
ORGANISATION EUROPÉENNE POUR LA RECHERCHE NUCLÉAIRE
CERN EUROPEAN ORGANIZATION FOR NUCLEAR RESEARCH

Action to be taken

Voting procedures

For recommendation	FINANCE COMMITTEE 336 th Meeting 22 June 2011	Simple majority of Member States represented and voting and 51% of the contributions of all Member States
For approval	COUNCIL SESSION 159 th Session 23-24 June 2011	Simple majority of Member States represented and voting

The Finance Committee is invited to recommend to the Council and the Council is invited to approve the financial statements of CERN Pension Fund for the Financial year 2010 and to grant discharge to the Pension Fund Governing Board.

PENSION FUND

**Financial Statements
for the
Financial Year
2010**

audited by two representatives of the
**ITALIAN COURT OF AUDIT
CORTE DEI CONTI**

ORGANISATION EUROPÉENNE POUR LA RECHERCHE NUCLÉAIRE
CERN EUROPEAN ORGANIZATION FOR NUCLEAR RESEARCH

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This Report is published in accordance with International Public Sector Accounting Standards (IPSAS) and the Rules and Regulations of the Pension Fund.

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Dear Members and Beneficiaries of the CERN Pension Fund:

As chairman of the CERN Pension Fund Governing Board, it is my pleasure to present you with the Fund's Financial Statements for the Financial Year 2010. During the year the development of the Fund passed two major milestones: the adoption of the amended Chapter 1 of the Fund's Rules, and the approval by CERN Council of additional extraordinary contributions for the first time as part of a set of recovery measures.

The amendments to the Chapter 1 of the Rules of the Pension Fund were submitted by the Pension Fund Governing Board to CERN Council and approved in December 2010. These amendments incorporate a governance structure in the Fund's Rules, which entrusts the Pension Fund Governing Board, a subsidiary body of Council, with the overall management of the Fund. The updated Rules were designed to support the Pension Fund's particular mission, which includes the generation of financial gain from its investments. During 2010 the investments of the Fund generated more than 100 million CHF in net gain for CERN.

The other major development of the past year was the approval by CERN Council of the first part of a set of recovery measures for reaching full funding for the Pension Fund. These measures include special contributions of 60 million CHF per annum. This provision in the CERN budget has been included in the medium-term plan of CERN, and the first instalment has already been paid at the time of this writing. As a result, it is expected that in 2011 the sum of the direct and indirect (i.e. through payroll deductions) contributions to the Fund by CERN and ESO will exceed 190 million CHF. This favourable development is the culmination of a multi-year effort by the CERN management and the Governing Board to raise awareness of the need for additional funding.

The need for long-term additional funding is underscored by the Fund's technical deficit. At the end of 2010, this deficit amounted to 3.2 billion CHF according to the calculation under International Public Sector Accounting Standards, and 1.7 billion CHF according to the set of assumptions used by the Governing Board for funding purposes. This last figure corresponds to a funding ratio of 69.4%. While this is essentially unchanged from the prior year's 69.5%, in part due to favourable actuarial experience, the funding ratio would follow a downward trend without additional funding, even if the Fund meets its target return on invested assets.

Indeed, a key assumption behind the projected future trajectory of the funding ratio of the Fund is the level of profits earned on the assets of the Fund. The formal objective of the Fund, as approved by Council and as included in the Fund's technical balance sheet, is to deliver 3 percentage points of return above inflation. During 2010, the Fund very nearly reached this ambitious objective despite very volatile market conditions. During this year the Board and its Investment Committee will review the Fund's investment principles to ensure they underpin the Fund's short- and long-term objectives.

In closing I would like to express my appreciation for the dedication, commitment, and many contributions of the members of the Board and its Investment Committee, as well as of the staff of the Pension Fund management unit for the progress made during 2010. I also want to thank the previous Chairman, Prof. Federico Ferrini, for his valuable contribution to the Fund. Together with the entire Board, the Vice-Chair, Dorothée Duret, and I look forward to implementing the Fund's new governance, and to continuing to serve the Fund's mission.



Dan-Olof Riska,
Chairman, Pension Fund Governing Board

I. FINANCIAL STATEMENTS

1.1 Statement of Financial Position

Statement of Financial Position

(in CHF)	Notes	31.12.10	31.12.09
ASSETS			
Cash and Cash Equivalents	1	1,532,091,989	1,413,880,575
Settlements receivable		-	413,356
Sundry Debtors	2	2,525,585	3,297,936
Other Receivables	3	14,077,273	15,653,572
Derivatives	4	101,796,533	25,751,423
Bonds		772,479,303	858,900,840
Equities		677,589,739	775,652,527
Investment Funds and index investments		318,274,422	326,390,155
Total Financial assets		3,418,834,843	3,419,940,385
Non-Financial assets			
Investment Property	5	455,781,490	515,115,521
Total Non-Financial assets		455,781,490	515,115,521
Total assets		3,874,616,333	3,935,055,906
LIABILITIES			
Settlements payable		138,771	440,823
Sundry creditors	6	8,436,991	11,178,355
Other payables	7	3,408,746	4,197,527
Provisions	8	1,564,407	1,855,520
Derivatives	4	3,432,373	13,900,677
Total liabilities		16,981,287	31,572,902
Net assets available for benefits		3,857,635,046	3,903,483,004
Transfer values of active members or current value of deferred pensions (without future adjustment)		2,501,124,812	2,207,217,923
Mathematical reserves of the beneficiaries		4,325,236,390	4,108,244,496
Vested pension capital		6,826,361,202	6,315,462,419
Provision for increased life expectancy		216,261,820	184,871,002
Technical provision		216,261,820	184,871,002
Vested pension capital and technical provisions (CP)		7,042,623,022	6,500,333,421
Technical deficit		(3,184,987,976)	(2,596,850,417)

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1.2 Statement of Financial Performance



