

2012



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 12.3 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 419.7 million.

In 2010, the Board of Trustees had decided to change from a defined benefits plan to a defined contributions plan. Its aim is to provide a sustainably financed and transparent pension scheme for all Swiss-based Novartis associates that fits the purpose and ensures optimum flexibility. The plan change 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 2012, the Novartis Pension Funds are in a good shape to meet the challenges of the future.

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

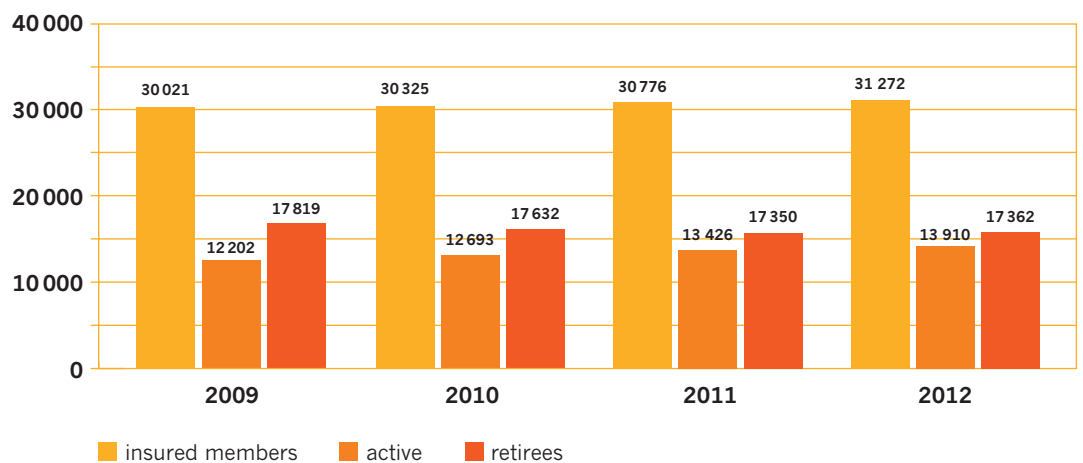
Even the regulated field of occupational pensions in Switzerland has leeway for flexible solutions. Besides offering insured members ways of tailoring their pension to meet their needs, these solutions also require them to take more personal responsibility. One example is to let customers select the investment strategy in the non-mandatory area of pension arrangements. *Novartis Pension Fund 2*, for instance, shows how this approach can work in practice. Insured members can now choose from five (formerly four) investment strategies with different risk profiles. A total of 853 of the 4 480 participants availed themselves of this option by the end of the reporting period. Total performance amounted to +5.32 percent.

The Board of Trustees of the *Novartis Pension Fund 1* is made up equally of 7 employer's and 7 employees' representatives.

Organization <i>Novartis Pension Fund 1</i> (as of December 31, 2012)	
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 Christian Eugster (<i>Chairperson</i>) Dr. Martin Batzer Dr. Thomas Boesch Pascal Brenneisen Remo Inglin Knut Mager Dr. Stephan Mumenthaler	Statutory Auditor PricewaterhouseCoopers AG, Basel
Employees' Representatives Dr. Eva Trächslin (<i>Deputy Chairperson</i>) Henriette Brunner Cathlyn Carley Rudolf Haas Daniel Linder Brigitte Martig Silvia Müller	Actuary LCP Libera AG, Zurich
Retirees' Committee Erhard Eichenberger, Schönenbuch Gilbert Fahrni, Reinach Alex Gasser, Birsfelden	Statutory Inspectorate BVG und Stiftungsaufsicht beider Basel (BSABB) 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 2012, there were 13 910 (previous year: 13 426) actively insured members compared with 17 362 (previous year: 17 350) retirees, of whom 11 247 had reached retirement age, 587 were drawing a disability pension, and 4 894 were drawing a widow(er)'s pension. Orphans' and children's pensions accounted for a further 634 current pensions. The average current pension income amounted to 39 053 (previous year: 39 288) francs.



Annual Statement for 2012

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:

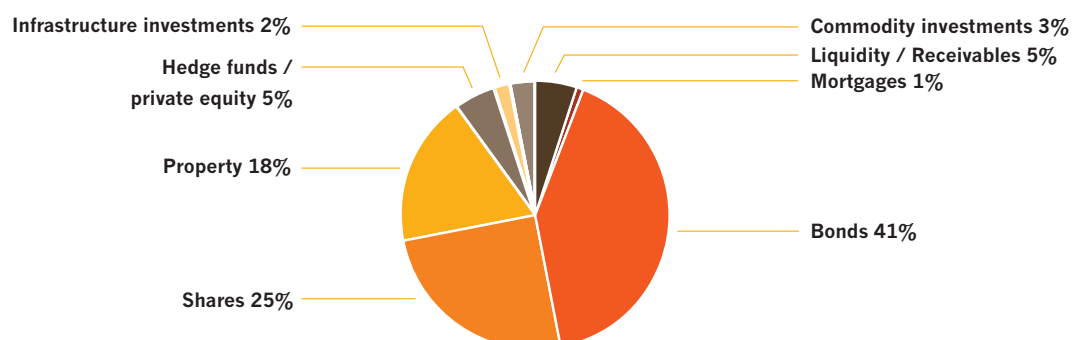
Income (CHF millions)	2012	2011
Employee contributions	104	97
Employer contributions	197	175
Joining fees and follow-up funding	192	100
Deposits on take-over of insured members	2	24
Earnings from investments	95	101
Miscellaneous	6	0
Total income	596	497
Expenditure (CHF millions)	2012	2011
Pension payments	-697	-706
Lump-sum payments	-22	-20
Portable sums, home ownership payments	-113	-92
Realized losses from investments	-32	-204
Administrative costs	-4	-4
Miscellaneous	-0	-10
Total expenditure	-868	-1 036
Net cash flow	-272	-539
Cumulative change in asset values	+791	
Change in fund value	519	

