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

Action to be taken

Voting procedures

For recommendation	FINANCE COMMITTEE 330 th Meeting 16 June 2010	Simple majority of Member States represented and voting and 51% of the contributions of all Member States
For approval	COUNCIL SESSION 155 th Session 18 June 2010	Simple majority of Member States represented and voting

The Finance Committee is invited to recommend to the Council and the Council is invited to approve the financial statements of CERN Pension Fund for the Financial year 2009 and to grant discharge to the Pension Fund Governing Board.

PENSION FUND

**Financial Statements
for the
Financial Year
2009**

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

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

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Dear Members and Beneficiaries,

2009 was a year of significant recovery, important progress, and new perspectives for the CERN Pension Fund. As I look back at this very busy year, I am pleased to report on a number of important developments and initiatives that have strengthened the Fund's situation.

First, the Fund ended the year 2009 with net assets of 3'903.5 MCHF, representing an increase of 313.8 MCHF, or 8.7% from the prior year. This favourable development is primarily due to the strong performance of the Fund's assets, which returned 13.5% during the year, adding 472.9 MCHF to the Fund. Assets benefited from the worldwide recovery in equity markets, as well as skilful positioning by the Fund during this period. In particular, the Pension Fund Management Unit recommended an early overweight in equities in the first quarter of 2009 which allowed the Fund to profit from the subsequent rally in this asset class.

Another highlight of the past year was the submission by the Pension Fund Governing Board (PFGB) to the CERN's Council and Finance Committee of a White Paper regarding Funding Principles and Policy and Measures to Restore Full Funding of the CERN Pension Fund. Such an analysis had been identified by the CERN Council as one of the initial major tasks of the new PFGB formed under the new governance structure. I am very pleased that this task has now been completed.

The result of one and half year's work by the PFGB, the White Paper offers an assessment of the need for supplementary funding based on a set of grounded assumptions, including in particular the full capitalization of potential future pension cost of living increases. Under this set of assumptions, the gap between liabilities and assets stood at CHF 1'715.3 million at year-end 2009.

Despite the progress made this year, the White Paper makes it clear that the structural challenge faced by the Fund remains as important as ever. In particular, cash flow from membership activities is projected to remain negative in the future due to benefit payments exceeding contributions. The funded status is projected to continue to decline, even if the Fund's assets achieve the expected compound annual return of 5% per annum in the future. This is an ambitious target considering that the yield on 30 years Swiss Government bonds stood at 2.55% at year end 2009.

The White Paper also goes beyond measuring funding needs to present potential supplementary funding measures to restore full funding over the next 30 years. I am pleased that the CERN's Council and Finance Committee took note of the White Paper, which was subsequently submitted for consideration to the CERN Council in early 2010.

From an organizational viewpoint the Fund underwent an important change in administrative personnel. At the Pension Fund Management Unit, Christian Cuénoud retired after a 20-year career leading the administration of the Fund. The PFGB wishes to express its warm appreciation for his many years of loyal service to the Fund and welcomes his successor, Théodore Economou. I want to take this opportunity to also personally thank all PFGB and PFIC members for their many contributions, personal commitment, and dedication to strong governance at the Fund.

In closing, let me note how pleased I am with the work that the Pension Fund Governing Board has delivered in just over two years under its new composition. In this relatively short period, the PFGB has responded to key expectations of the CERN Council and reached significant milestones. We now have a clear view of the Fund's situation, an understanding of the resources needed, and a new appreciation of the challenges ahead. Looking to the future, the PFGB and the CERN Pension Fund Management Unit are well positioned to continue to provide leadership in tackling these challenges.

Prof. Federico Ferrini,
Chairman, Pension Fund Governing Board

I. FINANCIAL STATEMENTS

1.1. Statement of Financial Position

(in CHF)	Notes	31.12.09	31.12.08
ASSETS			
Cash and Cash Equivalents	1	1'413'880'575	1'236'086'399
Settlements receivable		413'356	1'868'648
Sundry Debtors	2	3'297'936	5'019'278
Other Receivables	3	15'653'572	19'165'846
Derivatives	4	25'751'423	133'552'196
Bonds		858'900'840	928'151'561
Equities		775'652'527	521'139'501
Investment Funds and index investments		326'390'155	275'881'912
Total Financial assets		3'419'940'385	3'120'865'341
Non-Financial assets			
Investment Property	5	515'115'521	502'491'379
Total Non-Financial assets		515'115'521	502'491'379
Total assets		3'935'055'906	3'623'356'720
LIABILITIES			
Settlements payable		440'823	2'174'425
Sundry creditors	6	11'178'355	10'482'561
Other payables	7	4'197'527	3'210'362
Provisions	8	1'855'520	-
Derivatives	4	13'900'677	17'808'897
Total liabilities		31'572'902	33'676'245
Net assets available for benefits		3'903'483'004	3'589'680'474
Transfer values of active members or current value of deferred pensions (without future adjustment)		2'207'217'923	1'502'171'013
Mathematical reserves of the beneficiaries		4'108'244'496	3'300'490'005
Vested pension capital		6'315'462'419	4'802'661'018
Provision for increased life expectancy		184'871'002	132'019'600
Technical provision		184'871'002	132'019'600
Vested pension capital and technical provisions (CP)		6'500'333'421	4'934'680'618
Technical deficit		(2'596'850'417)	(1'345'000'144)

