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

Action to be taken

Voting procedures

For recommendation	FINANCE COMMITTEE 325 th Meeting 17 June 2009	Simple majority of Member States represented and voting and 51% of the contributions of all Member States
For approval	COUNCIL SESSION 151 st Session 19 June 2009	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 Annual Report including the financial statements of CERN Pension Fund for the Financial year 2008 and to grant discharge to the Pension Fund Governing Board.

PENSION FUND

**Annual report
and
Financial Statements
2008**

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

PENSION FUND

**Annual report
and
Financial Statements**

2008

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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In the forefront of this photograph, a view of the building at 40 bd Malesherbes, Paris, acquired in July 2008. This building is fully rented out and has a total floor area of 2767 m² divided essentially into offices, shops and a café.

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PREFACE BY THE CHAIRMAN

For the CERN Pension Fund, as for other pension funds, the current financial crisis is a cause of great concern. In 2008 the Fund's assets were substantially affected by the financial and economic crisis. The performance over the year stands at -19.3%, which is mainly due to the fall in global equity markets. This figure is below the average of Swiss pension funds. However, with an average annual return of 2.1%, the CERN Pension Fund is still above its peers over a 5 year horizon (1.3%). Throughout the life of the CERN Pension Fund there have always been economic and financial cycles that have impacted negatively and positively on the assets of the Fund.

Let me at the outset of this Annual Report reassure the staff of CERN and ESO as well as the beneficiaries that the Fund maintains intact its ability to meet pension benefit payments in the short and medium term. The present under-funding of the Fund does not mean that the institution is insolvent, but rather is an indicator of its capacity today to meet its future liabilities. These liabilities are long-term in nature and measures are already under consideration to fully address these issues. In particular, the Pension Fund Governing Board (PFGB) is addressing the questions of long-term solvency and the pension guarantee. The relevant actions to ensure the long-term viability of the Fund will be decided by the CERN Council after consultation with all the interested parties.

The implementation of the new governance of the Pension Fund proceeded at pace during 2008 and a major step was the establishment of the new Investment Committee. In addition, a Code of Conduct for the Pension Fund was proposed to and approved by the CERN Council in December 2008. This Annual Report describes in detail the other activities of the management bodies of the Pension Fund.

It should be noted that the financial statements in the Annual Report have been prepared and presented according to International Public Sector Accounting Standards (IPSAS). The structure and content of the Report are thus radically different to previous versions. We hope that the reader will appreciate its logic and the improved transparency of the information. Also for the first time, following a decision of the CERN Council, an additional specialized Pension Fund audit has been carried out. These initiatives have proved entirely successful and should provide additional assurance with regard to the prudent stewardship of the Fund's assets.

I wish to thank the Administrator of the Fund and all the members of his team for their hard work during this year, as well as the members of the "previous" Investment Committee, the PFGB and the PFIC for their continuous support and strong participation in the activities of the various bodies.

Let me conclude with a personal note: This dramatic year has been a stern test for the persons involved in the management of the Fund but I can assure all the members and the beneficiaries of our total commitment to the success of the Fund.

As a final note to my preface, I wish to stress that, as stated by the actuary in his report, "the position of the Fund at a given date does not allow any conclusions to be drawn about the financial balance of the Fund in the long term. Usable results on that score can only be provided by open fund projections using various combinations of assumptions (models) based on a given duration (20 or 30 years). Only by using different projection models is it possible to measure the respective impact of various factors (trend in the number of contributing members, salary and pension adjustments, frequency of early departures, yield, life expectancy, etc.) on the Fund's future financial balance."

F. Ferrini

I. ACTIVITIES OF THE FUND'S BODIES

CERN set up a separate fund (the Pension Fund), but without a separate legal identity, to cover its pension liabilities. The Fund holds assets that must be managed for the sole benefit of the current members and beneficiaries of the scheme. All the general policy matters relating to the management of the Fund fall under the responsibility of the Pension Fund Governing Board, which reports directly to the Council of CERN Member States. The Governing Board is assisted in its work by an Investment Committee and an Administrator; the task of managing the assets in the framework of a strategic asset allocation is entrusted to both the aforementioned.

The CERN Pension Fund is based on the principle of defined benefits. Beneficiaries receive the benefits to which they are entitled in accordance with the Rules of the Pension Fund. This means, for example, that the pension entitlements are not directly affected by the present financial crisis and the current economic situation. However, the adjustment of pensions to the cost of living is not automatic and, under the method applied since 2006, must take into account the Fund's financial position.

The European Southern Observatory (ESO) participates in the CERN Pension Fund. Each organisation guarantees the benefits acquired under the system.

1.1. Pension Fund Governing Board (PFGB)

The Governing Board held seven meetings in 2008. At the end of the year, it unanimously approved a document recommending the appointment of R. Balfe as successor to P. Lambert, who had stepped down. R. Balfe was a member of the European Parliament from 1979 to 2004 and currently holds the position of Chairman of the European Parliament Members Pension Fund. He is a well-known figure in the pensions world and his interest in such matters means that he is often consulted by those working in the field. Following the Council's approval of the composition of the Investment Committee in December, the PFGB, in the framework of the future activities of the Investment Committee, appointed S. Lettow as Chairman of the Investment Committee and D. Duret as a member of the Committee.

The four working groups set up by the PFGB in 2007 continued their work in 2008.

Working Group 1, which is responsible for the revision of Chapter I, Section 2 of the Rules of the Fund, has made good progress but will need more time to complete its work in view of the number and complexity of the articles to be amended. The Group completed its tasks on the composition of the Investment Committee and on the code of conduct, and also continued its work on the status of the Fund's personnel and the terms of reference of the PFGB and Investment Committee, as well as setting up a new internal control system.

Working Group 2, which is responsible for defining the Pension Fund's funding policy and principles, is making steady progress. The actuary has been asked to draw up scenarios with a view to attaining a given funding ratio at the end of a given projection period, taking account of different technical interest rate assumptions and the level of capital needed to cover a future indexation assumption. A preliminary report on the important matter of full capitalisation in the context of the funding strategy is due to be submitted at the end of 2009.

Working Group 3 was entrusted with the selection of Investment Committee experts. As a result of this work, the PFGB was able to appoint Susanne Haury von Siebenthal, Chief Investment Officer of the Publica Pension Fund in Bern, and Stewart Colley, former head of the British Steel Pension Fund in London, as new experts to the Committee. It should be noted that the two external experts have extensive experience of institutional investment and are completely independent of any financial group or institution.

Working Group 4, whose remit included the selection of a new general manager, shortlisted a set of candidates at the end of the year and made a recommendation to the PFGB following a series of interviews. A proposal for the appointment of the selected candidate will be submitted to the Council in June 2009.

On the actuarial side, the PFGB decided to submit the actuarial review as at 1st January 2007 to CERN's governing bodies, together with an explanatory note relating, in particular, to changes made compared to the previous review and recommendations. In the latter regard, the PFGB endorsed the actuary's recommendation to increase contributions by 0.76 % in order to maintain, at the end of the projection period, the same funding ratio as at the beginning of the period, in accordance with a decision taken by the Council in 2002. In its explanatory note for CERN's governing bodies, the PFGB also underlined its view that the review of the funding policy and principles entrusted to Working Group 2 must include a comprehensive overhaul of the actuarial approach used hitherto.

During the year, the PFGB also approved a code of conduct for the Pension Fund, which is based, in particular, on the new charter for Swiss pension funds introduced by the ASIP (Swiss Association of Provident Institutions) and the code of ethics of the CFA (Chartered Financial Analyst) Institute applicable to members of pension fund bodies. The code, which entered into force on 1st January 2009 following approval by the Council on 12 December 2008, applies to the personnel of the Fund, the members of its bodies and its commercial partners, and can be consulted on the Fund's website (under the "Rules" heading).

The PFGB further approved the new strategic asset allocation, which was also submitted to CERN's governing bodies in June. In this connection, the PFGB reiterated that the main aim of the new allocation is to improve the Fund's risk profile by lowering the volatility of the overall portfolio through appropriate investments in less volatile asset classes such as real estate and absolute return strategies. At its June 2008 session, the Council approved the new strategic asset allocation, took note of the results of the three-yearly actuarial review and decided to defer decisions aimed at bringing the Fund back into balance until the results of Working Group 2 had been presented via the PFGB.

According to the actuary's calculations in the last actuarial review based on the situation as at 1st January 2007, the under-indexation factor to be applied to the Geneva consumer price index from August to August of each year from 2008 to 2010 is 81.2 %. This factor will be reviewed by the actuary during the next three-yearly review based on the situation as at the end of 2009/the beginning of 2010. The new factor will start to apply as of the benefits paid in 2011.

The PFGB also took the following decisions:

- Appointment of PriceWaterhouseCoopers as a specialised external auditor, in line with the new governance measures decided by the CERN Council;
- Adoption of the International Public Services Accounting Standards (IPSAS). Wherever appropriate IPSAS standards do not exist, reference is made to the relevant IFRS/IAS standards.

Regarding the financial position of the CERN Pension Fund, the PFGB took note of the evolution of the Fund's assets throughout the year. In spite of the exceptional financial and economic circumstances, the PFGB remains convinced that capitalised schemes will continue to offer an appropriate and effective long-term solution for building up the assets of an

organisation's provident scheme. Indeed, the Fund's past investments have generated a significant portion of the assets used to pay the pensions.

1.2. Pension Fund Investment Committee (PFIC)

The Investment Committee held 7 meetings in 2008, including a joint meeting with the PFGB. In 2008, the new governance structure was implemented with the view that the Committee meet in its new composition. S. Lettow took over the chairmanship of the Committee from F. Ferrini, and two external experts, Mrs S. Haury von Siebenthal and Mr S. Colley, joined the Committee. Former members of the Investment Committee were invited to attend the meetings until October.

On the investment side, the Investment Committee worked on the new Strategic Asset Allocation that was approved by the CERN Council in June. Additionally, the PFIC was regularly informed by the Administration on the various developments on the markets, especially in the light of the credit crisis and its consequences for the Fund. With respect to asset managers, the Investment Committee decided to terminate the Legg Mason mandate (US Equities) and to invest the proceeds in a passive mandate managed by UBS. The Committee also decided to terminate JP Morgan's mandate (global bonds) for performance reasons. The proceeds were invested equally with Franklin Templeton (credit mandate) and with the internal manager (European Government bonds).

For more information on investments, please refer to the paragraph "Strategic Asset Allocation and Tactical Asset Allocation" under heading III.

1.3. Other activities

1.3.1. Annual general meeting

The annual general meetings of members and beneficiaries from CERN and ESO were held in Geneva on Wednesday 22 October 2008 and at ESO in Garching close to Munich on 23 October 2008. Those present were given every opportunity to raise questions on the Fund's affairs at these meetings (see the minutes of the 2008 Annual General Meeting available from the Pension Fund or on the website: <http://pensions.web.cern.ch/Pensions/>).

II. INSURED POPULATION

1. Members

Table 1 shows membership as at 31.12.2008, including members whose contracts ended on that date. There were 358 departures from the participating organisations. These included 112 retirements, of which 67 were early retirements, i.e. before the age of sixty-five, and 45 members retiring at 65. In 2008, the number of Pension Fund members decreased by 97. Departures as a result of retirement accounted for about 31% of all departures, as against 30% in 2007.

The average age of members of the Fund was 41 years and 7 months for women and 43 years and 9 months for men, according to calculations as at 31.12.2008.

Graph 1 - Members and beneficiaries (CERN + ESO) as at 31.12.2008

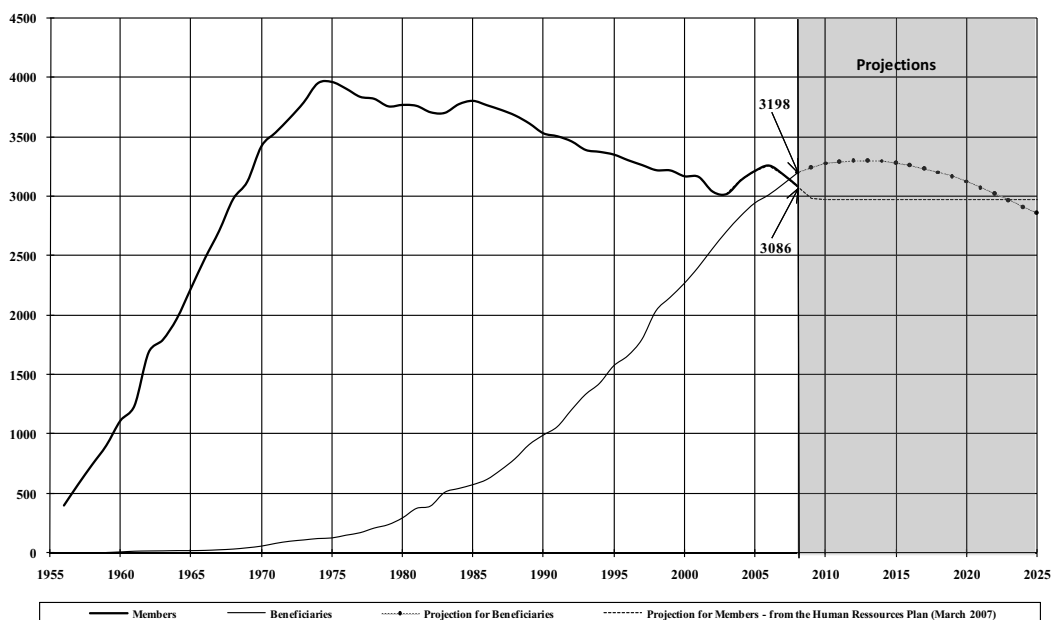


Table 1: Total number and fluctuations of members of the Fund (CERN + ESO)

Members	2007	2008	Variation
CERN Men	2266*	2158**	-5%
CERN Women	554*	536**	-3%
ESO Men	296	319	8%
ESO Women	67	73	9%

* CERN HR data as at 31.12.2007, including 54 PRPs

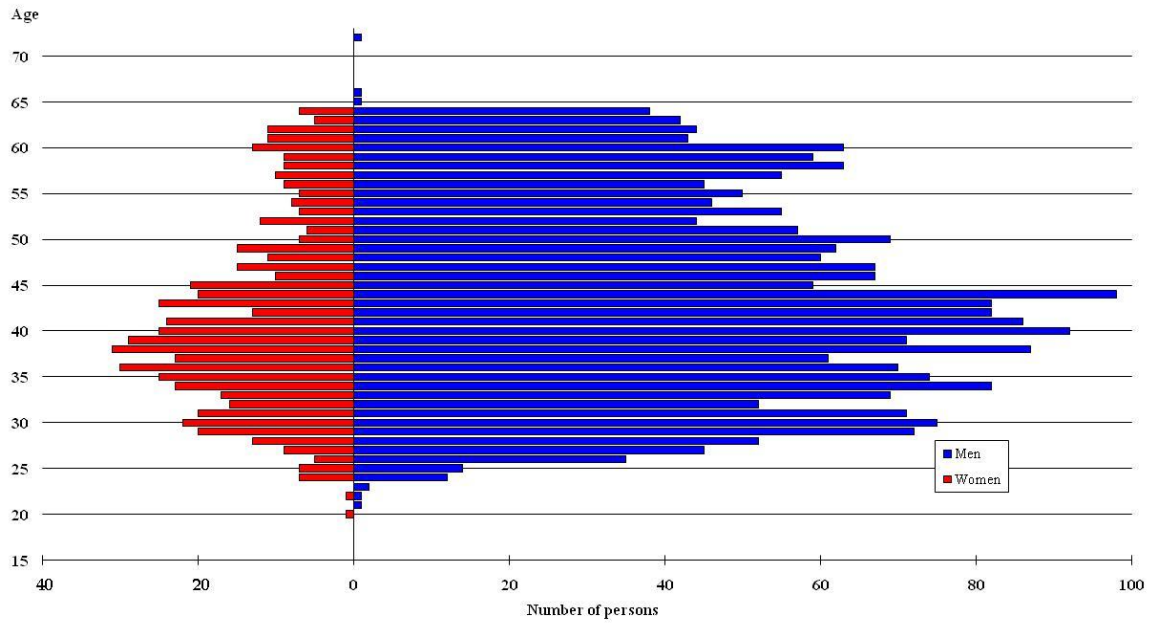
** CERN HR data as at 31.12.2008, including 47 PRPs

**Breakdown of Departures from the Fund
(CERN + ESO) in 2008**

	Men	Women	Total	%
Total departures	286	72	358	100%
Retirement	90	22	112	31%
Deferred Pension	8	2	10	3%
Disability	3	0	3	1%
Transfer values*	183	48	231	64%
Deaths	2	0	2	1%