Statement of Financial Performance

(in CHF)	Notes	31.12.10	31.12.09
Investment Income			
Gains/(losses) on Financial Assets at Fair Value Through Profit & Loss	9	(95,915,100)	188,749,137
Dividends		30,003,414	25,224,851
Interest income	10	51,326,472	61,385,639
Investment property income	11	(14,814,551)	48,060,940
Results on Sales of Financial Assets	12	9,399,894	187,160,420
Foreign Exchange gains	13	153,805,793	(16,580,804)
		<u>133,805,923</u>	<u>494,000,184</u>
Investment Expenses			
Investment Management Fees		4,224,430	4,534,718
Custody Fees and Administration of securities		1,065,105	1,071,257
Transaction costs		3,393,497	2,117,398
Investment property Coordinators Management Fees		154,000	154,000
Investment property expenditure	14	5,818,368	9,020,065
Taxation		256,027	5,994
Total Investment Expenses		<u>14,911,427</u>	<u>16,903,432</u>
Net Investment Income		118,894,496	477,096,752
Other Income		262,259	75,430
Total Income		<u>119,156,755</u>	<u>477,172,182</u>
Other Expenses			
Bank Charges		40,686	48,934
Administration Costs		4,867,457	4,262,660
Total Other Expenses		<u>4,908,143</u>	<u>4,311,594</u>
Change in Net Assets before Membership Activities		<u>114,248,612</u>	<u>472,860,588</u>
Membership Activities:	15		
Contributions			
Member Contributions		44,008,159	42,185,411
Employer Contributions		88,615,364	84,921,621
Purchase of additional years of membership		1,675,742	1,056,291
Indemnities received from third parties		1,124,597	211,909
Compensations		4,828,769	2,556,588
Procurement of Entitlement to pension for surviving spouse		13,896	3,474
Total Contributions		<u>140,266,527</u>	<u>130,935,294</u>
Benefits and Payments			
Retirement pensions		243,514,384	236,663,026
Disability pensions		2,237,951	2,266,000
Surviving spouse pensions		30,103,180	28,023,403
Orphans pensions		1,188,477	939,113
Family allowances		15,067,768	14,728,953
Ex gratia payments granted		86,184	100,003
Transfer values paid to members		7,283,789	6,050,577
Transfer values paid to other schemes		513,926	822,918
Contributions paid to Other Schemes		367,438	399,360
Total Benefits and Payments		<u>300,363,097</u>	<u>289,993,353</u>
Net Membership Activities Cost		(160,096,570)	(159,058,059)
Net Increase/(Decrease) in Net Assets During Year		(45,847,958)	313,802,530
Net Assets Available for Benefits at Beginning of Year		3,903,483,004	3,589,680,474
Net Assets Available for Benefits at End of Year		<u><u>3,857,635,046</u></u>	<u><u>3,903,483,004</u></u>




1.3 Cash Flow Statement

(in kCHF)	Year ended 31 December	
	2010	2009
Cash flows from membership activities		
Contributions and other receipts	139,283	130,592
Benefits and other payments	<u>(300,326)</u>	<u>(291,154)</u>
	(161,043)	(160,562)
Cash flows from investing activities		
Payments financial assets	(2,594,485)	(1,597,129)
Payments real estate	(13,983)	(15,490)
Proceeds from sale of financial assets	2,692,491	1,742,482
Proceeds from sale of investment property	12,050	0
Investment property receipts	38,379	45,588
Dividends received	29,615	23,709
Interest received	50,012	59,896
Tax (payments)/reimbursements	(220)	2,172
Management and Custody Fees	(5,698)	(4,892)
Administrative and other Operating expenses paid	<u>(3,797)</u>	<u>(3,623)</u>
	204,364	252,713
Net (decrease) increase in cash and cash equivalents	43,321	92,151
Cash at beginning of the year	1,413,880	1,236,087
Exchange gains /(losses) on cash and cash equivalents	<u>74,890</u>	<u>85,642</u>
Cash at end of the year	<u><u>1,532,091</u></u>	<u><u>1,413,880</u></u>

1.4 Statement of Changes in Net Assets Available for Benefits

Statement of Changes in Net Assets Available for Benefits

	CHF
Balance as at 31 December 2008	3,589,680,474
Employer contribution	84,921,621
Employee contribution	42,185,411
Purchase of additional years	1,056,291
Indemnities and Compensations	2,768,497
Procurement of Entitlement to pension for surviving spouse	3,474
Benefits paid	(282,720,498)
Transfer values and contributions paid	(7,272,855)
Investment income	494,000,184
Other Income	75,430
Investment expenses	(16,910,932)
Other expenses	(4,304,094)
Balance as at 31 December 2009	3,903,483,004
Employer contribution	88,615,364
Employee contribution	44,008,159
Purchase of additional years	1,675,742
Indemnities and Compensations	5,953,366
Procurement of Entitlement to pension for surviving spouse	13,896
Benefits paid	(292,197,944)
Transfer values and contributions paid	(8,165,153)
Investment income	133,805,923
Other Income	262,259
Investment expenses	(14,911,427)
Other expenses	(4,908,143)
Balance as at 31 December 2010	3,857,635,046




II. NOTES TO THE FINANCIAL STATEMENTS

2.1 General Information

Fund Description¹

Under Articles S IV 2.01, 02 and 03 04 of the CERN Staff Rules and Regulations, the Organization, which has its seat in Geneva, is responsible for the social insurance coverage of its staff. Thus it created in 1955 a capitalized pension fund which constitutes the CERN personnel's only social protection.

The members of the personnel of the European Southern Observatory (ESO), which has its seat in Munich, are also members of the CERN Pension Fund.

The CERN Pension Fund does not have a separate legal status and forms an integral part of CERN. As the Pension Fund does not fall under any national legislation, the CERN Council has provided a legal framework for the independent operations of the Pension Fund within CERN. The assets of the Fund are held separately from those of CERN and ESO, the two Fund sponsors. They must be totally and exclusively used for the purpose of the benefits provided for by the Fund Rules.

Article I 3.03 of the Pension Fund Rules states that "*CERN and ESO guarantee the benefits acquired under the provisions of these Rules by the members of their own personnel until the cessation of the rights*

¹ As this document relates to the Fund's Financial Statements for the year 2010, the articles of the Fund's Rules mentioned in this document are those which were in force during the year 2010 (i.e. prior to the approval by the Council, in December 2010, of the revised Chapter 1 of the Fund's Rules, which entered into force on 1 January 2011).

of the last beneficiary". In the event of mergers, reconstitution or other changes in either of these organizations, the Council of the organization concerned must take the necessary steps for the continuation of the pensions. In the event of dissolution of CERN, its Council will, without prejudice to other systems providing equivalent guarantees, set up a Foundation under Swiss law to succeed the Fund in order to guarantee the rights acquired as at the date of dissolution and will implement any steps for integration into the national social security systems of the Member States guaranteeing such equivalence. In the event of dissolution of ESO, its Council will take the necessary steps to guarantee the rights acquired by the members of its personnel who are members of the Fund.

Article I 1.01 of the Pension Fund Rules states that "*The Pension Fund, hereinafter referred to as the Fund, has the purpose of insuring its members and beneficiaries and the members of their families against the economic consequences of the disability and old age of its members and of the death of its members and beneficiaries*".

The Fund is a defined-benefit scheme. The official retirement age is 65. Pensions are calculated on the basis of 2% of the reference salary per year of contribution (maximum: 70%). The entitlement to a pension begins after a minimum of five years' contributions. Similarly, in the event of a member's resignation, the Pension Fund will transfer the acquired rights to another pension scheme.

The PFGB has changed its working procedure and structure in order to assure the proper and consistent implementation of the new governance principles and policy (CERN/2733/Rev.). This important reform aims to guarantee the protection of the present and future benefits of pensioners and active staff by improving the funding policy, the structure of the bodies of the Fund and its management.