1.2. Statement of Financial Performance

(in CHF)	Notes	31.12.09	31.12.08
Investment Income			
Gains/(losses) on Financial Assets at Fair Value Through Profit & Loss	9	188'749'137	(468'516'536)
Dividends		25'224'851	26'314'983
Interest income	10	61'385'639	80'682'781
Real-Estate income	11	48'060'940	(23'582'752)
Results on Sales of Financial Assets	12	187'160'420	(603'709'334)
Foreign Exchange gains	13	(16'580'804)	134'311'613
		494'000'184	(854'499'245)
Investment Expenses			
Investment Management Fees		4'534'718	4'040'810
Custody Fees and Administration of securities		1'071'257	1'281'193
Transaction costs		2'117'398	2'402'700
Real-Estate Coordinators Management Fees		154'000	154'000
Real-Estate expenditure	14	9'020'065	8'726'090
Taxation		5'994	458'949
Total Investment Expenses		16'903'432	17'063'742
Net Investment Income/(Loss)		477'096'752	(871'562'987)
Other Income		75'430	78'739
Total Income		477'172'182	(871'484'248)
Other Expenses			
Bank Charges		48'934	68'160
Administration Costs		4'262'660	3'591'544
Total Other Expenses		4'311'594	3'659'704
Change in Net Assets before Membership Activities		472'860'588	(875'143'952)
Membership Activities:	15		
Contributions			
Member Contributions		42'185'411	41'266'640
Employer Contributions		84'921'621	83'290'243
Purchase of additional years of membership		1'056'291	620'868
Indemnities received from third parties		211'909	170'099
Compensations		2'556'588	4'599'127
Procurement of Entitlement to pension for surviving spouse		3'474	-
Total Contributions		130'935'294	129'946'977
Benefits and Payments			
Retirement pensions		236'663'026	221'710'581
Disability pensions		2'266'000	2'505'343
Surviving spouse pensions		28'023'403	25'936'935
Orphans pensions		939'113	808'353
Family allowances		14'728'953	14'041'594
Ex gratia payments granted		100'003	102'000
Transfer values paid to members		6'050'577	13'142'561
Transfer values paid to other schemes		822'918	447'033
Contributions paid to Other Schemes		399'360	404'294
Total Benefits and Payments		289'993'353	279'098'694
Net Membership Activities		(159'058'059)	(149'151'717)
Net Increase/(Decrease) in Net Assets During Year		313'802'530	(1'024'295'669)
Net Assets Available for Benefits at Beginning of Year		3'589'680'474	4'613'976'143
Net Assets Available for Benefits at End of Year		3'903'483'004	3'589'680'474

1.3. Cash Flow Statement

(in kCHF)	Year ended 31 December	
	2009	2008
Cash flows from membership activities		
Contributions and other receipts	130'592	130'999
Benefits and other payments	<u>(291'154)</u>	<u>(277'858)</u>
	(160'562)	(146'859)
Cash flows from investing activities		
Payments financial assets	(1'597'129)	(2'728'000)
Payments real estate	(15'490)	(21'249)
Proceeds from sale of financial assets	1'742'482	2'285'821
Purchase of investment property	-	(35'116)
Proceeds from sale of investment property	-	-
Investment property receipts	45'588	43'896
Dividends received	23'709	25'699
Interest received	59'896	73'854
Tax reimbursements	2'172	1'466
Management and Custody Fees	(4'892)	(6'592)
Administrative and other Operating expenses paid	<u>(3'623)</u>	<u>(3'307)</u>
	252'713	-363'528
Net (decrease) increase in cash and cash equivalents	92'151	-510'387
Cash at beginning of the year	1'236'087	1'679'896
Exchange gains /(losses) on cash and cash equivalents	<u>85'642</u>	<u>66'578</u>
Cash at end of the year	<u><u>1'413'880</u></u>	<u><u>1'236'087</u></u>

