



## Novartis Pension Fund – Your Pension Fund

### Purpose and Organization

The *Novartis Pension Fund* with almost 30000 insured members and retirees and assets worth 12.3 billion francs is one of the largest autonomous pension organizations in Switzerland.

Our basic insurance plan, the *Pension Scheme*, is essentially a defined benefit scheme (*Leistungsprimat*) whose target benefits (which are defined at 60% of insured remuneration for retirement age) determine the level of contributions. The funding is based on a 2:1 ratio of employer to employee contributions.

The additional plans of the *Bonus/Incentive* and the *Shift Insurance* were established to take into account your flexible salary components for pension purposes. These schemes, as in the pension plan of the so-called *BVG Insurance*, are defined contribution schemes (*Beitragsprimat*).

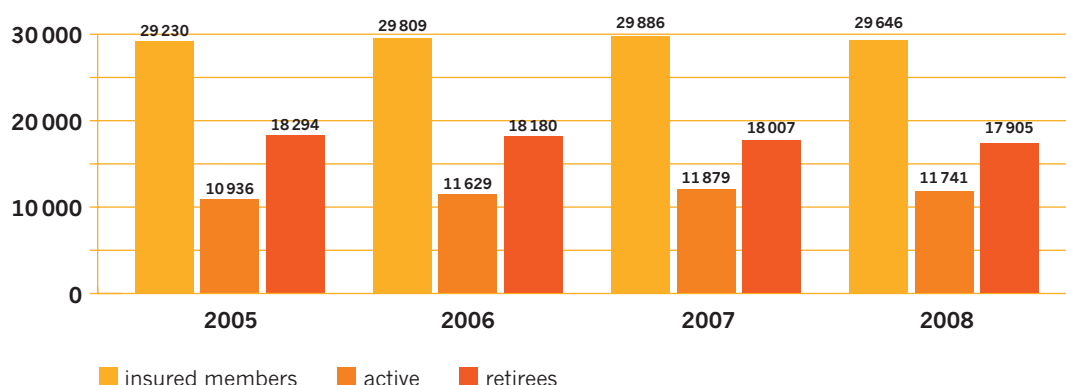
Equality of the sexes is a feature of all these schemes. In 2001, a new type of benefit was introduced in the form of a lifetime *partner's pension for unmarried couples*. The changes introduced four years ago with regard to *improved purchase opportunities for the pre-financing of early retirement* came about as a result of increased flexibility. Together with the *option to select a supplementary lifelong survivor's pension for the partner* and the *optional conversion of the Incentive/Bonus and Shift-Insurance lump-sum benefits*, the enhanced purchase opportunities should enable our insured members to plan and arrange their retirement benefits as much in keeping with their individual needs as possible.

The Board of Trustees of the Novartis Pension Fund is made up equally of 7 employer's and 7 employee' representatives. The elected employee representatives' period of office was extended until the end of 2008. Elections for the new four-year period of office starting on 1 January 2009 were held in December last year.

Pension Fund Organization (as of December 31, 2008)	
<b>Board of Trustees</b> (Period of office from October 1st, 2004 until December 31, 2008)	<b>Management</b> Dr. Markus Moser, <i>Managing Director</i> Marco Armellini, <i>Deputy Managing Director</i>
<b>Employer's Representatives</b> Michael Plüss ( <i>Chairperson</i> ) Dr. Robert Ettlin Remo Inglin Hans Locher Gabrielle Schaffer Dr. Gijs van Bussel Dr. Thomas Werlen	<b>Auditor</b> PricewaterhouseCoopers AG, Basel
<b>Employees' Representatives</b> Brigitte Martig ( <i>Deputy Chairperson</i> ) Susanne Berto Henriette Brunner Cathlyn Carley Bernd Körner Dr. Eva Trächslin Dr. Angelika Stampf	<b>Actuary</b> LCP Libera AG, Zurich
<b>Retirees' Committee</b> Erhard Eichenberger, Schönenbuch Gilbert Fahrni, Reinach Alex Gasser, Birsfelden	<b>Statutory Inspectorate</b> Aufsichtsbehörde BVG und Stiftungsaufsicht des Kantons Basel-Stadt Rheinsprung 16, 4001 Basel