Article I 2.01 of the Pension Fund Rules states that the Fund, which is an integral part of CERN, is under the supreme authority of the CERN Council. Its bodies include, among others, the Pension Fund Governing Board (PFGB), Investment Committee (IC) and an Administrator. Its administration and the management of its finances are separate from those of the CERN and ESO.

The personnel of the Fund is subject to CERN Staff Rules and Regulations.

Funding arrangements

Following the decision taken by the CERN Council in December 2005, contributions as from 1.01.2006, expressed as percentages of the reference salary, are:

Members	10.29%
Organizations (CERN and ESO)	20.59%
TOTAL:	30.88%

Termination terms

When membership of the Fund terminates before the age of 65 for a reason other than death or total incapacity, a transfer value is calculated on the basis of the reference salary at the date of termination.

Less than five years of service:

Where the member has less than five years of service, the transfer value is paid into another pension scheme, or, at his request, to the member himself.

Between five and ten years of service:

Where the member has between five and ten years of service, he has the choice between a deferred retirement pension, or payment into another pension scheme, or, if the latter option is not possible, to himself.

Ten or more years of service:

Where the member has ten or more years of service, he has the choice between a deferred retirement pension, and payment into another pension scheme, or, if the latter option is not possible, into a private insurance scheme offering comparable guarantees.

Payment of a transfer value extinguishes any right to a pension, except that for partial disability that is already being paid.

2.2 Summary of significant accounting policies

Basis of preparation

The CERN Pension Fund Financial Statements for 2010 have been prepared on a going-concern basis and pursuant to the new Article I 4.02 of the Rules of the Pension Fund, approved by the CERN Council in December 2010, in accordance with International Public Sector Accounting Standards (IPSAS). The preparation of financial statements in conformity with IPSAS requires the use of certain critical accounting estimates. It also requires the Fund to exercise its judgement in the process of applying the Pension Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed under heading 2.4. If such estimates and assumptions deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

The CERN Pension Fund Financial Statements for 2010 were approved by the Pension Fund Governing Board on 3 May 2011.

Changes in accounting policy and disclosure, new standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2010 and are not the subject of early adoption:

- a) IPSAS 27, agriculture - effective April 1, 2011
- b) IPSAS 28, financial instruments: presentation - effective January 1, 2013
- c) IPSAS 29, financial instruments: recognition and measurement - effective January 1, 2013
- d) IPSAS 30, financial instruments: disclosures - effective January 1, 2013
- e) IPSAS 31, intangible assets - effective April 1, 2011

Measurement Base

The measurement base adopted is that of historical cost as modified by the revaluation of financial assets and financial liabilities (including derivative financial instruments) and investment property at fair value through profit or loss.

Foreign currency translation

a) Functional and presentation Currency

Pursuant to the new Article I 4.02 of the Rules of the Pension Fund, the unit of account of the Pension Fund is the Swiss franc which is the functional and presentation currency.

b) Transaction and balances

At each balance sheet date assets and liabilities that are denominated in foreign currencies are translated at the exchange rates ruling on that date. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transaction. Gains and losses arising on translation are shown separately in the Statement of Financial Performance for the period.

Classification of Assets and Liabilities

The CERN Pension Fund is an entity that, inter alia, manages assets used to pay pensions. As such, the assets and liabilities are disclosed in the Statement of Financial Position in an order that broadly reflects their relative liquidity. Financial assets and financial liabilities are recognized on the Fund's Statement of Financial Position when the Fund becomes a party to the contractual provisions of the instrument.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less, margin accounts with brokers that cover margin calls on derivative positions and real-estate bank accounts held by local managers to pay real-estate portfolio operating expenses.

Financial Assets

The Fund classifies its financial assets in the following categories: at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through profit or loss

The Fund's business is investing in assets with a view to profiting from their total return in the form of interest, dividends, distributions and increases in fair value.

(a1) Classification

The Fund classifies its investments in debt, equity securities and related derivatives as financial assets at fair value through profit or loss. These financial assets are designated by the Fund at fair value through profit or loss.

The portfolio of private equity investments is categorized as financial assets designated at fair value through profit or loss at inception and is part of equities.

(a2) Recognition and derecognition

Purchases and sales of unquoted and quoted investments are recognized and derecognized on trade date where a purchase or sale is made under a contract whose terms require delivery within the timeframe established by the market concerned.

(a3) Measurement

Financial assets at fair value through profit or loss and traded on an active market are initially recognised at acquisition cost. Transaction costs are expensed in the Statement of Financial Performance. Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value which is based on the last reported bid price (sales price) at the balance sheet date. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the Statement of Financial Performance in the period in which they arise.

b) Fair value of non quoted securities

The fair value of non quoted securities is determined using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

c) Loans and receivables

Sundry debtors include recoverable withholding tax levied at source on dividends and reimbursable value added tax paid on real-estate transactions, real-estate debtors and other due amounts.

Settlements receivable represent amounts due to the Fund for securities sold that have been contracted for but not yet settled or delivered at the balance sheet date.

Other receivables include accrued interest, dividends receivable and outstanding receipts.

These amounts which do not carry any interest are expected to be received within twelve months and are accordingly stated at their nominal value as reduced, where appropriate, by allowances for estimated irrecoverable amounts.

Non - Financial Assets

Those assets where there is no contractual right to receive cash or another financial asset are listed under this heading.

Investment property

Investment property is defined as land, buildings and forests held to earn rental income and capital appreciation and is not occupied by the Fund. Real estate funds carry the same risks associated with direct real estate and are therefore included in the Investment property asset class.

Investment property is measured initially at its cost, including related transaction costs. After initial recognition investment property is carried at fair value, representing open market value determined annually by external valuers having professional qualifications and experience. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If the information is not available, the Fund uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by an independent appraiser.

Changes in fair values are recorded in the Statement of Financial Performance as part of real estate income.

The costs of the day-to-day running of the properties, e.g. repairs and maintenance, are recognized in the Statement of Financial Performance as incurred. Expenditure incurred in the replacement or renovation of part of an existing investment property that is 5% or more of the value of that property is recognized in the carrying amount only when it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably.

Other non-financial assets

Non-financial assets that are not carried at fair value because fair value through profit or loss cannot be reliably measured are reviewed at the balance sheet date for impairment if impairment indicators are present. Impairment is measured as the difference between the carrying amount and the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset. The impairment is recorded in the Statement of Financial Performance for the period.

Liabilities

The liabilities at the balance sheet date, which are not interest-bearing and are due within twelve months, are initially recognized at their fair value and subsequently measured at amortised cost using the effective interest rate method. Liabilities in respect of accrued losses and shown as derivatives in the Statement of Financial Position are measured at fair value.

Settlements payable represent amounts due by the Fund for securities purchased that have been contracted for but not yet settled or delivered at the balance sheet date.

Short call options, which are covered by the Fund's long underlying exposure, may be used to reduce the cost of hedging. Long call options are used for equity investments.