1.4. Statement of Changes in Net Assets Available for Benefits

CHF

Balance as at 31 December 2007	4'613'976'143
Employer contribution	83'290'243
Employee contribution	41'266'640
Purchase of additional years	620'868
Indemnities and Compensations	4'769'226
Benefits paid	(265'104'806)
Transfer values and contributions paid	(13'993'888)
Investment income	(854'499'245)
Other Income	78'739
Investment expenses	(17'063'742)
Other expenses	(3'659'704)
Balance as at 31 December 2008	3'589'680'474
Employer contribution	84'921'621
Employee contribution	42'185'411
Purchase of additional years	1'056'291
Indemnities and Compensations	2'768'497
Procurement of Entitlement to pension for surviving spouse	3'474
Benefits paid	(282'720'498)
Transfer values and contributions paid	(7'272'855)
Investment income	494'000'184
Other Income	75'430
Investment expenses	(16'910'932)
Other expenses	(4'304'094)
Balance as at 31 December 2009	3'903'483'004

II. NOTES TO THE FINANCIAL STATEMENTS

2.1 General Information

Fund Description

Under Articles S IV 2.01, 02 and 03 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 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.

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

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

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

Article I 2.01 of the Pension Fund Rules states that the Fund, which is an integral part of CERN, is under the supreme authority of the Council. Its administration and the management of its finances are separate from those of the CERN and ESO.

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

Funding arrangements

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

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

Termination terms

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

Less than five years of service:

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

Between five and ten years of service:

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

Ten or more years of service:

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

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

2.2 Summary of significant accounting policies

Basis of preparation

The CERN Pension Fund Financial Statements for 2009 have been prepared on a going-concern basis and in accordance with International Public Sector Accounting Standards (IPSAS). The preparation of financial statements in conformity with IPSAS requires the use of certain critical accounting estimates. It also requires the Fund to exercise its judgement in the process of applying the Pension Fund's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed under heading 2.4. If such estimates and assumptions deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

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

b) Fair value of non quoted securities

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

c) Loans and receivables

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

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 part of real estate income.

The costs of the day-to-day running of the properties, e.g. repairs and maintenance, are recognized in the Statement of Financial Performance as incurred. Expenditure incurred in the replacement or renovation of part of an existing investment property that is 5% or more of the value of that property is recognized in the carrying amount.

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 hereafter shows the significant actuarial assumptions approved by the PFGB at its meeting of 18 February 2010 (CERN/PFGB/19.7) and also those used in the corresponding period. The assumptions used to calculate the actuarial present value of promised retirement benefits in 2009 (See Heading I, 1.1 Statement of Financial Position) are the actuarial parameters that represent the official accounting policy of the Organization with a discount rate of 2.55% which represents the long-term Swiss Confederation Bonds interest rate. The other set of assumptions reflect the actuarial assumptions used in the paper "Report by the Pension Fund Governing Board on Funding principles and policy and measures to restore full funding of the CERN Pension Fund" (CERN/FC/5432/RA – CERN/2897/RA). The actuarial present value of promised retirement benefits in 2009 under these assumptions is included in Annex I for information purposes.

The benefits have been determined using projected salary levels.

Actuarial assumptions	2008	2009	2009
	CERN/2843 CERN/FC/5340	CERN Accounting Policy	CERN/FC/5432/RA CERN/2897/RA
Discount Rate	4.5%	2.55%	4.5%
Future salary increase	1.5%	1.5%	2.0%
Future pension increase	1.0%	1.0%	2.0%
Salary Advancement	1.8%	1.8%	Increase by age
Return on Plan Assets	5.0%	5.0%	5.0%
Life Expectancy	EVK 2000	EVK 2000	EVK 2000
Resignation of CDI<01/07/1987 rate valid until 59 years, 0% beyond	0.5%	0.5%	4.45%-5.35% (M/F)
Resignation of CDI≥01/07/1987 rate valid until 64 years, 0% beyond	0.5%	0.5%	4.45%-5.35% (M/F)
Resignation of CDD and Fellows	0.0%	0.0%	0.0%
Award of Indefinite Contracts	50.0%	60.0%	60.0%
Extension of 2 to 3 years of Fellows contracts	50.0%	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 may, at a given time, hold the following derivative instruments:

- a) Forward contracts

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

- b) Options

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

c) Swaps

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

2.3 Financial risk management

Financial risk factors

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

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

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

Market risk

a) Price risk

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

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

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

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

The table below shows the revised Strategic Asset Allocation strategy approved by the CERN Council at its session of 19 June 2008 (CERN/2794) together with the actual allocation as at 31.12.2009, taking the tactical positions into account.

