

Life

An introduction from your Chairperson, Sue Webb



I am once again pleased to welcome you to this year's edition of "Life", our annual Trustee's Report newsletter for members of the Novartis UK Pension Scheme.

This issue covers the year ended 31 December 2011 and, as you will know, the most important development during 2011 was that at the end of the year, the Final Salary section of the Scheme was closed to future benefit accrual. It was necessary for me to step down as Chairperson whilst the Trustee board negotiated with the Company over the closure (to avoid any conflict with my Company role), but now that it has been implemented I am happy to have resumed that role.

Although all current Scheme members will now be accruing pension benefits for their future service on a Money Purchase basis, one of the most crucial aspects of the change was that all "past service" benefits earned up to the end of 2011 in the Final Salary section will be unaffected by the closure. And if you have already retired (or if you are a former member with a deferred pension), the whole of your Novartis Final Salary pension will be completely unaffected by the closure.

For this reason, it remains of vital importance that the Final Salary section continues to be properly funded and efficiently managed, and it is our job as your Trustee board to ensure that this is the case. With this in mind, a number of important changes to the Scheme's investment strategy were approved during the year, designed to reduce the volatility of the Scheme's funding and the dependence of the Scheme on the Company long term, and therefore to enhance the security of members' accrued Final Salary benefits. Principally, these involved moving towards a lower-risk target split of 50% "growth assets" (such as equities and property) and 50% "matching assets" (like bonds, which produce less growth but deliver the more predictable flows of income needed to match the Scheme's pension liabilities). These changes are covered in more detail on pages 3/4 of this newsletter.

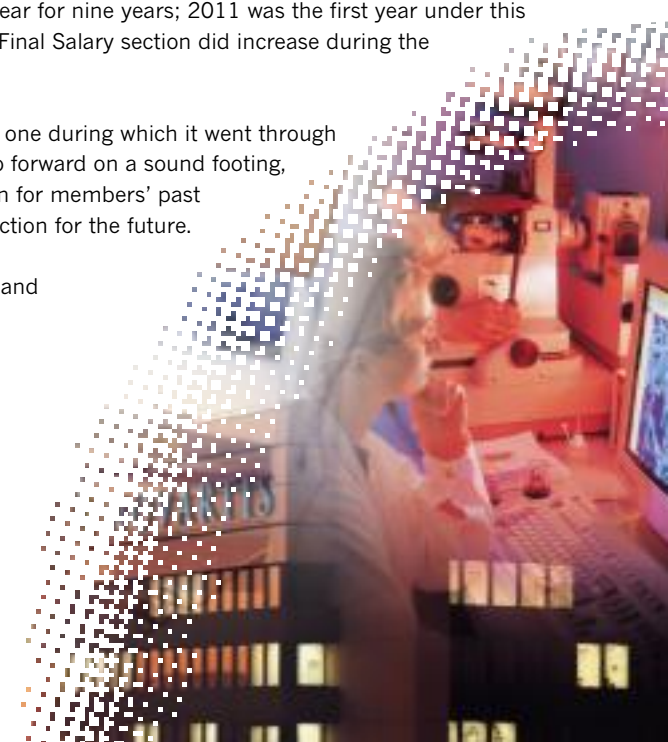
In terms of the Scheme's financial performance during the year, it must be said that after two years of steady growth in most of the world's investment markets, 2011 was a much more subdued year. As a result the value of the Scheme's Final Salary investments grew only by a very modest £2.1 million. As we reported last year the Company is paying extra contributions into the Final Salary section of £15 million per year for nine years; 2011 was the first year under this new funding regime and it meant that the overall value of the Final Salary section did increase during the year, from £730.2 million to £742.4 million.

All in all, then, 2011 was a very busy year for the Scheme and one during which it went through a great deal of significant change. I believe that we can now go forward on a sound footing, though, working towards a securely funded Final Salary section for members' past service benefits, and a strong, competitive Money Purchase section for the future.

As always, I hope you will find this edition of "Life" interesting and informative.

With best regards,

Sue Webb, Chairperson of the Trustee Board





Scheme Finances

The Scheme's income and expenditure in the financial year to 31 December 2011, 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. 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.

	2010	2011
THE VALUE OF THE FUND AT THE START OF THE YEAR WAS	£697,720,393	£779,821,238
THE MONEY RECEIVED BY THE FUND DURING THE YEAR WAS:		
Normal Company contributions (including member contributions paid through salary sacrifice arrangement)	£19,189,304	£20,513,709
Additional Company contributions	n/a	£15,000,000*
Members' Additional Voluntary Contributions	£949,220	£981,356
Transfers-in of individual members' benefits from other schemes	£1,535,495	£1,384,015
Other income	£1,620	£1,656
Income from our investments (<i>dividends, interest etc.</i>)	£3,323,882	£3,311,031
TOTAL INCOME	£24,999,521	£41,191,767
THE MONEY PAID OUT FROM THE FUND DURING THE YEAR WAS:		
Pension payments and annuities purchased	£14,070,329	£15,417,022
Tax-free lump sum retirement benefits	£4,415,350	£2,963,011
Lump sum benefits on members' deaths in service or retirement	£1,079,158	£442,038
Contributions refunded in respect of members leaving with less than two years' Pensionable Service	£4,441	£2,672
Reinstatement of State Scheme benefits for members leaving	£214	£6,115
Transfers of leaving members' benefits to other schemes	£2,035,622	£2,295,321
Investment Management fees	£1,024,926	£1,067,820
Administrative expenses (<i>including administration, consultancy, actuarial, legal, auditing, etc.</i>)	£1,616,294	£1,316,016
TOTAL EXPENDITURE	£24,246,334	£23,510,015
THIS GIVES NET INCOME (INCOME LESS EXPENDITURE) OF	£753,187	£17,681,752
Increase in market value of assets	£81,347,658	£2,118,057
SO THE VALUE OF THE FUND AT THE END OF THE YEAR WAS	£779,821,238	£799,621,047**

