alecta

When trust is shared, it grows

Annual Report and
Sustainability Report
2018

We are here for you!

Alecta has a strong driving force – we have an important mission. We shall maximise the value of the occupational pension for you as our customer.

This gives you, and your children and grandchildren, security now and in the future regardless of whether you are 25 or 65 years old, at the same time as it is an efficient solution for those of you who are employers. Accordingly, we also make an important contribution to society – a sustainable pension system.

These are some of the factors that make us particularly suitable for living up to our mission and our role in society:

- We are owned by the customers – any surplus is returned to them.
- We offer a collective insurance solution. All customers jointly share risks and responsibilities. This provides greater security and flexibility.
- We are procured collectively, which yields savings in the form of lower sales and marketing costs.

We know that trust grows when it is shared!

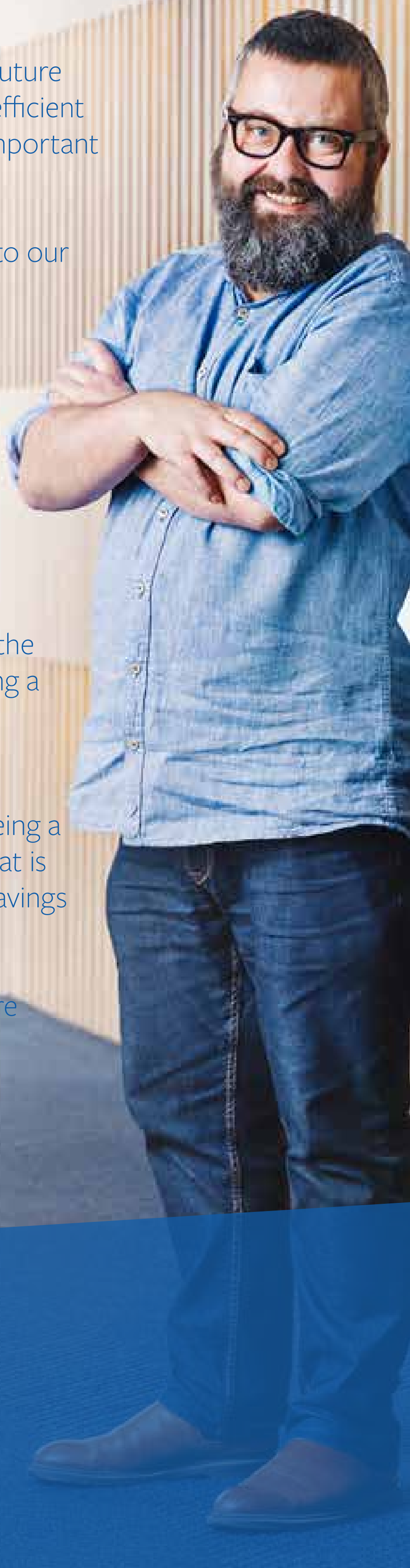
To create as much value as possible of the pension capital, we have assigned the highest priority to low costs. We know that low fees are important for creating a good pension and we offer among the lowest fees in the sector.

Because our mission is to create security for the future, we have a long-term approach. We want and we need to contribute to the society of the future being a good one to live in and one that creates sustainable growth and new jobs. That is also how we create a healthy return. Our model for managing your pension savings gives us an opportunity to really influence the companies in which we invest.

That's why we can promise that every day we will work for you and your future security regardless of whether you are a private or a corporate customer.

Together we are Alecta.

Welcome to read more about us and our work in this report!



Signatory of:

PRI Principles for Responsible Investment

WE SUPPORT

UN GLOBAL COMPACT

Photographer: Oskar Omne

Alecta has taken responsibility for the future since 1917 by managing occupational pensions. Our mission is to maximise the value of collectively agreed occupational pensions for our corporate and private customers. We do this through responsible investments, good returns, good customer service and low costs. We manage SEK 824 billion on behalf of our owners, who are 2,5 million private and 35 000 corporate customers.

Contents

About Alecta's Annual Report and Sustainability Report 2018

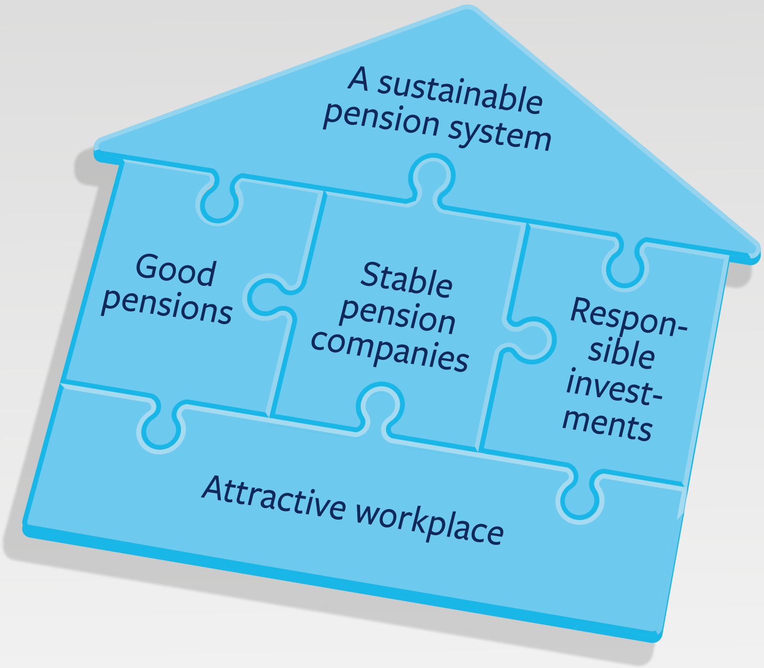
Alecta's Annual Report and Sustainability Report are presented by the Board of Directors and are intended to give all stakeholders a good idea of our activities and results in the past year. The Administration Report and the financial statements on pages 45–111 constitute Alecta's statutory financial information and are subject to external auditing. The Audit Report on the statutory financial information is presented on pages 112–115. Alecta's statutory sustainability report is presented on pages 5–34 and has been prepared in accordance with the Global Reporting Initiative (GRI) Guidelines. The overall description of the work performed during the year is presented on pages 5–23. Reports on processes, more detailed data and the scope and limits that apply are presented in the supplementary in-depth section about sustainability on pages 24–34. Alecta's external auditors, Ernst & Young AB, conduct a review of the company's sustainability reporting, and the review report on the sustainability reporting and the auditors' opinion on the statutory Sustainability Report are presented on page 35.

A pension system for the future

Alecta's mission and goals

Our mission is to maximise the value of collectively agreed occupational pensions for our corporate and private customers. To guide our activities in that direction, Alecta has defined three general operational goals:

- Secure and satisfied customers.
- Low costs and high efficiency.
- A good return and strong financial position.



Through our mission, and with our objectives as our guiding principle, Alecta contributes to a sustainable pension system. That is Alecta's role in society. A sustainable pension system means good and secure pensions in both the short and the long term. By acting sustainably and responsibly, we create stable conditions for our investments to grow and predictability for both the employer and the beneficiary.

A sustainable pension system

Age is not something to worry about when we are young. For this reason, having pensions that can sustain a livelihood is an important part of the social contract. Alecta's business enables this by helping to build what we call a sustainable pension system. This is a system that rests on three pillars: pensions that people can live on now and in the future, stable pension companies which retain a high level of trust and responsible investments which help to contribute to a sustainable society. Together, this results in a focus on good returns, low fees, high efficiency and well-integrated sustainability work.

When trust is shared it grows

Trust grows when it is shared – this insight characterises both the foundation for our mission, which is to maximise the value of collectively agreed occupational pensions, and our entire business. Alecta's ability to help build a sustainable pension system is based on a number of fundamental decisions made by our founders and principals:

- **Mutual ownership** – which means that we are owned by our 2,5 million private and 35 000 corporate customers, and that any surplus that is generated is returned to them.
- **A collective insurance solution** – a solution in which private and corporate customers share the responsibility and the risks. This creates greater security and flexibility. It makes it possible to offer all customers a lifelong pension, a survivor's pension and disability insurance without complex exemptions.
- **Collective procurement** – creates economies of scale that contribute to an already efficient management of pension assets becoming even more efficient, which ultimately also leads to low fees.

As an active long-term owner, we need to have a broad perspective of risks and opportunities. We are convinced that responsible investments yield good returns that leads to good pensions both now and in the future.

A stable pension provider is better positioned to take the long-term decisions that the business needs. In addition, the right competencies are required in order to operate in a changing world and live up to our high goals and ambitions. That is how we can maintain a sustainable pension system.

Message from the CEO: Moving forward towards 2023

2023 was a key concept for Alecta in 2018. We won the ITP procurement and are the default option for defined contribution ITP schemes for another five years. At the same time, a strategy project was launched to ensure that in a time of rapid changes in the business environment, we will stand even stronger in the competition in the next procurement.