ASSET CLASS Sub asset class	SAA	Tactical margins	Effective allocation as at:		Deviation from SAA 5=4-1
	1		31.12.2008	31.12.2009	
BONDS	37%	30-45%	46.1%	36.4%	-0.6%
Europe	17%		21.7%	17.9%	0.9%
Global	10%		0.3%	0.2%	-9.8%
Corporate	10%		4.5%	4.9%	-5.1%
Swiss	0%		19.6%	13.4%	13.4%
EQUITIES	34%	25-45%	26.4%	41.3%	7.3%
US Large Cap	8%		7.3%	12.8%	4.8%
US Small Cap	2%		0.9%	1.8%	-0.2%
Canada	0%		0.2%	0.7%	0.7%
Eur. Large Cap	8%		8.8%	10.9%	2.9%
Eur. Small Cap	2%		0.9%	2.1%	0.1%
Australia	0%		0.3%	0.8%	0.8%
Japan	9%		4.6%	5.8%	-3.2%
Emerging markets	5%	Max 10%	3.5%	6.4%	1.4%
Diversifying Assets	14%	10-20%	6.3%	6.8%	-7.2%
Absolute return	10%		3.0%	3.1%	-6.9%
Private Equity	2%		2.9%	2.2%	0.2%
Commodities	2%		0.4%	1.5%	-0.5%
REAL ESTATE	15%	10-20%	14.8%	13.6%	-1.4%
CASH	0%	0-10%	6.4%	1.9%	1.9%

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

	2009	2008
(in kCHF)		
Bonds	858'901	928'151
Equity	775'653	521'139
Investment and index investments	326'390	275'882
Derivatives	25'751	133'552
Investment Property	515'115	502'491
Total	2'501'810	2'361'215

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 principal net assets that are denominated in a currency other than the Swiss franc.

	2009 (in thousands)	2008 (in thousands)
EUR	1'187'486	911'117
GBP	205'901	142'487
USD	551'326	261'076
JPY	7'880'106	6'390'399
HKD	409'407	234'392

c) Fair value estimation

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

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

	2009	2008
<u>Global Credit Mandate*</u>	191.6 MCHF	159.7 MCHF
0 - 1 year	13.31%	13.37%
1 - 3 years	9.36%	13.86%
3 - 5 years	16.38%	16.32%
5 - 7 years	19.05%	14.19%
7 - 10 years	24.82%	28.04%
> 10 years	17.08%	14.22%
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>	698 MCHF	789.7 MCHF
0 - 1 year	2.22%	5.94%
1 - 3 years	8.64%	2.63%
3 - 5 years	15.58%	4.00%
5 - 7 years	33.02%	27.90%
7 - 10 years	31.22%	47.80%
> 10 years	9.32%	11.73%
Total	100.00%	100.00%

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

		2009		2008
		(in kCHF)		(in kCHF)
EUR	0.30%	3'500	1.50%	5'623
EUR	0.10%	1	2.80%	89
			2.35%	4'500
CHF	0.02%	2'490	0.05%	2'490
CHF	2.13%	951'173	2.88%	1'009'489
USD	0.02%	910	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 the counterparty will be unable to pay amounts in full when they fall due.

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

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

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

	2009	2008
<u>Global Credit Mandate*</u>	191.6 MCHF	159.7 MCHF
Debt securities by rating category		
AAA	6.62%	14.14%
AA	15.78%	7.82%
A	47.96%	46.80%
BBB-B	29.64%	27.05%
NR/NA	0.00%	4.19%
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 5.51 years at 31 December 2009 (2008: 5.22 years).

	698 MCHF	789.7 MCHF
<u>Global Government Bonds</u>		
Debt securities by rating category		
AAA	55.78%	79.46%
AA	9.35%	9.68%
A	28.90%	7.88%
BBB-B	3.10%	2.72%
NR/NA	2.87%	0.26%
Total	100.00%	100.00%

The duration of the above securities was some 6.31 years at 31 December 2009 (2008: 7.02 years).

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

	2009	2008
Bonds	858'901	928'151
Derivative assets	25'751	133'552
Cash and cash equivalents	1'413'880	1'236'086
Settlements receivable	413	1'869
Other assets	18'951	24'185
Total in kCHF	2'317'896	2'323'843

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.