### Statistical Data

Let us start with some **statistical data** on Novartis Pension Fund as reported in the actuarial statement: On 31 December 2008, there were 11 741 (previous year: 11 879) actively insured members compared with 17 905 (previous year: 18 007) retirees, of whom 11 876 had reached retirement age, 798 were drawing a disability pension, and 4 855 were drawing a widow(er)'s pension. Orphans' and children's pensions accounted for a further 376 current pensions. The average current pension income in the Novartis Pension Fund amounted to 39 070 (previous year: 38 795) francs.



### Annual Statement for 2008

The investment strategy is aimed at achieving long-term security for the benefits of the pension schemes, taking into account the concrete asset-liability status of the Fund, i.e. its actual financial situation as well as the structure and likely development of its insured membership. As a Pension Fund we have to be able to guarantee the fulfilment of our long-term obligations at any time.

The **operating statement for 2008** shows the following **flow of resources** for the current business:

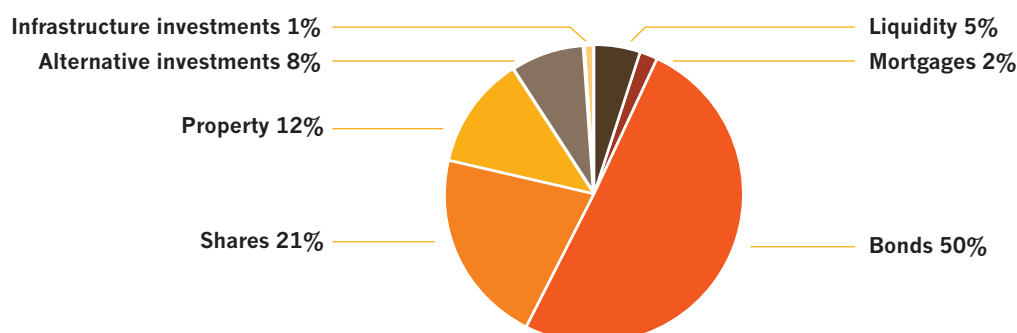
<b>Income (CHF millions)</b>	<b>2008</b>	<b>2007</b>
Employee contributions	69	70
Employer contributions	130	122
Joining fees and follow-up funding	65	76
Earnings from investments	352	356
Other earnings	2	0
Realized profit from investments	0	137
<b>Total income</b>	<b>618</b>	<b>761</b>
<b>Expenditure (CHF millions)</b>	<b>2008</b>	<b>2007</b>
Pension payments	720	726
Lump-sum payments	31	24
Portable sums, home ownership payments	128	105
Realized losses from investments	114	0
Administrative costs	4	4
<b>Total expenditure</b>	<b>997</b>	<b>859</b>
<b>Net income (growth of assets)</b>	<b>-379</b>	<b>-98</b>

Based on the flow of resources and taking into account the unrealized gains and losses from investments (cumulatively amounting to -1 333 million francs), assets decreased by a net 1 712 million francs in 2008.

The following **balance sheet** provides an overview of Pension Fund's assets in terms of their **market value**.

<b>Assets (CHF millions)</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
Liquidity and fixed-term deposits	627	1 015
Receivables	33	35
Bonds	6 082	6 072
Shares	2 596	3 829
Alternative investments	945	1 184
Infrastructure investments	177	96
Commodity investments	39	48
Mortgages	240	246
Real estate investments	1 518	1 444
<b>Total assets</b>	<b>12 257</b>	<b>13 969</b>

The composition of assets breaks down as follows:

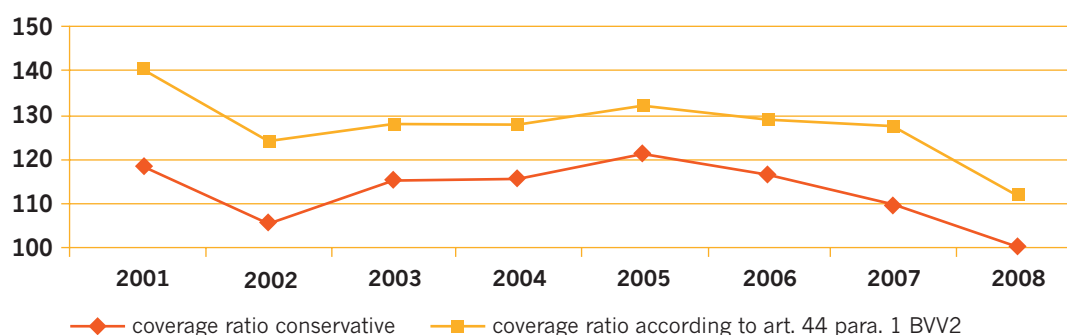


<b>Liabilities (CHF millions)</b>	<b>31.12.2008</b>	<b>31.12.2007</b>
Obligations and prepaid income	<b>35</b>	23
Accruals	<b>1</b>	0
Actuarial reserve and technical accruals	<b>10863</b>	10958
Fluctuation reserves	<b>1344</b>	1932
Funds for purchase of benefits and additional benefits	<b>14</b>	1056
<b>Total liabilities</b>	<b>12257</b>	13969

The assets are compared with the required actuarial reserve and technical accruals of 10863 million francs as per 31 December 2008, calculated in accordance with recognized actuarial principles based on art. 53 para. 2 BVG. In addition to these liabilities, the Pension Fund also has reserves for fluctuations in value as well as accruals regarding the former sale of real estate. Finally, the funds for purchase of benefits and additional benefits, amounting to 14 million francs, contain the so-called free resources of the Pension Fund.

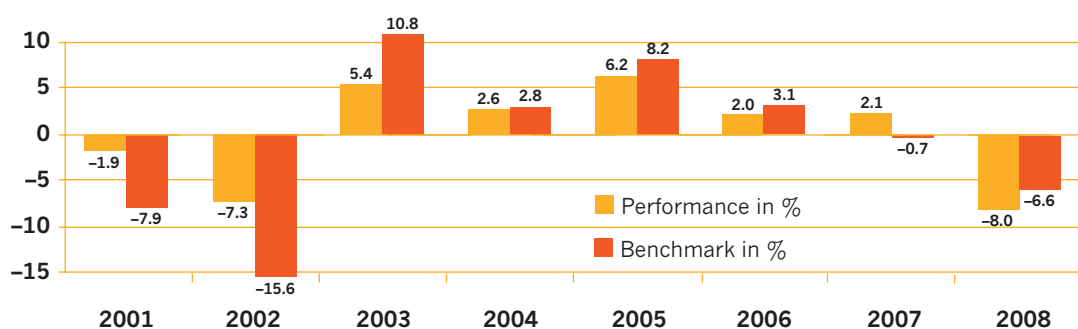
The ratio of tied assets to free assets gives the **coverage ratio ("Deckungsgrad")**, which at the end of the year under review amounted to 100.1%. This is based on our traditionally conservative method of calculation. However, according to the more common method of declaration used by the Supervisory Authorities in accordance with art. 44 para. 1 BVV2, the coverage ratio amounts to 112.5%. On the one hand, this means that the fluctuation reserves are still approximately at their target level, and the capacity of Novartis Pension Fund to manage financial risk thus remains largely intact. On the other hand, however, there are hardly any further free funds available.

#### Development of Coverage Ratio 2001–2008, in %



#### Performance 2008 and Allocation

The dramatic corrections on the stock markets also left their mark on the portfolio of Novartis Pension Fund. The more "defensive" asset categories, such as bonds and real estate, were not able to compensate for these negative effects. In view of the strategically greater weighting of stocks versus the benchmark allocation (which remained unchanged up to the end of 2008), the performance of -7.97% that was achieved by the Pension Fund fell short of the corresponding benchmark value (of -6.55%). The *Pictet BVG25plus* index showed a performance of -11.51% over the same period.



The detailed annual report for 2008 can be obtained from the Pension Fund Administration:  
Telephone +41 61 324 24 20, e-mail: [markus-pk.moser@novartis.com](mailto:markus-pk.moser@novartis.com)