We won the ITP procurement thanks to a very good product, Alecta Optimal Pension, for which we reduced the fee to 0,09 per cent and the fee ceiling to SEK 600 per year, while also improving the guarantee. This was possible thanks to a long-term focus on customer value and efficiency. Being customer-owned, it is self-evident that everything we do should add value for our customers.

On this basis, the Board has adopted three overriding objectives: secure and satisfied customers, low costs and high efficiency, as well as a good return and a strong financial position.

Return

Stock markets were more volatile in 2018. Global stock markets plummeted during the last four months of the year. OMXS30 declined approximately 15 per cent from early September to the end of December. Alecta's return performance was significantly impacted by the sharply negative stock markets during the latter part of the year. The average annual return on the defined benefit portfolio over the past five years is 5,6 per cent, which is 0,7 percentage points weaker than the sector average for life insurance companies, excluding Alecta. The average return on the defined benefit savings product, Alecta Optimal Pension, over the past five years is 6,7 per cent.

Low costs and satisfied customers

Alecta's operating expenses were SEK 876 million, SEK 11 million above the target. This was due to increased fees and cost allocations from the Swedish Financial Supervisory Authority, Insurance Sweden and the selection center. During the year, Alecta continued to have good discipline over the costs that the company directly controls.

Our index score for Secure and satisfied customers was favourable. The aim is that those who visit the website should give it a rating of at least 7,5 out of 10, and we achieved 7,8.

We also measure the customers' opinions of us in other ways. Among those who know that they are customers, the proportion that are positive to Alecta increased from 53 per cent to 58 per cent. A number of factors contributed. We have worked hard to remind ourselves of the importance of customer focus and customer value. We have launched a new version of our public website and the online self-service feature for private customers, My Pages. This generated an immediate effect, in the form of 15 per cent fewer e-mails to the customer service centre.

During the autumn, we initiated the project of updating the online office for corporate customers and proxies. It will be launched in the first quarter of 2020.

We have also joined the Fullmaktskollen service, to simplify the handling of powers of attorney for the customers and to increase security. We have continued a favourable collaboration with MinPension because we know that the customers want an overview of their pensions in one place. Moreover, we have changed how we measure customer satisfaction, to give us an even better understanding of what the customers think.

We have also changed how we govern development projects, so that we more clearly base them on an integrated perspective focusing on the customers' overall experience. To enhance customer privacy, we further strengthened our information security and implemented the EU's General Data Protection Regulation (GDPR).

We adopted a new funding policy to ensure that we optimally deliver on our mission; i.e. to maximise the value of occupational pensions for both private and corporate customers.

Finally, we made preparations during the year for Alecta's first digital employee starting the work at the beginning of the new year; a robot that has taken over the remaining manual work involved in the withdrawal of pensions via My Pages.

Sustainability is a prerequisite

Our asset management model constitutes a solid base for our sustainability work. During the year, we worked on setting clear objectives for sustainability work throughout the company.

We adopted the goal that the equities portfolio should support the fulfilment of the so-called two-degree target from the UN's Paris summit; i.e. that global warming should be kept at less than two degrees. It is a sign of strength that we can set such a target. By doing so, we will also make clear how we contribute. We are also reviewing how we should apply the target to our other asset classes. During the year, we implemented a stress test of our entire portfolio on the basis of climate scenarios compatible with the Paris Agreement.

We continued to participate in joint initiatives at an international and national level. Our membership of the Global Compact entails that we support the initiative's ten principles, which are based on international conventions.

It is gratifying that the work of the EU's High-Level Expert Group on Sustainable Finance – in which we participated as the only Swedish company – has resulted in tangible EU bills. During the year, Alecta was appointed to participate in the stakeholder and reference group on occupational pension regulations that the European Insurance and Occupational Pensions Agency (EIOPA) has commissioned.

Sustainable pension system

But our social sustainability is broader than responsible investments. Alecta is an important part of the Swedish welfare system. Our responsibility is to contribute to a sustainable pension system. This means that we ensure that our customers will receive the best possible pension and security prior to and during their retirement, and that we are a highly trusted and financially stable company.

With this in mind, we educate and drive opinion about the pension system and occupational pensions, either directly to customers and parties or via our Pension Economist and various other arrangements. During the year, among other things, we arranged seminars about sustainability and pensions at the Almedalen political week, lunchtime debates about pension issues and a large conference about the future of collective security solutions under the name of Ateljén (The Studio).

Alecta 2023

During 2018, we implemented a major strategy activity to ensure that Alecta maintains its leading position and wins the 2023 ITP procurement. We have a strong starting point, but the world around us is changing rapidly in terms of demographics, customer preferences and technological opportunities.

The focus of the strategy work is on ensuring that we utilise technology so that we can meet customers wherever they want, in the way they want and when they want, and that our product and the information about it matches their requirements. This requires that we continuously put ourselves in their place and understand what they consider to be value, and that we also use the technological opportunities that exist to deliver this.

We also need to have committed and motivated employees with the right competencies. We aim to be the most attractive employer in the industry. As a result of the work we performed jointly in Alecta during the year, I am convinced that we will succeed. I look forward to the five years ahead and the next procurement, because I am convinced that Alecta will still be a sector leader when that time comes.

Magnus Billing
CEO

Highlights of 2018

New ITP period with an improved product

The new five-year period in the ITP scheme started to apply in October. In March 2018, Alecta was again designated as the default option for the defined contribution retirement pension scheme under the ITP supplementary pension scheme, i.e. both ITP 1 and ITPK, for private-sector salaried employees.

In connection with the start of the new contractual period, improvements were made to the product, Alecta Optimal Pension. The already low fee was cut from 0,10 to 0,09 per cent, and the annual cap on fees was lowered from SEK 900 to SEK 600. In addition, a better rule for minimising the variability of pension payments was introduced, as well as a strengthened guarantee during payment.

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New My Pages for private customers

In September, we launched a new My Pages version, with a new layout, for private customers when they log into alecta.se. Following the launch, we have noted a reduction in the number of e-mails from clients, because they can now more easily find direct answers to their questions. We have also noted a change and more depth in the questions that are asked. During the autumn, we also initiated the project of updating the online office for corporate customers and proxies. The aim is to have it launched in the first quarter of 2020.

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Changed funding policy

During 2018, Alecta's Board decided to change the funding policy for defined benefit insurance products. The new policy allows the collective funding ratio to vary between 125 and 175 per cent, which is a broadening of the interval (125–155 per cent) that has applied since 2006. These changes have been made to facilitate the the high indexation ambition in the plan, and to clarify the collective funding ratios that enable the payment of refunds to the insured parties and the companies.

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Implementation of new regulations

The EU's General Data Protection Regulation (GDPR) became effective in May and the EU's Insurance Distribution Directive (IDD) became effective in October. Alecta has assigned the highest priority to good regulatory compliance and, in addition to the statutory regulations, we have also strengthened information security efforts. Alecta has also provided a response to the new occupational pension regulations, IORP 2. Other bills of relevance to Alecta include the EU's Sustainable Finance work, whereby Alecta has provided its opinions both independently and through industry organisations.

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Climate Action 100+

During the year, Alecta joined the international Climate Action 100+ initiative, which is designed to enter into a dialogue with the world's slightly more than 100 companies that emit the most carbon dioxide. The intention is to improve the companies' sustainability reporting, that they will reduce their emissions of greenhouse gases and that they will steer their operations in the direction of the Paris Agreement.

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Alecta's active ownership report

At the end of the year, we published Alecta's second annual active ownership report, which provides a more detailed description of our active ownership activities. The report describes Alecta's role as owner, trends identified at shareholders' meetings during the year and Alecta's ownership policy.

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Occupational pensions in Almedalen

For the past several years, Alecta has been represented at Almedalen Week on the island of Gotland. In 2018, Alecta arranged two activities of its own under the overall theme of "A sustainable pension system". In addition to our own seminars, Alecta participated in seminars arranged by others and exchanged experiences with operators that are important for us and our customers. The Serendipity business challenge, to which Alecta is one of the sustainability partners, was a highly appreciated competition for entrepreneurs.

Ateljén (the Studio)

Ateljén – a platform for co-creation, inspiration and discussion – was held for the first time in mid-November. The theme for this year's event was: "Collective security solutions in an individualised future – a given or an impossibility?" and it addressed the challenges that the Swedish welfare model is facing.

Additional sustainable investments

Alecta is working to continue to integrate sustainability through our active ownership of limited liability companies. During 2018, asset management also continued to invest in green bonds and other investments with a measurable social or environmental impact. The portfolio of green bonds is worth a total of about SEK 31 billion and what are known as impact investments totalled nearly SEK 6 billion.