* of which 47 still pending

Graph 2 - Distribution of the members of the Fund by age as at 31.12.2008



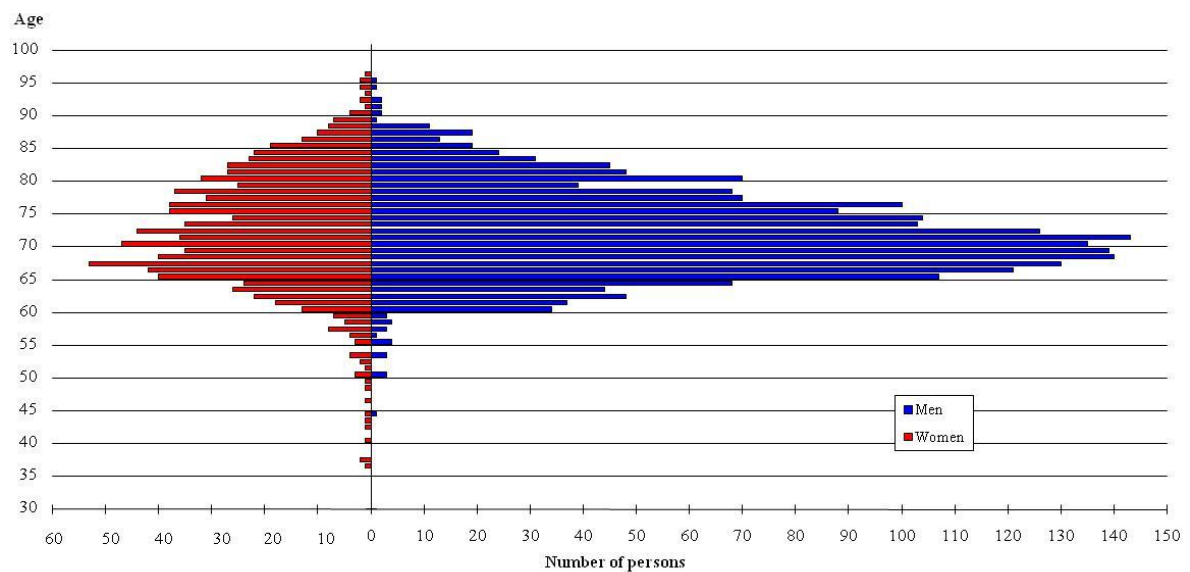
2. Beneficiaries

The number of beneficiaries at 31.12.2008, including participants in the Progressive Retirement Programme, was 3198, representing a 1.03% increase compared to the total at 31.12.2007 (3105).

Graph 4 shows the net fluctuations by category of beneficiary over the last two years.

At the end of 2008, the average age of those receiving retirement pensions (retired people and surviving spouses) was 72 years and 3 months for women and 71 years and 7 months for men, which represents a slight increase compared to 2007.

Graph 3 - Distribution of beneficiaries by age as at 31.12.2008



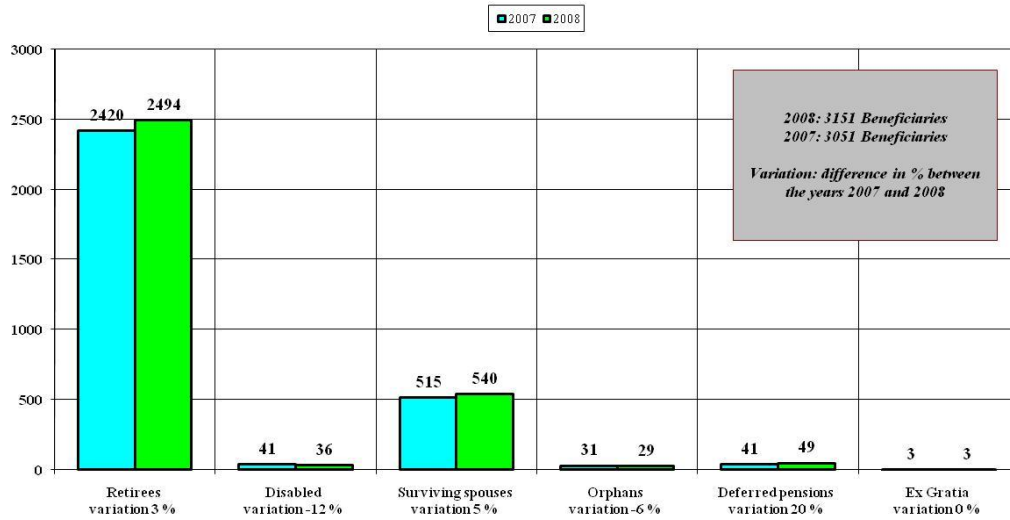
Total number of beneficiaries by age

Beneficiaries	2007*	2008**	Variation
Men under 65 years of age	271	253	-7%
Men 65 years of age and above	1835	1902	4%
Women under 65 years of age	160	150	-6%
Women 65 years of age and above	713	768	8%
Total men	2106	2155	2%
Total women	873	918	5%
Total men in PRP	42	39	-7%
Total women in PRP	12	8	-33%
Total	3033	3120	3%

* (excluding deferred and orphan's pensions : 72)

** (excluding deferred and orphan's pensions : 78)

Graph 4 – Beneficiaries of the Fund by category as at 31.12.2008



3 Adjustment of benefits

Pursuant to indexation method approved by the CERN Council in October 2006 (CERN/FC/5095 – CERN/2688), the pension adjustment will correspond to 81.2% of the annual Geneva consumer price index (0%) which gives an adjustment for 2008 of 0% (CERN/FC/5227 – CERN/2776).

Table 2 shows the increase in CERN pensions and salaries and the rise in the cost of living in Geneva since 1984:

Table 2: Adjustment of CERN Pensions and Salaries

	PENSIONS Adjustment in %		SALARIES Adjustment in %		Cost of Living (a)	
	Annual	Index 100 in 1983	Annual	Index 100 in 1983	Annual	Index 100 in 1983
01/01/84	3.47	103.5	3.00 b	103.0	3.47	103.5
01/01/85	3.83	107.4	3.83 b	106.9	3.83	107.4
01/01/86	2.47	110.1	2.41 b	109.5	3.50	111.2
01/01/87	2.35	112.7	2.35 b	112.1	1.70	113.1
01/01/88	2.25 b	115.2	3.10	115.6	2.25	115.6
01/01/89	2.20	117.7	1.94	117.8	2.20	118.2
01/01/90	3.50	121.9	4.44 c	123.0	3.50	122.3
01/01/91	5.10	128.1	6.59	131.2	5.10	128.5
01/01/92	5.40	135.0	5.50	138.4	5.40	135.5
01/01/93	3.60	139.9	2.40	141.7	3.60	140.4
01/01/94	3.00	144.1	1.20	143.4	4.60	146.8
01/01/95	1.00	145.5	0.39	143.9	1.00	148.3
01/01/96	1.74	148.0	1.31	145.8	2.10	151.4
01/01/97	0.00	148.0	0.00	145.8	0.50	152.2
01/01/98	0.00	148.0	0.00	145.8	0.60	153.1
01/01/99	0.50 d	148.8	0.50 d	146.6	0.90	154.5
01/01/00	1.30	150.7	1.30	148.5	0.90	155.8
01/01/01	1.40	152.8	5.22 f	156.2	1.30 e	157.9
01/01/02	0.80	154.0	1.30	158.2	0.90	159.3
01/01/03	0.60	155.0	1.20	160.1	0.60	160.2
01/01/04	0.70	156.0	1.10	161.9	0.70	161.4
01/01/05	0.00	156.0	1.30	164.0	1.70	164.1
01/01/06	0.99	157.6	1.20 g	166.0	1.20	166.1
01/01/07	1.16	159.4	1.60	168.6	1.40	168.4
01/01/08	0.00	159.4	0.71	169.8	0.00	168.4
[01/01/09	2.60	163.6	2.70	174.4	3.20	173.8]

a. Cost of living, in Geneva, from August to August.

b. Average percentage distributed in a differentiated way.

c. Including a 1% increase from 1st July.

d. Effective date: 1st June.

e. Number from Office Fédéral de la Statistique, after a revision of -0.1%,
published after the pensions adjustment.

f. This figure takes into account the five-yearly review (1995-1999) and the cost of living, giving 3.4%,
and various increases in social security contributions (1.82%).

g. Including an increase in contributions to the Pension Fund of 0.21%.

III. ASSET MANAGEMENT AND PERFORMANCE

Market trends

a) Equity

The year 2008 will go down on record as one of the worst years for equity markets since the Great Depression in the 1930s. Continuing on from the previous year, the economic climate deteriorated severely and bank write-downs of bad assets (so-called toxic assets) and huge corporate losses dominated the news. By the summer, credit markets had completely frozen and many financial institutions were struggling to stay afloat. To list a few institutions that failed: Bear Stearns, AIG, Washington Mutual, Merrill Lynch, RBS, Lloyds, Fortis, Hypo Real Estate, companies that at one time it seemed unthinkable could fail. However, perhaps the most significant and consequential failure was that of Lehman Brothers in September. The decision by the US Administration and Federal Reserve to let this investment bank (with huge exposures to the securitized mortgage market and credit derivatives) face bankruptcy backfired catastrophically. Any remaining market confidence evaporated and financial markets ground to a halt. Central banks stepped up their liquidity programs to try to get markets functioning again and reduced rates rapidly. In November, a massive spike in volatility culminated in a wave of panic-selling of assets, especially equity (which remained the only fully functioning and liquid market).

The US S&P 500, a benchmark of US equity markets, ended the year down 38.5%, and other markets fared equally badly or worse. The contagion effect of the financial crisis on the wider economy also began to show with huge falls in employment and in the fourth quarter US GDP slumped to a more than 6% annual decline rate. Elsewhere, global growth rates also plummeted, and economic data continued to deteriorate up to the end of the year.

b) Bonds and cash

While equity had a very bad year, bonds had a record positive year, with yields plummeting and bond prices soaring. In the United States, bond returns were among the highest on record as the yield curve shifted down by about 2%, with larger falls at the shorter end due to central bank activity. The spectre of deflation began to concern markets, and inflation-linked bond prices collapsed with breakeven spreads in negative territory. Part of the reason for this was that hedge funds were fleeing the long inflation-linked versus nominal bonds trade. By the end of the year, the US Federal Reserve overnight lending rate was 0.25%, its lowest ever.

On the other side of the coin, as fears over corporate defaults grew, in the fourth quarter credit spreads spiked to their highest levels since the 1930s and corporate bond prices dived. The same phenomenon happened for bonds issued by governments of higher risk countries whose credit spreads soared. High yield spreads to government bonds touched 20% at the height of the crisis.

c) Commodities

Almost all commodities reached new highs during the summer (oil, agriculture, metals), with very significant gains during the first half of the year. However, the macroeconomic developments created significant revisions of the market's expectations in terms of demand, which drove prices much lower, in some cases to their levels of 2004-2005.

		31.12.2007	31.12.2008	Change
EQUITY	MSCI World (index in USD)	1588.8	920.2	-42.1%
BONDS	JP Morgan Govt Europe (index in EUR)	423.2	449.2	6.1%
COMMODITIES	Gold (per ounce in USD)	833.9	882.1	5.8%
	WTI Crude Oil (per barrel in USD)	96.0	44.6	-53.5%

d) Currencies

The table below shows major currency changes versus the Swiss franc for the 2008 financial year. The USD dollar stemmed its fall against the Swiss franc. Having reached parity, the dollar rallied strongly (+20%), although due to a reversal at the end of the year, the currency still ended up down 6% for the year. The euro also weakened versus the franc as heightened fears over the global slowdown attracted money back to the franc. The other main beneficiary of the global crisis was the Japanese yen, which increased significantly versus all currencies.

		31.12.2007	31.12.2008	Change
CURRENCIES	USD	1.1322	1.0643	-6.0%
	JPY (100)	1.0134	0.8517	19.0%
	EUR	1.6553	1.4795	-10.6%
	GBP	2.2537	1.5303	-32.1%

Strategic Asset Allocation (SAA) and Tactical Asset Allocation (TAA)

The CERN Pension Fund mandated ORTEC to conduct a new Asset-Liability Management study (ALM) that resulted in a new SAA approved by the CERN Council in 2008 (CERN/2794-CERN/FC/5252). This study took into consideration the Fund's characteristics (insured population, contributions, benefits, indexation, etc.) and set objectives for the long term.

Table 3: Previous and current SAAs of the Fund

Asset Class	Previous SAA	New SAA
Cash and Short Term	2%	0%
Bonds (including 10% in non government bonds)	44%	37%
Equities (including a maximum 10% in Emerging Markets)	38%	34%
Real Estate (Including infrastructure)	10%	15%
Diversifying Assets	6%	14%
Commodities	2%	2%
Private Equity	2%	2%
Absolute return strategies	2%	10%

This new SAA introduced the following main changes:

- a reduction in Bonds and Equities in favour of Real Estate and Absolute Return strategies,
- an increase in non-government bonds,
- inclusion for Infrastructure investments within the Real-Estate Allocation.

Although the SAA is the main driver of long-term results, tactical adjustments are possible as a short-term response to prevailing market conditions. TAA decisions are taken by the Pension Fund Investment Committee (PFIC).

It is important to note that the highly volatile market conditions in 2008 created weighting deviations, mainly due to the fact that equities were falling in value while bonds and real estate remained quite stable. This resulted in a significant increase in the latter's allocation in percentage terms, despite the fact that no significant investments were made during the year in these asset classes. This phenomenon is often called the "denominator effect".

Table 4: SAA and TAA

ASSET CLASS Sub asset class	SAA	Tactical margins	Effective allocation as at:		Deviation from SAA
	1		31.12.2007	31.12.2008	
BONDS	37%	30-45%	35.9%	46.1%	9.1%
Europe	17%		15.8%	21.7%	4.7%
Global	10%		5.1%	0.3%	-9.7%
Corporate	10%		0.0%	4.5%	-5.5%
Others	0%		15.1%	0.0%	0.0%
Swiss	0%		0.0%	19.6%	19.6%
EQUITIES	34%	25-45%	38.5%	26.4%	-7.6%
US Large Cap	8%		9.5%	7.3%	-0.7%
US Small Cap	2%		1.4%	0.9%	-1.1%
Canada	0%		0%	0.2%	
Eur. Large Cap	8%		13.7%	8.8%	0.8%
Eur. Small Cap	2%		1.7%	0.9%	-1.1%
Australia	0%		0.0%	0.3%	
Japan	9%		5.5%	4.6%	-4.4%
Emerging markets	5%	Max 10%	6.7%	3.5%	-1.5%
Diversifying Assets	14%	10-20%	6.0%	6.3%	-7.7%
Absolute return	10%		2.2%	3.0%	-7.0%
Private Equity	2%		1.9%	2.9%	0.9%
Commodities	2%		2.0%	0.4%	-1.60%
REAL ESTATE	15%	10-20%	10.7%	14.8%	-0.2%
CASH	0%	0-10%	8.9%	6.4%	6.4%

Given the change in the SAA in 2008, and for comparison purposes, the 2007 allocation was adapted to integrate investments under the previous SAA into suitable categories in the new SAA.

At the end of the year, the effective allocation to bonds exceeded the upper tactical margin, due to the "denominator effect". The Investment Committee took note of that fact, and did not express any concern on the basis that the Swiss bond held in the Bonds asset class was effectively cash on a high-yielding deposit with a fully secured governmental institution. Thus, this position is considered to have extremely low credit and interest rate risk on the principal.