Actuarial Liabilities

The table hereafter shows the significant actuarial assumptions approved by the PFGB at its meeting of 17 February 2011 (CERN/PFGB/26.1) and also those used in the corresponding period. The assumptions used to calculate the actuarial present value of promised retirement benefits in 2010 (See Heading I, 1.1 Statement of Financial Position) are the actuarial parameters that represent the official accounting policy of the Organization with a discount rate of 2.10% which represents the long-term Swiss Confederation Bonds interest rate.

The other set of assumptions reflect the actuarial assumptions used in the paper "Report by the Pension Fund Governing Board on Funding principles and policy and measures to restore full funding of the CERN Pension Fund" (CERN/FC/5432/RA – CERN/2897/RA). The actuarial present value of promised retirement benefits in 2010 under these assumptions is included in Annex I for information purposes.

The benefits have been determined using projected salary levels.

Actuarial assumptions	2010	2010	2009
	CERN Accounting Policy	CERN/FC/5432/RA CERN/2897/RA	CERN Accounting Policy
Discount Rate	2.10%	4.5%	2.55%
Future salary increase	1.5%	2.0%	1.5%
Future pension increase	1.0%	2.0%	1.0%
Salary Advancement	1.9%	Increase by age	1.8%
Life Expectancy	EVK 2000	EVK 2000	EVK 2000

Revenue recognition

- a) Interest income is recognized on time proportionate basis using the effective interest method,
- b) Rental income is recognized over the term of the lease on a straight line basis,
- c) Dividend income is recognized when the right to receive payment is established.

Derivative financial instruments and hedging activities

The Fund's activities expose it to the financial risks of changes in foreign currency rates and interest rates and therefore may use derivative instruments such as foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Fund may also use derivative instruments for investment purposes, principally to gain exposure to specific markets.

The Fund may, at a given time, hold the following derivative instruments:

a) Forward contracts

Forward contracts are contractual obligations to buy or sell financial instruments on a future date at a specified price. A forward contract is a non-standardized contract written by the Fund and the counterparty to the agreement. The contracts are collateralized by cash and changes in the forward contracts' value are settled on reset, rollover or closure of the contract. The forward contracts are settled on a gross basis.

b) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of the future securities price. Options are settled on a gross basis.

c) Swaps

Swaps are contracts to exchange cash (flows) on or before a specified future date based on the underlying value of currencies/exchange rates, bonds/interest rates, commodities, stocks or other assets.

2.3 Financial risk management

Financial risk factors

The Pension Fund's activities expose it to a variety of financial risks: market risk (including price risk, currency risk, interest rate risk), credit risk and liquidity risk. The Fund's overall risk management programme seeks to maximize the returns derived for the level of risk to which the Fund is exposed and seeks to minimize potential adverse effects on the Fund's financial performance. The Fund's policy allows it to use derivative financial instruments to both moderate and create certain risk exposures.

All securities investments present a risk of loss of capital. The maximum loss of capital on bonds, equities, investment funds and purchased options is limited to the fair value of those positions. The maximum loss of capital on written put options, long futures and forward currency contracts is limited to the notional contract values of those positions. On written call options and short future positions the maximum loss of capital can be unlimited.

The management of these risks is carried out by investment managers under policies approved by the Investment Committee and the Governing Board of the Pension Fund. The Fund uses different methods to measure and manage the various types of risk to which it is exposed; these methods are explained below. In addition, the Fund measures the degree of risk of its investments by making a quarterly calculation of 'value at risk' to estimate the maximum potential loss under normal market conditions.

Market risk

a) Price risk

The Fund is exposed to securities price risk, derivative price risk and real-estate price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Where assets of the Fund, for example, equity securities, are denominated in currencies other than the Swiss franc, the price initially expressed in foreign currency and then converted into Swiss franc will also fluctuate because of changes in foreign exchange rates. Paragraph (b) 'Currency risk' sets out how this component of price risk is managed and measured.

The Fund's policy is to manage price risk, amongst other objectives, through diversification and selection of asset classes within a Strategic Asset Allocation (SAA).

In 2008 following an Asset Liability Management (ALM) study which took into consideration the Fund's specific characteristics (demography, contribution rate, benefits, indexation, actuarial balance), a revised SAA was established aimed at achieving the Fund's long-term objectives of maximizing returns, while maintaining an acceptable degree of volatility, through determination of the optimal long-term distribution of assets. Following the consideration in the ALM of modeling scenarios together with optimization methods, the revised SAA sets out to reduce risk by modifying the previous SAA asset mix thereby lowering the downside volatility of the funding ratio. The new SAA will be implemented gradually by the Investment Committee under the supervision of the PFGB with particular care taken with regard to rebalancing policy and to the set-up of tactical bandwidths around the SAA which will allow the Fund to make adjustments to take into consideration short-term market conditions. The SAA will be periodically reviewed by the PFGB with special focus on the new or increased asset classes.

Thus, through diversification of asset classes, geographical area and currency as well as a de-correlation strategy, the Fund seeks, among other objectives, to reduce market risk.

The table below shows the revised Strategic Asset Allocation strategy approved by the CERN Council at its session of 19 June 2008 (CERN/2794) together with the actual allocation as at 31.12.2010, taking the tactical positions into account.

The actual allocation as at 31 December 2010 reflects a reclassification of Bonds to cash and a reduction of Equities due to risk considerations. Currency movements had an impact across all of the Fund's asset allocation at the year-end.

ASSET CLASS Sub asset class	SAA	Tactical margins	Effective allocation as at:		Deviation from SAA
	1		31.12.2009	31.12.2010	
BONDS *	37%	30-45%	36.4%	23.3%	-13.7%
Europe	17%		17.9%	16.0%	-1.0%
Global	10%		0.2%	2.6%	-7.4%
Corporate	10%		4.9%	4.7%	-5.3%
Swiss	0%		13.4%	0.0%	0.0%
EQUITIES	34%	25-45%	41.3%	35.4%	1.4%
US Large Cap	8%		12.8%	9.32%	1.32%
US Small Cap	2%		1.8%	1.97%	-0.03%
Canada	0%		0.7%	0.77%	0.77%
Eur. Large Cap	8%		10.9%	10.4%	2.4%
Eur. Small Cap	2%		2.1%	1.64%	0.36%
Australia	0%		0.8%	0.81%	0.81%
Japan	9%		5.8%	5.64%	-3.36%
Emerging markets	5%	Max 10%	6.4%	4.85%	0.15%
Diversifying Assets	14%	10-20%	6.8%	7.5%	-6.5%
Absolute return	10%		3.1%	3.3%	-6.7%
Private Equity	2%		2.2%	2.6%	0.6%
Commodities	2%		1.5%	1.6%	-0.5%
REAL ESTATE	15%	10-20%	13.6%	12.1%	-2.9%
CASH*	0%	0-10%	1.9%	21.7%	21.7%

*There was a reclassification of Bonds to Cash in 2010 to recognise the cash nature of the Fund's accounts at the Swiss Federal Treasury.