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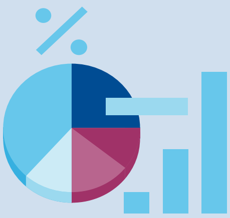
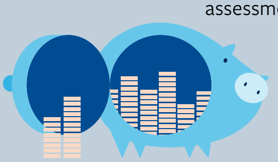
Alecta's long-term operational goals

LONG-TERM OPERATIONAL GOALS		FOLLOW-UP	OUTCOME 2018
Secure and satisfied customers	Our customers should feel secure and satisfied, and have confidence in Alecta. That's why it is particularly important to ensure that the customers who contact us receive good service, and that Alecta enjoys a good reputation as a responsible player in society.	During 2018, we chose to evaluate target fulfilment by monitoring how satisfied the private and corporate customers who visit Alecta's website were with their visit. The target for 2018 was that the visitors should give an average score of at least 7,5 on a ten-point scale.	The average score from the year's surveys was 7,8.
High cost efficiency	Alecta's goal is to display world-class cost-effectiveness. Through our mission, we have every opportunity to achieve that goal.	Costs are monitored through key performance indicators such as management expense ratio and cost per insured. As the KPIs are strongly influenced by factors other than operating expenses, the ambition is annually translated into a cost target defined in millions of kronor. For 2018, the target was that Alecta's operating expense would not exceed SEK 865 million, excluding variable pay.	Alecta's operating expenses were SEK 876 million, excluding variable pay.
Good returns and strong financial position	Alecta's return should be competitive, both in terms of the overall return and the return on each asset class. We will work to achieve our long-term target returns while ensuring that Alecta is in a sufficiently strong financial position to withstand events that could occur according to our long-term risk assessment.	We compare our return over time with the industry. The target for our defined benefit portfolio is an average annual return that is 0,5 percentage points higher than the average for the life insurance industry, excluding Alecta, over the past five-year period. The return on our defined contribution savings product, Alecta Optimal Pension, should exceed Morningstar's SEK Aggressive Balanced funds index by 1,5 percentage points annually over the past five-year period.	Our average annual return over the past five years is 5,6 per cent, which is 0,7 percentage points weaker than the industry average. The average annual return over the past five years is 6,7 per cent, which is 1,4 percentage points better than the benchmark.





The occupational pensions market

The Swedish pension system has three legs

- **Private savings** which each individual is responsible for and puts money into. Two examples of long-term pension savings are investment savings accounts (ISK) and endowment policies.
- **An occupational pension** is a component of an individual's pension that is linked to his or her employment and is paid for by the employer. It is agreed between the employer and trade unions through a collective bargaining agreement (CBA), or provided directly by the employer if the company is not party to a CBA. An occupational pension usually comprises three components: retirement, disability and survivor's protection.
- **The state pension** is that part of a person's pension which comes from the government. It consists of an earnings-related pension, a premium pension, a guaranteed pension, housing supplement for pensioners, income support for the eldery and a survivor's pension. Everyone who has worked or lived in Sweden receives a state pension, which is based on all the taxed income of an individual. There are also components of the state pension that are not earnings-related, such as the guaranteed pension. The state pension is life-long.

Source: Pensions Agency and Alecta

Occupational pension – a vital component of the welfare system

Occupational pension is an important part of the welfare system for the majority of those who work in Sweden. About 20 per cent of the pension normally consists of occupational pension and the level for salaried employees with a higher income could be as much as 50 per cent or more. At the same time, tens of thousands of salaried employees and their families receive payments through an occupational pension in the event of illness or fatalities every year. Accordingly, a great responsibility rests upon Alecta to maintain this vital feature of the Swedish welfare system.

What is special with the occupational pensions market?

In other markets, it is the same customer who decides and pays for what they buy. In the occupational pensions market, it is the employer who pays while the employee often (but not always) can choose which company should manage his/her pension. Although both of these are considered as customers by Alecta, the employer is the policy holder and owns the occupational pension policy while the employee is insured up to retirement.

What does the occupational pension include?

An occupational pension is a promise to the employee that he/she will have financial security when he/she no longer has any income from employment. Retirement pension, which is the financially largest component, is based around two systems: defined contribution and defined benefit pension schemes. In a defined contribution pension, the size of the premium payments is fixed, while payments to the policy holder depend on a number of factors, such as remaining life and the return on the capital.

In a defined benefit pension, the opposite applies in that the payments to the policy holder are fixed but the size of the employers payments depends on factors such as the investment return. Under the ITP agreement, those born in 1979 and later end up in the defined contribution plan.

In addition to retirement pension, the occupational pension includes a number of other insurance policies. The most common are health insurance, which covers the loss of income in the event of illness, waiver of premium insurance, which covers payments of premiums for retirement pensions in the event of illness, and survivor's protection, which is financial protection for relatives in the event of death.

Exactly what an occupational pension includes varies. The vast majority have a ready-negotiated occupational pension package through a collective bargaining agreement negotiated between employers' associations and trade unions. Without collective bargaining agreements, employers are left to themselves to define the conditions.

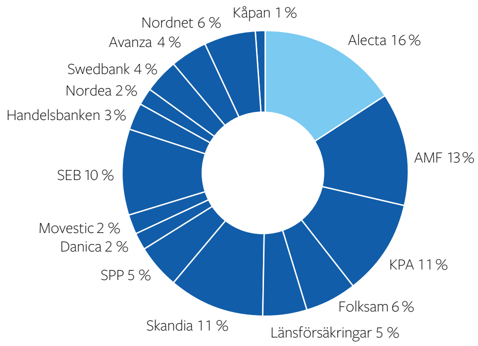
What happens with the premiums?

Within a defined contribution pension, which has become more common in recent years, there are two ways of investing paid-in premiums. The first one, which is called traditional insurance, includes a guarantee, often a money-back guarantee. In traditional insurance, the capital is invested in interest-bearing assets, shares and real estate. The second way is unit-linked insurance. This is where the employee invests in funds resembling those available for other types of savings. Both of the ways have advantages and disadvantages. Alecta has chosen to offer only traditional insurance solutions.

Does everyone have an occupational pension?

The vast majority of those who have an employment also have some form of occupational pension. Nine of ten employees have a collectively agreed occupational pension and about

COMPETITION-EXPOSED OCCUPATIONAL PENSION PREMIUMS OF APPROXIMATELY SEK 149 BILLION IN 2018



Premium volume of SEK 149,5 billion (134,1), of which SEK 71,7 billion (64,6) in individual choices made through collectively agreed selection centres and another SEK 77,8 billion (69,5) pertaining to individual occupational pensions, such as ten-fold earners who have chosen alternative ITP, ten-fold earners who have not chosen alternative ITP, salary exchanges, executive plans, employer-paid deposit insurance, etc. *Source: Insurance Sweden, SPV*

half of the others have employers who themselves offer some sort of occupational pension. It is estimated that every 20th employee completely lacks an occupational pension.

Are all occupational pensions managed by insurance companies?

No, but in Sweden insurance is the prevailing way of securing the occupational pension promise. In total, the employers paid in occupational pension premiums of approximately SEK 173 billion in 2018.

However, there are employers who do not pay insurance premiums but instead reserve a pension liability in their accounting, which is to cover future pension payments to the employees. In the private sector, PRI Pensionsgaranti makes sure that the employees can feel secure in the knowledge that their occupational pension will be paid when the time comes. A similar accounting is applied in the public sector.

If we translate these reserved pension commitments to pension premiums, they correspond to about one-fourth of what the other employers pay in as pension premiums to insurance companies and pension funds.

How does the competition work?

We have chosen to comply with the industry standard, which is to measure the competition in terms of how much premiums the customers pay to the companies. There are components of collectively agreed occupational pension schemes where the employers or employees do not choose which company is to manage the pension. Within the ITP scheme, for example health insurance and the defined benefit retirement pension, apply to insured persons with a salary of less than ten income base amounts. We do not include these as being part of the competition-exposed occupational pensions market.

The occupational pensions market is growing rapidly, measured in terms of paid-in premiums. During 2018, the premiums exposed to competition amounted to SEK 149 billion, which was an increase of 11,5 per cent compared with 2017. One explanation for this increase is that the newer collectively agreed pension schemes that are being procured are more exposed to competition than those that are slowly being phased out – for example, by the fully competition-exposed ITP 1 replacing ITP 2, which is only partly exposed to competition.

The companies' shares are shown in the fact box to the left, and further that no company has a dominating market position. Viewed over a slightly longer term, Avanza, KPA, SEB and Alecta have grown the most. In 2018, Alecta accounted for about 16 per cent of all competition-exposed premiums related to savings in occupational pension schemes.

What importance do collective bargaining agreements have for the competition?