In 2008, the major decisions taken with respect to the TAA were:

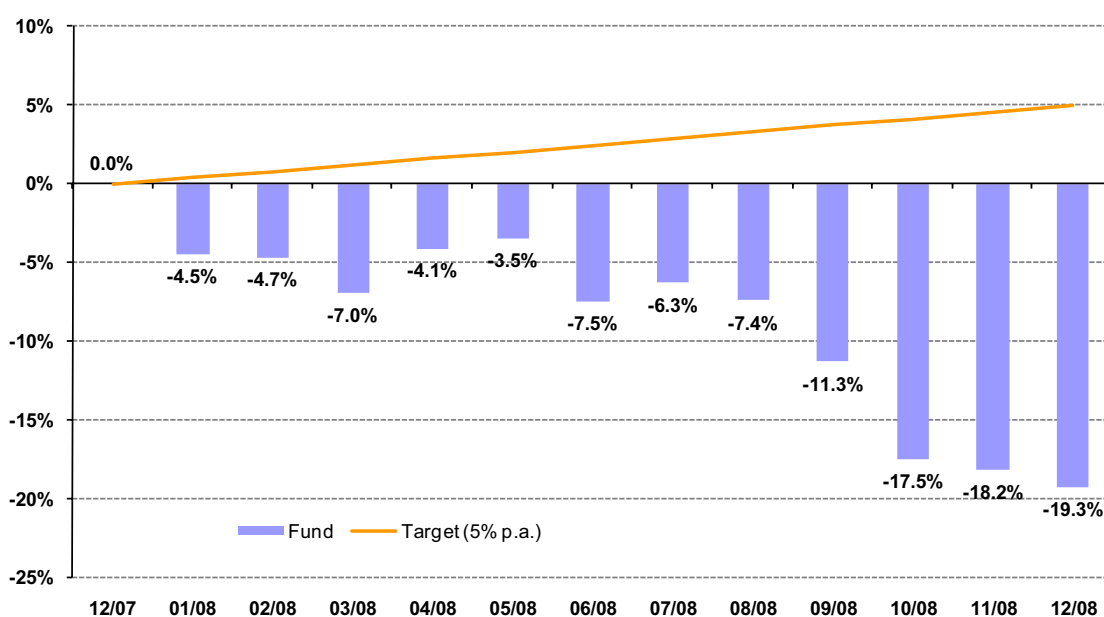
- the decision not to systematically rebalance the allocation with respect to its strategic levels. Such policies often result in increasing poorly performing asset classes to the detriment of well performing ones,
- in January, the PFIC decided to move 50 MCHF out of cash into European and US equities,
- 20 MCHF were invested half in European and half in US Equities in July,
- in June, a new portfolio of 100 MCHF dedicated to corporate bonds was launched,

- in August, the PFIC decided to reduce the European Equities by 35 MCHF and to equally invest the proceeds half in Canadian and half in Australian equities,
- to maintain the tactical decision to partially hedge the currency risk of EUR denominated assets in a range between 50% and 70%.

Investment Performance

In 2008, like most institutional investors, the CERN Pension Fund was impacted by the market turmoil. At the end of the year, the performance of the Fund stood at -19.3% according to the Time Weighted Return method. This performance is mainly explained by the drop in equity markets.

Graph 5: Monthly cumulated performance of the Fund



Data as at 31/12/2008 are accounting values, while monthly data are estimates. Each month, the graph shows the performance with respect to the 01/01/2007.

It is important to note that:

- The CERN Pension Fund did not invest in Hedge Funds, mainly for transparency and liquidity reasons. No loss was recorded in that field.
- Despite the systemic risk on the markets, which translated into bankruptcies of financial institutions, the Fund did not suffer any losses linked to its relationships with banks and counterparties.

a) Performance comparison

In 2008, the median performance of Swiss pension funds was -15% (source: Association Suisse des Institutions de Prévoyance). The under-performance of the CERN Pension Fund can be explained by the following:

- Swiss pension funds structurally have a significant exposure to the Swiss equity market (home bias), while the CERN Pension Fund considers its domestic market is the European

one. In 2008, Swiss equities performed well relative to other equity markets, thanks to their defensive characteristics,

- The investment profile of CERN Pension Fund is more aggressive than its Swiss peers. The latter generally hold more bonds and fewer equities,
- The Swiss bond investments of the CERN Pension Fund are capital guaranteed. Despite having a good yield, these investments did not benefit from the capital appreciation due to the fall in government yields, contrary to other Swiss pension funds,

However, it is important to note that the CERN Pension Fund has regularly out-performed its Swiss peers, except in 2008. Over the last 7 years, the performance of the CERN Pension Fund is still significantly above the average of Swiss pension funds.

b) Contribution of asset classes to performance

Bonds

In 2008 government bonds performed very well following the aggressive easing policies implemented by central banks. The CERN Pension Fund benefited from this trend thanks to its internally managed European government bond portfolio. However, in CHF terms, the performance of this portfolio was negative due to the depreciation of EUR and GBP against CHF. The inception of a new global credit mandate initially funded with 100 MCHF and mainly focused on corporate bonds proved to be a detractor as the performance of such bonds proved to be disappointing during the second half of the year. The derivative position in 10-year US treasury futures added to performance.

Equities

The Fund experienced the vast majority of its losses in 2008 on equity investments as most equity markets fell by more than 40%. Emerging Markets equities significantly underperformed major developed markets and the overweight of the Fund in that category at the beginning of the year detracted from performance. Small cap companies underperformed large cap ones, and the small underweight in small caps during the year was a modest contributor.

Diversifying Assets

The increase of the absolute return asset class, following the adoption of the new SAA, was not implemented in 2008 due to the difficulties in finding suitable investments. The Fund continued its policy of regularly investing in Private Equity and committed 17 MUSD and 15 MEUR to 5 funds. The Allocation to commodities was gradually reduced over the year, which contributed positively to the relative performance given the sharp decrease in commodity prices in the second half of the year.

Real Estate

Through its policy of direct purchase and sale of commercial and residential properties, the Fund managed to maintain a high, stable and competitive return in an asset class that is particularly attractive for institutional investors. The Fund used the opportunity of the market downturn to increase its real-estate holdings. After having sold two properties in 2007 at almost the top of the market, on the outskirts of Paris, the Fund decided in 2008 to re-enter the market and to buy two buildings in the centre of Paris. The first acquisition was made at Boulevard Malsherbes and the second one at Rue Legendre. The total price paid was 39.4 MCHF for a rental surface (offices, shops and residential) of 3421 m². It should be noted that the fall in market value of the Berlin building has come to a halt. However, in 2008, one property in Holland was significantly depreciated due to the fact that the tenant has decided to leave in 2010. More generally, the crisis had and will probably continue to have a moderate deflationary effect on both rents and property values.

Cash

The Fund increased its level of cash in May and June 2007 following a reduction in its equity positions. At the beginning of the year it reached 8.9% and decreased gradually to 6.4% at the end of 2008, due to pension payments and the denominator effect.

Asset Management

The table below shows the breakdown between internally and externally managed assets, and between actively and passively managed assets

Asset Class	Internally managed		Externally managed	
	Active %	Passive %	Active %	Passive %
BONDS	21.7%	19.9%	4.5%	0.0%
Europe	21.7%			
Global		0.3%		
Corporate			4.5%	
Swiss		19.6%		
EQUITY	2.4%	8.9%	10.5%	4.7%
North America				
US LC		5.2%		2.1%
US SC			0.9%	
Canada		0.2%		
Europe				
Eur. LC	2.4%		4.4%	2.0%
Eur. SC			0.9%	
Pacific				
Japan		2.8%	1.8%	
Australia		0.3%		
Emerging markets		0.4%	2.5%	0.6%
ALTERNATIVES	4.1%	0.0%	2.2%	0.0%
Abs. return	0.8%		2.2%	
Private Equity	2.9%			
Commodities	0.4%			
REAL ESTATE	14.8%	0.00	0	0.00
CASH		6.4%		
Total	43.0%	35.2%	17.2%	4.7%

a) Externally managed assets

In order to manage the assets of the Fund, investment mandates are given to external managers. As of the end of the year, externally managed assets represented 785 MCHF (21.9% of the Fund). All these portfolios are assigned a benchmark and have strict investment guidelines. The managers are liable for losses resulting from failure to comply with these guidelines. The management can be either active (i.e. with some active bets in the portfolio) or passive (i.e. on benchmark). In 2008 the managers' performance relative to their benchmark generally proved to be mixed.

One new external bond mandate was initiated in May 2008, namely a global credit mandate managed by Franklin Templeton IM. Since its inception, the portfolio has underperformed its benchmark. Two active mandates were terminated during the year following poor relative performance. Legg Mason, which managed actively a US Large Cap portfolio was dismissed in March and replaced by a passive US Equity portfolio managed by UBS GAM. Similarly, the global

bond mandate granted to JP Morgan AM was terminated in July and the proceeds were re-invested half in the managed internally European bond mandate and half in the credit mandate managed by Franklin Templeton.

Most of the active equity portfolio managers underperformed their benchmark: Lee Munder (US Small Cap), Pictet AM (Japan), UBS GAM (European Small Cap), Rothschild (Asia ex-Japan) and CTBR (QUAM). MFS (European Large Cap) was the only manager that delivered a positive performance relative to its benchmark.

Passively managed external mandates (UBS GAM) performed in line with their benchmark

b) Internally managed assets

As at the end of the year, passive investments managed internally mainly consisted of:

- long derivative positions on major equity indices,
- long derivative positions on interest rate derivatives,
- cash and cash equivalents.

Active investments managed internally mainly consisted of:

- one European government bond mandate (789.7 MCHF as at the end of 2008) which outperformed its benchmark by 0.33% over the year,
- one European Large Cap equity mandate (90.6 MCHF as at the end of 2008) which underperformed its benchmark by 3.18% over the year,
- a direct real-estate portfolio (502.5 MCHF as at the end of 2008). Since inception the IRR of the real-estate portfolio has been of the order of 8%. In 2008, the decrease in value of around 56 MCHF, on a like-for-like basis, was significant but includes currency devaluation. The depreciation due to the market downturn was of the order of 11 MCHF without currency revaluation,
- a private equity portfolio (90.7 MCHF as at the end of 2008) that invests in Funds and direct holdings. This portfolio produced a net IRR of 8.1% since its inception. In 2008, the IRR of the portfolio is in the order of -2%, mainly due to currency depreciation. This result compares very favorably to peers (the European Venture Capital Association published an average -24.9% IRR for European Private Equity in 2008),
- a commodities portfolio (16.1 MCHF as at the end of 2008) supervised by the PFIC. In 2008, the decrease in commodity prices was correctly anticipated in commodity prices. The management of this portfolio and the reduction of its size resulted in a 26.4 MUSD saving for the Fund compared to a passive investment with an on-benchmark weight in the allocation,
- a discretionary portfolio supervised by the PFIC, classified in the absolute return category (27.5 MCHF as at the end of 2008). This portfolio experienced a -3.7 MCHF loss in 2008.

c) Currency hedging

In order to reduce the volatility of the returns, the Fund implements a currency hedging policy which is decided by the PFIC. The general policy is to hedge 70% of the non-EUR exposure against CHF. However, for tactical reasons, the PFIC decided to lower the hedge ratios for GBP and JPY to 50%. The management of this program is entrusted to JP Morgan, who implement it through forward sales of currencies against CHF. The manager performed in line with its benchmark, and the program generated gains of 76.9 MCHF in 2008.

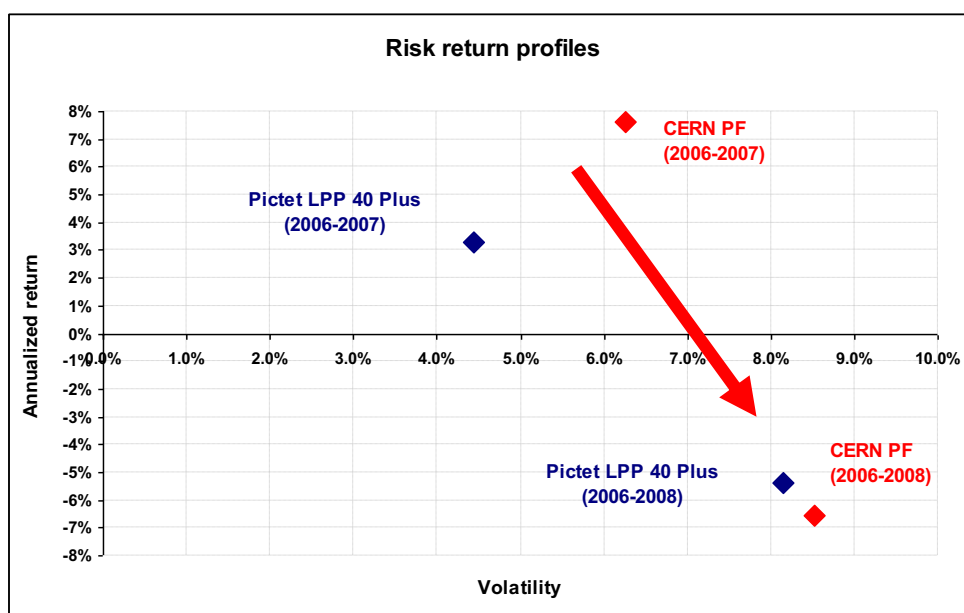
At the end of 2007, the PFIC decided to tactically hedge 50% of its EUR exposure against CHF. In 2008 this strategy was continued, (and slightly amended) and the effective hedge ratio as at

the end of 2008 was 55%. This tactical hedging is managed internally using forward sales of EUR against CHF and generated a 45.7 MCHF gain during the year.

d) General risk/return profile

The graph below illustrates the risk / return profile of the Fund, compared to the LPP40 Plus index developed by Pictet. Performance is annualized and volatility is computed on a monthly basis. In 2008 the risk/return profile of both the Fund and the LPP40 Plus Index deteriorated, and by just adding the 2008 results, the plots moved significantly south-east compared to 2007 results, which indicate an increase in risk and a deterioration in performance. However it is important to note that the additional risk of the Fund (increase from 6.2% to 8.5%) in 2008 is less than the additional risk of the Index (from 4.5% to 8%).

For more risk analysis, please refer to heading IX “Financial Risk Management”.



The LPP40 Plus index is composed of 50% bonds, 30% equities, 10% real estate and 10% diversifying strategies.

e) Value at risk

The Fund has once again undertaken to measure the degree of risk of its investments by embarking on a calculation of ‘value at risk’, performed by the Custodian. For the Fund, this has involved calculating, every year and over a period of three months and with a confidence level of 95%, the maximum potential loss under normal market conditions. The outcome was that the loss for this period could have been of the order of 101.6 MCHF based on the Fund’s assets and its allocation at the end of 2008, excluding real estate. Diversification in terms of geographical areas and types of equity, as well as de-correlation, always generates a significant reduction in portfolio risk. Without this diversification of asset classes, countries and currencies and without currency overlay, the risk exposure of total assets would have been 215.3 MCHF, a difference of 113.6 MCHF.

It is important to treat these figures with caution, since they are based the historical behaviour of the markets. It is now commonly recognized that these estimations underestimate the risk of a rare but severe scenario, especially in the case of a re-correlation of the asset classes such as occurred in 2008.

IV. LONG-TERM RESULTS

Year	Contributions balance	Funds held (31/12)	Inflation in % ^{a)}	Overall performance in %	Overall real performance in % ^{b)}
1956	-	1.33	-	-	-
1957	1.39	2.81	2.30%	4.44	2.10
1958	1.8	4.74	-0.50%	3.50	4.02
1959	2.18	7.13	1.00%	3.60	2.58
1960	2.94	10.37	3.20%	3.49	0.28
1961	2.91	13.69	3.90%	3.47	-0.42
1962	3.96	18.21	5.40%	3.57	-1.73
1963	4.69	23.61	3.10%	3.45	0.34
1964	5.59	30.01	3.20%	3.07	-0.13
1965	7.3	38.7	3.30%	4.13	0.80
1966	9.03	49.12	4.90%	3.22	-1.60
1967	10.33	64.06	5.90%	8.49	2.45
1968	12.67	81.9	2.10%	7.34	5.14
1969	15.52	98.45	3.70%	1.15	-2.46
1970	16.61	119	2.80%	3.69	0.87
1971	18.53	148.3	6.60%	8.40	1.69
1972	20.99	179.66	6.20%	6.53	0.31
1973	23.66	193.77	7.80%	-4.99	-11.86
1974	27.72	204.97	9.70%	-7.96	-16.10
1975	30.97	269.78	8.10%	15.35	6.71
1976	32.06	337.2	1.80%	12.37	10.38
1977	33.32	364.07	1.60%	-1.82	-3.37
1978	31.14	392.76	1.20%	-0.65	-1.82
1979	30.82	453.48	4.30%	7.33	2.90
1980	32.13	520.92	3.42%	7.52	3.96
1981	41.01	560.86	5.87%	-0.20	-5.73
1982	37.27	683.5	4.85%	14.73	9.42
1983	184.49	930.71	3.47%	8.73	5.08
1984	47.71	1054.92	3.83%	8.01	4.03
1985	46.36	1174.09	3.50%	6.75	3.14
1986	48.16	1302.43	1.70%	6.69	4.91
1987	124.2	1463.48	2.25%	2.78	0.52
1988	56.83	1635.82	2.20%	7.74	5.42
1989	54.93	1794.29	3.50%	6.23	2.63
1990	46.4	1842.88	5.10%	0.12	-4.74
1991	55.8	2067.82	5.40%	9.04	3.45
1992	43.24	2280.07	3.60%	8.09	4.33
1993	32.25	2519.93	4.60%	9.04	4.25
1994	23.89	2521.84	1.00%	-0.87	-1.85
1995	23.76	2654.78	2.10%	4.31	2.16
1996	6.9	3075.83	0.50%	15.58	15.00
1997	0.47	3330.09	0.60%	8.25	7.60
1998 ^{d)}	-22.1	3507.17	0.90%	6.00	5.06
1999 ^{e)}	-33.47	4048.06	0.90%	13.04	12.03
2000	-40.74	3992.47	1.30%	-0.37	-1.65
2001	-52.13	3805.69	0.90%	-3.39	-4.26
2002	-64.71	3531.7	0.60%	-5.55	-6.11
2003	-89.43	3750.27	0.70%	8.83	8.08
2004	-103.42	3852.62	1.70%	5.56	3.80
2005	-111.92	4209.49	1.20%	12.35	11.02
2006	-109.73	4473.8	1.40%	9.00	7.50
2007	-133.75	4613.9	0.00%	6.21	6.21
2008	-149.15	3589.68	3.20%	-19.28	-21.78

a) Inflation in Geneva from August to August.

b) Performance based on inflation from August to August.

c) The calculation takes account of the repayment of the amount owing from the Organization.

d) The reimbursement of the amount owing from the Organization has not been taken into account as it was received on 31/12.

e) The calculation base takes account of the additional credit of 105.3 MCHF as at 31/12/98 and corresponds to assets amounting to 3'612.47 MCHF (C(i-1)).