Some of the Funds' assets are exposed to market price risk. The fair value of these assets as at 31 December was as follows:

	2010	2009
(in kCHF)		
Bonds	772,479	858,901
Equity	677,590	775,653
Investment and index investments	318,274	326,390
Derivatives	101,797	25,751
Investment Property	455,781	515,116
Total	2,325,921	2,501,811

b) Currency risk

The Fund is exposed to foreign exchange risks arising essentially upon investments in assets denominated in foreign currencies. As a general policy, the Fund passively hedges its exchange rate risk to the level of 70% of its exposure, excluding euro exposure, but may alter the hedge ratios depending on tactical considerations. The euro positions are hedged on a tactical basis taking into consideration short-term market conditions. Forward foreign exchange contracts and currency options are used to cover the currency exposure of existing and anticipated investments in foreign currency. The value of currency forward contracts as at 31 December 2010 is given in the derivatives table (Page 21).

The table below summarizes the Fund's principal net assets that are denominated in a currency other than the Swiss franc.

	2010	2009
kEUR	1,189,972	1,187,486
kGBP	226,956	205,901
kUSD	576,895	551,326
kJPY	7,675,956	7,880,106
kHKD	384,736	409,407

Year-end exchange rates

The Fund uses year-end exchange rates supplied by its global custodian. The source of these rates is Reuters World Markets. The table below shows the rates used by the Fund to convert the major currencies in the Fund's portfolios to the Swiss franc and also the cross-currency rates calculated using rates from the European Central Bank (ECB). With the exception of the Euro, the ECB does not provide direct currency conversion rates between the Swiss franc and the foreign currencies in the table.

Currency	ECB cross-currency rate	Reuters World Markets
EUR	1.2504	1.2505
USD	0.9358	0.9321
GBP	1.4527	1.4593
JPY	0.0115	0.0115
HKD	0.1204	0.1199

c) Fair value estimation

The fair value of financial assets traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price.

The Fund's methods for the valuation of financial assets not traded on active markets are outlined in heading 2.4, "Critical Accounting Estimates and Judgments".

d) Interest rate risk

Interest rate risk arises from the effects of fluctuations in the prevailing levels of market interest rates on the fair value of financial assets and future cash flows.

The Fund holds some fixed income investments and cash on short-term deposits. The duration of the fixed income investments assets is strictly regulated by investment guidelines given to portfolio managers.

In addition the Fund may use derivatives to hedge interest rate exposure.

The analysis below summarizes the maturity range of the Fund's principal fixed income portfolios at 31 December and is a measure of the sensitivity of the fair value of the Fund's fixed interest securities to changes in market interest rates.

	2010	2009
<u>Global Fixed Income</u>	174 MCHF	184 MCHF
0 - 1 year	10.39%	13.31%
1 - 3 years	12.09%	9.36%
3 - 5 years	26.82%	16.38%
5 - 7 years	12.25%	19.05%
7 - 10 years	24.28%	24.82%
> 10 years	14.17%	17.08%
Total	100.00%	100.00%

	2010	2009
<u>European Fixed Income</u>	552 MCHF	671 MCHF
0 - 1 year	9.92%	2.22%
1 - 3 years	1.33%	8.64%
3 - 5 years	21.27%	15.58%
5 - 7 years	15.70%	33.02%
7 - 10 years	41.78%	31.22%
> 10 years	10.00%	9.32%
Total	100.00%	100.00%

The following table indicates the Fund's exposure to interest rate risk in respect of short-term deposits.

<u>Effective Interest Rates</u>		2010	2009
kEUR	0.50%	8,000	0.30%
kEUR	0.12%	480	0.10%
kCHF	0.01%	2,480	0.02%
kCHF	1.38%	967,819	2.13%
kUSD	0.04%	1350	0.02%

e) Credit risk

The Fund is exposed to credit risk, which is the risk that the counterparty will be unable to pay amounts in full when they fall due.

All transactions in listed securities are contracted using approved brokers and settled/paid for upon delivery. The risk of default is considered minimal, as delivery of securities sold is only made once the custodian has received payment. Payment is made on a purchase once the securities have been received by the custodian. The trade will fail if either party fails to meet its obligation.

The Fund invests in fixed income securities issued by various bodies such as governments, agencies or corporations. The management of these holdings is entrusted to professional portfolio managers who have strict investment guidelines with regard to, inter alia, issuer quality and diversification. In addition, the Fund limits the amount of credit exposure to any financial institution through diversification of its counterparties and strict monitoring of open receivables on derivatives instruments. If a derivative position is showing a profit, the Fund may ask for collateral or force the reset of the position.

The analysis below summarizes the issuer quality of the Fund's fixed income portfolios at 31 December.

	2010	2009
<u>Global Fixed Income</u>	174 MCHF	184 MCHF
Debt securities by rating category		
AAA	6.13%	6.62%
AA	16.09%	15.78%
A	40.15%	47.96%
BBB-B	37.63%	29.64%
NR/NA	0.00%	0.00%
Total	100.00%	100.00%

The duration of the above securities which is the weighted-average term to maturity of the cash flows was some 5.53 years at 31 December 2010 (2009: 5.51 years).

	2010	2009
<u>European Fixed Income</u>	552 MCHF	671 MCHF
Debt securities by rating category		
AAA	69.38%	55.78%
AA	3.09%	9.35%
A	22.05%	28.90%
BBB-B	4.68%	3.10%
NR/NA	0.80%	2.87%
Total	100.00%	100.00%

The duration of the above securities was some 6.62 years at 31 December 2010 (2009: 6.31 years).

The maximum exposure to credit risk at 31 December is set out below.

	2010	2009
Bonds	772,479	858,901
Derivative assets	101,797	25,751
Cash and cash equivalents	1,532,092	1,413,880
Settlements receivable	0	413
Other assets	16,602	18,951
Total in kCHF	2,422,970	2,317,896

f) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous. In addition to its commitments to pay monthly benefits the Fund is exposed to the periodic settlement of margin calls and gains and losses on derivative positions. Furthermore, the currency overlay programme can generate substantial cash flows that are difficult to predict. Therefore the Fund aims to maintain sufficient levels of cash and cash equivalents to meet its short-term liabilities.

The Fund does not take leveraged positions on the market.