Because nine of ten employees have collectively agreed occupational pensions, one might believe that the competition primarily occurs within the framework of the collective agreements' selection centres, but that is not the case. The selection centres mediated SEK 72 billion on behalf of insured parties who had chosen (or not chosen themselves) companies. This is nearly half of the competition-exposed occupational pensions market.

Alongside the individual choices made in the selection centres, significant occupational pension premiums, approximately SEK 78 billion, are channelled from the employers to pension providers in other ways. In this area, the competition may vary – in certain cases, only the employer decides, while occasionally there are various degrees of options for the employees. This is not so strange as occupational pensions are fundamentally "the employer's market" – apart from when it is decided in collective agreements that employees are entitled to choose from among a series of approved companies via a selection centre.

That the parties to the collective agreement have the right to decide which companies are allowed to compete and the terms for this has a great impact on competition in the entire market. Above all, procurement within the ITP scheme has driven the trend towards lower fees and better products throughout the life assurance industry. This enforces efficiency enhancements among the companies, which is also enabling a lowering of fee levels outside the collectively agreed occupational pensions.

One factor that makes the market special is that the occupational pension is statutory for all employees, regardless of whether or not they are interested in investing their pension savings. For this reason, it is also natural that many refrain from choosing companies for their occupational pension, even if they have this option. The companies are essentially competing for those who decide to choose.

A good pension

A good pension is based on three components – low fees, good returns and comprehensible and easily accessible information. That way customers can appreciate the value of a secure old age and a secure pension system.

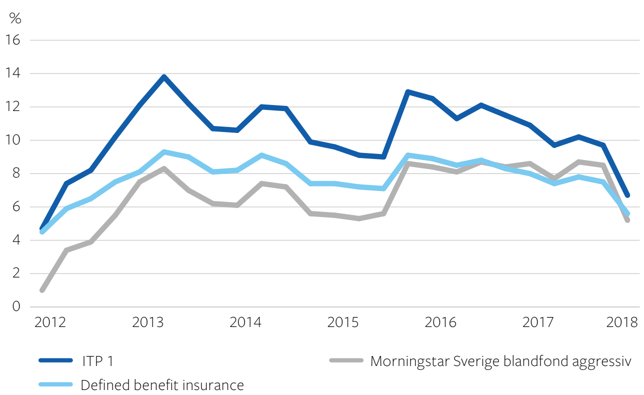
Low fee a prerequisite

An ITP-insured with a pension in Alecta's defined contribution product pays a fee of not more than 0,09 per cent of the managed assets, subject to a ceiling of SEK 600 per year, which is among the lowest fees in the industry. As a comparison, the fee for a commercially brokered mix fund normally ranges from 0,25 to 2 per cent. However, thanks to collective procurement, cost awareness and economies of scale, Alecta can reduce the fee, which benefits the value of the pension.

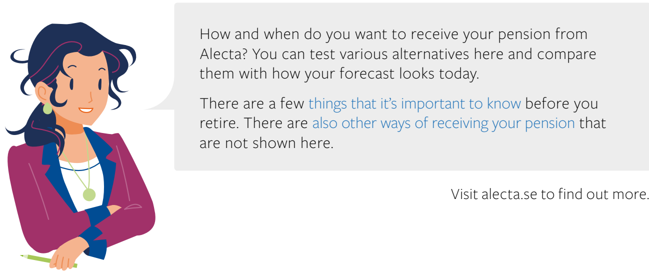
Good returns with in-house management

Alecta manages assets of over SEK 820 billion. Under our management model, which is unique for such a large portfolio, nearly all asset management is conducted in-house. Our equity investments are concentrated to a limited number of shareholdings, just over 100, in which we hold significant stakes and have good insight. This is an efficient model that results in low fees and good returns. At year-end 2018, the average annual return over the past five years for our defined contribution pension product, Alecta Optimal Pension, was 6,7 per cent, compared with 5,6 per cent for the defined benefit product within ITP 2.

ROLLING FIVE-YEAR AVERAGE RETURN, IN COMPARISON WITH MORNINGSTAR



0,09% in fee of assets under management, but with an annual ceiling of SEK 600 per year.



Easily accessible information

Easily accessible and comprehensible information is a prerequisite for the customers' understanding of the value of their pensions. That's why we try to continuously improve information to our customers. Close-to-the-customer development is an important part of Alecta and we are proud to involve the customers in our improvement effort. For example, we analyse incoming calls to improve the answers and functions on our website. During the year, this resulted in our launching a new My Pages version and the Pension Planner, as well as customer surveys by text messages.

New My Pages for private customers at alecta.se

In September, we launched a new My Pages version for private customers when they log into alecta.se. Following the launch, we have noted a reduction in the number of e-mails from customers, because they can now more easily find the answers to their questions. We have also noted a change and more depth in the questions that are asked. In the past, for example, we received questions about whether the customer had survivor's protection but now we get questions about what such protection means.

During the development of the new My Pages, a number of customer surveys were implemented, which were a factor underlying the successful outcome.

Pension Planner

With the help of the Pension Planner on the new My Pages, private customers can log in themselves and plan how they want to take out their pension. The service existed before, when it was called "Calculate and Withdraw". The pension planner is a highly appreciated service, with more than 130 000 unique visitors in 2018. It makes it easier for cus-

We asked some of our customers what security meant to them.

> ”
> *Feeling secure with everything around it. Permanent job, a bit of money, family and friends. To surround yourself with things you like.*
>
> Kerstin Larsson

tomers to calculate how the pension is affected by various choices, for example, withdrawal periods, and then to navigate further to draw their pension. About 65 per cent of the customers who make changes to their pension withdrawals choose to do so themselves through the Pension Planner.

Satisfied customers a measurement of quality

Our aim is to have secure and satisfied customers, which is why we implement semi-annual surveys according to the Customer Satisfied Index model, CSI. In these surveys, our private and corporate customers are asked to rate the service online. Each visitor to the website is after three minutes given the question “How satisfied are you with your visit to alecta.se today?” and they can rate this from 1 to 10, where 10 means very satisfied. The CSI score from those who visited the website in 2018 was 7,8. Our target for this survey was a score of 7,5.

Since the end of June, we also conduct customer surveys by sending text messages to customers who have called our customer service. The text message includes a link with six short questions about how the customer experienced our service. There is also a possibility of writing a text answer, which is what many customers do. The results to date show high customer satisfaction and we receive predominantly positive responses in text answers. For example:

> ”
> *The person who helped me was highly professional and helpful. I couldn’t be more satisfied as a customer.*

A typical client company with ITP 1

33
employees including 16 wage earners and 17 salaried employees

11
salaried employees have ITP 2 and 6 have ITP 1

SEK 35 500
is the average salary for salaried employees

SEK 715 000
is the total amount the company pays per year in ITP premiums (to Alecta and others)

A stable and trusted company

The occupational pension is a part of the pension system and Alecta thus has a considerable social responsibility. It is important to act responsibly and with great respect for the rules which govern our activities. We need to be financially stable and very cost-aware while also ensuring a high level of consumer protection.

Good regulatory compliance is a must

Pensions and insurance are subject to extensive regulatory requirements and the industry is licenced. Regulators monitor that Alecta and other companies in the industry comply with the applicable regulations. In 2018, two major regulations took effect: The EU's Insurance Distribution Directive (IDD) and the EU's General Data Protection Regulation (GDPR). The regulations are intended to ensure financial stability, transparency and customer protection. Alecta has tightened up its information security work which has mainly been inspired by the ISO 27000 standard for developing structured information security activities. This means continuous work to identify and rectify shortcomings and continuous improvements in the management of, for example, personal data. During the year, this led to an increased focus on information security matters generally and to our tightening up a number of procedures and controls.

Alecta actively pursues activities to shape opinion so that the regulations governing the operations are formulated in an appropriate manner.

Cost effectiveness is a prerequisite for stability

Pensions are managed over a very long term and small differences can have major effects over time. Alecta is proud to be cost-efficient, as it is our customers' and thus our owners' money that we manage.

Efficient control of costs also adds stability, which enables us to keep our fees low over time. This is something that truly benefits the pension and reduces the employers' costs for occupational pensions. In our effort to achieve our vision of becoming the world's most efficient occupational pension fund, we continuously compare ourselves with our peers. Every second year, we participate in a study arranged by CEM Benchmarking, a Canadian market research firm that compares around 70 companies in the occupational pension market worldwide. The study covers both costs and service related to the defined benefit plan. In the latest comparison in 2017, Alecta came third, and we are edging closer to second place.

PAYMENTS TO PRIVATE CUSTOMERS IN 2018 [1)]

Retirement pension	
Number of people	Amount in SEK
553 000	17 865 000 000
Survivor's pension	
Number of people	Amount in SEK
55 000	1 538 000 000
Disability compensation	
Number of people	Amount in SEK
45 000	1 481 000 000

[1)] The amounts include distributed refunds

IDD – as of 1 October.