(B) Difference between contributions received and benefits paid (re-stated on a cash basis).

(C) and (D) from Annual Reports.

(C) Funds include debtors and creditors.

(D) Inflation from August to August.

(E) = $(-1 + (C(i) - B(i) / 2) / (C(i-1) + B(i) / 2)) * 100$

(F) = $((E) - (D)) / (1 + (D) / 100)$

The table below provides figures over the long term for some key variables of the Fund (performance, inflation indexation), and compares them to the assumptions of the technical balance sheet.

Table 5 – Comparison between the assumptions of the technical Balance Sheet and the actual data

	Assumptions Technical Balance Sheet (¹)	1957-2008 52 years	1989-2008 20 years	1999-2008 10 years	2004-2008 5 years
Gross performance TWR (²)	-	4.5%	4.3%	2.2%	2.1%
Gross performance IRR	5.0%	4.9%	4.5%	2.6%	2.4%
Rate of pension adjustment	2.0%	- (³)	1.6%	0.7%	0.6%
Inflation	2.0%	3.1%	1.9%	1.2%	1.5%

(1) Assumptions decided by the Governing Board on 2 November 2004 and approved by the CERN Council in December 2005 (CERN/FC/4993 – CERN/2637)

(2) Geometric mean of annual performance for the period under consideration (TWR)

(3) There were no pensions in payment during the first six years of the Fund's existence and the pensions paid during the following fifteen years or so account for only a very small percentage of the total pensions at 31.12.2007

The situation significantly deteriorated compared to the situation at the end of 2007. The gross performance of the Fund (both TWR and IRR methods) fell below 5% since the inception of the Fund. As at the end of 2007, these figures respectively stood at 5.1% and 5.7%. Over 20, 10 and 5 years, the decrease is even higher since all these performance figures ranged higher than 5% as at the end of 2007.

The Fund's performance falls short of the performance objectives set by the CERN Council, as over ten years the overall performance is 2.6%. However, over 20 years and since its inception, the performance of the Fund is consistent with the 4.5% technical rate chosen by the Council.

As already noted in last year's Annual Report, both the current technical rate and the Fund's performance are gross figures which include inflation. In this connection it should be pointed out, however, that the Fund's real performance, i.e. corrected for inflation, is less than 2% for the period since its creation, whereas the actuarial assumption is 3%. Taking into consideration the present weight of the pensioners' proportion of the actuarial commitments the 1% shortfall is far from being unimportant in terms of the Fund's liabilities to its beneficiaries.

Actuarial Results

Every year the Fund has been reviewing its actuarial position using the closed-fund method (Accumulated Benefit Obligation, ABO or traditional method), which gives a snapshot of the financial position of the Fund at a given moment without taking future developments into account. The results of the 2008 review can be found in the consulting actuary's report (Annex 1). The funding ratio has deteriorated substantially from 106.3% on 1 January 2008 to 82.0% as at 1 January 2009. The reasons are threefold: the negative result achieved in 2008 is the most important, but also the continued rise in the mathematical reserve for the pensioners, and the negative cash-flow have also played a role.

IPSAS (IAS 26)

The decision of Council to introduce International Public Accounting Standards (IPSAS) at CERN has meant that the accounts of the Pension Fund should be prepared in accordance with those principles as of 31 December 2008 with a restatement of the financial position as at 31 December 2007. If an appropriate IPSAS standard does not exist, reference is made to the relevant International Financial Reporting Standard (IFRS) / International Accounting Standards (IAS). In the absence of a relevant IPSAS for a pension fund the provisions of IAS26 – Accounting and Reporting by Retirement Benefit Plans have been applied: As well as the ABO method, IAS 26 permits that the actuarial present value of promised retirement benefits can be calculated using the Projected Benefit Obligation method (PBO) which is based on the approved actuarial assumptions. These actuarial assumptions decided by the PFGB were the same as for the accounts of CERN with the exception of the discount rate set at 4.5% as decided by Council (CERN/4994-CERN/2637) which corresponds to the long term discount rate (expected return minus 0.5%). Based on the PBO method the funding ratio or rate of capitalisation fell from 94.4% as at 31st December 2007 to 72.7% as at 31st December 2008. The deterioration is here also of the same order of magnitude and is due to the same reasons as mentioned above.

ABO versus PBO methods

The actuarial present value of promised retirement benefits based on the ABO method is disclosed in the Annual Report to indicate the obligation in respect of benefits earned to the 31 December. The actuarial present value of promised retirement benefits based on the PBO method is disclosed to indicate the magnitude of the potential obligation based on the approved actuarial assumptions.

In particular it should be noted that neither method takes into consideration the renewal of staff complements which for an international public organisation like CERN is a very important factor. The consequences are that in the future the Fund is obliged to use at least two sets of parameters: For accounting purposes the ABO and/or the PBO-based approaches required by IPSAS and, because the position of the Fund at a given date does not allow any conclusions to be drawn about the financial balance of the Fund in the long term, the traditional open fund projection for actuarial purposes. This open-fund method maintains comparability with past results and is necessary for the triennial actuarial review that provides the basis for the decision on indexation of pensions. In particular Working group 2 will continue to use this method for the studies it has commenced.

(For details refer to Annex 1 Consulting Actuary's report for the year 2008)

V. 2008 ACCOUNTS AND 2009 BUDGET OF THE PENSION FUND

A) General

The administration of the CERN Pension Fund has become progressively more complex. On the investment side, for instance, the complexity has increased due to the necessary diversification in new asset classes and the growing use of specialized external managers. On the administrative side, it

is above all the growing number of retirees and the increasing number of requests for information relating to all aspects of the Fund that are responsible.

Overall expenditure of the Fund in 2008 is given in the table below, together with the figures for 2007 by way of comparison. The table has been re-formatted to reflect the new expenditure lines and headings to be found in the Fund's Statement of Financial Performance prepared under the requirements of IPSAS.

Year	2008	2007
Investment Management fees	4'041	6'451
Custody and performance calculation fees	1'281	1'355
Transaction costs	2'403	3'681
Real-Estate Coordinator's Management Fees	154	133
Real-Estate expenditure*	8'726	9'475
Taxation	459	945
Total Investment expenses in kCHF	17'064	22'040
Bank charges	68	78
Administration costs	3'592	3'416
Total expenses in kCHF	3'660	3'494

*Maintenance expenditure (7'699 kCHF) + Local management fees (1'027 kCHF)

The Fund's overall expenditure in 2008 decreased by 4.8 MCHF (19%) compared to 2007. There were reductions under all major headings, particularly Investment Management fees where falling assets values have had an impact on amounts payable to securities portfolio managers.

With effect from 1.1.1992, the administrative costs of the Fund formerly borne by the Organization have been charged to the Fund.

At its meeting on 01.09.2008, the Governing Board approved the 2009 budget (see under C).

B) 2008 Expenditure

In 2008, the Fund's overall budgeted expenditure (3'379 kCHF) was slightly lower (9%) than the budget envelope provided for (3'725 kCHF). Personnel expenditure was lower than budgeted due to the non-recruitment of a computing engineer and also the later than planned hiring of a risk manager. Both of these posts were provided for in the 2008 Budget. Due to this non-recruitment, there was continued recourse to external suppliers and consultants in respect of computing maintenance and risk manager duties, thereby increasing « Materials » expenditure. The requirement for additional work with regard to actuarial matters and the need for further research facilities in an increasingly complex market situation were the other cost drivers within the « Materials » heading. Some of this increased expenditure was offset by savings under other budgeted items.

Personnel

The staff of the Fund is shown in Annex II of this report. It should be noted that one post was charged to Experts and Consultants in the Fund's budget.

Materials and outsourcing

The expenses for 2008 cover operating expenses essentially associated with services the Fund needs to carry out its activities (temporary labour, training, travel, experts and consultants, expenditure connected with the operation of the Governing Board). They also include the cost of subscriptions to the information services of Reuters and Bloomberg, plus computer-related expenditure (software and machines).

External Management Costs

For information, the external management costs (assets and real-estate management) are as follows:

	Expenditure		2009 estimate
	(in kCHF)		(in kCHF)
	2008	2007	
Assets (management and custody fees)	5'322	7'806	6'500
Real Estate (total management and valuation fees)	1'256	1'217	1'250
Total in kCHF	6'578	9'023	7'750

C) 2009 Budget

The 2009 budget is 785 kCHF (21.07%) higher than the 2008 budget. The «Personnel» heading shows an increase (260 kCHF) (11.43%) compared to the 2008 budget due to the planned recruitment of a General Manager, Chief Investments Officer and Risk Manager. Given the probable timing of the recruitment for these posts, the budgeted amounts for personnel in 2009 will not be fully expensed. Revised estimates will be produced for the 2009 Probable Expenditure exercise. The cost of recruiting a Computing Engineer has been removed from the Personnel budget as computing support will continue to be resourced from the «Materials» budget in 2009. The budget allocation for «Materials» is increased by 525 kCHF (36.21%) compared to the corresponding period. The main reason for this increase is the provision made for the Computing Project (480 kCHF), in respect of which installation is expected to commence early in the second half of 2009. Other budgeted items showing an increase such as Contracts and Communications will be offset by economies under other headings.

Budget of the Pension Fund for the Financial Year 2009

(in kCHF)

Headings and Sub-headings	2008 Annual Accounts CERN/2843 CERN/FC/5340 (2008 prices)	2008 Budget (2008 prices)	2009 Budget* (2009 prices)
Personnel	1 873	2 275	2 535
Materials			
<i>Operating expenses</i>			
Library	72	30	30
Colloquia, seminars, conferences	4	15	15
Contracts (maintenance, temporary labour, minor work, service)	54	70	105
Third party payments and fees	106	215	215
Experts & Consultants	847	710	680
Training costs	16	25	25
Duty travel expenses	33	70	50
Official hospitality expenses	13	25	20
Communications	316	235	305
----- <i>Sub-total</i>	1 461	1 395	1 445
<i>Supplies</i>			
Investments and equipment	45	55	50
----- <i>Sub-total</i>	45	55	50
<i>Computing Project</i>			480
----- <i>Sub-total</i>			480
Total Materials	1 506	1 450	1 975
Grand Total	3 379	3 725	4 510

* The 2009 budget, approved by PFGB in September 2008 (CERN/PFGB/4.5), has been indexed in line with the "Cost-Variation Indexes for 2009" document (CERN/FC/5255/Rev.3b) as approved by Council in December 2008.

VI. FINANCIAL STATEMENTS

1.1. Statement of Financial Position

(in CHF)	Notes*	31.12.08	31.12.07
ASSETS			
Cash and Cash Equivalents	1	1'236'086'398.68	1'679'895'520.41
Settlements receivable		1'868'647.82	13'319'186.85
Sundry Debtors	2	5'019'278.06	6'303'560.17
Other Receivables	3	19'165'846.45	17'587'403.06
Derivatives	4	133'552'196.39	47'021'783.60
Bonds		928'151'560.81	1'043'971'902.75
Equities		521'139'500.92	1'138'164'668.83
Investment Funds and index investments		275'881'911.77	319'356'507.79
Total Financial assets		3'120'865'340.90	4'265'620'533.46
Non-Financial assets			
Investment Property	5	502'491'378.60	522'108'816.92
Total Non-Financial assets		502'491'378.60	522'108'816.92
Total assets		3'623'356'719.50	4'787'729'350.38
LIABILITIES			
Settlements payable		2'174'425.20	154'162'741.62
Sundry creditors	6	10'482'560.81	8'176'429.98
Other payables	7	3'210'362.17	5'486'160.57
Derivatives	4	17'808'897.21	5'927'875.20
Total liabilities		33'676'245.39	173'753'207.37
Net assets available for benefits		3'589'680'474.11	4'613'976'143.01
Transfer values of active members or current value of deferred pensions (without future adjustment)		1'502'171'013.00	1'541'513'727.00
Mathematical reserves of the beneficiaries		3'300'490'005.00	3'233'357'330.00
Vested pension capital		4'802'661'018.00	4'774'871'057.00
Provision for increased life expectancy		132'019'600.20	113'167'506.55
Technical provision		132'019'600.20	113'167'506.55
Vested pension capital and technical provisions (CP)		4'934'680'618.20	4'888'038'563.55
Technical deficit		(1'345'000'144.09)	(274'062'420.54)

* See details under Heading XII - Notes to the Financial Statements on page 46

1.2. Statement of Financial Performance

(in CHF)	Notes*	2008	2007
Investment Income			
Gains/(losses) on Financial Assets at Fair Value Through Profit & Loss	8	(468'516'536.13)	20'719'331.00
Gains/(losses) on Real Estate at Fair Value Through Profit & Loss	5	(59'041'128.00)	46'863'870.02
Dividends		26'314'983.33	28'617'951.50
Interest income	9	80'682'780.66	84'875'759.87
Real-Estate income	10	35'458'375.67	36'808'245.51
Results on Sales of Financial Assets	11	(603'709'333.65)	48'723'588.11
Results on Sales of Non- Financial Assets		-	4'509'673.96
Foreign Exchange gains	12	134'311'612.71	28'192'120.14
		(854'499'245.41)	299'310'540.11
Investment Expenses			
Investment Management Fees		4'040'809.96	6'450'669.71
Custody Fees and Administration of securities		1'281'192.90	1'355'157.89
Transaction costs		2'402'700.18	3'681'170.77
Real-Estate Coordinators Management Fees		154'000.00	132'638.70
Real-Estate expenditure	13	8'726'089.54	9'475'216.94
Taxation		458'949.35	944'794.45
Total Investment Expenses		17'063'741.93	22'039'648.46
Net Investment Income/(Loss)		(871'562'987.34)	277'270'891.65
Other Income		78'739.23	139'965.17
Total Income		(871'484'248.11)	277'410'856.82
Other Expenses			
Bank Charges		68'160.26	77'938.31
Administration Costs		3'591'543.68	3'415'822.11
Total Other Expenses		3'659'703.94	3'493'760.42
Change in Net Assets before Membership Activities		(875'143'952.05)	273'917'096.40
Membership Activities:	14		
Contributions			
Member Contributions		41'266'640.00	42'349'900.00
Employer Contributions		83'290'243.00	85'460'987.00
Purchase of additional years of membership		620'867.70	1'002'672.57
Indemnities received from third parties		170'099.05	238'230.25
Compensations		4'599'127.00	4'276'607.00
Total Contributions		129'946'976.75	133'328'396.82
Benefits and Payments			
Retirement pensions		221'710'581.30	213'919'199.80
Disability pensions		2'505'342.60	3'243'526.20
Surviving spouse pensions		25'936'935.20	24'145'426.00
Orphans pensions		808'353.00	843'653.00
Family allowances		14'041'594.00	13'843'157.00
Ex gratia payments granted		102'000.00	99'000.00
Transfer values paid to members		13'142'561.00	10'750'746.00
Transfer values paid to other schemes		447'033.00	(127'475.00)
Contributions paid to Other Schemes		404'293.50	359'123.19
Total Benefits and Payments		279'098'693.60	267'076'356.19
Net Membership Activities		(149'151'716.85)	(133'747'959.37)
Net Increase/(Decrease) in Net Assets During Year		(1'024'295'668.90)	140'169'137.03
Net Assets Available for Benefits at Beginning of Year		4'613'976'143.01	4'473'807'005.98
Net Assets Available for Benefits at End of Year		3'589'680'474.11	4'613'976'143.01