Based on the result from cash flows (CHF -272 million) and taking into account the cumulative change in value of the assets (CHF +791 million), the overall net increase in the Fund's value in 2012 was CHF 519 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)	31.12.2012	31.12.2011
Liquidity deposits	483	218
Receivables	75	20
Bonds	5 080	5 786
Shares	3 141	2 445
Hedge funds and private equity	607	588
Infrastructure investments	227	209
Commodity investments	350	343
Mortgages	167	186
Real estate investments	2 198	2 069
Currency overlay	22	-33
Total assets	12 350	11 831
Obligations and accruals	-33	-20
Net fund value	12 317	11 811

The composition of assets breaks down as follows:



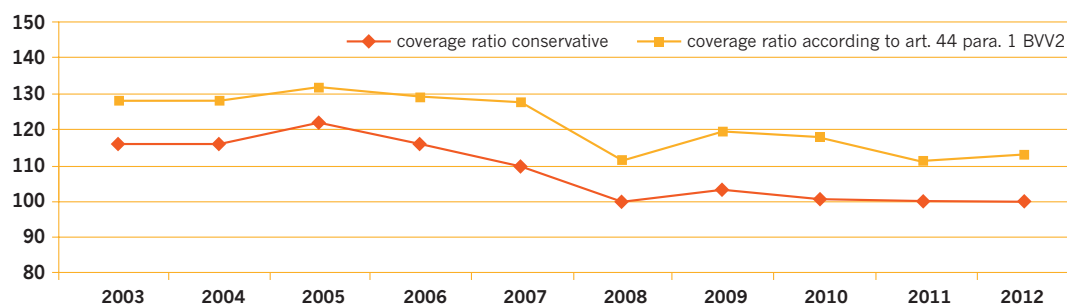
Liabilities (CHF millions)*	31.12.2012	31.12.2011
Actuarial reserve and technical accruals	10838	10479
Fluctuation reserves	1458	1311
Free funds	21	21
Total liabilities	12317	11811

* Not including obligations and accruals

The assets are compared with the required *actuarial reserve* and technical accruals of 10838 million francs as per 31 December 2012, 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. Based on the conventional method of declaration in accordance with art. 44 para. 1 BVV 2, the coverage ratio amounted to 113.6 percent. This means that the fluctuation reserves are close to their target level and that the capacity of *Novartis Pension Fund 1* to manage financial risk is mostly intact. At the same time, there are hardly any further free funds available. On the other hand, the capital base required to meet our pension liabilities was reinforced in an initial step by around 300 million francs, associated with an adjustment in the technical interest rate to 3.0%.

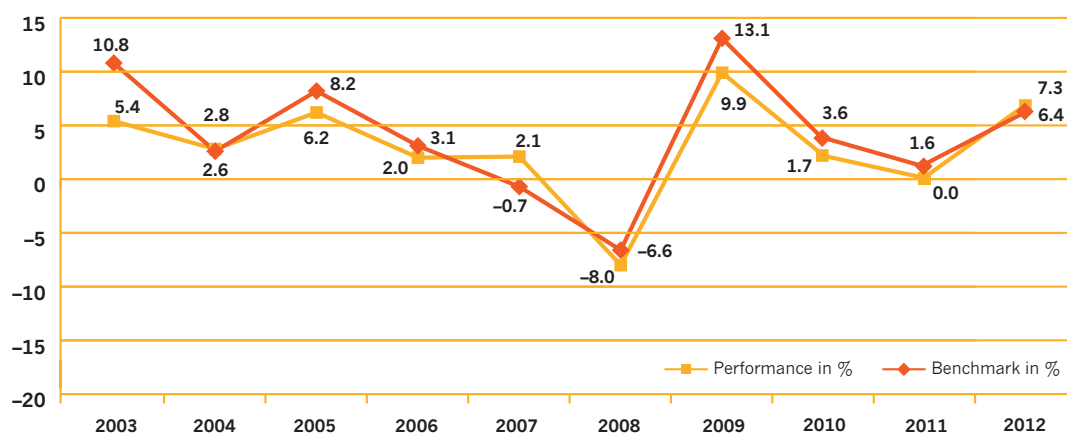
Development of Coverage Ratio 2003–2012, in %



Performance 2012

We look back on yet another turbulent year for investments. The renewed flare-up of the crisis in Greece last spring loomed ominously. But then there was a marked recovery on the financial markets that was (and is) essentially due to the sustained stabilizing and stimulating monetary policy measures of the European and US central banks.

The overall performance of *Novartis Pension Fund 1* amounted to +7.32% and thus exceeded the benchmark value (of +6.37%) by almost 100 basis points.



The detailed Annual Report for 2012 can be obtained from the Pension Fund Administration:
Telephone +41 61 324 24 20, e-mail: markus-pk.moser@novartis.com