The purpose of the EU's Insurance Distribution Directive (IDD) is to strengthen consumer protection and it covers all distribution of insurance products. The requirements are targeted at activities conducted before the insurance contract is concluded and are designed to protect customers from signing agreements they do not need or understand.

Extracts from the requirements:

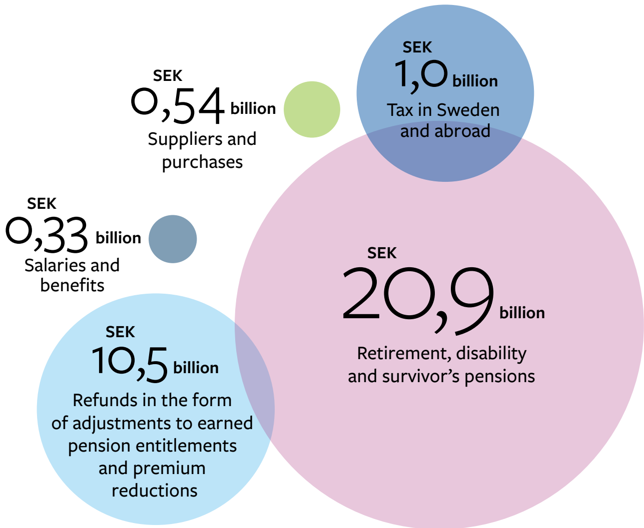
- Satisfactory knowledge of the customer's requirements and needs
- Right information to the customer and insured before agreements are concluded
- Employees who participate in the distribution must have the right competencies and education
- Complaints handling

Alecta has implemented the regulatory requirements and relevant employees have undergone special training in the new requirements and how we at Alecta work with them.

GDPR – from 25 May.

Large parts of the regulations in the EU's new General Data Protection Regulation resemble what was stipulated in the Swedish Personal Data Act; however, protection of privacy has been strengthened and obligations for those who process personal data have been clarified.

Even before the General Data Protection Regulation was enacted, Alecta worked actively to protect personal data. Prior to the introduction of the new regulation, Alecta's procedures were reviewed; for example, the right to request to see or delete one's own personal data.



Alecta is a financially stable company whose mission is to maximise customer value. The bubbles illustrate that the large capital flows are allocated to the customers, and to some extent to society through taxes, while the proportions for internal costs and purchases represent evidence of our focus on efficiency and cost awareness.

Financial stability over time

Providing pensions is a long-term commitment. The money we manage will be returned to the customers over many years to come. Our relationship with a private customer can extend for more than 80 years, and with corporate customers even longer. That's why having a strong financial position is important. The solvency ratio is a measure of our financial strength, and of the extent to which our assets cover future commitments. At year-end 2018, Alecta had a solvency ratio of 161 per cent (174), which is well above the statutory requirement of 104 per cent for traditional insurance.

Pension Economist

Everyone should be given an opportunity to make well-founded decisions. We believe that this is one of the best ways to uphold confidence in the pension system. Today, sellers of pension-savings products usually have a knowledge advantage over savers; such as in terms of understanding the impact of fees and how the insurance work. Occasionally, unfortunately, sellers are driven more by short-term incentives than by what is in the best long-term interests of the customer.

To counteract this, Alecta has had a Pension Economist for the past eleven years with a mandate and responsibility to challenge the pension industry. The Pension Economist can inspire, debate and help consumers gain increased knowledge of pensions.

The Pension Economist's blog

Alecta's Pension Economist works actively to stimulate a debate on how to develop and improve Sweden's pension system. The debate is conducted in the media, through participation in inquiries and panel debates, in meetings with researchers and politicians and through training courses and lectures. For the past couple of years, we have also run the Staffan Ström blog. Through this blog, our Pension Economist provides guidance on how to affect one's pension and analyses current issues in the area. The readers are mainly private individuals with an interest in pensions, but the list of subscribers also includes politicians, journalists, union and employer representatives and senior executives in the pension industry.

Occupational pension regulations

On 4 July, the Ministry of Finance introduced a bill for new legislation governing occupational pension companies. According to the bill, the EU's occupational pension directive (IORP 2) will be implemented in Sweden. For Alecta, the bill, if it is enacted, entails the opportunity to be converted into a mutual occupational pension company. This is instead of operating under the Swedish Insurance Companies Act, which governs all forms of insurance operations and is based on the Solvency II Directive. It is of considerable interest to Alecta that the new bill on occupational pension companies is formulated as well as possible, not least in respect of the level of the risk-sensitive capital requirement. The response from the legislator is that the regulations will become effective in 2019.

A stable and trusted company, *cont.*

Collaborations with Alecta

In addition to his input in external partnerships, our Pension Economist Staffan Ström is also an active source of knowledge within Alecta, both in internal events and external initiatives and reports.

During 2018, Alecta and Staffan Ström collaborated with PTK in formulating the report called "Understanding the pension pyramid" which was launched during the Almedalen Week. During the "True and false about occupational pension" seminar, Alecta's Pension Economist discussed with debaters from PTK, the National Audit, Unionen and the Swedish Parliament's pensions group.

Alecta also publishes reports by itself; during recent years, "Rovdriften på pensionsparare" ("The Exploitation of Pensioners") and Deltidsfällan ("The Part-time Trap") and "Ett långt arbetsliv börjar tidigt" ("A long working life starts early"), for example.

Contact Alecta's Pension Economist

If you want to come into contact with Staffan Ström, you can contact him through his blog or by e-mail:

staffansstrom.se staffan.strom@alecta.se

Through the blog, you will also find his Twitter account, through which he shares pension-related news and ideas.

Pension studies at Swedish universities

Many employers are of the opinion that their knowledge of the details of the pension system is poor. We at Alecta decided to find out whether pension knowledge is part of the syllabus for HR and economics degrees at Swedish universities and university colleges. The result was discouraging. Not a single one of them had pension studies on the syllabus. We decided to initiate such a training programme and the first courses were held in 2015.

Since then, the pension studies course has been arranged as part of the network Gilla Din Ekonomi. It is project-managed by Alecta's Pension Economist, who engages lecturers from among the various members of the network and other bodies linked to pensions.

During the year, the course was arranged on five occasions at Dalarna University, Kristianstad University, the University of Skövde and Linnaeus University.

Staffan Ström lectures in pension knowledge at various universities.

We asked some of our customers what security meant to them.

"Good pension, good health insurance. That is security for me.

George Elarna

Gilla Din Ekonomi

Another way of reaching out with knowledge of pensions is through the network Gilla Din Ekonomi ("Like your Personal Finances"). The network consists of government agencies, organisations and businesses that work to educate people about personal finances. The vision is to enable consumers throughout the country and of all ages to make better informed decisions about their personal finances. The Pension Economist has been a member of the programme council since its establishment in 2010.

A coordinating office is located at the Swedish Financial Supervisory Authority (FSA), which ensures that all published information is fact-based and free from commercial interests. Other participants include AMF, Avanza, the FSA, the Swedish Investment Fund Association, the Swedish Consumer Agency, the Swedish Enforcement Agency, the MinPension pension portal and the Swedish Pensions Agency.

Examples of training programmes during the year:

Pensions and insurance

A basic training course for insurance information officers. Participants are taught about the state pension, collectively agreed pensions and insurance policies.

In-depth course for association members

An in-depth course in the pension and insurance system for employees of trade unions.

For employers and trade unions

The Pension Economist is also happy to share knowledge and provide inspiration at seminars, panel debates and courses at Swedish workplaces, at trade union and employers' associations, and at universities and university colleges.

Responsible investments

Our ambition is to help generate long-term value in businesses and society at large. By taking care of the management ourselves and having relatively few holdings and clear processes, we can attain sustainably favourable competitiveness while creating conditions for good pensions.

Alecta is a major player

With more than SEK 820 billion in assets under management, Alecta is a significant international pension fund manager and one of the largest operators in the Swedish financial market. We are also one of the largest owners of listed Swedish companies and we can influence the sustainability management activities of the companies we invest in through our investing activities.

In-house portfolio management is a prerequisite

Alecta has chosen to manage its customers' pension capital almost exclusively in-house and engages in active asset management. This means that our investments are not dependent on an index and that each investment is the result of a thorough internal research. Alecta invests in shares, debt securities and real estate, mainly in Sweden, Europe and the United States. By controlling our investments ourselves, we have potential to influence and choose just those companies we consider can contribute to long-term value creation.

Few selected companies add weight to our ability to influence

Alecta's equity portfolio consists of about 100 listed shareholdings. As we invest for the long term, environmental considerations, social issues and corporate governance issues are important criteria for our choice of investments. The companies we invest in must have a business model that we understand and that we believe will contribute to our customers' pension capital. With few companies in the portfolio, we also have time to meet representatives of the companies' management teams, which we do continuously with essentially all of our holdings. Through discussions, we improve our understanding of how the companies are managed and of their sustainability reasoning. Dialogue is our most important channel of impact and openness and transparency are prerequisites. Companies that do not meet our criteria do not qualify for inclusion in our portfolio.