* See details under Heading XII - Notes to the Financial Statements on page 46

1.3. Cash Flow Statement

	Year ended 31 December	
(in kCHF)	2008	2007
Cash flows from membership activities		
Contributions and other receipts	130'999	131'816
Benefits and other payments	<u>(277'858)</u>	<u>(265'709)</u>
	(146'859)	(133'893)
Cash flows from investing activities		
Payments financial assets	(2'728'000)	(3'117'542)
Payments real estate	(21'249)	(17'406)
Proceeds from sale of financial assets	2'285'821	3'255'674
Purchase of investment property	(35'116)	0
Proceeds from sale of investment property	0	44'263
Investment property receipts	43'896	42'733
Dividends received	25'699	28'365
Interest received	73'854	76'520
Tax reimbursements	1'466	253
Management and Custody Fees	(6'592)	(8'174)
Administrative and other Operating expenses paid	<u>(3'307)</u>	<u>(2'572)</u>
	(363'528)	302'114
Net (decrease) increase in cash and cash equivalents	(510'387)	168'221
Cash at beginning of the year	1'679'896	1'513'890
Exchange gains /(losses) on cash and cash equivalents	<u>66'578</u>	<u>(2'215)</u>
Cash at end of the year	<u><u>1'236'087</u></u>	<u><u>1'679'896</u></u>

1.4. Statement of Changes in Net Assets Available for Benefits

	CHF
Balance as at 31 December 2006	4'473'807'005.98
Employer contribution	85'460'987.00
Employee contribution	42'349'900.00
Purchase of additional years	1'002'672.57
Indemnities and Compensations	4'514'837.25
Benefits paid	(256'093'962)
Transfer values and contributions paid	(10'982'394)
Investment income	299'310'540.11
Other Income	139'965.17
Investment expenses	(22'039'648)
Other expenses	<u>(3'493'760)</u>
Balance as at 31 December 2007	4'613'976'143.01
Employer contribution	83'290'243.00
Employee contribution	41'266'640.00
Purchase of additional years	620'867.70
Indemnities and Compensations	4'769'226.05
Benefits paid	(265'104'806)
Transfer values and contributions paid	(13'993'888)
Investment income	(854'499'245)
Other Income	78'739.23
Investment expenses	(17'063'742)
Other expenses	<u>(3'659'704)</u>
Balance as at 31 December 2008	3'589'680'474.11

VII. GENERAL INFORMATION

Fund Description

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*”.

Under Articles V 1.02, 03 and 04 of the CERN Staff Rules and Regulations, the Organization 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 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 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 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.

The Fund 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.

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 Council. 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.

Changes to the Rules and Regulations of the Fund

In December 2008, the Council approved two articles relating to the composition and chairmanship of new Investment Committee (CERN/2826).

The Council also approved the code of conduct of the Pension Fund (CERN/2824) and the standard term of appointment for the members of the CERN PFGB (CERN/2825).

VIII. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The CERN Pension Fund financial statements for 2008 have been prepared on a going-concern basis and in accordance with International Public Sector Accounting Standards (IPSAS). Previously, the financial statements had been prepared in accordance with the Rules of the Fund and in conformity with the Fund's accounting policies, which differ in certain respects from IPSAS. In order to facilitate comparison with the financial statements for the year ending 2008, the financial

statements for the year ending 2007 have been restated on the same basis. Reconciliations and descriptions of the effects of the transition to IPSAS are provided under heading XI.

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 judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed under heading X. 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.

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 Article I 4.01 of the Rules of the Pension Fund, approved by the CERN Council on 23 June 1989, the unit of account of the Pension Fund is the Swiss franc and the pension Fund accounts are therefore prepared and presented in this 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 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 fair value. 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) 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, and also a loan concerning an advance made by the Fund to a housing association in respect of the financing of a common heating plant for part of the real-estate property. The loan has fixed payments and is not quoted in an active market.

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.

Except for the loan, these amounts do not carry any interest, are short-term in nature and are accordingly stated at their nominal value as reduced, where appropriate, by allowances for estimated irrecoverable amounts.

c) 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.

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.

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 gains/losses on real estate at fair value through profit & loss.

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.

Liabilities

The liabilities at the balance sheet date, which are not interest-bearing and are short-term in nature, 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 below shows the significant actuarial assumptions used to calculate the actuarial present value of promised retirement benefits. As can be seen from the table, the actuarial assumptions for 2008 are the same as those applied for 2007. The benefits have been determined using projected salary levels. At its meeting of 11 February 2009 (CERN/PFGB/10.3), the PFGB approved these actuarial parameters that represent the official accounting policy of the Organization with the exception of the discount rate (4.5%), which is linked to the Fund's expected long-term rate of return of 5% with a built-in safety margin of 0.5%. This discount rate of 4.5% was approved by the CERN Council on 15 December 2005 (CERN/FC/4993-CERN/2637).

Actuarial assumptions	2007	2008
Discount Rate	4.5%	4.5%
Future salary increase	1.5%	1.5%
Future pension increase	1.0%	1.0%
Salary Advancement	1.8%	1.8%
Return on Plan Assets	5.0%	5.0%
Life Expectancy	EVK 2000	EVK 2000
Resignation of CDI<01/07/1987 rate valid until 59 years, 0% beyond	0.5%	0.5%
Resignation of CDI>=01/07/1987 rate valid until 64 years, 0% beyond	0.5%	0.5%
Resignation of CDD and Fellows	0.0%	0.0%
Award of Indefinite Contracts	50.0%	50.0%
Extension of 2 to 3 years of Fellows contracts	50.0%	50.0%

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 holds 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.

IX. 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' below 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, taking the tactical positions into account.

ASSET CLASS Sub asset class	SAA	Tactical margins	Effective allocation as at:		Deviation from SAA
	1		31.12.2007	31.12.2008	
BONDS	37%	30-45%	35.9%	46.1%	9.1%
Europe	17%		15.8%	21.7%	4.7%
Global	10%		5.1%	0.3%	-9.7%
Corporate	10%		0.0%	4.5%	-5.5%
Others	0%		15.1%	0.0%	0.0%
Swiss	0%		0.0%	19.6%	19.6%
EQUITIES	34%	25-45%	38.5%	26.4%	-7.6%
US Large Cap	8%		9.5%	7.3%	-0.7%
US Small Cap	2%		1.4%	0.9%	-1.1%
Canada	0%		0%	0.2%	
Eur. Large Cap	8%		13.7%	8.8%	0.8%
Eur. Small Cap	2%		1.7%	0.9%	-1.1%
Australia	0%		0.0%	0.3%	
Japan	9%		5.5%	4.6%	-4.4%
Emerging markets	5%	Max 10%	6.7%	3.5%	-1.5%
Diversifying Assets	14%	10-20%	6.0%	6.3%	-7.7%
Absolute return	10%		2.2%	3.0%	-7.0%
Private Equity	2%		1.9%	2.9%	0.9%
Commodities	2%		2.0%	0.4%	-1.60%
REAL ESTATE	15%	10-20%	10.7%	14.8%	-0.2%
CASH	0%	0-10%	8.9%	6.4%	6.4%

The fair value of the Fund's assets exposed to price risk at 31 December was as follows:

	2008	2007
(in kCHF)		
Bonds	928'151	1'043'972
Equity	521'139	1'138'165
Investment and index investments	275'882	319'357
Derivatives	133'552	47'022
Investment Property	502'491	522'109
Total	2'361'215	3'070'625

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

At 31 December 2008 (in thousands)

EUR	911'117
GBP	142'487
USD	261'076
JPY	6'390'399

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 X, "Critical Accounting Estimates and Judgements".

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 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.

	2008	2007
<u>Global Credit Mandate*</u>	159.7 MCHF	231.8 MCHF
0 - 1 year	13.37%	8.06%
1 - 3 years	13.86%	27.37%
3 - 5 years	16.32%	10.99%
5 - 7 years	14.19%	15.03%
7 - 10 years	28.04%	13.84%
> 10 years	14.22%	24.71%
Total	100.00%	100.00%

* In 2008, this portfolio was restructured and the manager was changed. The mandate was transformed from a global bond portfolio into a dedicated credit portfolio.

<u>Global Government Bonds</u>	789.7 MCHF	720.5 MCHF
0 - 1 year	5.94%	11.35%
1 - 3 years	2.63%	12.07%
3 - 5 years	4.00%	1.63%
5 - 7 years	27.90%	4.75%
7 - 10 years	47.80%	64.33%
> 10 years	11.73%	5.87%
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>		
(in kCHF)		
EUR	1.50%	5'623
EUR	2.80%	89
EUR	2.35%	4'500
CHF	0.05%	2'490
CHF	2.88%	1'009'489
USD	0.05%	820
GBP	1.19%	210
GBP	1.00%	1'200

e) Credit risk

The Fund is exposed to credit risk, which is the risk that a 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.

	2008	2007
<u>Global Credit Mandate*</u>	159.7 MCHF	231.8 MCHF
Debt securities by rating category		
AAA	14.14%	90.58%
AA	7.82%	1.73%
A	46.80%	5.57%
BBB-B	27.05%	1.14%
NR/NA	4.19%	0.98%
Total	100.00%	100.00%

* In 2008, this portfolio was restructured and the manager was changed. The mandate was transformed from a global bond portfolio into a dedicated credit portfolio.

The duration of the above securities which is the weighted-average term to maturity of the cash flows was some 5.22 years at 31 December 2008 (2007: 6.03 years).

	2008	2007
<u>Global Government Bonds</u>	789.7 MCHF	720.5 MCHF
Debt securities by rating category		
AAA	79.46%	68.16%
AA	9.68%	3.74%
A	7.88%	10.54%
BBB-B	2.72%	11.15%
NR/NA	0.26%	6.41%
Total	100.00%	100.00%

The duration of the above securities was some 7.02 years at 31 December 2008 (2007: 5.96 years).

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

	2008	2007
Bonds	928'151	1'043'972
Derivative assets	133'552	47'022
Cash and cash equivalents	1'236'086	1'679'895
Settlements receivable	1'869	13'319
Other assets	24'185	23'890
Total in kCHF	2'323'843	2'808'098

Any 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.

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.

(in kCHF)	Less than 7 days	1 month to 3 months	3-12 months
<u>At 31 December 2008</u>			
Settlements payable	2'174		
Members and Beneficiaries	4'022		
Real-Estate guarantee deposits			3'267
Taxes Payable		116	
Real-Estate Creditors		3'077	
Reimbursements of contributions	1'214		
Payments Outstanding		1'996	
Total in kCHF	7'410	5'189	3'267
<u>At 31 December 2007</u>			
Settlements payable	154'163		
Members and Beneficiaries	1'765		
Real-Estate guarantee deposits			3'266
Taxes Payable		77	
Real-Estate Creditors		3'068	
Reimbursements of contributions	2'142		
Payments Outstanding		3'344	
Total in kCHF	158'070	6'489	3'266

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.

(in kCHF)	1 - 6 months
<u>At 31 December 2008</u>	
Forward	16'007
Swaps	1'802
Total in kCHF	17'809
<u>At 31 December 2007</u>	
Forward	3'864
Swaps	1'674
Call options	389
Total in kCHF	5'927

X. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgements 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 judgements 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 Fund calculates that a 0.5% increase/decrease in the discount rate would decrease/increase liabilities by some 313 MCHF. A 1% increase/decrease in the indexation of pensions would increase/decrease liabilities by some 376 MCHF and a 1% increase/decrease in the indexation of salaries would increase/decrease liabilities by some 96 MCHF.

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

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 using discounted flow valuation techniques. The Fund uses assumptions that are mainly based on market conditions existing at each balance 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; and 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.

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 the following information with regard to values:

- unaudited statements as at 31.12.2008,

- unaudited statements from a previous period (30.06.2008 or 30.09.2008) adjusted for capital movements between the last received statements and 31.12.2008.

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.

XI. IPSAS TRANSITION

Basis of transition

The Pension Fund's financial statements for the year ended 31 December 2008 are the first annual financial statements that comply with IPSAS.

The Pension Fund's transition date is 1 January 2007. The Fund prepared its opening balance sheet at that date. The financial statements for the year ended 31 December 2008, the comparative information presented in the financial statements for the year ended 31 December 2007 and the opening balance sheet at 1 January 2007 have been prepared according to the accounting policies set out in heading VIII.

In preparing its opening IPSAS balance sheet and the comparative information for the year ended 31 December 2007, the Pension Fund has adjusted amounts reported previously in financial statements prepared in accordance with the Rules of the Fund and in conformity with the Fund's accounting policies. An explanation of how the transition to IPSAS has affected the Pension Fund's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Table of reconciliation of equity at 1 January 2007

Effect of transition to IPSAS at 01.01.2007

(in CHF)	GAAP 01.01.07	Reclassification Impact	Note	Measurement impact	IPSAS 01.01.07
ASSETS					
Short term Deposits	24'397'773.29	(24'397'773.29)			
Cash and cash equivalents	1'488'356'138.89	(1'488'356'138.89)			1'513'289'909.51
Margin accounts with brokers	336'949.34	1'512'753'912.18			
Real Estate bank accounts	199'047.99				
Settlements receivable		19'392'800.62			19'392'800.62
Tax administrations	988'841.32	(988'841.32)			
Estate Agencies	2'758'058.98	(2'758'058.98)			
Sundry Debtors		3'746'900.30			3'813'564.30
Accrued Interest	15'263'393.07	2'904'155.65			
Accrued Dividends	580'075.34	(580'075.34)			
Receipts Outstanding	1'521'936.13	(1'521'936.13)			
Accrued gain on derivatives		22'305'871.95			
Payments in advance		24'628.41			
Other Receivables		42'575'432.14			42'600'060.55
Derivatives					93'039.32
Put Option	93'039.32	(93'039.32)			
Bonds	999'615'672.93				999'615'672.93
Equities	1'100'735'865.45				1'100'735'865.45
Investment Funds and index investments	356'756'525.66				356'756'525.66
Loans	66'664.00				
Open forward exchange contracts	1'505'752'260.27	(1'505'752'260.27)			
Open Settlements	20'991'741.70	(20'991'741.70)			
Total Financial Assets					4'036'297'438.34
Non-Financial assets					
Real estate	512'846'151.00	(512'846'151.00)			
Investment Property		512'846'151.00			512'846'151.00
Payments in advance	24'628.41	-24'628.41			
Total Non-Financial assets					512'846'151.00
Total Assets of the Fund	6'031'284'763.09				4'549'143'589.34
LIABILITIES					
Settlements payable		56'579'203.61			56'579'203.61
Members of the Fund	1'939'066.65	(1'939'066.65)			
Retentions (tenants)	3'540'413.51	(3'540'413.51)			
Real estate	2'757'200.89	(2'757'200.89)			
Sundry Creditors					8'236'681.05
Reimbursement of contributions	633'358.00	(633'358.00)			
Accrued loss on derivatives		6'084'946.50			
Expenditure outstanding	3'770'897.20	(3'770'897.20)			
Pre-payments received	31'497.00	(31'497.00)			
Other payables					10'520'698.70
Open Settlements	39'053'063.59	(39'053'063.59)			
Open forward exchange contracts	1'505'752'260.27	(1'505'752'260.27)			
Total liabilities					75'336'583.36
Total assets less current liabilities	4'473'807'005.98				
Capital of the Fund					
	4450'398'565.27				
Provisions: General provision for real estate repairs	23'123'000.00		a	(23'123'000.00)	
Provisions: Heating plant fund, Grand Saconnex	285'440.71		b	(285'440.71)	
Total Capital & Provisions /Net Assets available for benefits	4'473'807'005.98				4'473'807'005.98

