

2009



Novartis Pension Fund – *Your Pension Fund*

Purpose and Organization

The *Novartis Pension Fund* with more than 30000 insured members and retirees and assets worth 12.94 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*).

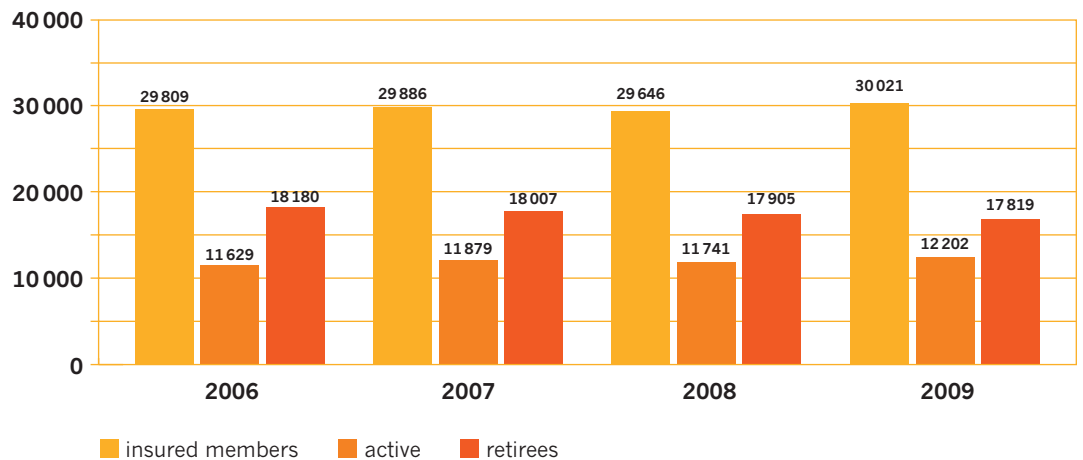
Equality of the sexes is a feature of all these plans. In 2001, a new type of benefit was introduced in the form of a lifetime *partner's pension for unmarried couples*. The changes introduced five years ago with regard to *improved purchase opportunities for the pre-financing of early retirement* came 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 employers' and 7 employee's representatives. The employee representatives were elected to a new four-year term of office in December 2008.

Pension Fund Organization (as of December 31, 2009)	
Board of Trustees (Period of office from January 1, 2009 until December 31, 2012)	Management Dr. Markus Moser, <i>Managing Director</i> Marco Armellini, <i>Deputy Managing Director</i>
Employer's Representatives Michael Plüss (<i>Chairperson</i>) Dr. Martin Batzer Remo Inglin Hans Locher Knut Mager Dr. Gijs van Bussel Armin Züst	Auditor PricewaterhouseCoopers AG, Basel
Employees' Representatives Dr. Eva Trächslin (<i>Deputy Chairperson</i>) Susanne Berto Henriette Brunner Cathlyn Carley Rudolf Haas Bernd Körner Brigitte Martig	Actuary LCP Libera AG, Zurich
Retirees' Committee Erhard Eichenberger, Schönenbuch Gilbert Fahrni, Reinach Alex Gasser, Birsfelden	Statutory Inspectorate 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 2009, there were 12 202 (previous year: 11 741) actively insured members compared with 17 819 (previous year: 17 905) retirees, of whom 11 829 had reached retirement age, 734 were drawing a disability pension, and 4 889 were drawing a widow(er)'s pension. Orphans' and children's pensions accounted for a further 367 current pensions. The average current pension income in the Novartis Pension Fund amounted to 39 248 (previous year: 39 070) francs.



Annual Statement for 2009

The investment strategy is aimed at achieving long-term security for the benefits of the pension plans, 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. As shown in the financial statement for 2009, Novartis Pension Fund has coped well with the consequences of the financial crisis.

Cash flow statement for the current business:

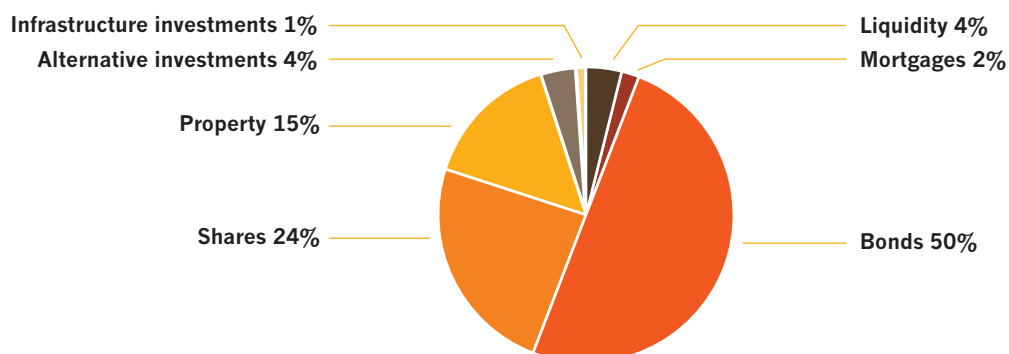
Income (CHF millions)	2009	2008
Employee contributions	73	69
Employer contributions	196	130
Joining fees and follow-up funding	79	65
Earnings from investments	324	352
Other earnings	0	2
Total income	672	618
Expenditure (CHF millions)	2009	2008
Pension payments	724	720
Lump-sum payments	29	31
Portable sums, home ownership payments	78	128
Realized losses from investments	399	114
Administrative costs	4	4
Change in liabilities	18	0
Total expenditure	1252	997
Net income (growth of assets)	-580	-379

Based on the cash flow statement and taking into account the cumulative unrealized gains and losses from investments of CHF 1 263 million francs, assets increased by a net CHF 683 million in 2009. A contributory factor behind the good result was also the fact that the cost of last year's salary increases (of 62 million francs) was covered by the founding company.