A structured investment process

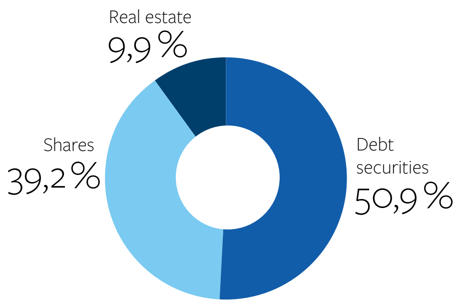
Alecta's investment process takes into account both sustainability and return potential. The process comprises a combination of information gathering, internal analysis and screening. It is applied for all equity and corporate credit investments, which account for nearly 70 per cent of our total assets. Corporate loans are included in the interest-bearing assets in the investment portfolio.

A certification of our work with responsible investments in asset management is scheduled for 2019. This has been delayed due to the accreditation process for the certification body.

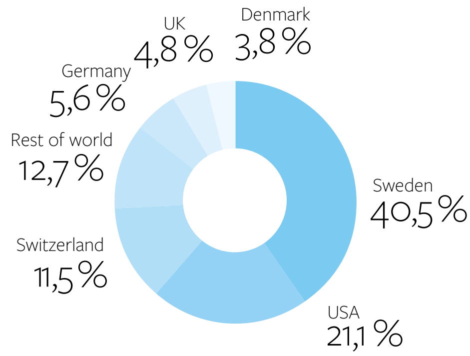
Information gathering and internal analysis

Regardless of whether it concerns a new investment or an investment in an existing holding, the process starts with an information-gathering phase. This includes personal meetings with the companies and an external sustainability analysis. We then perform a financial analysis to assess the return potential. The analysis includes an assessment of whether the business model is sustainable long-term and the company's return potential in relation to the sustainability risks associated with the company or the industry.

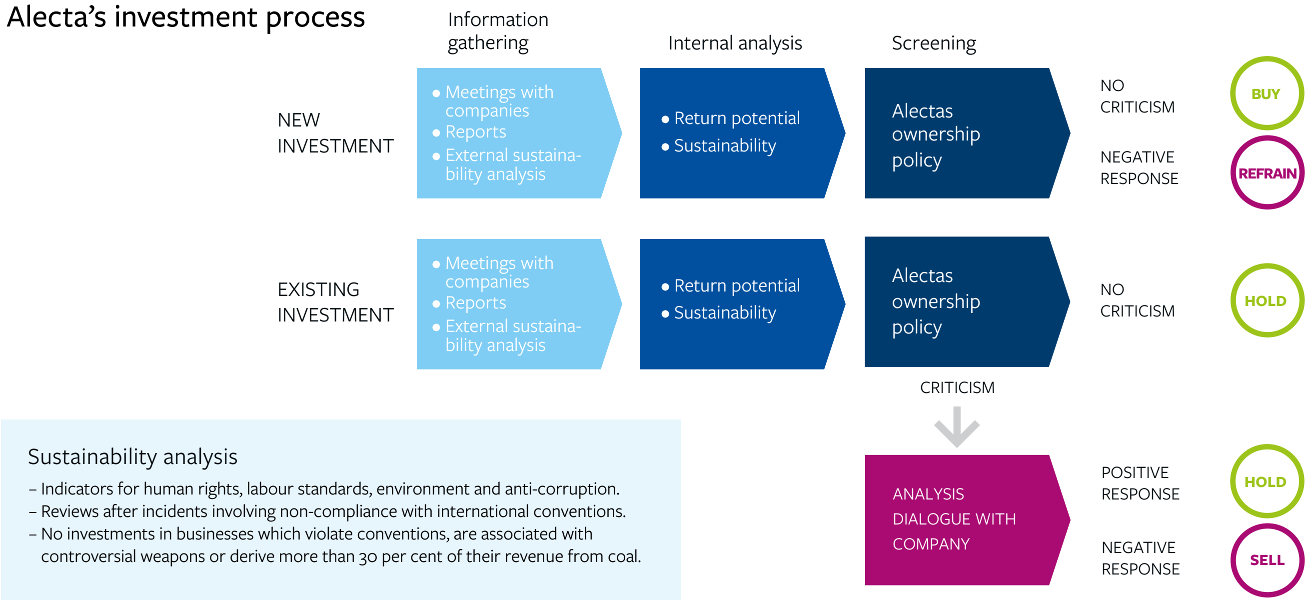
Total investment portfolio



Geographic distribution of shares



Alecta's investment process



Screening of new investments

Alecta has undertaken to invest only in companies that follow the international conventions and agreements that the Swedish State has entered into. These include conventions on the environment, human rights, labour law, anti-corruption and controversial weapons. As an extra security check, Alecta performs a screening of new investments with the help of a third party. Alecta refrains from investing in companies which:

- violate or are suspected of violating international conventions.
- are engaged in activities involving controversial weapons.
- derive more than 30 per cent of their revenue from coal.

Screening of existing investments

To ensure that all holdings follow the same guidelines as for a new investment, Alecta conducts an in-depth screening of the existing portfolios bi-annually. In case of criticism, we contact the company for a dialogue.

As Alecta is often a significant shareholder, we are in a good position to influence the company in the right direction. If it is not expected that the dialogue will achieve the desired result, Alecta will sell its shareholding. In 2018, we held eight dialogues due to suspected breaches of norms connected to international conventions and a further just over ten sustainability-related dialogues with other companies. A selection of our dialogues is presented at alecta.se.

ALECTA'S GOALS FOR RESPONSIBLE INVESTMENTS*	OUTCOME 2018
Increase the share of companies that report their carbon footprint.	Reduction from 72 to 70 per cent
Increase Alecta's investments in green bonds.	Increased by approximately SEK 14 billion
Participate in nomination committees when this is warranted by Alecta's ownership interest in the company.	100 per cent (17 nomination committees)
Vote at all shareholders' meetings, both Swedish and foreign.	100 per cent
By 2020, the underrepresented sex should account for at least 40 per cent of the AGM-elected directors.	41 per cent

* Alecta has formulated new general sustainability targets and key performance indicators for 2019 and future years. The new targets are presented in the sustainability supplement.

Corporate governance, nomination committees and voting

Alecta exercises active ownership by participating in nomination committees and voting at shareholders' meetings, but also by means of continuous dialogue with the companies in which Alecta holds shares. In 2018, we voted at all shareholders' meetings in which we hold shares.

In the run-up to the 2018 AGM season, Alecta participated in 17 nomination processes. In Swedish companies, it is normal practice for major shareholders to be members of nomination committees and propose directors. Alecta uses its long-term ownership commitment and our belief in the future of the company as a point of departure. Our activities are guided by the ambition to ensure that each company's board of directors has the best possible composition. We therefore attach great importance to sustainability issues and particularly to diversity, which we believe ensure that the board will have the best possible composition and expertise. Women accounted for 41 per cent of the directors on average, in those companies in which Alecta was a member of the nomination committee in 2018.

Read more in the 2018 corporate governance report

Since 2017, Alecta has published an annual corporate governance report, which is aimed at increasing transparency and clarity in how we work. We also explain what we are doing to contribute to a sustainable pension system and a sustainable society. The report is available at alecta.se.

Responsible investment, *cont.*

Active measures to reduce climate impact

Since the end of 2017, Alecta has a long-term climate target, whereby the equity portfolio should be managed in line with the two-degree target for the climate. Alecta has also signed the Montreal Pledge and follows Insurance Sweden's recommendations for carbon footprint reporting. This means that we have undertaken to measure and report the carbon footprint of our equity investments. Our measurement, which comprises all listed companies in the equity portfolio, shows that the carbon footprint decreased slightly in 2018. With few changes in the portfolio compared to the previous year, a part of the explanation is that the companies have improved their footprint. More detailed information on the carbon footprint of Alecta's equity portfolio is provided at alecta.se.

During the year, Alecta joined the international Climate Action 100+ initiative, which is designed to enter into a dialogue with the world's slightly more than 100 companies showing the most carbon dioxide emissions concerning how they manage their climate impact. The intention is to improve the companies' sustainability reporting, that they will reduce their emissions of greenhouse gases and that they will develop their operations in the direction of the Paris Agreement.

Impact of climate scenarios is tested

Within the framework of Alecta's annual ORSA (Own Risk and Solvency Assessment) reporting, the entire investment portfolio was stress tested on the basis of various climate scenarios. This entailed calculating the financial impact of various outcomes connected to the climate. For example, how the value of the portfolio would be influenced by a sharp rise in the price of carbon dioxide which, according to assessments, is required to achieve the Paris Agreement's two-degree target.