(in CHF)	GAAP 31.12.07	Reclassification impact	Note	Measurement Impact	IPSAS 31.12.07
ASSETS					
Current Accounts	55'727'952.43	(55'727'952.43)			
Short term Deposits	1'612'543'965.38	(1'612'543'965.38)			
Cash and Cash Equivalents		1'668'271'917.81			1'679'895'520.41
Margin accounts with brokers	10'924'955.07				
Real Estate bank accounts	698'647.53				
Settlements receivable		13'319'186.85			13'319'186.85
Tax administrations	2'638'674.13	(2'638'674.13)			
Estate Agencies	2'315'317.34	(2'315'317.34)			
Receipts Outstanding	1'299'570.70	(1'299'570.70)			
Sundry Debtors					6'303'560.17
Accrued Interest	16'295'650.36	(16'295'650.36)			
Accrued Dividends	569'205.37	(569'205.37)			
Accrued gain on derivatives		42'630'047.14			
Receipts Outstanding	697'025.38	(697'025.38)			
Payments in advance		25'521.95			
Other Receivables					17'587'403.06
Derivatives	3'466'889.29	(3'466'889.29)			47'021'783.60
Put Option		4'391'736.46			
Bonds	1'043'971'902.75				1'043'971'902.75
Equities	1'138'164'668.83				1'138'164'668.83
Investment Funds and index investments	319'356'507.79				319'356'507.79
Loans	49'998.00				
Open forward exchange contracts	1'558'308'586.53	(1'558'308'586.53)			
Open Settlements	38'813'668.16	(38'813'668.16)			
Total Financial assets					4'265'620'533.46
Non-Financial assets					
Real estate	522'108'816.92	(522'108'816.92)			
Investment Property		522'108'816.92			522'108'816.92
Payments in advance	25'521.95	-25'521.95			
Total Non-Financial assets					522'108'816.92
Total Assets of the Fund	6'327'977'523.91				4'787'729'350.38
LIABILITIES					
Settlements payable		154'162'741.62			154'162'741.62
Members of the Fund	1'764'786.00	(1'764'786.00)			
Retentions (tenants)	3'266'104.55	(3'266'104.55)			
Real estate	3'145'539.43	(3'145'539.43)			
Sundry creditors					8'176'429.98
Reimbursement of contributions	2'142'441.00	(2'142'441.00)			
Accrued loss on derivatives		5'538'591.10			
Expenditure outstanding	3'343'719.57	(3'343'719.57)			
Other Payables					5'486'160.57
Derivatives					5'927'875.20
Open Settlements	142'030'203.82	(142'030'203.82)			
Open forward exchange contracts	1'558'308'586.53	(1'558'308'586.53)			
Total liabilities					173'753'207.37
Total assets less current liabilities	4'613'976'143.01				
Capital of the Fund					
Capital of the Fund	4'590'016'993.49				
Provisions: General provision for real estate repairs	23'648'000.00		c	(23'648'000.00)	
Provisions: Heating plant fund, Grand Saconnex	311'149.52		d	(311'149.52)	
Capital & Provisions/Net assets available for benefits	4'613'976'143.01				4'613'976'143.01

Reconciliation of income statement 2007

(in CHF)	Effect of transition to IPSAS				
	GAAP	Reclassification Impact	Note	Measurement impact	IPSAS
Investment Income					
Gains/(losses) on Financial Assets at Fair Value Through Profit & Loss		16'639'826.86	e	4'079'504.14	20'719'331.00
Gains/(losses) on Real Estate at Fair Value Through Profit & Loss		48'860'714.69	f	(1'996'844.67)	46'863'870.02
Dividends	28'617'951.50				28'617'951.50
Interest	84'875'759.87				84'875'759.87
Real Estate income	36'808'245.51				36'808'245.51
Results on Sales of Financial Assets		53'631'595.44	e	(4'908'007.33)	48'723'588.11
Results on Sales of Non-Financial Assets		4'509'673.96	e	4'509'673.96	4'509'673.96
Foreign Exchange gains		28'192'120.14			28'192'120.14
					299'310'540.11
Investment Expenses					
Investment Management Fees		6'450'669.71			
Custody Fees and Administration of securities		1'355'157.89			
Transaction costs		3'681'170.77	e		
Real Estate Coordinators Management Fees		132'638.70			
Real Estate expenditure		9'475'216.94	f		
Taxation		944'794.45			
Total Investment Expenses					22'039'648.46
Net Investment Income/(Loss)					277'270'891.65
Other Income	114'256.36				114'256.36
Reversal of provision			g	25'708.81	25'708.81
Total Income	150'416'213.24				277'410'856.82
Other Expenses					
Investment Management Fees	6'450'669.71	(6'450'669.71)			
Custody Fees and Administration of securities	1'355'157.89	(1'355'157.89)			
Bank Charges	77'938.31				77'938.31
Taxation	944'794.45	(944'794.45)			
Real Estate expenditure	11'720'867.77	(11'720'867.77)			
Administration Costs	3'299'654.65	116'167.46			3'415'822.11
Total Other Expenses	23'849'082.78				3'493'760.42
Net Income for the Year	126'567'130.46				273'917'096.40
Results on Operations					
Results on sales of:					
- conventional bonds	(7'720'549.81)				
- equities	64'442'557.12				
- investment funds	15'388'635.09				
- financial derivatives	(22'988'720.92)				
- real estate	4'509'673.96				
	53'631'595.44	(53'631'595.44)			
Foreign exchange:					
- differences realized on operations	6'475'960.33				
- differences realized on currency overlay programme	21'716'159.81				
	28'192'120.14	(28'192'120.14)			
NET RESULT FOR THE YEAR BEFORE REVALUATION	208'390'846.04				
Revaluation					
Movable assets:					
- changes due to movements in price	47'517'393.07				
- changes due to currency fluctuations	(30'877'566.21)				
	16'639'826.86	(16'639'826.86)			
Real estate assets:					
- changes due to movements in price	40'855'180.50				
- changes due to currency fluctuations	8'005'534.19				
	48'860'714.69	(48'860'714.69)			
NET RESULT FOR THE YEAR AFTER REVALUATION	273'891'387.59				
Movements to and (from) capital					
General Provision for real estate repairs					
Transfer to General Provision for repairs:	525'000.00		g	(525'000.00)	
Capital					
(Decrease)/increase in Capital	273'366'387.59				
	273'891'387.59				
MEMBERSHIP ACTIVITIES					
Contributions					
Member Contributions		42'349'900.00			42'349'900.00
Employer Contributions		85'460'987.00			85'460'987.00
Purchase of additional years of membership		1'002'672.57			1'002'672.57
Indemnities received from third parties		238'230.25			238'230.25
Compensations		4'276'607.00			4'276'607.00
Total Contributions		133'328'396.82			133'328'396.82
Benefits and Payments					
Retirement pensions		213'919'199.80			213'919'199.80
Disability pensions		3'243'526.20			3'243'526.20
Surviving spouse pensions		24'145'426.00			24'145'426.00
Orphans pensions		843'653.00			843'653.00
Family allowances		13'843'157.00			13'843'157.00
Ex gratia payments granted		99'000.00			99'000.00
Transfer values paid to members		10'750'746.00			10'750'746.00
Transfers out to Other Schemes		231'648.19			231'648.19
Total Benefits and Payments		267'076'356.19			267'076'356.19
Net Membership Activities		(133'747'959.37)			(133'747'959.37)
Net Increase/(Decrease) in Net Assets During Year					140'169'137.03
Net Assets Available for Benefits at Beginning of Year					4'473'807'005.98
Net Assets Available for Benefits at End of Year					4'613'976'143.01

Major impacts of adopting IPSAS

The transition to IPSAS has consequences in terms of measurement and in terms of the presentation of the accounts.

Major impacts in terms of measurement

Major impacts of the conversion of the financial statements to IPSAS are detailed in the tables of reconciliation of equity at 1 January 2007 and at 31 December 2007. The effect of the restatement is shown in the net income 2007.

It should be noted that, given that the Fund, prior to the adoption of IPSAS, prepared its accounts based on generally accepted accounting principles, particularly with regard to its assets which were always “marked to market”, there is no net effect on the Income Statement 2007. The impact in terms of measurement occurs with regard to certain lines contained in this statement, the effects of which are self-cancelling.

Notes a, b, c, d, g (see pages 41 to 43)

IPSAS 19 Provisions, contingent liabilities and contingent assets:

- **Provisions:**
 - General provision for real-estate repairs. De-recognition of provision as there is no present obligation as a result of an obligating event.
 - Heating plant Fund, Grand Saconnex. De-recognition of provision as there is no present obligation as a result of an obligating event.
- **Other Income:**
 - Impact of reversal of provision for Heating Plant.
- **Movements to and (from) capital:**
 - Impact of reversal of transfer to General Provision for repairs.

Note e (see page 43)

IAS 39 Financial Instruments: Recognition and Measurement

In the absence of a relevant IPSAS the Fund referred to the provisions of International Accounting Standard 39, which covers the recognition and measurement of financial instruments.

- **Gains/(losses) on Financial Assets at Fair Value Through Profit & Loss:**
 - transfer of fair value gain on derivatives from Results on Sales of Financial Assets (+4'079'504.14).
- **Results on Sales of Financial Assets:**
 - transfer of fair value gain on derivatives to Gains/(losses) on Financial Assets at Fair Value Through Profit & Loss (- 4'079'504.14).
 - adjustment for transaction costs now charged to Investment Expenses (+3'681'170.77).

IPSAS 15 Financial Instruments: Disclosure and Presentation

- transfer of sales of real estate to Results on Sales of Non- Financial Asset (-4'509'673.96).

Note f (see page 43)**IPSAS 16 Investment Property:**

- **Gains/(losses) on Real Estate at Fair Value Through Profit & Loss (-1'996'844.67)**
- **Investment Expenses:**
 - Impact of adjustment of capitalised expenditure from real-estate expenditure to Gains/(losses) on Real Estate at Fair Value Through Profit & Loss (-1'996'844.67).

Major impacts in terms of presentation

The presentation of the Pension Fund's financial statements is also affected by the transition to IPSAS.

The major impacts are as follows:

IPSAS 1 Statement of Financial Position

Under IPSAS 1 – Presentation of Financial Statements, an entity should determine, based on the nature of its operations, whether or not to present current and non-current assets and current and non-current liabilities as separate classifications on the face of the Statement of Financial Position. As the activities of the Pension Fund are those of a financial institution, the presentation of the assets and liabilities in the Statement of Financial Position is broadly in order of their liquidity as provided for under the standard. Distinction is now made on the Statement of Financial Position between financial and non-financial assets.

In addition, new headings and lines have been introduced and some headings and lines have been deleted.

IPSAS 1 Statement of Financial Performance

New headings and lines have been introduced and some headings and lines have been deleted. Distinction is now made between investment income and other income and investment expenses and other expenses.

The Statement of Financial Performance now includes Membership Activities showing contributions, benefits and payments. This replaces the Benefits and Contributions account.

IPSAS 2 Cash Flow Statement

The Fund as an entity which prepares and presents financial statements under the accrual basis of accounting should, under IPSAS, prepare a cash flow statement in accordance with the requirements of this Standard and therefore includes this document as an integral part of its financial statements. The Fund uses the direct method, whereby major classes of gross cash receipts and gross cash payments are disclosed.

IPSAS 15 Financial Instruments: Disclosure and Presentation

Under this standard the Fund is required to set out its accounting policies, its financial risk management policies, objectives and the measures adopted to manage risk. The Fund's significant accounting policies are set out under heading VIII and its financial risk management objectives and strategy are detailed under heading IX.

IPSAS 16 *Investment Property*

The Fund's real-estate portfolio is now presented under the heading "Non-Financial Assets" on the Statement of Financial Position using the Fair Value model.

IPSAS 19 *Provisions, Contingent Liabilities, Contingent Assets*

This standard requires, inter alia, the disclosure of the nature of any contingent liability at the reporting date as well as an estimate of its financial effect. The details of such a possible obligation, with respect to the Fund, are given under Note 15.

IPSAS 20 *Related Party Disclosures*

Those parties considered to have significant influence over the financial or operational decisions of the Fund have been disclosed in note 16 to the Financial Statements together with amounts paid in respect of their services.

In the absence of a relevant IPSAS the Fund has adopted the provisions of the corresponding IAS/IFRS as follows:

IAS 26 *Accounting and Reporting by Retirement Benefit Plans*

In the absence of a relevant IPSAS, the Fund applied the provisions of International Accounting Standard 26 - Accounting and Reporting by Retirement Benefit Plans (IAS 26) with respect to actuarial liabilities. The financial statements of the Fund therefore contain a statement that shows:

- The net assets available for benefits;
- The actuarial present value of promised retirement benefits distinguishing between vested benefits and non-vested benefits; and
- The resulting excess or deficit.

XII. 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:

	2008	2007
Current Accounts	194'000	55'728
Deposit Accounts	1'030'082	1'612'544
Margin account with brokers	11'770	10'925
Real-estate bank accounts	235	699
Total in kCHF	1'236'087	1'679'896

2. Sundry Debtors

	2008	2007
Recoverable taxes	2'489	2'639
Real-Estate debtors	2'195	2'315
Other due amounts	302	1'299
Loans	33	50
Total in kCHF	5'019	6'303

3. Other Receivables

	2008	2007
Accrued interest	18'595	16'296
Dividends receivable	294	569
Outstanding receipts	33	697
Payments in advance	244	25
Total in kCHF	19'166	17'587

4. Derivatives

	2008		2007	
	Assets	Liabilities	Assets	Liabilities
Call options	367	-	4'392	389
Accrued gains on derivatives	133'185	17'809	42'630	5'539
Total in kCHF	133'552	17'809	47'022	5'928

The table below shows the types of derivative contracts and their notional values held by the Fund at 31 December 2008.

Contract Type	currency	Notional Amount		Fair Value Receivable	Fair Value Payable
		Local	CHF		
Forward					
<u>TOPIX</u>	YEN	3'130'440'000.00	36'755'475.06	1'704'368.96	
<u>GOLD</u>	USD	5'720'100.00	6'088'188.43	406'124.03	
<u>PLATINUM</u>	USD	893'130.00	950'602.92	101'586.89	
<u>SUGAR</u>	USD	2'959'756.80	3'150'217.15		(403'540.21)
<u>WTI CRUDE</u>	USD	996'870.00	1'061'018.58		(64'148.37)
<u>BRENT CRUDE</u>	USD	1'034'440.00	1'101'006.21		(33'484.45)
<u>HEATING OIL</u>	USD	1'311'072.00	1'395'439.48		(106'124.21)
<u>NATURAL GAS</u>	USD	2'330'200.00	2'480'148.37		(660'109.87)
<u>PALLADIUM</u>	USD	1'345'155.00	1'431'715.72		(45'900.09)
<u>MINI S&P500</u>	USD	49'307'550.00	52'480'490.82	1'297'788.56	
<u>US 10YRS NOTE</u>	USD	27'312'055.50	29'069'586.26	1'580'234.59	
<u>S&P/TSX60</u>	CAD	9'840'000.00	8'483'761.85	453'570.88	
<u>ASX200</u>	AUD	11'880'000.00	8'815'727.99	566'009.81	
<u>SWISS SMI</u>	CHF	826'500.00	826'500.00		(8'850.00)
		<u>Sub Total</u>	154'089'878.85		
Options					
<u>CALL EUR/CHF</u>	EUR	110'000'000.00	162'744'874.46	367'371.41	
		<u>Sub Total</u>	162'744'874.46		
Swaps					
<u>TOPIX MS</u>	JPY	5'460'754'795.65	64'116'429.86	967'009.85	
<u>S&P MS</u>	USD	145'080'798.80	154'416'748.15	9'539'963.66	
<u>MSCI Europe</u>	CHF	7'350'230.40	7'350'230.40		(1'028'663.13)
<u>MSCI Latin America</u>	CHF	10'257'223.20	10'257'223.20		(772'823.60)
		<u>Sub Total</u>	236'140'631.61		
<u>Currency Forwards Contracts</u>				116'568'167.74	(14'685'253.28)
<u>Notional Sold</u>			1'501'080'909.21		
<u>Notional Purchased</u>			203'740'684.54		
<u>Cross deal</u>			(87'989'324.29)		
		<u>Sub Total</u>	1'616'832'269.46		
		GRAND TOTAL	2'169'807'654.38	133'552'196.39	(17'808'897.21)

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 creditor 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

	2008 In kCHF	2007 In kCHF
Opening Balance	522'109	512'846
Purchases	39'423	
Sales	-	(39'598)
Expenditure recognised in the carrying amount	-	1997
Gain/Loss at fair value through profit & Loss		
<i>currency</i>	<i>(59'041)</i>	46'864
<i>price</i>	<i>(48'042)</i>	<i>8'006</i>
	<i>(10'999)</i>	<i>38'858</i>
Closing Balance	502'491	522'109

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

Country	Valuation Method
France	Reference made to sales prices obtained on the market for similar properties. Capitalization rates ranged from 5.75% to 8.75%.
France (Forests)	Values based on the latest prices obtained for forests of a significant size and density similar to those of the Fund.
Great Britain (Farm)	Valuation made in accordance with the Royal Institute of Chartered Surveyors (RICS) valuation standards. Reference made to recent market transactions for farms.
Switzerland	Values for the two properties were based on capitalization rates of 6.99% and 7.56%.
Holland	The discounted cash flow technique was used to value these buildings with discount rates ranging from 7% to 9.02%.
Germany	The discounted cash flow technique was used to value this building with a discount rate of 4.43% applied to current rental income and a rate of 6.7% used for estimated future rental income.