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

Assets (CHF millions)	31.12.2009	31.12.2008
Liquidity and fixed-term deposits	574	627
Receivables	23	33
Bonds	6438	6082
Shares	3099	2596
Alternative investments	480	945
Infrastructure investments	175	177
Commodity investments	16	39
Mortgages	219	240
Real estate investments	1916	1518
Total assets	12940	12257

The composition of assets breaks down as follows:

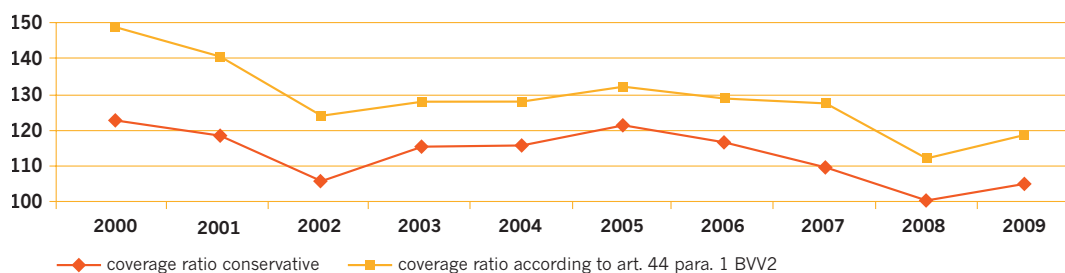


Liabilities (CHF millions)	31.12.2009	31.12.2008
Obligations and prepaid income	19	35
Accruals	1	1
Actuarial reserve and technical accruals	10832	10863
Fluctuation reserves	1659	1344
Funds for purchase of benefits and additional benefits	429	14
Total liabilities	12940	12257

The assets are compared with the required actuarial reserve and technical accruals of 10832 million francs as per 31 December 2009, 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 429 million francs, contain the so-called free resources of the Pension Fund.

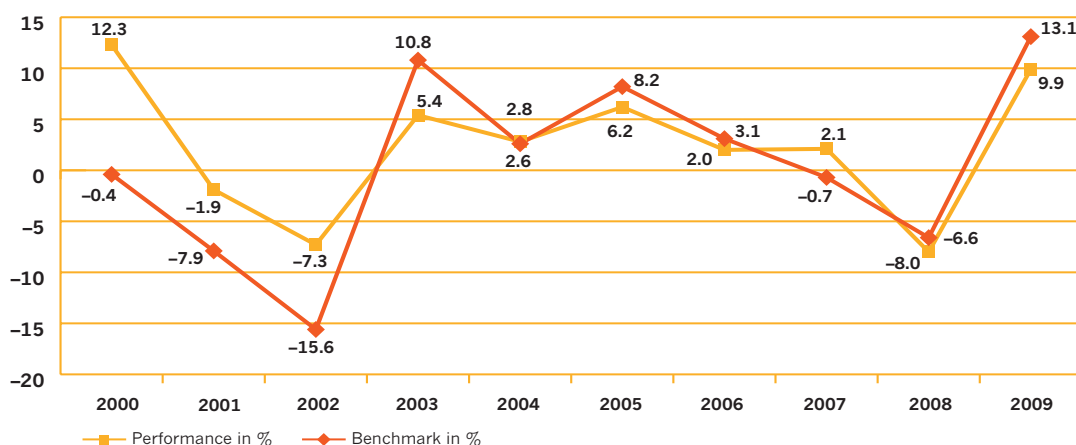
The ratio of tied assets to free assets gives the **coverage ratio ("Deckungsgrad")**, which at the end of the year under review amounted to 104%. This is based on our traditionally conservative method of calculation. However, according to the more common method of declaration used by the Supervisory Authorities in accordance with art. 44 para. 1 BVV2, the coverage ratio amounted to 119.3%. This means that the fluctuation reserves are at their target level, and the capacity of Novartis Pension Fund to manage financial risk is intact. In addition, there are further free funds available. In short, the Pension Fund's financial situation is solid.

Development of Coverage Ratio 2000–2009, in %



Performance 2009 and Allocation

After the stock markets had reached their lowest point at beginning of March last year, the first signs of recovery started to appear in the 2nd quarter. The recovery continued throughout the following quarters, although markets remained highly volatile. The losses of the first two months were more than set off as a result. The performance was a robust +9.93%, but remained down on the corresponding benchmark value (of +13.13%), especially due to the weight of defensive stocks in the share portfolio.



The detailed annual report for 2009 can be obtained from the Pension Fund Administration: Telephone +41 61 324 24 20, e-mail: markus-pk.moser@novartis.com