So the Scheme's income from its normal dealings with members (ie. excluding the extra Company contributions of £15 million referred to opposite) was again comfortably higher than its expenditure. The fund's value was further increased by the investment income and gains of just over £5.4 million which were delivered. More information about the Scheme's investment performance is provided opposite.

* Following the actuarial valuation at 31 December 2009, it was agreed that the Company would make extra contributions into the Scheme of £15 million each year for nine years commencing in 2011, in order to recover the identified deficit of £96.0 million. In addition, the Company's normal contribution rate was increased from 14.8% to 20.0% of all members' Pensionable Salaries.
 ** This overall fund value is made up of £742,399,060 in the Final Salary section and £57,221,987 in the Money Purchase section.

SCHEME MEMBERSHIP

Total membership of the Scheme increased to 10907, a rise of 121 on last year (2010 figures in brackets):

Active members - Final Salary section	1187 (1272)	Members with deferred pensions	5987 (5888)
- Money Purchase section	1479 (1482)	Pensioners and dependants	2254 (2144)

228 new employees joined the Scheme during the year, all of whom we welcome warmly.

Scheme Investment

Final Salary Section

During the year (as illustrated opposite), the Scheme receives money through contributions and transfers-in, and pays money out in the form of benefits, transfers-out and fees and expenses. The balance is then added to the Scheme's assets, which are invested through professional investment managers; here we report on the investment climate which prevailed during 2011, the strategy followed by the Scheme, and the performance which resulted:

Climate

After two years of steady growth in most of the world's investment markets, 2011 was a much more subdued year.

As far as the equity markets were concerned, the FTSE All-Share Index in the UK, for instance, fell by 3.5% over the year. In Continental Europe the DAX index in Germany, for example, decreased by more than 14.6%. In Asia the BSE100 index in India saw a reduction of 25.7%, while the Hang Seng Index in Hong Kong fell by almost 20%. And the FTSE World equities index declined by 9.5% in sterling terms. Of the major markets only North America showed some modest growth, with the Dow Jones Industrial Average rising by around 5.5%.

Although the equity markets had a poor year, other asset classes did deliver more positive results. In the bond markets, the FTSE All Stocks Gilts index rose by 19.9% and corporate bonds (as measured by the BofA Merrill Lynch Non-Gilts Index) produced a return of 7.1%. In property, the IPD UK All Property Index increased by 8.1%.

Strategy

At the start of 2011 (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 and bonds, and partly in "actively managed" corporate bonds.
- **Taube Hodson Stonex** managed a portfolio of overseas 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".

During the year, with the Company's support the Trustee board implemented a number of important changes to this strategy. These were designed to significantly reduce the volatility of the Scheme's funding and the dependence of the Scheme on the Company long term, and therefore to enhance the security of members' accrued Final Salary benefits:

- Moving towards a lower risk target split of 50% "growth assets" (such as equities and property) and 50% "matching assets" (like bonds, which produce less growth but deliver the more predictable flows of income needed to match the Scheme's pension liabilities).
- Terminating Taube Hodson Stonex's overseas equities portfolio (this took place with effect from 11 May 2011).
- Terminating Legal & General's energy equities portfolio.
- Increasing investment in the Aviva HLV property portfolio from 5% to 10% of the assets.
- Increasing investment in index-linked gilts to 14.5% of the assets.
- Reducing investment in UK equities from 24% to 16% of the assets.

Money Purchase Section

Members can choose between four funds for the investment of their Money Purchase section contributions, 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 2011 these funds had a combined market value of nearly £56.3 million (up from £48.5 million the previous year).

