

2011



Novartis Pension Funds – Your Pension Funds

Purpose and Organization

The *Novartis Pension Fund 1* with more than 30 000 insured members and retirees and assets worth 11.8 billion francs is one of the largest autonomous pension organizations in Switzerland. It has now been joined by the new *Novartis Pension Fund 2* with assets of CHF 376.3 million.

The Board of Trustees decided to change from a defined-benefits plan to a defined-contributions plan. Its aim is to institute a sustainably financed and transparent pension fund for all Swiss-based Novartis associates that fits the purpose and ensures optimum flexibility for the future. The change in plans took place on January 1, 2011, and required that the Novartis Pension Fund be split into two legal entities, namely Novartis Pension Fund 1 and Novartis Pension Fund 2.

As shown in the recently published annual reports for 2011, the Novartis Pension Funds are off to a good start in the new world of modern pension arrangements.

The new *Novartis Pension Fund 2* – an innovative approach

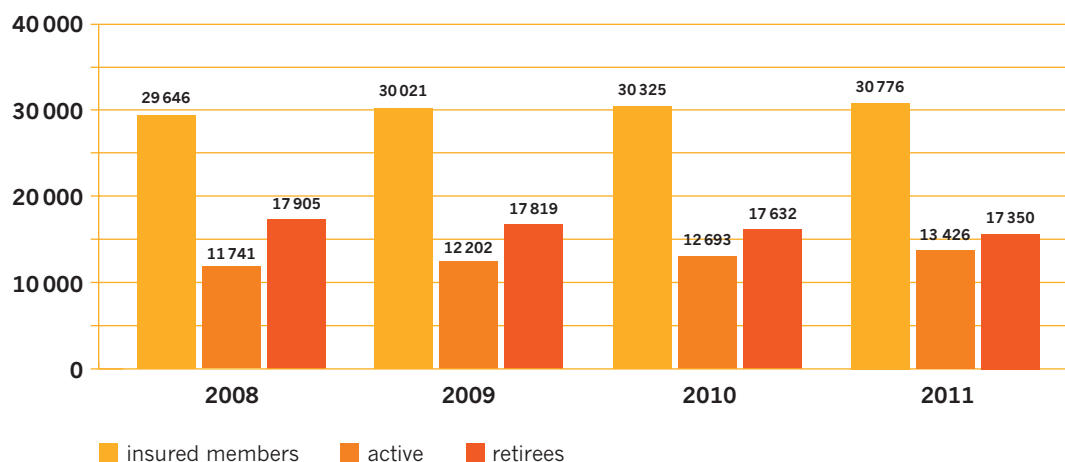
Even the regulated field of occupational pensions in Switzerland has leeway for flexible solutions. Besides offering insured members ways of tailoring their pension to meet their needs, these solutions also require them to take more personal responsibility. One example is to let customers select the investment strategy in the non-mandatory field of pension arrangements. *Novartis Pension Fund 2*, for instance, shows how this approach can work in practice. Insured members can choose among four investment strategies with different risk profiles. In this way, insured members can design their own life cycle model, with higher risk (i.e. emphasis on equities) in younger years and lower risk (i.e. bonds or money market) in the final years leading up to retirement. A total of 679 of the 4121 participants availed themselves of this option by the end of the reporting period. Total performance amounted to +3.13 percent.

The Board of Trustees of the *Novartis Pension Fund 1* is made up equally of 7 employer's and 7 employees' representatives. The employee representatives were elected to a new four-year term of office in December 2008.

