dependence of the Scheme on the Company long term. In return, this enhances the security of members' accrued benefits and ensures further progress towards increasing security.

The Trustee board will of course continue to keep both our investment strategy and the performance of each of our investment managers under close review during the year ahead, now in the light of the agreed strategy of moving towards a lower risk structure.

It's important to review your investment decisions on a regular basis, and you can either select just one investment fund, or you can spread your contributions between them in any combination you wish. You can switch funds/combinations with effect from 1 January in any year during your membership, by contacting your local Human Resources Department for the appropriate Change of Investment Form.

Average over last 3 years	
BENCHMARK	PERFORMANCE
2.4%	2.5%*
5.6%	5.5%*
5.9%	5.9%*
1.9%	2.0%*





# Your Pensions Team

## YOUR TRUSTEE BOARD

The Scheme's Trustee is Novartis UK Pension Scheme Trustees Limited and the members of the Trustee board are Directors of this company. The Trustee board met formally eight times during the year; the following people were members of the board during 2010:

### Company-nominated

Sue Webb  
John Clarkson  
Russell Cory  
Philip Lowndes (Chairperson)  
Isabel Matthews  
Helen Roberts (from 1 July 2010)

### Member-nominated

Graham Dumbleton  
Suki Hothi  
Andrew Roberts

Two Trustee Directors, Sue Webb and Isabel Matthews, stepped down at the end of 2009 prior to and throughout our consideration of the proposal (see page 1) as they felt that the conflicts created by their Company roles meant that it would not be practicable for them to act as Trustee Directors in relation to discussions on the proposal. Whilst they remained Trustee Directors, their stepping down enabled the Trustee board (which was fully compliant with its member nominated trustee director requirements) to consider the proposal uninfluenced by conflicts.

During the year **Helen Roberts, Head of Legal - Oncology Region Europe** joined the Trustee board. After the year end, John Clarkson resigned with effect from 1 January 2011, and Isabel Matthews formally resigned with effect from 1 July 2011. Richard Farrar is Secretary to the Trustee board.

## PROFESSIONAL ADVISERS

The Trustee board have overall responsibility for running the Scheme. However, they delegate some of the more specialised tasks to external professional advisers, whose performance they monitor closely. During 2010 our advisers were largely unchanged from the previous year and were:

### ACTUARIAL CONSULTANTS SCHEME ADMINISTRATORS INVESTMENT MANAGERS

Mercer  
Xafinity Paymaster  
Legal & General  
Taube Hodson Stonex  
Aviva Fund Management  
BlueCrest Capital  
Management

### INVESTMENT ADVISERS INVESTMENT CUSTODIANS

Mercer  
HSBC Global Investor  
Services

### AUDITORS SOLICITORS AVC PROVIDERS

Deloitte  
DLA Piper UK  
Equitable Life  
AMP  
Standard Life  
Schroder  
Lloyds

### BANKERS

## EQUITABLE LIFE

This is a further update for those members who have Additional Voluntary Contributions policies (AVCs) with Equitable Life.

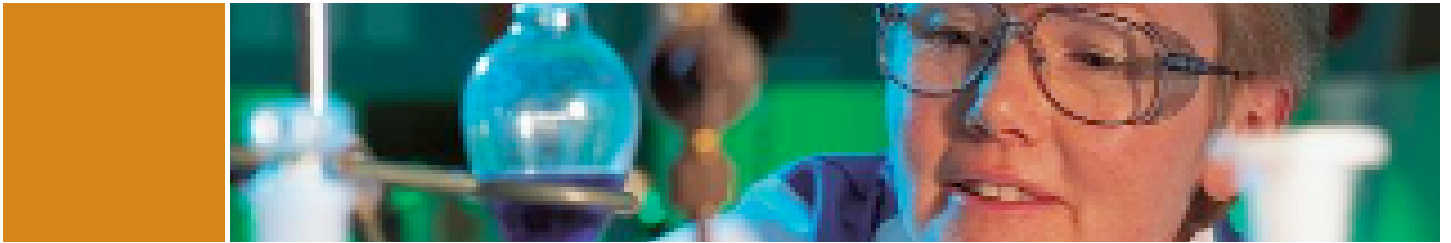
HM Treasury has published details of "The Equitable Life Payment Scheme Design", which aims to distribute the compensation payments due to those Equitable Life With-Profits Fund investors who have suffered loss as a result of Government maladministration. In summary, the main points confirmed are:

Equitable Life

- 1. Eligibility** - contributors between 1 January 1993 and 31 December 2000 who have suffered a "Relative Loss" (that is, a loss when compared to what would have been earned if contributions had been paid to an alternative provider's with-profits fund) will be eligible to be considered for compensation.
- 2. Amount of compensation** - not all who are eligible will receive compensation as some will not have suffered loss. There will be a de minimis limit of £10 (per member) and the Government has scaled back the level of compensation to 22.4% of the relative loss.
- 3. Confirmation of compensation** - group policyholders (such as the Trustee board) may not learn the amounts payable (or who is not going to receive a payment) until after June 2012.
- 4. Payment of compensation** - any compensation due will be paid in the second or third year of the Payment Scheme. Equitable Life will work with the Trustee board to provide address details, to enable the Payment Scheme's administrators to make payments to eligible members. Any payment should be made free of UK Income Tax. The Trustee board will be expected to contact members who are not due compensation.