	Less than 7 days	1 month to 3 months	3-12 months
<u>At 31 December 2009</u>			
Settlements payable	441		
Members and Beneficiaries	3'045		
Real-Estate guarantee deposits			3'324
Taxes Payable		125	
Real-Estate Creditors		4'335	
Reimbursements of contributions	1'078		
Payments Outstanding		3'119	
Total in kCHF	4'564	7'579	3'324
<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

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

	1 - 6 months
<u>At 31 December 2009</u>	
Forward	13'834
Swaps	67
Total in kCHF	13'901
<u>At 31 December 2008</u>	
Forward	16'007
Swaps	1'802
Total in kCHF	17'809

2.4 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.

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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.

In 2009, the PFGB made two changes to the actuarial assumptions compared to 2008. In 2009 the discount rate used to determine the present value of future promised benefits was 2.55% (4.5% in 2008) representing the long-term Swiss Confederation Bonds interest rate. The effect of this change was an increase in liabilities of some 1'413 MCHF. In addition, the percentage of fixed term contracts that would be converted to indefinite contracts was estimated in 2009 to be 60% (50% in 2008). The effect of this change was an increase in liabilities of approximately 3.42 MCHF.

Furthermore, the Fund calculates that a 0.5% increase/decrease in the discount rate would decrease/increase liabilities by some 433.1 MCHF. A 0.5% increase/decrease in the indexation of pensions would increase/decrease liabilities by some 341.4 MCHF and a 0.5% increase/decrease in the indexation of salaries would increase/decrease liabilities by some 121.8 MCHF.

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

b) Fair value of Investment Property

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

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

The principal assumptions underlying the Fund's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; 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 31.12.2009,
- unaudited statements from a previous period (30.06.2009 or 30.09.2009) adjusted for capital movements between the last received statements and 31.12.2009.

Similarly, in 2008, audited statements were not available at the reporting date in respect of these funds and the Fund at that time also had to make reference to unaudited statements to estimate year-end values. Subsequently, when audited statements became available, a total difference in value of some -11.6 MCHF was revealed compared to the amounts obtained from the unaudited statements. The principal reasons for this difference were:

- the effects of the financial crisis on markets;
- the first-time adoption by many of the funds of fair market value as the method of valuation.

The difference between the values reported in these funds' final audited statements for 2009 and the values in the unaudited statements used for the Fund's 2009 financial statements is not anticipated to be of the same magnitude as that of 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.

d) Year-end exchange rates

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

Currency	ECB cross-currency rate	Reuters World Markets
EUR	1.4836	1.4832
USD	1.0298	1.0338
GBP	1.6705	1.6694
JPY	0.01114	0.01110
HKD	0.1328	0.1333

2.5 Notes to the Financial Statements

1. Cash and Cash Equivalents

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

	2009	2008
Current Accounts	442'714	194'000
Deposit Accounts	959'796	1'030'082
Margin account with brokers	10'638	11'770
Real-estate bank accounts	732	235
Total in kCHF	1'413'880	1'236'087

2. Sundry Debtors

	2009	2008
Recoverable taxes	1'417	2'489
Real-Estate debtors	1'836	2'195
Other due amounts	28	302
Loans	17	33
Total in kCHF	3'298	5'019

3. Other Receivables

	2009	2008
Accrued interest	14'598	18'595
Dividends receivable	630	294
Outstanding receipts	139	33
Payments in advance	287	244
Total in kCHF	15'654	19'166

4. Derivatives

	2009		2008	
	Assets	Liabilities	Assets	Liabilities
Call options	-	-	367	-
Accrued gains on derivatives	25'751	13'901	133'185	17'809
Total in kCHF	25'751	13'901	133'552	17'809

The table below shows the types of derivative contracts and their notional values held by the Fund at 31 December 2009.