The table below analyses the Fund's financial liabilities (excluding the derivative financial instruments in a loss position) into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	Less than 7 days	1 month to 3 months	3-12 months
<u>At 31 December 2010</u>			
Settlements payable	139		
Members and Beneficiaries	3,265		
Investment property deposits			2,570
Taxes Payable		187	
Investment property Creditors		2,129	
Reimbursements of contributions	971		
Payments Outstanding		2,437	
Total in kCHF	4,375	4,753	2,570
<u>At 31 December 2009</u>			
Settlements payable	441		
Members and Beneficiaries	3,045		
Investment property deposits			3,324
Taxes Payable		125	
Investment property Creditors		4,335	
Reimbursements of contributions	1,078		
Payments Outstanding		3,119	
Total in kCHF	4,564	7,579	3,324

The table below analyses the Fund's derivative financial instruments in a loss position that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	1 - 6 months
<u>At 31 December 2010</u>	
Forward	3,432
Swaps	-
Total in kCHF	3,432
<u>At 31 December 2009</u>	
Forward	13,834
Swaps	67
Total in kCHF	13,901

2.4 Critical Accounting estimates and judgements

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated by the Fund with input from independent experts and are based on historical experience and other factors including assumptions about future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

The most significant estimates and judgments made during the period are outlined below.

a) Actuarial assumptions

The liabilities of the Fund, in respect of promised benefits to be paid, have been determined using methods relying on actuarial estimates and assumptions. These assumptions reflect the long-term nature of future benefits. Changes in these estimates and assumptions could materially affect liabilities in respect of benefits.

The basis for the Fund's actuarial assumptions is set out under heading 2.2 'Summary of Significant Accounting Policies'. The Fund takes advice from an independent actuary concerning the appropriateness of the assumptions.

In 2010, the PFGB made changes to the actuarial assumptions compared to 2009. In 2010 the discount rate used to determine the present value of future promised benefits was 2.10% (2.55% in 2009) representing the long-term Swiss Confederation Bonds interest rate. The effect of this change was an increase in liabilities of some 452 MCHF. In addition, the assumption with regard to salary advancement was estimated in 2010 to be 1.9% (1.8% in 2009). The effect of this change was an increase in liabilities of approximately 30 MCHF.

Total liabilities plus technical provisions as at 31 December 2010 was some 7'043 MCHF (6'500 MCHF as at 31 December 2009).

Furthermore, the Fund calculates that a 0.5% increase/decrease in the discount rate would decrease/increase liabilities by some 491 MCHF. A 0.5% increase/decrease in the indexation of pensions would increase/decrease liabilities by some 379 MCHF and a 0.5% increase/decrease in the indexation of salaries would increase/decrease liabilities by some 146 MCHF.

b) Fair value of Investment Property

The fair value of the Fund's investment property is considered to be its market value.

If information on current prices for similar investment properties is not available, the fair values of investment properties are determined, in the main, using discounted flow valuation techniques. The Fund uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying the Fund's estimation of fair value are those related to:

- the receipt of contractual rentals;
- expected future market rentals;
- void periods;
- maintenance requirements;
- appropriate discount rates.

These valuations are regularly compared to actual market yield data, and actual transactions by the Fund and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

The table below includes the main methods used in the valuation of the Funds' Investment property.

Country	Valuation Method
France	Reference was made to sales prices obtained on the market for similar properties where information on relevant transactions was available. Otherwise the discounted cash flow technique was used with a range of discount rates between 4% and 6. %
France (Forests)	Values based on a revaluation of the forests' inventory carried out in 2010.
Great Britain (Farm)	Valuation made on a sales comparison basis.
Switzerland	Values based on discount rates of 5.2% and 5.5%.
Holland	Reference was made to sales prices obtained on the market for similar properties.
Germany	The discounted cash flow technique was used with a discount rate of 6.75%

c) Fair value of securities not quoted in an active market

Private equity

In arriving at the fair value of private equity, the Fund considers factors such as industry performance, company performance, quality of management, the price of the most recent financing round, exit opportunities which are available, liquidity preference, comparable market transactions, discounted cash-flows, earnings multiples and net present value analysis. The maximum use of market inputs is made with as little reliance as possible on entity-specific inputs.

- The Fund also invests in private equity funds whose valuations are based on the requirements of IAS 39 or the equivalent US standard FAS 157. Many of these funds have the same reporting period as the Fund. Consequently, audited financial statements attesting, inter alia, to the value of the Fund's investments in some private equity funds were not available at the reporting date. Where audited statements were not in evidence, the Fund used unaudited statements as at 31.12.2010 except for two funds where unaudited statements as at 30.06.2010 were used as adjusted for capital movements between the last received statements and 31.12.2010.

At the balance sheet date the Fund has total commitments to private equity funds as follows:

- 107'255'156 USD ; (99'972'531 CHF)
- 88'024'490 EUR ; (110'071'058 CHF)

Over- the-counter derivatives instruments

The fair value of over-the-counter derivatives instruments is determined using quoted prices at the balance sheet date. When an instrument or its equivalent does not have a market price, its valuation is determined using a valuation model that is based on observable market inputs.

2.5 Notes to the Financial Statements

1. Cash and Cash Equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with original maturity of 90 days or less:

	2010	2009
Current Accounts	543,414	442,714
Deposit Accounts	982,161	959,796
Margin account with brokers	5,724	10,638
Investment property bank accounts	792	732
Total in kCHF	1,532,091	1,413,880

2. Sundry Debtors

	2010	2009
Recoverable taxes	1,290	1,417
Investment property debtors	1,235	1,836
Other due amounts	0	28
Loans	0	17
Total in kCHF	2,525	3,298

3. Other Receivables

	2010	2009
Accrued interest	13,118	14,598
Dividends receivable	452	630
Outstanding receipts	144	139
Payments in advance	363	287
Total in kCHF	14,077	15,654

4. Derivatives

	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Put options	54	-	-	-
Accrued gains on derivatives	101,742	3,432	25,751	13,901
Total in kCHF	101,796	3,432	25,751	13,901

The table below shows the types of derivative contracts and their notional values held by the Fund at 31 December 2010.