The performance of each of the funds during the year to 31 December 2011 was generally in line with the wider markets, as follows:

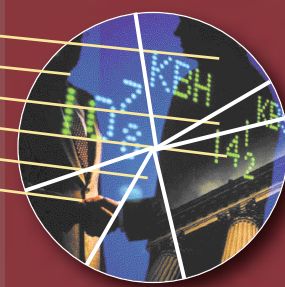
	BENCHMARK	2011 PERFORMANCE
Global Equities fund	-5.5%	-5.5%*
Fixed-interest bonds fund	26.3%	26.1%*
Index-linked bonds fund	23.3%	23.2%*
Cash fund	0.5%	0.5%*

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



Taking all of these changes into account, the breakdown of the overall portfolio between asset types at the end of the year was as follows (31 December 2010 figures in brackets):

UK Equities	16.0% (24.5%)
Overseas Equities	25.5% (35.0%)
Hedge Funds	5.0% (5.0%)
UK Corporate Bonds	25.5% (25.5%)
Index-linked Gilts	14.5% (0.0%)
Property	13.5% (10.0%)



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 by those managers/portfolios that were in place for the complete year:

	2011		Average over last 3 years	
	BENCHMARK	PERFORMANCE	BENCHMARK	PERFORMANCE
Legal & General - Equities	-8.5%	-8.4%	n/a	10.5%
Legal & General - Corporate Bonds	6.9%	8.4%	8.7%	10.0%
Aviva (HLV Property)	20.9%	7.6%	8.7%	7.0%
Aviva (European Property)	4.8%	2.6%	4.0%	-2.5%
BlueCrest	10.0%	2.3%	n/a	n/a
TOTAL SCHEME	2.7%	1.3%	10.5%	10.7%

So the Scheme fell a little short of its overall investment performance target for 2011, but did at least deliver some growth in a much more difficult climate than existed in the previous two years. 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.

Average over last 3 years	
BENCHMARK	PERFORMANCE
11.6%	11.7%*
9.3%	9.3%*
12.4%	12.3%*
0.5%	0.5%*

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 HR Operations for the appropriate Change of Investments Form. If you need further information about the investment options, please refer either to your Membership Handbook or to the separate booklet entitled “A Guide to Additional Retirement Savings” (which you can also obtain from HR Operations). You may also wish to consider seeking independent financial advice.



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 2011:

Company-nominated	Member-nominated
Russell Cory	Graham Dumbleton
Philip Lowndes (Acting Chairperson)	Suki Hothi
Isabel Matthews (until 1 August 2011)	Andrew Roberts
Helen Roberts	
Sue Webb	

After the year end, Sue Webb resumed the role of Chairperson. She had stepped down from this position at the end of 2009, to enable the Trustee board to discuss the Company's proposal to end future benefit accrual under the Final Salary section of the Scheme uninfluenced by any conflict between Sue's Trustee and Company roles.

In addition, Russell Cory resigned with effect from 2 March 2012 on moving to a new position with Novartis in Singapore. Russell had been a member of the Trustee board since 2001, and we would like to sincerely thank him for all his hard work and his commitment to the Scheme over such a long period. Russell has been replaced by **Erica Thomas, Human Resources Director**, who joined the Trustee board with effect from 1 March 2012. Richard Farrar (Pensions Manager) 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 2011 our advisers were largely unchanged from the previous year and were:

ACTUARIAL CONSULTANTS	Mercer
SCHEME ADMINISTRATORS	Xafinity Paymaster
INVESTMENT MANAGERS	Legal & General
	Taube Hodson Stonex (until 11 May 2011)
	Aviva Fund Management
	BlueCrest Capital Management
INVESTMENT ADVISERS	Mercer
INVESTMENT CUSTODIANS	HSBC Global Investor Services
AUDITORS	Deloitte
SOLICITORS	DLA Piper UK
AVC PROVIDERS	Equitable Life
	AMP
	Standard Life
	Schroder
	Lloyds
BANKERS	



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 remarried or had children) 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 HR Operations.

2012 Pension Increases

For pension earned in respect of Pensionable Service built up after 5 April 1997, an increase is automatically granted to all pensioners each year in line with the increase in the Retail Prices Index to the previous September, up to a maximum of 5%. Since the RPI increase to September 2011 was in fact greater than 5%, the actual increase applied from 1 April 2012 was 5.0%.

Bribery Act 2010

The Trustee board have confirmed that they have a zero tolerance policy in relation to bribery and corruption and plan to adopt a policy in relation to hospitality. The Trustee board have undertaken Bribery Act training, and plan to receive further training on this matter.

For more information

If you have a query about any aspect of your Scheme membership, you should in the first instance (since they hold your personal records) contact the Scheme's administrators, Xafinity Paymaster Ltd. Their contact details are as follows:

Novartis UK Pension Scheme, Xafinity Paymaster Ltd., Sutherland House, Russell Way, Crawley, West Sussex RH10 1UH
Direct helpline: 01293 603047 Email: novartis@xafinitypaymaster.com

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 2012) at which the State Basic Pension is paid, if you have paid the required amount of National Insurance contributions during your working life, are £5,587.40 per year (£107.45 per week) and £8,936.20 per year (£171.85 per week) for a married couple. You can request a forecast of how much State Pension you are likely to receive at:

www.direct.gov.uk/en/pensionsandretirementplanning/statepension/statepensionforecast

Your State pension becomes payable when you reach State Pension Age. Following recent changes (as reported in last year's "Life"), your own State Pension Age depends on your gender and your date of birth; you can find out your exact State Pension Age under current legislation at:

<http://pensions-service.direct.gov.uk/en/state-pension-age-calculator/home.asp>

The amount of the State pension is increased annually. Since April 2011, the annual increase is in line with either that year's rise in earnings, the rise in the Consumer Prices Index, or 2.5% (whichever is the highest).