Contract Type	Currency	Notional Amount		Fair Value Receivable	Fair Value Payable
		Local	CHF		
Forward					
<u>Euro Bund</u>	EUR	1'973'600.00	2'927'187.92	51'258.42	
<u>Corn</u>	USD	5'972'000.00	6'173'555.00	242'776.19	
<u>Topix</u>	JPY	7'153'440'000.00	79'433'574.31	916'766.74	
<u>Gold</u>	USD	9'132'090.00	9'440'298.04	53'031.38	(548'332)
<u>Silver</u>	USD	1'305'010.00	1'349'054.09		(130'108)
<u>Copper</u>	USD	3'473'470.00	3'590'699.61	214'689.20	
<u>Platinum</u>	USD	3'124'065.00	3'229'502.19		(36'145)
<u>Aluminium</u>	USD	2'745'600.00	2'838'264.00	117'434.00	
<u>Nickel</u>	USD	970'200.00	1'002'944.25	147'557.48	
<u>Zinc</u>	USD	921'150.00	952'238.81	249'340.50	
<u>Sugar</u>	USD	2'035'712.00	2'104'417.28	232'486.24	
<u>Soybean</u>	USD	3'025'912.50	3'128'037.05	85'542.81	
<u>Wheat</u>	USD	2'978'700.00	3'079'231.13		(74'559)
<u>Live Cattle</u>	USD	1'014'360.00	1'048'594.65	39'633.98	
<u>Wti Crude</u>	USD	6'733'090.00	6'960'331.79	567'249.64	
<u>Brent Crude</u>	USD	5'834'400.00	6'031'311.00	413'500.00	
<u>Heating oil</u>	USD	1'696'968.00	1'754'240.67	82'840.59	
<u>Natural Gas</u>	USD	1'183'200.00	1'223'133.00	159'280.20	
<u>Palladium</u>	USD	2'842'400.00	2'938'331.00	273'799.03	
<u>Mini-S&P 500</u>	USD	159'941'962.50	165'340'003.78	1'097'067.19	
<u>S&P/TSX60</u>	CAD	27'727'600.00	27'341'447.52	723'146.75	
<u>ASX200</u>	AUD	31'934'375.00	29'689'490.51	1'495'660.02	
		<u>Sub Total</u>	361'575'887.60		
Swaps					
<u>Topix</u>	JPY	7'428'861'774.15	82'491'926.09	2'187'717.44	
<u>S&P MS</u>	USD	228'118'382.45	235'817'377.91	2'418'849.79	
<u>MSCI Latin America</u>	USD	23'289'575.40	24'075'598.58		(67'260)
<u>MSCI Europe</u>	USD	20'207'871.20	20'889'886.86	639'285.76	
<u>MSCI EMF</u>	USD	46'813'608.04	48'393'567.33	729'648.35	
		<u>Sub Total</u>	411'668'356.76		
<u>Currency Forwards Contracts</u>				12'612'861.80	(13'044'272)
<u>Notional Sold</u>			1'433'646'423.88		
<u>Notional Purchased</u>			78'426'603.07		
<u>Cross Deal</u>			(41'794'487)		
		<u>Sub Total</u>	1'470'278'540.21		
		GRAND TOTAL	2'243'522'784.58	25'751'423.49	(13'900'677)

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

5. Non-Financial Assets - Investment Property

(in kCHF)	2009	2008
Opening Balance	502'491	522'109
Purchases	-	39'423
Sales	-	-
Expenditure recognised in the carrying amount	1'812	-
Gain/Loss at fair value	10'812	(59'041)
<i>currency</i>	2'215	(48'042)
<i>price</i>	8'597	(10'999)
Closing Balance	515'115	502'491

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

Country	Valuation Method
France	Reference was made to sales prices obtained on the market for similar properties where information on relevant transactions was available. Otherwise the discounted cash flow technique was used with a discount rate of 6. %
France (Forests)	Values based on a revaluation of the forests' inventory carried out in 2009.
Great Britain (Farm)	Valuation made on a sales comparison basis.
Switzerland	Values based on capitalization rates of 6.72% and 7.27%.
Holland	Reference was made to sales prices obtained on the market for similar properties.
Germany	The discounted cash flow technique was used with a discount rate of 6.75%

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.

	2009	2008
Members and Beneficiaries	3'045	4'022
Real-Estate Guarantee Deposits	3'324	3'267
Taxes Payable	125	116
Real-Estate creditors	4'335	3'077
Deferred Income	349	-
Total in kCHF	11'178	10'482

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.

	2009	2008
Reimbursements of Contributions	1'078	1'214
Payments Outstanding	3'119	1'996
Total in kCHF	4'197	3'210

8. Provisions

In June 2009, the French authorities requested CERN to pay taxes ("droits d'enregistrement") with respect to two buildings acquired in 2008 by the Organization in Paris (France) in the framework of the operations of the Fund. The amount requested (approximately 5% of the price paid by CERN for the acquisition of the two buildings) is approximately 1.3 MEUR (1.85 MCHF).

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

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

The Organization recalled in particular that the French authorities recognize real estate investments for the Fund as part of the official activities of CERN and asked the French authorities to reconsider their position in accordance with the Host State Agreement.

As CERN, at the balance sheet date, has yet to receive a response from the French authorities indicating that they will rescind their request for payment of these taxes, it is considered probable that the Organization will be asked to pay the requested amount.