	currency	Notional Local	Notional CHF	Fair Value Receivable	Fair Value Payable
Forward					
TOPIX	YEN	7,112,800,000.00	81,743,925.13	634,386.55	-
GOLD	USD	22,752,040.00	21,207,176.48	785,946.72	-
SILVER	USD	1,225,080.00	1,141,897.07	155,739.93	-
PLATINUM	USD	3,735,600.00	3,481,952.76	164,459.72	-
COPPER	USD	5,521,800.00	5,146,869.78	967,077.05	-
NICKEL	USD	526,900.00	491,123.49	16,363.95	-
ZINK	USD	811,200.00	756,119.52	14,649.82	-
ALUMINIUM	USD	1,607,580.00	1,498,425.32	114,181.32	-
SUGAR	USD	1,932,582.40	1,801,360.06	609,250.39	-
SOYBEAN	USD	3,067,300.00	2,859,030.33	354,034.88	-
WHEAT	USD	1,784,900.00	1,663,705.29	261,127.82	-
LIVE CATTLE	USD	3,416,436.00	3,184,460.00	91,852.86	-
CORN	USD	5,315,750.00	4,954,810.58	512,748.21	-
WTI CRUDE	USD	10,395,900.00	9,690,018.39	729,554.67	-
BRENT CRUDE	USD	6,247,140.00	5,822,959.19	267,969.43	-
HEATING OIL	USD	1,045,002.00	974,046.36	23,645.51	-
RBOB GASOLINE	USD	982,023.00	915,343.64	73,226.71	-
NATURAL GAS	USD	991,100.00	923,804.31	-	(20,506.20)
PALLADIUM	USD	1,881,090.00	1,753,363.99	268,277.02	-
MINI S&P500	USD	69,210,150.00	64,510,780.82	834,415.92	-
DJ Eurostoxx50	EUR	-	2,195.50	-	-
Euro Bund	EUR	-	-	-	-
S&P/TSX60	CAD	31,085,400.00	29,159,866.50	486,963.97	-
ASX200	AUD	32,896,875.00	31,431,295.19	-	(361,279.26)
		Sub Total	275,110,138.68		
Swaps					
TOPIX MS	JPY	148,453,056.85	1,706,098.24	2,765,044.17	-
S&P MS	USD	9,861,148.97	9,191,576.95	9,541,896.25	-
MSCI EMF	USD	606,555.64	565,370.51	560,032.67	-
MSCI Europe	USD	124,962.33	204,849.70	-	-
MSCI Latin America	USD	960,297.00	895,092.83	886,286.64	-
		Sub Total	12,153,288.83		
Currency Forwards Contracts				80,619,818.08	(3,034,928.08)
<u>Notional Sold</u>			1,749,529,316.80		
<u>Notional Purchased</u>			70,352,354.51		
<u>Cross Deal</u>			(47,734,856.08)		
		Sub Total	1,772,146,815.23		
GRAND TOTAL			2,059,987,670.55	101,738,950.26	(3,416,713.54)
Aluminium closed 2010 received 2011				3,523.34	
Zinc closed 2010 received 2011					(15,659.28)
Total Divers - Transactions ouvertes				101,742,473.60	(3,432,372.82)

The notional amounts of certain types of financial instrument provide a basis for comparison with instruments recognized on the balance sheet, but they do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and do not therefore indicate the Fund's exposure to credit or market price risks. The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market prices, interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

5. Non-Financial Assets

Investment Property

(in kCHF)	2010	2009
Opening Balance	515,115	502,491
Purchases	-	-
Sales	(12,311)	-
Expenditure recognised in the carrying amount	-	1,812
Net Gain/Loss for fair value adjustments	(47,023)	10,812
<i>due to currency</i>	<i>(55,093)</i>	<i>2,215</i>
<i>due to price</i>	<i>8,069</i>	<i>8,597</i>
Closing Balance	455,781	515,115

6. Sundry Creditors

Sundry creditors include rent guarantee deposits, rents received in advance, amounts due to members leaving the Fund and value added tax payable.

	2010	2009
Members and Beneficiaries	3,265	3,045
Investment property deposits	2,570	3,324
Taxes Payable	187	125
Investment property creditors	2,128	4,335
Deferred Income	287	349
Total in kCHF	8,437	11,178

7. Other Payables

Other Payables include contributions to be reimbursed to members leaving the Fund and amounts due mainly in respect of management and custody fees.

	2010	2009
Reimbursements of Contributions	971	1,078
Payments Outstanding	2,437	3,119
Total in kCHF	3,408	4,197

8. Provisions

In June 2009, the French authorities requested CERN to pay taxes ("droits d'enregistrement") with respect to two buildings acquired in 2008 by the Organization in Paris (France) in the framework of the operations of the Fund. The amount requested (approximately 5% of the price paid by CERN for the acquisition of the two buildings) is approximately 1.3 MEUR (1.56 MCHF as at 31 December 2010).

CERN has never previously been required to pay such taxes for its real estate investments in France.

In August 2009 and again in February 2011, the Organization officially intervened with the French authorities as their afore-mentioned request put into question the international status of CERN, of which the Pension Fund is an integral part, as defined by the 1972 Host State Agreement with France.

The Organization recalled in particular that the French authorities recognize real estate investments for the Fund as part of the official activities of CERN, that the exemption from registration taxes was based on the Host State Agreement and confirmed by constant practice followed by the French fiscal administration and therefore asked the French authorities to reconsider their position with respect to the exemption in accordance with the Host State Agreement.

CERN, at the balance sheet date, has yet to receive a response from the French authorities indicating that they will rescind their request for payment of these taxes.

9. Gains/Losses on Financial Assets at Fair Value Through Profit & Loss

	2010	2009
Bonds	(94,624)	19,162
Equities	7,291	146,547
Investment Funds	(28,796)	10,758
Derivatives	20,214	12,282
Total in kCHF	(95,915)	188,749

10. Interest Income

	2010	2009
Cash and cash Equivalents	16,932	22,103
Bonds and Loans	34,395	39,283
Total in kCHF	51,327	61,386

11. Investment property Income

	2010	2009
Residential properties CH	10,104	9,930
Office properties D	892	985
Agricultural property GB	1,547	1,674
Office properties F	13,532	15,854
Residential property F	2,170	2,402
Forests F	371	523
Office properties NL	3,894	5,881
Changes in fair value	(47,023)	10,812
Loss on Sales	(302)	0
Total in kCHF	(14,815)	48,061

With regard to its investment property the Fund is a lessor of operating leases and as such is required to make the following disclosures in respect of future minimum lease payments.

	31.12.2010	31.12.2009
Not later than 1 Year	23,635,606	29,958,085
Later than 1 year and not later than 5 years	64,869,381	71,998,456
Later than 5 years	13,113,979	15,156,983
Total in CHF	101,618,966	117,113,524

12. Results on Sales of financial assets

	2010	2009
Bonds	(25,818)	10,049
Equities	750	49,359
Investment Funds	(2,288)	26,714
Derivatives	36,756	101,038
Total in kCHF	9,400	187,160

13. Foreign Exchange gains

	2010	2009
Currency Overlay programme	53,310	(1,431)
Other exchange rate movements	100,496	(15,150)
Total in kCHF	153,806	(16,581)

14. Investment property expenditure

	2010	2009
Residential properties CH	2,747	3,128
Office properties D	499	1,362
Agricultural property GB	1,119	1,329
Office properties F	496	1,640
Residential property F	294	423
Forests F	206	511
Office properties NL	458	627
Total in kCHF	5,819	9,020

15. Membership Activities

This heading shows the contributions of the members of the Fund and the participating Organizations and other amounts received, as well as the various benefits and other amounts paid during the period.

16. Related-party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Related parties of the Fund during the period were:

- Professional members nominated by the CERN Council to act as experts in the Pension Fund Governing Board (PFGB) and Pension Fund Investment Committee (PFIC) and to provide advice on Governance and Investment issues respectively. Fees in 2010 were 156.5 kCHF;
- Key management personnel, Chairman of the PFGB, Chairman of the PFIC, the General Manager of the Fund, the Chief Investment Officer and the Chief Operating Officer;
- Although the Fund meets the cost of its operating expenses, CERN, the Organization, provides free of charge some administrative support and office accommodation;
- The Fund pays the CERN Legal Service a total amount of 230 kCHF per year.