Organization <i>Novartis Pension Fund 1</i> (as of December 31, 2011)	
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>
Employers' Representatives Christian Eugster (<i>Chairperson</i>) Dr. Martin Batzer Remo Inglin Hans Locher Knut Mager Stephan Mumenthaler Armin Züst	Auditor PricewaterhouseCoopers AG, Basel
Employees' Representatives Dr. Eva Trächslin (<i>Deputy Chairperson</i>) Susanne Berto Henriette Brunner Cathlyn Carley Rudolf Haas Daniel Linder 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 Spiegelgasse 6 4001 Basel

Statistical Data

Let us start with some statistical data on *Novartis Pension Fund 1* as reported in the actuarial statement: On 31 December 2011, there were 13 426 (previous year: 12 693) actively insured members compared with 17 350 (previous year: 17 632) retirees, of whom 11 363 had reached retirement age, 632 were drawing a disability pension, and 4 921 were drawing a widow(er)'s pension. Orphans' and children's pensions accounted for a further 434 current pensions. The average current pension income amounted to 39 288 (previous year: 39 153) francs.



Annual Statement for 2011

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.

Change in fund value for the current business:

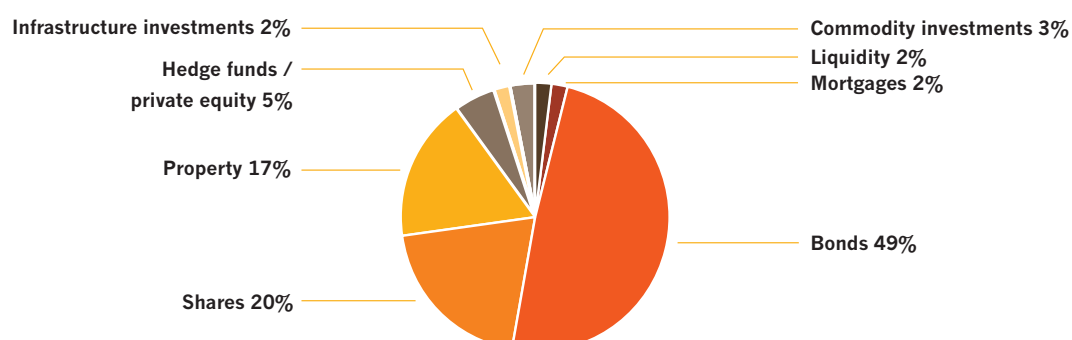
Income (CHF millions)	2011	2010
Employee contributions	97	76
Employer contributions	175	137
Joining fees and follow-up funding	100	74
Deposits on take-over of insured members	24	0
Earnings from investments	101	156
Realized gains from investments	0	588
Total income	497	1 031
Expenditure (CHF millions)	2011	2010
Pension payments	-706	-717
Lump-sum payments	-20	-21
Portable sums, home ownership payments	-92	-94
Realized losses from investments	-204	-0
Administrative costs	-4	-5
Miscellaneous	-10	-2
Total expenditure	-1 036	-839
Net cash flow	-539	192
Cumulative change in asset values	+83	
Change in fund value	-456	

Based on the result from cash flows (CHF -539 million) and taking into account the cumulative change in value of the assets (CHF +83 million), the overall net decrease in the Fund's value in 2011 was CHF 456 million.

The following *Balance sheet* provides an overview of the assets of *Novartis Pension Fund 1* in terms of their market value.

Assets (CHF millions)	31.12.2011	01.01.2011
Liquidity deposits	218	615
Receivables	20	41
Bonds	5 786	5 286
Shares	2 445	3 338
Hedge funds and private equity	588	342
Infrastructure investments	209	173
Commodity investments	343	280
Mortgages	186	204
Real estate investments	2 069	2 008
Currency overlay	-33	0
Total assets	11 831	12 287
Obligations and accruals	-20	-37
Net fund value	11 811	12 250

The composition of assets breaks down as follows:



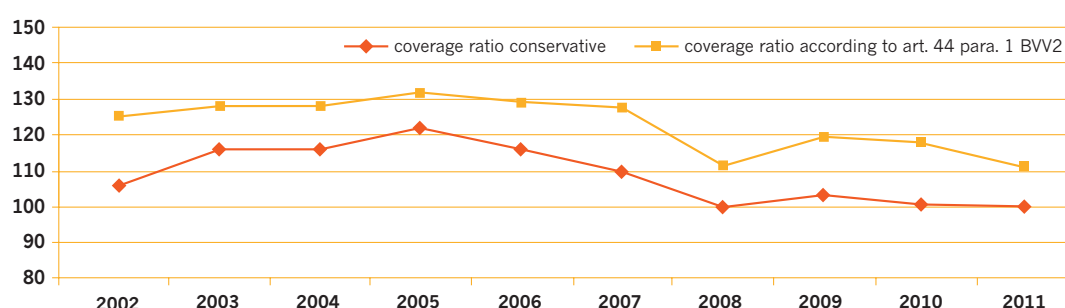
Liabilities (CHF millions)*	31.12.2011	01.01.2011
Actuarial reserve and technical accruals	10479	10468
Fluctuation reserves	1311	1673
Free funds	21	109
Total liabilities	11811	12250

* Not including obligations and accruals

The assets are compared with the required *actuarial reserve* and technical accruals of 10479 million francs as per 31 December 2011, calculated in accordance with recognized actuarial principles based on art. 53 para. 2 BVG. In addition to these liabilities, there are fluctuation reserves set aside for the market-specific risks associated with these assets so that the Pension Fund retains its ability to handle financial risk.

The *coverage ratio* is computed as the ratio of tied assets to free assets. According to the common method of declaration in accordance with art. 44 para. 1 BVV 2, the coverage ratio amounted to 112.7 percent. This means that the fluctuation reserves are still close to their target level and that the capacity of *Novartis Pension Fund 1* to manage financial risk is still intact. At the same time, there are hardly any further free funds available.

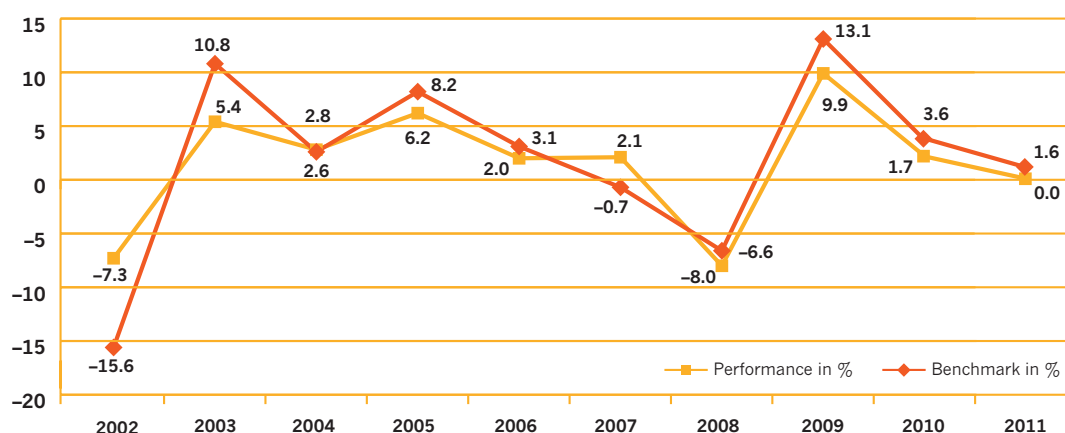
Development of Coverage Ratio 2002–2011, in %



Performance 2011

We look back on yet another turbulent year for investments. Against the backdrop of the European debt crisis and gloomy economic forecasts, the equity markets recorded major price corrections followed by a sideward movement with striking fluctuations. Bond markets were also fraught with nervousness and risk aversion, leading to a persistent though now “controlled” over-valuation of the Swiss franc.

The overall performance of *Novartis Pension Fund 1* was –0.02 percent, a figure that lagged behind the corresponding benchmark comparison value (of +1.57 percent).



The detailed annual report for 2011 can be obtained from the Pension Fund Administration:
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Basel, March 2012

Markus Moser / Thierry Beck-Wissmann