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

	2009	2008
Bonds	19'162	(98'737)
Equities	146'547	(264'618)
Investment Funds	10'758	(116'264)
Derivatives	12'282	11'102
Total in kCHF	188'749	(468'517)

10. Interest Income

	2009	2008
Cash and cash Equivalents	22'103	42'678
Bonds and Loans	39'283	38'005
Total in kCHF	61'386	80'683

11. Real-Estate Income

	2009	2008
Residential properties CH	9'930	9'973
Office properties D	985	785
Agricultural property GB	1'674	2'065
Office properties F	15'854	13'584
Residential property F	2'402	2'389
Forests F	523	470
Office properties NL	5'881	6'192
Changes in fair value	10'812	(59'041)
Total in kCHF	48'061	(23'583)

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.

	31.12.2009	31.12.2008
Not later than 1 Year	29'958'085	34'190'870
Later than 1 year and not later than 5 years	71'998'456	124'202'142
Later than 5 years	15'156'983	30'971'062
Total in CHF	117'113'524	189'364'074

12. Results on Sales of financial assets

	2009	2008
Bonds	10'049	(38'930)
Equities	49'359	(310'815)
Investment Funds	26'714	(12'954)
Derivatives	101'038	(241'010)
Total in kCHF	187'160	(603'709)

13. Foreign Exchange gains

	2009	2008
Currency Overlay programme	(1'431)	76'836
Other exchange rate movements	(15'150)	57'476
Total in kCHF	(16'581)	134'312

14. Real-Estate expenditure

	2009	2008
Residential properties CH	3'128	3'265
Office properties D	1'362	760
Agricultural property GB	1'329	1'279
Office properties F	1'640	2'080
Residential property F	423	336
Forests F	511	231
Office properties NL	627	775
Total in kCHF	9'020	8'726

15. Membership Activities

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

16. Related-party transactions

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

Related parties of the Fund during the period were:

- Professional members nominated by the CERN Council to act as experts in the Pension Fund Governing Board (PFGB) and Pension Fund Investment Committee (PFIC) and to provide advice on Governance and Investment issues respectively. Fees in 2009 were 190.5 kCHF;

- Key management personnel, Chairman of the PFGB, Chairman of the PFIC, the General Manager of the Fund and the 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 CERN 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.

III. BUDGET OF THE PENSION FUND 2010

(in kCHF)

Headings and Sub-headings	2009 Annual Accounts CERN/2910 CERN/FC/5443 (2009 prices)	2009 Budget (2009 prices)	2010 Budget* (2010 prices)
PERSONNEL	2'150	2'535	2'737
MATERIALS			
Operating expenses			
Library	31	30	30
Colloquia, seminars, conferences	6	15	15
Contracts (maintenance, temporary labour, minor work)	114	105	96
Third party payments and fees	256	215	212
Experts & Consultants	967	680	778
Training costs	9	25	25
Duty travel expenses	54	50	51
Official Hospitality expenses	19	20	15
Communications	354	305	333
<i>Sub-total</i>	1'810	1'445	1'555
Supplies			
Investments and equipment	85	50	50
<i>Sub-total</i>	85	50	50
Computing project	15	480	404
<i>Sub-total</i>	15	480	404
Total Materials	1'910	1'975	2'009
Grand Total	4'060	4'510	4'746

* The 2010 Budget, approved by the PFGB in September 2009 (CERN/PFGB/15.12), has been indexed in line with the "Cost-Variation Indexes for 2010" document (CERN/FC/5345/Rev.2-CERN/2877) as approved by the Council in December 2009.

IV. AUDIT CERTIFICATE

4.1. General

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 we give under item 4.2 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.

4.2. Opinion

We have analysed the Financial Statements of the CERN Pension Fund for the Year 2009.

We have examined the Consulting Actuary's Report for the year 2009, where it was stated that *"the financial stability of the Fund as at 31 December 2009 is not assured. The funding ratio is below 100% at the end 2009 and it amounts to 60.1% according to the technical assessment [according to the assumptions stated in the International Accounting Standard n.26] and to 69.5% [according to the assumptions stated by WGII]. The Pension Fund was therefore unable to fully guarantee its liabilities at the date of the assessment (...)"* It is also stated, in the same report, that *"[the funding ratio] has dropped from 72.7% as at 31 December 2008 to 60.1% as at 31 December 2009"*.

The Actuary's Report also highlights that 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 2009 are not entirely covered by the available provident assets.

Furthermore, the Actuary's Report considered "unsatisfactory" the financial situation for the Fund at 31 December 2009, with a funding ratio of 60.1% and they highlighted the fact that *"if the PF had had to be liquidated at this date, it would have cost Member States 2.596.9 MCHF, according to the statutory guarantee of benefits according to article I 3.03" and, what's more, the under-funding of 2.596.9 MCHF (39.9% of the provident and technical provision) is "considerable" and it is the result of three factors like the change in the discount*

rate, the full capitalisation of the future indexation of pensions and the financial losses due to the 2008 crisis that have not yet been fully compensated for.