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.

	2008	2007
Members and Beneficiaries	4'022	1'765
Real-Estate Guarantee Deposits	3'267	3'266
Taxes Payable	116	77
Real-Estate creditors	3'077	3'068
Total in kCHF	10'482	8'176

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.

	2008	2007
Reimbursements of Contributions	1'214	2'142
Payments Outstanding	1'996	3'344
Total in kCHF	3'210	5'486

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

	2008	2007
Bonds	(98'737)	(13'399)
Equities	(264'618)	25'790
Investment Funds	(116'264)	4'248
Derivatives	11'102	4'080
Total in kCHF	(468'517)	20'719

9. Interest Income

	2008	2007
Cash and cash Equivalents	42'678	44'989
Bonds and Loans	38'005	39'887
Total in kCHF	80'683	84'876

10. Real-Estate Income

	2008	2007
Residential properties CH	9'973	9'669
Office properties D	785	952
Agricultural property GB	2'065	2'484
Office properties F	13'584	14'292
Residential property F	2'389	2'507
Forests F	470	718
Office properties NL	6'192	6'186
Total in kCHF	35'458	36'808

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.

	31.12.2008	31.12.2007
Not later than 1 year	34'190'870.00	33'636'267.00
Later than 1 year and not later than 5 years	124'202'142.00	124'560'909.00
Later than 5 years	30'971'062.00	29'569'859.00
Total in CHF	189'364'074.00	187'767'035.00

11. Results on Sales of financial assets

	2008	2007
Bonds	(38'930)	(7'720)
Equities	(310'815)	68'123
Investment Funds	(12'954)	15'389
Derivatives	(241'010)	(27'068)
Total in kCHF	(603'709)	48'724

12. Foreign Exchange gains

	2008	2007
Currency Overlay programme	76'836	21'716
Other exchange rate movements	57'476	6'476
Total in kCHF	134'312	28'192

13. Real-Estate expenditure

	2008	2007
Residential properties CH	3'265	2'944
Office properties D	760	527
Agricultural property GB	1'279	1'604
Office properties F	2'080	2'589
Residential property F	336	395
Forests F	231	264
Office properties NL	775	1'152
Total in kCHF	8'726	9'475

14. 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.

15. Contingent Liability

For the third consecutive year since 2005, the adjustment of pensions decision by the CERN Council is being contested before the International Labour Organization Administrative Tribunal (ILOAT). The main aim of the appeal lodged by a CERN pensioner in July 2007, with the support of the Staff Association, was to challenge the adjustment of pensions of 1.6% for 2007 but it also sought to question the adjustments of pensions for 2005 (0%) and 2006 (0.99%) and to obtain an increase in the pension to fully compensate for the inflation observed since December 2004. The Organization's reply was deposited with the ILOAT in February 2008. The complainant submitted a rejoinder to which CERN responded in a surrejoinder in August 2008. The ILOAT judgment was received in February 2009 and found in favour of CERN.

On the basis of the evidence available at the balance sheet date there is no obligation as a result of past events. No provision has therefore been recognized in the accounts of the Fund and the matter is thus herewith disclosed as a contingent liability. The Fund's actuary has calculated the financial effect of this liability should it become an obligation of the Fund, and these amounts are presented in Note 2 in the Technical Balance Sheet table, prepared according to the provision of IAS 26, which indicates that actuarial liabilities in respect of pensioners would have increased by 71'068'106 CHF at 31.12.2008 (69'622'566 CHF at 31.12.2007).

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 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 2008 were 78 kCHF;
- Key management personnel, Chairman of the PFGB, Chairman of the PFIC, the Administrator of the Fund and Head of Financial services;
- 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 Legal Service a total amount of 230'000 CHF per year.

17. Events after the Balance Sheet date

There was no event after the Balance Sheet date.

XIII. AUDIT CERTIFICATE

As provided for in the Rules and Regulations of the Pension Fund, article I 2.01, Status of the Fund, the Fund is an integral part of CERN and therefore does not have its own legal status.

However, article I 2.02, Assets of the Fund, provides that the assets acquired by the Fund in fulfilling its purpose shall be deposited and held separately from those of CERN and ESO and they shall be totally and exclusively used for the purposes of the benefits provided for by the Rules.

The opinion under item 2.2 of our Report solely relates to accounts managed by the Fund and held as it is laid down in the Rules and Regulations of the Pension Fund. This opinion has to be examined within the external audit mandate at CERN as a whole.

We have analysed the Annual Report and the Financial Statements of the CERN Pension Fund for the Year 2008.

We have examined the Consulting Actuary's Report for the Year 2008, where it has been stated that the results revealed an "unsatisfactory financial position for the Fund as at 31 December 2008 with a funding ratio of only 72.7%. The Fund has no safety margin that would allow it to weather a further fall in the financial markets. In addition, the Fund's liabilities as at 31 December 2008 are not entirely covered by the available provident assets".

Moreover, the Actuary's Report considered significant the under-funding of 1'345.0 MCHF (27.3% of the provident and technical provision).

We have analysed the opinion of PriceWaterhouseCoopers which draws the attention to the fact that the Financial Statements show a funding gap already disclosed in the above-mentioned Consulting Actuary's Report and that supports the decision of the Pension Fund Governing Board to adopt more realistic economic assumptions in the future.

We have also observed that the cover ratio of the Fund, if calculated according to a discount rate closer to fair value, would have been decreased, showing an underfunding more negative compared with the one considered in the Actuary's Report.

In our opinion, except for the effects of the matters stated above and discussed in the following paragraphs, the Financial Statements for the Year 2008 give a true and a fair view of the financial position of the CERN Pension Fund as at 31 December 2008, of its financial performance and its cash flows for the year in accordance with International Public Sector Accounting Standards (IPSAS).

Bartolomeo Manna,

Corte dei Conti



Franco Franceschetti

Corte dei Conti

ANNEXES¹

I. CONSULTING ACTUARY'S REPORT FOR THE YEAR 2008

II. COMPOSITION OF THE BODIES OF THE FUND IN 2008

III. WORKING GROUPS

IV. PERSONNEL OF THE ADMINISTRATION OF THE FUND IN 2008

V. DEFINITIONS

¹ The annexes are given for information. Only the Report itself is submitted to the Finance Committee and the Council for approval.

I. CONSULTING ACTUARY'S REPORT FOR THE YEAR 2008 (*The Pension Fund policy can be found under the heading IV*)

A) General

1. Remit

The Pension Fund of the European Organization for Nuclear Research (hereafter "CERNPF" or "the Fund") gave us the following remit:

- *To draw up the technical balance sheet as at 31 December 2008 in accordance with IAS 26 (new method);*
- *To draw up the technical balance sheet as at 31 December 2008 in closed fund terms using the old method;*
- *To determine and explain the differences between the two above-mentioned methods.*

2. Documentation

We have based our findings on the following documents and statistics:

- *Rules and Regulations of the Fund of 1.01.1986, as updated on 1.11.2007 and 1.01.2009;*
- *An extract from the minutes of the Governing Board's meeting on 6 March 2001;*
- *List of active insured members and pension beneficiaries as at 1st January 2009, received by e-mail on 10 February 2009;*
- *Total net assets as at 31st December 2008, as per e-mail received on 10 March 2009.*

3. Activities in 2008 and preliminary remarks

During the 2008 financial year our work in our capacity as the Fund's consulting actuary essentially consisted in assisting the working group examining the funding policy and principles of the CERNPF (Working Group II or WG II). In this context, we were called upon to produce a series of projections and to contribute to the drafting of a draft report.

2008 was dominated by a high degree of instability and a strong downward trend on the financial markets that had a negative impact on the CERNPF like all other capitalised provident institutions.

Our work does not constitute an actuarial review in the classical sense. The last actuarial review of the CERNPF was conducted as at 31 December 2006, and the next is scheduled for 31 December 2009.

In this report we start by presenting the results of our calculations as per IAS 26 and as per the traditional method. We then explain the differences between the two methods and the consequences for the Fund. Finally, in our capacity as the Fund's consulting actuary, we assess the actuarial position of the Fund as at 31 December 2008 based on the funding ratio.

B) Financial position as at 31 December 2008

1. Preamble

The Governing Board of the CERNPF decided that the accounts as at 31 December 2008 should be presented in accordance with the principles of the International Public Sector Accounting Standard (IPSAS). Wherever appropriate IPSAS standards do not exist, reference is made to the relevant IFRS/IAS standards. Henceforth, the Fund's liabilities will thus be determined as per IAS 26.

According to this method, the mathematical reserve for the active insured members is calculated on the basis of dynamic salaries, i.e. taking account of future increases (career advancement + inflation) as if they were statutory rights, which is not the case. This approach is tantamount to assuming an acquired right for each insured member equivalent to a future annual salary increase of 1.8% (assumption as at 31.12.2008) for career advancement and 1.5% (assumption as at 31.12.2008) for inflation. On this basis, the benefits resulting from future salary increases are assumed to be already entirely capitalised on the date of the calculation. This means that they are already pre-funded, while in reality future contributions will also be used to fund them. Using this new method of calculation thus involves taking account of additional costs generated by the salary increases but not of the additional income that will be received in the form of contributions.

By way of comparison, in the old method used until the end of 2007, future contributions were not taken into account in determining liabilities on the date of the balance sheet either but the liabilities were not increased by the inclusion of future expenditure linked to salary increases. In our view, application of the IAS 26 method is contrary to the statutory provisions of Article II 1.08 of the Rules of the Fund, which stipulates that the reference salary at the time of termination of membership is taken into account to calculate benefits. When a balance sheet is drawn up on a reference date, the liabilities to the active members are calculated as if their membership ceased on the date in question. We therefore consider it incorrect to take account of future salary increases in determining the commitments to the active members on the date of the balance sheet.

It should be pointed out at this juncture that the international accounting standards were introduced essentially to serve as a basis for comparison between companies listed on the stock market and not to evaluate the long-term funding of pension funds.

2. Financial position as per IAS 26

a) Calculation method

The actuarial method used to determine the current value of the Fund's liabilities is the so-called projected unit credit method.

In the projected unit credit method (sometimes known as the accrued benefit method pro rated on service or as the benefit/years of service method), each period of service is assumed to give rise to an additional unit of benefit entitlement and each of these units is measured separately to arrive at the final liability.

If the insured member concerned leaves the fund (end of employer/employee relationship), the transfer value is paid out if he has completed fewer than 5 years of service. If the number of years of service is equal to or more than five, the insured member is given the choice between payment of the transfer value in cash and deferred payment of the value of the retirement pension acquired on the last day of service. The current values of the two options are evaluated separately according to the projected unit credit method. In accordance with the Council's decision (CERN/FC/4993-CERN/2637), the provident capital of the active insured members with more than 5 years of service is calculated on the basis of 10% of the current value of the deferred pension (including cover in the event of death) and 90% of the transfer value.

The provident capital of the pension beneficiaries takes full account of future pension indexation for the whole period that pensions are in payment but not during the period of deferment in the case of deferred pensions. The same applies to the present values of the deferred pensions of the active insured members. As we learned from the Fund's Administration after submitting the result of our calculations, this does not always correspond to the practice of the CERNPF, however, as reflected in the minutes of the Governing Board of 6 March 2001, for example. In future, as of the balance sheet as at 31st December 2009, we will thus also take account of pension indexation during the period of deferment. However, we wish to underline that this factor will have no impact on our conclusions.

Full capitalisation of future indexation increases the funding needed during the active life of the insured members but has the advantage of reducing the required return on capital during the period in which the pension is in payment.

b) Assumptions used

We have used the following assumptions, set by CERN, for our calculations.

	01.01.2008	01.01.2009
<i>Discount rate</i>	4.50 %	4.50 %
<i>Pension indexation</i>	1.00 %	1.00 %
<i>Salary increase for inflation</i>	1.50 %	1.50 %
<i>Salary increase for career advancement</i>	1.80 %	1.80 %
<i>Demographic assumptions (mortality and disability)</i>	EVK 2000	EVK 2000
<i>Departure assumptions (general cases)</i>	0.5 %	0.5 %
<i>Departure assumptions (specific cases)</i>	As per Fund's guidelines	As per Fund's guidelines

c) Results

The funding ratio or rate of capitalisation shown at the bottom of the technical balance sheet in Annex A represents the ratio between the total net provident assets and the sum of the provident capital (or actuarial liabilities) and the life- expectancy provision. This ratio fell from 94.4% as at 31st December 2007 to 72.7% as at 31st December 2008.

Overall, the provident capital and the technical provisions increased by 46.6 MCHF. At the same time, the net provident assets fell by 1'024.3 MCHF, reducing the funding ratio or rate of capitalisation by 21.7 points.

The above-mentioned results reveal an unsatisfactory financial position for the Fund as at 31st December 2008 with a funding ratio of only 72.7%. The Fund has no safety margin that would allow it to weather a further fall in the financial markets. In addition, the Fund's liabilities as at 31st December 2008 are not entirely covered by the available provident assets. If the CERNPF had been wound up on that date, the Member States would have been obliged to pay 1'345.0 MCHF on account of the pensions guarantee provided for in Article I 3.03 of the Rules. As at 31st December 2007, this guarantee would have cost 274.1 MCHF.

The under-funding of 1'345.0 MCHF or 27.3% of the provident capital and technical provisions is significant (funding ratio below 90%). It is mainly due to the current economic situation and the resulting poor performance of the assets during the 2008 financial year.

3. Financial position based on the traditional method

a) Calculation method

The actuarial method used to determine the current value of the provident liabilities consists in determining the current value of the benefits acquired on the date of calculation.

If an insured member leaves the fund (end of employer/employee relationship), the transfer value is paid out if he has completed fewer than 5 years of service. If the number of years of service is equal to

or more than five, the insured member is given the choice between payment of the transfer value in cash and deferred payment of the value of the retirement pension acquired on the last day of service. In the event of departure, the current values of these two benefits are evaluated separately. In accordance with the Council's decision (CERN/FC/4993-CERN/2637), the provident capital of the active insured members with more than 5 years of service is calculated on the basis of 10% of the current value of the deferred pension (including cover in the event of death) and 90% of the transfer value.

The provident capital of the pension beneficiaries does not take account of future pension indexation during the period the pensions are in payment nor during the period of deferment in the case of deferred pensions.

The fact of not fully capitalising future pensions indexation requires additional return on the capital during the period in which the pension is in payment but has the advantage of not increasing the funding needed during the active life of the insured members. The future indexation of pensions is highly dependent on inflation. As it is impossible to predict the exact level of future inflation, it is generally preferable to fund indexation as and when it is granted (financing system based on distribution of provident capital). This explains why this system has been applied until now.

b) Assumptions used

We have used the following assumptions, set by CERN, for our calculations.

	01.01.2008	01.01.2009
<i>Discount rate</i>	4.50 %	4.50 %
<i>Pension indexation</i>	0.00 %	0.00 %
<i>Salary increase for inflation</i>	0.00 %	0.00 %
<i>Salary increase for career advancement</i>	0.00 %	0.00 %
<i>Demographic assumptions (mortality and disability)</i>	EVK 2000	EVK 2000
<i>Departure assumptions</i>	Not taken into account	Not taken into account

c) Results

The funding ratio or rate of capitalisation shown at the bottom of the technical balance sheet in Annex B represents the ratio between the total net provident assets and the sum of the provident capital (or actuarial liabilities) and the life expectancy provision. This ratio fell from 106.3% as at 31st December 2007 to 82.0% as at 31st December 2008.

The provident capital and the technical provisions increased by a total of 36.9 MCHF. At the same time, the net provident assets fell by 1'024.3 MCHF, reducing the funding ratio or rate of capitalisation by 24.3 points.