It has been confirmed that members do not need to remain invested in the With-Profits Fund to receive compensation under the Scheme. Thus, decisions can now be taken and, if appropriate, transfers-out of the Fund made without prejudicing the payment of Government compensation.

If you have With-Profits AVCs with Equitable life, the Trustee board will write to you with further information. Further background information can be found at: <http://equitablelifepaymentscheme.independent.gov.uk/index.htm>



# Newsdesk

## Is your Expression of Wish Form up-to-date?

If you die in service (or as a pensioner less than five years after retiring), a lump sum benefit will be payable to your dependant(s). If you've completed an up-to-date **Expression of Wish Form**, the Trustee board will usually be guided by this in making the decision as to who receives this benefit. So if you've never completed an Expression of Wish Form, or you need to submit a new one to reflect a change in your circumstances (such as if you've been divorced) make it an urgent priority to do so **NOW**. Otherwise, the benefit may not be paid to whom you would want. You'll find a blank Form at the back of your Membership Handbook, or you can obtain one from your local Human Resources Department.



## YOUR STATE PENSION

In addition to your Novartis pension, you will normally receive the **State Basic Pension** as well in your retirement. The full rates (effective 6 April 2011) at which the State Basic Pension is paid are £5,311.80 per year (£102.15 per week) for a single person and £8,494.20 per year (£163.35 per week) for a married couple. You can get an online forecast of how much State Pension you are likely to receive at:

[www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/StatePensionforecast/DG\\_10014008](http://www.direct.gov.uk/en/Pensionsandretirementplanning/StatePension/StatePensionforecast/DG_10014008)

You can claim your State Pension when you reach State Pension Age. This is currently 65 for men, and 60 for women born before 6 April 1950. However, State Pension Age is changing, and an acceleration of this process was announced in the government's Spending Review in October 2010:

- For women born on or after 6 April 1950, it is expected that State Pension Age will rise gradually from 60 to 65 by November 2018. State Pension Age will then be 65 for both men and women.
- State Pension Age for both men and women is then expected to increase gradually from 65 to 66 by April 2020.
- It is currently planned that State Pension Age will then increase in stages from 66 to 68 between 2034 and 2046 (though it is possible that these dates will be reviewed by the Government).

Your own State Pension Age, therefore, depends on your date of birth. You can find out your exact State Pension Age by entering your gender and date of birth on the State Pension Age calculator which you can find at:

[pensions-service.direct.gov.uk/en/state-pension-age-calculator/home.asp](http://pensions-service.direct.gov.uk/en/state-pension-age-calculator/home.asp)

The amounts of the State Pension are increased annually. The government has also announced that from April 2011 onwards, the annual increase in the basic State Basic Pension will be in line with that year's rise in earnings, the percentage rise in the cost of living that year (calculated by reference to the Retail Prices Index for September 2010 for the year 2010-2011), or 2.5% (whichever is the highest).

As your Trustee board we will of course continue to monitor external developments closely, and to keep you informed of key changes that affect you. If you need more information about any of the above changes, please contact the Pension Manager.

## 2011 PENSION INCREASES

The Trustee agreed a positive outcome with the Company in relation to the 2011 discretionary pension increases.

For pension earned in respect of Pensionable Service built up **after** 5 April 1997, an increase for all pensioners of 4.6% was applied from 1 April 2011 (in line with inflation).

An increase of 4.6% was also applied to pensions earned by former Ciba Scheme members in respect of Pensionable Service built up **before** 5 April 1997.

For pensions earned by former Sandoz Plan members and former members of the Wander Limited Pension Fund in respect of Pensionable Service built up **before** 5 April 1997, the Trustee board proposed and the Company exercised its discretion to grant increases of 5.0% from 1 April 2011. This contains an element of "catching up" on previous increases.

## For further information

If you have a query about your own benefits, your first point of contact should always be your local Human Resources Department. Alternatively, please contact the Pensions Manager, Richard Farrar, at the following address:

**Novartis Pharmaceuticals UK Limited,**  
Frimley Business Park, Frimley, Camberley,  
Surrey GU16 7SR