We have analyzed the opinion of PWC which draws “*attention to the fact that the financial statements show a funding gap of 2.596.9 MCHF and a funding ratio of 60.1% (31.12.2008: 72.7%) based on the CERN Accounting Policy (refer to Chapter 2.2. [of the Financial Statement]*”. Besides, they highlight that “*measures to remedy this funding gap are currently being examined by an Advisory Group which was set up by the CERN Council*”

We believe that the CERN Pension Fund underfunding is critical and that immediate corrective actions are necessary for restoring the full-funding, therefore we welcome the set-up of an Advisory Group.

In our opinion, the Financial Statements for the Year 2009 give a true and a fair view of the financial position of the CERN Pension Fund as at 31 December 2009, of its financial performance and its cash flows for the year 2009 in accordance with International Public Sector Accounting Standards (IPSAS).

Bartolomeo Manna
Corte dei Conti



Franco Franscheschetti
Corte dei Conti



ANNEXES

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

	2009/12/31	2008/12/31
NET PROVIDENT OVERALL ASSETS (PA)	3'903'483'004	3'589'680'474
Transfer values of active members or current value of deferred pensions (including future adjustment) ¹	1'699'515'208	1'624'514'035
Mathematical reserves of the beneficiaries	3'750'555'846	3'883'554'019
Actuarial liabilities	5'450'071'054	5'508'068'054
Provision increase in life expectancy ²	168'775'013	155'342'161
Technical provision	168'775'013	155'342'161
ACTUARIAL COMMITMENTS AND TECHNICAL PROVISIONS (AC)	5'618'846'068	5'663'410'215
TECHNICAL BALANCE ³	- 1'715'363'064	- 2'073'729'741
DEGREE OF COVERAGE OF ACTUARIAL LIABILITIES OR FUNDING RATIO ⁴	69.5 %	63.4 %

Remarks :

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

II. COMPOSITION OF THE BODIES OF THE FUND

GOVERNING BOARD

Members	Appointed by:
F. Ferrini, Chair D.-O. Riska	CERN Council CERN Council
C. J. van Riel	ESO Council
S. Lettow	Director-General of CERN
G. Deroma D. Duret, Vice-Chair	CERN Staff Association
F. Derie	ESO Staff Association
F. Wittgenstein	CERN and ESO Pensioners Association
R. Balfe J.-A. Schneider	Professional members appointed by the CERN Council on the proposal of the Governing Board Members

INVESTMENT COMMITTEE APPOINTED BY PFGB

Members	S. Lettow, Chairman C. Cuénoud, <i>ex officio</i> until 31.08.2009 D. Duret T. Economou, <i>ex officio</i> as from 1.09.2009
Experts	S. Colley S. Haury von Siebenthal
Observer	F. Ferrini

WORKING GROUPS: MEMBERS

Rules & Regulations
(WG1) J.-A. Schneider (Rapporteur)
R. Balfe
S. Lettow
F. Derie
D. Duret
J. Steel (Administration)
T. Economou (Administration) as from 1.09.2009

Funding policy & principles
(WG2) F. Ferrini (Rapporteur)
R. Balfe
G. Deroma
D. Duret
J.-A. Schneider
C. Cuénoud (Administration) until 31.08.2009
T. Economou (Administration) as from 1.09.2009

General Manager
(WG4) S. Lettow (Rapporteur)
C. Cuénoud (Administration) until 31.08.2009
F. Derie
D. Duret
F. Ferrini
D.-O. Riska

ADMINISTRATOR

C. Cuénoud until 31.08.2009

Appointed by:

CERN Council

GENERAL MANAGER

T. Economou as from 1.09.2009

CERN Council

CONSULTING ACTUARY

Pittet Associés SA, Geneva

Pension Fund Governing Board

CONSULTING MEDICAL PRACTITIONER

N. Roux until 30.07.2009
(CERN Consulting Medical Practitioner)
F. Zrounba as from 01.08.2009
(CERN Consulting Medical Practitioner)

Pension Fund Governing Board

Pension Fund Governing Board

EXTERNAL AUDITORS

Bartolomeo Manna, Corte dei Conti, Roma, Italy
Franco Franceschetti, Corte dei Conti, Roma, Italy

CERN Council

PriceWaterHouseCoopers

Pension Fund Governing Board