The above-mentioned results reveal an unsatisfactory financial position for the Fund as at 31st December 2008 with a funding ratio of only 82.0%. The Fund has no safety margin that would allow it to weather a full fall of the financial markets. In addition, the Fund's liabilities as at 31st December 2008 are not entirely covered by the available provident assets. If the CERNPF had been wound up on that date, the Member States would have been obliged to pay 786.6 MCHF on account of the pensions guarantee provided for in Article I 3.03 of the Rules. As at 31st December 2007, the

value of this guarantee, without taking account of future pensions indexation, was 0.0 MCHF as the CERNPF had a technical surplus on this date.

The results in this section are provided for information only and must no longer be used as a reference since only the figures calculated in accordance with IAS 26 will be shown in the CERNPF balance sheet in future.

4. Impact of the Ghinet appeal

The new accounting standards (IPSAS) require us to be able to calculate the increase in liabilities that would have resulted from a positive outcome of the Ghinet appeal to the ILO Administrative Tribunal. This has been calculated by reducing all pensions as at 01.01.2009 by the indexation that was actually applied from 01.01.2005 to 01.01.2009, i.e. by dividing all pensions by 1.0099 and then by 1.0116; the pensions were then increased by the actual rise in the cost of living from 01.01.2005 to 01.01.2009 by multiplying them by 1.0170, 1.0120 and 1.0140 respectively. Overall, this means that the liabilities that would have resulted from a positive outcome of the Ghinet appeal to the ILO Administrative Tribunal would have been 2.15% higher than the present liabilities. This difference is recorded in the footnote of the two technical balance sheets.

As the liabilities differ between the two balance sheets, the above-mentioned differences also differ. This figure of 2.15% does not change between 31.12.2007 and 31.12.2008 since pensions were not adjusted in 2008 and there was no increase in the cost of living that year either.

5. Comparison of the assessment methods

a) Indexation of salaries and indexation of pensions

The table below compares the results obtained using the traditional method, which does not take account of any indexation of salaries or pensions in the technical balance sheet, with the results obtained as per IAS 26, taking account of salary indexation of 3.3% and pension indexation of 1.0%.

	Technical balance sheet EVK2000 4.5% Salary indexation 0% Pension indexation 0%	IAS 26 EVK2000 4.5% Salary indexation 3.3% Pension indexation 1%
Liabilities to active staff	1'087'869'930	1'502'171'013
Liabilities to beneficiaries	3'161'943'985	3'300'490'005
Provision for increased life expectancy	126'477'759	132'019'600
Total liabilities	4'376'291'674	4'934'680'618
The total net provident assets	3'589'680'474	3'589'680'474
Funding ratio	82.03%	72.74%

b) Indexation of salaries only

The table hereafter compares the results obtained using the traditional method, which does not take account of any indexation of salaries or pensions in the technical balance sheet, with the results obtained as per IAS 26, taking account of salary indexation of 3.3% but no pension indexation.

	<i>Technical balance sheet</i> EVK2000 4.5% Salary indexation 0% Pension indexation 0%	<i>IAS 26</i> EVK2000 4.5% Salary indexation 3.3% Pension indexation 0%
<i>Liabilities to active staff</i>	1'087'869'930	1'361'638'387
<i>Liabilities to beneficiaries</i>	3'161'943'985	3'043'075'951
<i>Provision for increased life expectancy</i>	126'477'759	121'723'038
Total liabilities	4'376'291'674	4'526'437'376
<i>The total net provident assets</i>	3'589'680'474	3'589'680'474
<i>Funding ratio</i>	82.03%	79.30%

c) Indexation of pensions only

The table below compares the results obtained using the traditional method, which does not take account of any indexation of salaries or pensions in the technical balance sheet, and the results obtained as per IAS 26, taking account of pension indexation of 1.0 % but no salary indexation.

	<i>Technical balance sheet</i> EVK2000 4.5% Salary indexation 0% Pension indexation 0%	<i>IAS 26</i> EVK2000 4.5% Salary indexation 0% Pension indexation 1%
<i>Liabilities to active staff</i>	1'087'869'930	1'152'795'281
<i>Liabilities to beneficiaries</i>	3'161'943'985	3'300'490'005
<i>Provision for increased life expectancy</i>	126'477'759	132'019'600
Total liabilities	4'376'291'674	4'585'304'886
<i>The total net provident assets</i>	3'589'680'474	3'589'680'474
<i>Funding ratio</i>	82.03%	78.29%

d) No salary or pension indexation

The table below compares the results obtained using the traditional method, which does not take account of any indexation of salaries or pensions in the technical balance sheet, and the results obtained as per IAS 26, taking account of no salary or pension indexation.

	<i>Technical balance sheet</i> EVK2000 4.5% Salary indexation 0% Pension indexation 0%	<i>IAS 26</i> EVK2000 4.5% Salary indexation 0% Pension indexation 0%
<i>Liabilities to active staff</i>	1'087'869'930	1'044'945'290
<i>Liabilities to beneficiaries</i>	3'161'943'985	3'043'075'951
<i>Provision for increased life expectancy</i>	126'477'759	121'723'038
Total liabilities	4'376'291'674	4'209'744'279
<i>The total net provident assets</i>	3'589'680'474	3'589'680'474
<i>Funding ratio</i>	82.03%	85.27%

e) Analysis of the results

The above tables reveal the following:

Using the same assumptions (no salary indexation, no pension indexation), there is relatively little difference in the results between the two methods (funding ratio of 82.03% for the traditional method and 85.7% for the IAS 26 method).

A future pension indexation of 1% increases the total liabilities by 375'560'607 CHF.

A future salary indexation of 3.3% increases the provident capital for the active staff by 316'693'097 CHF, compared to 95'967'605 CHF in the case of a future salary indexation of 1.0%.

C) Conclusions

The explanations and analyses given in the previous sections lead us to the following conclusions:

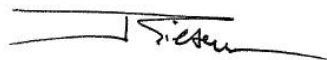
- *The funding situation of the CERNPF has greatly deteriorated in one year. This unfavourable trend is essentially due to two factors: the most important one, resulting from the current economic situation, is the very poor return on investments (due to the fall of the financial markets in 2008); the second is the change in the actuarial method used to calculate the liabilities. The latter change alone increased the actuarial liabilities by 12.8%.*
- *The Fund's financial balance is not guaranteed as at 31 December 2008. The funding ratio is below 100% at the end of 2008, namely 72.7% as per the technical balance sheet in Annex A (IAS 26) and 82.0% as per the technical balance sheet in Annex B (traditional method). Thus, the CERNPF was unable to full meet its liabilities on the date of the balance sheet.*
- *Article I 3.03 of the Rules states that CERN and ESO guarantee the benefits acquired by the members of their own personnel until the cessation of the rights of the last beneficiary. The pursuit of the provident goal is thus not compromised. However, equilibration measures should be envisaged to avoid an increase in the cost of the guarantees provided by CERN and ESO.*
- *The position of the Fund at a given date does not allow any conclusions to be drawn about the financial balance of the Fund in the long term. Usable results on that score can only be provided by open fund projections using various combinations of assumptions (models) based on a given duration (20 or 30 years). Only by using different projection models is it possible to measure the respective impact of various factors (trend in the number of contributing members, salary and pension adjustments, frequency of early departures, yield, life expectancy, etc.) on the Fund's future financial balance.*

We express the customary reservations in the event that information or facts that could have had an impact on our conclusions have not been brought to our attention.

We were able to conduct this review by the consulting actuary in the best possible conditions owing to the excellent co-operation between the parties concerned. We should like to thank in particular the Administration of the Pension Fund and the working group for the support provided and the trust they have shown in us.



DR OLIVIER KERN
Director
Expert fédéral LPP



STÉPHANE RIESEN
Director
Expert fédéral LPP

Geneva, 22 April 2009

Results: Accumulated benefit obligation method (ABO)

in CHF

	2008/12/31	2007/12/31
NET PROVIDENT ASSETS (PA)	3'589'680'474	4'613'976'143
<i>Transfer values of active insured members or current values of deferred pensions (without future indexation) ¹</i>	<i>1'087'869'930</i>	<i>1'116'763'320</i>
<i>Mathematical reserves of the beneficiaries ²</i>	<i>3'161'943'985</i>	<i>3'113'636'884</i>
Provident capital	4'249'813'916	4'230'400'204
<i>Life-expectancy provision ³</i>	<i>126'477'759</i>	<i>108'977'291</i>
Technical provisions	126'477'759	108'977'291
PROVIDENT CAPITAL AND TECHNICAL PROVISIONS (PC)	4'376'291'675	4'339'377'495
TECHNICAL DEFICIT ⁴	(786'611'200.97)	274'598'648
RATIO OF FUNDING OF ACTUARIAL LIABILITIES OR RATE OF CAPITALISATION ⁵	82.0 %	106.3 %

Comments :

- 1) Corresponds to 10% of the current value of deferred pensions and 90% of the transfer value.
- 2) If the Ghinet appeal had been successful, these reserves would increase by 67'044'674.- CHF at 31.12.2007 and by CHF 68'084'851.- at 31.12.2008.
- 3) 0.5% of the provident capital of the pension beneficiaries per year since 2000.
- 4) = PA/PC.
- 5) = PA/PC.

Projected benefit obligation (PBO)

in CHF

	2008/12/31	2007/12/31
NET PROVIDENT ASSETS (PA)	3'589'680'474	4'613'976'143
<i>Transfer values of active insured members or current values of deferred pensions (without future indexation)¹</i>	1'502'171'013	1'541'513'727
<i>Mathematical reserves of the beneficiaries²</i>	3'300'490'005	3'233'357'330
Provident capital	4'802'661'018	4'774'871'057
<i>Life-expectancy provision³</i>	132'019'600	113'167'507
Technical provisions	132'019'600	113'167'507
PROVIDENT CAPITAL AND TECHNICAL PROVISIONS (PC)	4'934'680'618	4'888'038'564
TECHNICAL DEFICIT⁴	(1'345'000'144.09)	(274'062'420.54)
RATIO OF FUNDING OF ACTUARIAL LIABILITIES OR RATE OF CAPITALISATION⁵	72.7 %	94.4 %

Comments :

- 1) Corresponds to 10% of the current value of deferred pensions and 90% of the transfer value.
- 2) If the Ghinet appeal had been successful, these reserves would increase by 69'622'566.- CHF at 31.12.2007 and by 71'068'106.- CHF at 31.12.2008
- 3) 0.5 % des capitaux de prévoyance des bénéficiaires de rentes/pensions par année depuis 2000.
- 4) = FP - CP.
- 5) = FP / CP.

II. COMPOSITION OF THE BODIES OF THE FUND**GOVERNING BOARD****Members**

F. Ferrini, Chair
D.-O. Riska

C. J. van Riel

S. Lettow

G. Deroma
D. Duret, Vice-Chair

F. Derie

F. Wittgenstein

P. Lambert
J.-A. Schneider

Appointed by

CERN Council
CERN Council

ESO Council

Director-General of CERN

CERN Staff Association

ESO Staff Association

CERN and ESO Pensioners
Association

Professional members appointed by
the CERN Council on the proposal
of the Governing Board Members

INVESTMENT COMMITTEE APPOINTED BY PFGB

Previous composition

New composition

Members

F. Ferrini, Chairman
 C. Cuénoud, *ex officio*
 D. Duret
 R. Fischer
 P. Geeraert
 S. Lettow
 S. Myers
 M.-J. Simoen
 F. Sonnemann

S. Lettow, Chairman
 C. Cuénoud, *ex officio*
 D. Duret

Experts

P. Lambert

S. Haury von Siebenthal
 S. Colley

Administration
Observer

N. Compard

N. Compard
 F. Ferrini

During 2008, the composition of the Investment Committee was reviewed to bring it into line with the new governance principles.

III. WORKING GROUPS: MEMBERS

Rules & Regulations (WG1)	J.-A. Schneider (Rapporteur) S. Lettow F. Derie D. Duret J. Steel (Administration)
Funding policy & principles (WG2)	F. Ferrini (Rapporteur) G. Deroma J.-A. Schneider C. Cuénoud (Administration)
Expert for IC (WG3)	P. Lambert (Rapporteur) F. Ferrini F. Wittgenstein C. Cuénoud (Administration)
General Manager (WG4)	S. Lettow (Rapporteur) F. Derie D. Duret F. Ferrini P. Lambert D.-O. Riska C. Cuénoud (Administration)
Actuarial study	D. Duret (Chair) G. Deroma F. Ferrini F. Wittgenstein F. Sonnemann T. Lagrange C. Hauviller C. Cuénoud (Administration)
Steering committee (IT Solution)	F. Ferrini, Chairman S. Lettow R. Martens J.-C. Gouache C. Cuénoud (Administration)

ADMINISTRATOR C. Cuénoud	Appointed by: CERN Council
CONSULTING ACTUARY Pittet Associés SA, Geneva	Pension Fund Governing Board
CONSULTING MEDICAL PRACTITIONER N. Roux (CERN Consulting Medical Practitioner)	Director-General of CERN
EXTERNAL AUDITORS <u>Until 30.06.2008:</u> Karl Jaros, Der Rechnungshof, Vienna, Austria Reinhard Rath, Der Rechnungshof, Vienna, Austria <u>As from 1.07.2008:</u> Bartolomeo Manna, Corte dei Conti, Roma, Italy Franco Franceschetti, Corte dei Conti, Roma, Italy	CERN Council
PriceWaterHouseCoopers	Pension Fund Governing Board

IV. PERSONNEL OF THE ADMINISTRATION OF THE FUND IN 2008

Administrator

C. Cuénoud

Benefits service

J. d'Altilia

E. Clerc

G. Praire

Information Technology

C. Lamboley

Financial service

A. Boureau

M. Brouant-Gindre

G. Marme

J. Steel

Internal management, movable assets

F. Armuzzi

M. Herbert

Office of the Administrator

N. Compard

B. Brugger

V. DEFINITIONS

Alpha

Alpha is the positive yield generated by a fund manager with respect to a benchmark.

Basis point (bp)

A hundredth of a percentage point (1bp = 0.01%).

Credit rating

Grade given by rating agencies to assess the creditworthiness of an issuer. The ratings most commonly used are given by Standard and Poor's (from the best quality to the lowest: AAA, AA, A, BBB, BB ...). Investment grade issuers must have a rating equal or higher than BBB.

Derivatives

A derivative security is an instrument whose value is based on, and determined by, another security or index (i.e. futures, swaps, options.).

Performance

Profits and losses, whether realized or not, on an asset, an asset class, a portfolio or the Fund as a whole (overall performance), plus dividends, interest or net rentals obtained. Performance is expressed as a percentage of the mean capital invested. It is also referred to as nominal performance.

Real performance

Performance corrected for inflation.

Swap

A swap instrument is defined as an agreement to pay or receive the difference between one type of cash-flow and another type based on a notional principal. This could be, for example, an agreement to pay or receive the difference between a fixed rate of interest and a floating rate or the difference between an index and the short-term interest rate.

Technical rate

The technical rate is the long-term rate of return that the Fund hopes to achieve, taking account of a safety margin. It serves as a discount rate for calculating the actuarial commitments to the beneficiaries and the current values of deferred pensions of the insured active staff.

Time Weighted Return

Figures relating to average performance over several years obtained by cumulating annual results depend on the method of calculation and the required aim. When calculating performance and making comparisons with banks, management companies or other pension funds, the Time Weighted Return (TWR) method should be used, i.e. the geometric mean of annual performances. If the Fund's objective is to measure the average yield and compare it with the economic assumptions posited in the actuarial calculations, the internal rate of return (IRR) method should be used. In fact, this second formula takes into consideration the scale of the amounts invested (and the moment of investing them), whose order of magnitude has a considerable effect on the average overall performance obtained. Under this formula the new funds added to the Fund every year provide an average rate of interest (not corrected for inflation) depending on the year under consideration. Their aggregate must equal the capital available in the Fund for the year in question. Application of this method is particularly important for adding together results from several years to obtain a mean yield on capital over a long period.

Tracking error

One classic measure of absolute risk (volatility) is the standard deviation in a series of monthly performances. Tracking error can be used to measure the scale of bets made compared with the benchmark.

Value at risk

The amount of overall assets at risk (value at risk) is calculated using a technique based on the calculation of probabilities to estimate the maximum loss that a portfolio could sustain taking account of the historical volatilities associated with the securities in the portfolio and their correlations. The adjective 'maximum' in this context does not correspond to the maximum loss in the worst possible scenario but only to the maximum loss within a certain confidence level -most frequently 95%- and for a given period. One of the basic assumptions of this approach is that the historical price movements of securities are a reasonable guide for determining their future movements.

Volatility

Volatility is a classic means of measuring absolute risk, i.e. standard deviation from a set of monthly results.

Yield

Income from invested capital, expressed as a percentage of the said capital.