17. Events after the Balance Sheet date

As part of a package of initiatives aimed at restoring the financial health of the Fund, CERN Council at its December 2010 session, approved the following measures to be implemented as of 1 January 2011:

- An increase in the contribution rate from 30.88% to 34%
- Additional annual extraordinary contributions by the employers of more than 60 MCHF
- For current recipients of a pension and those in receipt of a pension as at 31 December 2011, 0% indexation of pensions until a personal loss of purchasing power of 8% is reached.

IV. AUDIT CERTIFICATE

We have analysed the Financial Statements of the CERN Pension Fund for the Year 2010.

We have examined the Consulting Actuary's Report for the year 2010, where it is stated that *"the financial stability of the Fund as at 31 December 2010 is not assured. The funding ratio is below 100% at the end 2010 and it amounts to 54,8% according to the technical assessment [according to the assumptions stated in the International Accounting Standard n.26] and to 69,4% [according to the assumptions stated by WGII]. The Pension Fund was therefore unable to fully guarantee its liabilities at the date of the assessment (...)"* It is also stated, in the same report, that *"[the funding ratio] has dropped from 60,1% as at 31 December 2009 to 54,8% as at 31 December 2010"*.

The Actuary's Report also highlights that the Fund has no security margin that would allow it to weather a further fall in the financial markets. In addition, the Fund's liabilities as at 31 December 2010 are not entirely covered by the available provident assets.

Furthermore, the Actuary's Report considered "unsatisfactory" the financial situation for the Fund at 31 December 2010, with a funding ratio of 54,8% and they highlighted the fact that *"if the PF had had to be liquidated at this date, it would have cost Member States 3.185,0 MCHF, according to the statutory guarantee of benefits according to article 1 3.03" and, what's more, the under-funding of 3.185,0 MCHF (45,2% of the pension capitals and technical provision) is "considerable" and it is the result of three factors like the change in the discount rate, the full capitalisation of the future indexation of pensions and the financial losses due to the 2008 crisis that have not yet been fully compensated for.*

We have analyzed the opinion of PWC which draws *"attention to the fact that the financial statements show a funding gap of CHF 3.184.987.976 and a funding ratio of 54.8% (31.12.2009: 60,1%) based on the CERN Accounting Policy (refer to Chapter 2.2. [of the Financial Statement])"*. Besides, they highlight that *"measures to remedy this funding gap were submitted by the Pension Fund Governing Board to CERN Council and*

approved in December 2010. Approved measures are disclosed under point 17 –Events after the Balance Sheet date [of the Financial Statements]. "

We believe that the CERN Pension Fund underfunding is critical and we will follow-up in the 2011 financial year the effect of the measures approved by CERN Council as its December session¹ that have to be implemented as of 1 January 2011.

In our opinion, the Financial Statements for the Year 2010 give a true and a fair view of the financial position of the CERN Pension Fund as at 31 December 2010, of its financial performance and its cash flows for the year 2010, in accordance with International Public Sector Accounting Standards (IPSAS) and subject to the observations in our report.

f. y. ending 31 December 2010

Rome 24 May 2011

Michele Cosentino




Franco Franceschetti


External Auditors of the Italian Court of Auditors

¹ Refer to CERN/2947

ANNEXES

**I. TECHNICAL BALANCE SHEET UNDER DOCUMENT
CERN/FC/5432/RA – CERN/2897/RA ACTUARIAL ASSUMPTIONS**

in CHF

	31/12/2010	31/12/2009
NET PROVIDENT OVERALL ASSETS (PA)	3,857,635,046	3,903,483,004
Transfer values of active members or current value of deferred pensions (including future adjustment) ¹	1,583,839,877	1,699,515,208
Mathematical reserves of the beneficiaries	3,784,246,518	3,750,555,846
Actuarial liabilities	5,368,086,395	5,450,071,054
Provision increase in life expectancy ²	189,212,326	168,775,013
Technical provision	189,212,326	168,775,013
ACTUARIAL COMMITMENTS AND TECHNICAL PROVISIONS (AC)	5,557,298,721	5,618,846,068
TECHNICAL BALANCE ³	- 1,699,663,675	- 1,715,363,064
DEGREE OF COVERAGE OF ACTUARIAL LIABILITIES OR FUNDING RATIO ⁴	69.4%	69.5 %

Remarks :

- 1) Corresponds to the maximum value between current value of deferred retirement pensions and transfer value.
 2) 0.5 % of the provident capital of beneficiaries of pensions and retirement pensions per annum since 2000.
 3) = PA - AC.
 4) = PA / AC.

II. COMPOSITION OF THE BODIES OF THE FUND (AS AT 1 JANUARY 2011)

GOVERNING BOARD

Members

D.-O. Riska, Chairman
 F. Ferrini (until 31.12.2010)
 B. Moor (as of 01.01.2011)

C. J. van Riel (until 30.04.2010)
 A. Mantel (as of 01.05.2010)

S. Lettow

D. Duret, Vice-Chair
 G. Deroma (until 31.01.2010)
 S. Weisz (as of 01.06.2010)

F. Derie (until 31.10.2010)
 P. Ballester (as of 01.11.2010)

F. Wittgenstein

R. Balfe
 J.-A. Schneider (until 31.03.2011)

Appointed by:

CERN Council
 CERN Council
 CERN Council

ESO Council
 ESO Council

Ex-officio

CERN Staff Association
 CERN Staff Association
 CERN Staff Association

ESO Staff Association
 ESO Staff Association

CERN and ESO Pensioners Association

Professional members appointed by the
 CERN Council

Investment Committee S. Lettow, Chairman
 D. Duret
 T. Economou
 S. Colley
 S. Haury von Siebenthal

Actuarial and Technical Committee A. Mantel, Chairman
 S. Weisz
 R. Balfe
 T. Economou

CHIEF EXECUTIVE OFFICER

T. Economou

Appointed by:

CERN Council

III. PFGB WORKING GROUPS

Rules & Regulations J.-A. Schneider (Rapporteur)
(WG1) R. Balfe
S. Lettow
F. Derie
D. Duret
J. Steel
T. Economou

Funding policy & principles F. Ferrini (Rapporteur)
(WG2) R. Balfe
G. Deroma
D. Duret
J.-A. Schneider
J. Steel
T. Economou

IV. ADVISORS

Consulting Actuary
Pittet Associés SA, Geneva

Consulting Medical Practitioner
F. Zrounba
(CERN Consulting Medical Practitioner)

Auditors
Corte dei Conti, Roma, Italy (CERN External Auditors)
PricewaterhouseCoopers

Appointed by:

Pension Fund Governing Board

CERN Director-General

CERN Council
Pension Fund Governing Board

V. PENSION FUND MANAGEMENT

T. Economou, Chief Executive Officer
G. Haenni, Chief Investment Officer
J. Steel, Chief Operating Officer