To date, the available climate data is scarce and in certain cases inconsistent. In addition, there are few standardised models for assessing climate risks. The results should therefore not be regarded as forecasts but as a basis for increasing understanding of how companies and industries can be influenced by climate changes or various types of climate-related regulations.

Increased investments in green bonds

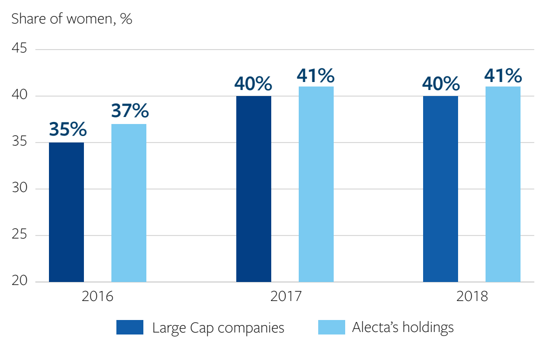
In a green bond, the capital is earmarked for various climate- and environment-oriented projects, such as investments in renewable energy, water purification or environmentally friendly infrastructure. We have the same required rate of return for an investment in a green bond as for other bonds. However, we demand additional documentation from the issuer of a green bond. The reason is to find out how the money will be used, and ensure that the issuer applies an industry standard for green bonds and that an independent party has confirmed that the issuer is following industry practice.

In 2018, Alecta increased its investments in green bonds by around SEK 14 billion and now has over SEK 31 billion invested in green bonds issued by 22 different issuers. The issuers include the European Investment Bank, the State of Ireland and Region Stockholm Assembley (Stockholms Läns Landsting).

A sustainable real estate owner

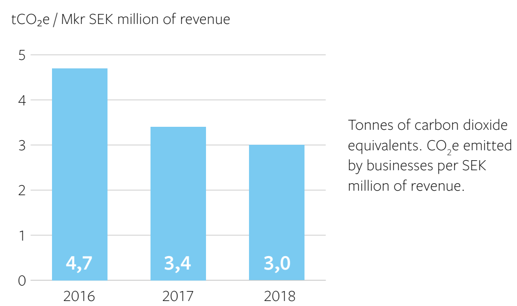
Alecta is one of Sweden's largest owners of real estate, with directly owned properties in Stockholm, Gothenburg, Jönköping and Helsingborg, and indirectly owned properties in the Nordic region, Europe and the United States. Examples

SHARE OF WOMEN ON CORPORATE BOARDS, ALECTA IN NOMINATION COMMITTEES



Share of female AGM-elected directors in companies where Alecta has a seat on the nomination committee compared with the Female Representation Index of the Second Swedish National Pension Fund (AP2), which shows the average for large cap companies. Note that chief executives are excluded from the calculation for Alecta's holdings for all years but are excluded from the AP2 Female Representation Index for 2017 and 2018. Source: Second AP Fund/Nordic Investor Services.

CARBON FOOTPRINT, ALECTA'S EQUITY PORTFOLIO



The emission measurements follow the global GHG Protocol standard and are based on the latest available carbon dioxide data for direct (Scope 1) and indirect (Scope 2) emissions in connection with consumption of energy. Emissions of greenhouse gases are measured in terms of carbon dioxide equivalents (CO_2e). This is a unit of measurement which makes it possible to uniformly measure greenhouse gases. Alecta reports according to the recommendation from Insurance Sweden.

We asked some of our customers what security meant to them.

> *The calm you feel when you have arranged everything – That's when you feel calm. I know that I will have a good pension.*
>
> Beatriz Bacaiztegui

of indirectly owned properties are property funds or limited liability companies that are jointly owned with other property developers. The capital that Alecta has invested in real estate slightly exceeds SEK 81 billion and is divided into the categories of offices, retail, housing, logistics, community services properties and hotels. The properties have a direct impact on society and the environment, which requires Alecta, our business partners and suppliers to act responsibly in all parts of their business operations. We aim to conduct business operations in a socially, ethically and environmentally sustainable manner, and thereby to show respect for people, society and the environment.

Status review shows the way forward

During the year, we conducted a review of environmental and sustainability work in the directly owned real estate operations in order to further advance our sustainability work. The analysis showed, inter alia, that we need to develop our Code of Conduct for suppliers so that it is uniform for both the construction and the management phase. The analysis confirmed that each assignment had an environmental manager and clear environmental targets that were decided in a specific action plan. The plan, which is reviewed continuously, contains targets such as requirements on the use of specific materials in construction projects or energy targets for individual properties.

Focus on solar cells

In its directly owned Swedish properties, Alecta's target is to reduce energy consumption, measured as a normal year's consumption of electricity, district heating and cooling in terms of kWh per square meters, by 3 per cent each year according to customary standards. In 2018, energy consumption increased by slightly more than 6 per cent compared to 2017, which means that we did not achieve our target. The rise was primarily due to an increased need to cool the properties during the hot summer.

Since 2015, all of Alecta's directly owned Swedish properties, including our head office, only use electricity from renewable energy sources. In 2018, Alecta launched an initiative involving the use of solar cells, with a facility that generates an estimated 180 000 kWh per year installed during the spring. Two facilities are under construction; one at the Asecs shopping centre in Jönköping and the other in one of our adjacent properties, with annual electricty generation capacity totalling 475 000 kWh.

Alecta is a member of the Sweden Green Building Council, which is Sweden's leading organisation for sustainable community buildings. Together, we want to create better buildings that give people healthy environments to live and work in.

An attractive workplace

All workplaces are dependent on motivated and competent employees. Alecta's ambition is to be the most attractive employer in the industry. As an employer, we invest in activities that promote health, motivation, skills development and good leadership.

Attractive employer

Alecta currently has 340 employees and we continuously work to be an attractive employer. We are proud of the good scores we get in our employee surveys, the number of applicants for our vacant positions and the fact that our employees choose to stay with us for a long time.

Annual employee survey

To monitor the situation at the company, Alecta conducts an annual employee survey. The survey provides comparability over time on key issues, such as how our employees perceive Alecta as an employer and their wellbeing. The response rate has long been exceptionally high, with 90 per cent responding in 2018, which is gratifying in itself but also ensures a credible result. We are proud that the majority of our employees feel motivated in their work, that the dialogue between managers and employees is highly rated and that our employees have a considerable level of trust in their managers. A large majority would also consider recommending Alecta as an employer. In addition to the annual employee survey, we implement mini-surveys when we want to obtain in-depth information within a certain area, and follow-up discussions with new employees after six months as well as after one year of employment. We also conduct exit interviews with all those who leave Alecta. Overall, this continuously gives us a good picture of what our employees think of Alecta as an employer.

Skills development a focus area

Development opportunities have received comparatively low scores in Alecta's employee survey in recent years. To address this, we formulated a model in 2018 to clarify the development paths that exist at Alecta. We have also launched a new structure for product training programmes, which are offered at various levels of difficulty. The aim is that the employees will both experience that they have good tools for developing in their current role and also be able to identify future development paths.

At year-end 2018, 90 per cent of Alecta's employees had participated in performance reviews during the year, with the remainder being employees who were employed during the latter part of the year. Each employee at Alecta is required to have a skills development plan that is followed up through our goals and skills portal. During the year, Alecta's employees spent an average of 22 hours on skills development.

Photographer: Oskar Omne

Active employeeship

Motivated and competent employees are a prerequisite for accomplishing our mission and achieving our goals over the long term. We strongly believe in each employee's motivation, responsibility and self-leadership; i.e. every single individual's ability to exercise active employeeship.

We work continuously to secure the competencies that we need to execute our mission and reach our goals by providing our employees with as good conditions as possible for high motivation. In 2018 we clarified what is included in the concept of active employeeship. We also held workshops at a team level, including exercises and the testing of various tools, in part to increase the ability to collaborate, communicate and work independently for change.

Diversity gives different perspectives

Making wise decisions requires access to various skills, experiences and angles of approach. Diversity also makes us better representatives for our customers. We practice affirmative action and strive to always have at least one person of the underrepresented sex among the final selection of recruitment candidates. Among Alecta's managers, slightly more than 53 per cent are women and Alecta's management team in 2018 consisted of three women and six men.

Alecta is also a partner of Jobbsprånget, a national programme which offers four-month internships to migrant graduates. The programme is aimed at harnessing the participants' skills and accelerating their entry into the Swedish labour market. A new feature in 2018 was the cooperation with Welcome App, whereby employees are given an opportunity to meet new arrivals to Sweden for an informal coffee or lunch.

58% of Alecta employees are women.

53% of Alecta managers are women.

The figures refer to employees of the parent company Alecta.

Tools to counter abusive behaviour

During 2018, we continued the work to make Alecta an inclusive workplace with high tolerance and where no abusive behaviour arises. In various forums (team, department and company level), we have looked at the concept of abusive behaviour from every angle to increase awareness of what it is, what one can do to stop it and what one should do when it happens. The results of the discussions have been summarised in the form of a deck of cards where various behaviours and dilemmas are addressed for discussion and proposed solutions are shown.

ALECTA'S GOALS* AS A LONG-TERM EMPLOYER	OUTCOME 2018
All employees should have a skills development plan.	Each employee at Alecta is required to have a skills development plan that is followed up through our goals and skills portal. At year-end 2018, 76 per cent of Alecta's employees had a skills development plan. Of those who do not have such a plan, most were newly employed during the latter part of 2018. A smaller group of employees were absent for other reasons and thus do not have an updated plan.
A review of ITP expertise should be made to ensure a high level of expertise in ITP.	An annual review was conducted at all departments.
Diversity should be a key element in all Alecta's recruitment processes, both internal and external. In all recruitments, there must be at least one person of the underrepresented sex among the final candidates.	The diversity perspective was taken into account in all recruitments. In one recruitment, affirmative action was applied in favour of candidates of the underrepresented sex.

* Alecta has formulated new general sustainability targets and performance indicators for 2019 and future years. They are presented in the sustainability supplement.

Sustainability supplement

This section contains descriptions of how sustainability work is governed, as well as processes linked to the framework for sustainability reporting, GRI. Environmental information, data supplementing the information on pages 5–23 and, in certain respects, consolidated data is reported here.

Alecta's sustainability work

Our sustainability work is intended to support Alecta's overall mission and business objectives by contributing to efficient and value-creating core business, managing risks and legitimacy issues and striving to have a positive impact on society.

In 2018, within the framework of Alecta's sustainability policy, we formulated objectives for the sustainability work, and established the indicators that we will continuously report. These reflect what was identified in external and internal stakeholder dialogues and have been assessed as being the most material for Alecta. The targets and indicators were adopted by the CEO at the end of 2018 and the outcome will be reported in the 2019 Annual Report and Sustainability Report. They are outlined in the table below.

Sustainability governance in Alecta's day-to-day activities

Alecta has appointed a Head of Sustainability, who reports to the Head of Communication and Sustainability in the management team. In the Asset Management department, there is a Head of Responsible Investments. Together with representatives of the Communication, HR, Finance and Compliance departments, they have constituted Alecta's working group for sustainability. The Head of Sustainability works to establish greater clarity on Alecta's priorities and coordinates the company's sustainability work through common objectives, tools and reporting. In the Asset Management department, a Corporate Governance Team consisting of the CEO, Head of Corporate Governance, Head of Investment Management, Head of Equities and Head of External Communication served as a forum for following up Asset Management's sustainability work. Alecta's Head of Corporate Governance drives the company's corporate governance work, with a particular emphasis on nomination committees, shareholders' meetings and dialogues with boards of directors. Another focus area is to develop good corporate governance practices.

HR is responsible for governance documents for purchasing, and also has a purchasing organisation for the overall management of business-related purchases. All departments are responsible for direct purchases, and the Asset Management and IT departments account for the most significant procurement volumes. Sustainability and environmental work form a part of the tendering process when purchasing goods and services.

At the end of 2018, the working group for sustainability and the Corporate Governance Team were replaced by a Steering Group for Sustainability and an ESG Forum, respectively. The steering group is headed by the Head of Sustainability and has broader representation than before, including Customer, IT and Purchasing. The team is responsible for targets and indicators in terms of activities and follow-up. The ESG Forum

TARGETS AND INDICATORS 2019–2023*

Focus areas	SUSTAINABLE PENSION SYSTEM	RESPONSIBLE INVESTMENTS	ENVIRONMENT AND ETHICAL ACTIVITIES	EMPLOYEES AND DIVERSITY
Overall sustainability objectives	**Working for a sustainable pension system**	**Equity portfolio in line with the climate goal of 2 degrees**	**More efficient use of resources for reduced environmental impact**	**Strengthen diversity throughout the organisation**
Indicators for sustainability efforts	• Trust in collectively agreed occupational pension schemes • Opinions on Alecta's sustainability work • Economic value generated and distributed	Active ownership • Number of nomination committees • Diversity of boards of directors • Voting at general meetings • Percentage of investments that were screened socially and environmentally • ESG dialogues Responsible investments • Carbon footprint • Percentage of portfolio companies with climate reporting • Investments with a measurable social or environmental impact Real estate • Environmentally labelled properties • Environmental performance, properties	Environmental impact • Energy consumption • Carbon footprint of operations and travels • Paper consumption Ethics and integrity • Customer data • Regulatory compliance • Whistleblowing • Training and education Responsible purchases • Supply chain • Agreements with sustainability clauses	Employees • Forms of employment Diversity and development • Age, gender and turnover • Training and education • Skills development plans • Performance reviews Work environment and employment conditions • Collective agreements • Sick leave

* The overall goals are long term, but as the sustainability work progresses, the goals may be broadened and further indicators may be added.

is led by the Head of Investment Management and includes the Heads of Equity, Fixed Income Products and Real Estate, the Head of Corporate Governance, the Head of Responsible Investments, the Head of External Communication and the Head of Sustainability. The ESG forum addresses strategic matters involving work with responsible investments and is a monitoring forum. During the year, for example, a working group within Alecta's real estate business formulated a clearer structure for sustainability work in property management, with a focus on ambitions and monitoring. It will continue in 2019 and be followed up in the ESG forum.

A description of the development of sustainability work is included in the quarterly reports submitted to the Board of Directors.

Governing documents for sustainability at Alecta

Alecta has an overall sustainability policy that is adopted by the Board and that, together with Alecta's ownership policy, is available on the website. Alecta's Board of Directors adopts the overall and strategic governance documents, and more detailed guidelines are primarily decided by the CEO to provide clearer guidance to the employees in their day-to-day work. A number of the governance documents are described here.

Sustainability policy

Alecta's sustainability policy is designed to give internal and external stakeholders a general idea of how sustainability concerns are integrated into the company's activities. In this policy, we express our support for the UN's Global Compact initiative and its ten principles on the environment, human rights, labour standards and anti-corruption. The sustainability policy is an umbrella for other more tangible governance documents, such as environmental and sustainability guidelines within Alecta's real estate business.

Code of Conduct

Alecta's Code of Conduct, which consists of four parts, is described below:

- Ethics: Describes how we should take an ethical approach to our work, business relations and investments. Also encompasses the whistleblower function and confidentiality.
- Managing conflicts of interest: Identifies the risk and the management of conflicts of interest or situations where it may be difficult to be objective.
- Complaints handling: Describes how we should respond to any complaints from our customers.
- Processing of personal data: This describes how we should work with the General Data Protection Regulation's requirements and protect both customers and employees personal integrity from violations.

Examples of other governing documents for sustainability:

Corporate governance and responsible investments

Describes Alecta's active shareholder involvement and influence in Swedish listed companies. The ownership policy clarifies Alecta's position on sustainability issues and its starting point is that the companies in which Alecta invests must comply with the international conventions signed by the Swedish State.

Investments

The investment guidelines describe the focus and parameters for the risk-taking of asset management.

Risk management

The general governing document which describes Alecta's risk management with a focus on good risk control and appropriate risk management.

Information security

Describes what we need to consider when handling and disseminating verbal and written information.

Anti-money laundering and anti-terrorism financing measures

Describes how Alecta needs to act to protect itself from being exploited for money laundering and terrorism.

Purchasing and procurement

Describes the procedures and division of responsibility for purchases and procurement, where the emphasis is on efficiency and quality. Decisions on purchases must take into account the suppliers' sustainability work.

Diversity

The diversity policy describes Alecta's responsibility to give all Alecta employees the same opportunities for development and influence, combined with zero tolerance for abusive treatment and discrimination.

Working environment

Describes Alecta's general view on working environment and the division of responsibilities on working environment issues.

Anti-bribery measures

A governance document that provides guidance on how employees should act in relation to gifts and other benefits that could mean bribes or improper influencing. Based on the Code of Business Conduct issued by the Swedish Anti-Corruption Institute.

Environment and sustainability in Alecta's real estate business

Describes the general guidelines and priorities for environmental and sustainability work in the real estate business.

Stakeholders and ongoing engagement

Alecta's most important stakeholders are our customers, who are also our owners. With so many customers, and because of the mission's character, we have a strong foundation in society. During recent years, Alecta has prioritised increased openness and dialogue with stakeholders to ensure better exchanges of experience and to create opportunities for influence.

Focused stakeholder engagement 2018

Towards year-end, Alecta conducted a broader stakeholder survey that encompassed client companies, private salaried employees and Alecta employees. The purpose was to repeat an earlier survey and to see how the stakeholders' expectations of Alecta's sustainability work have developed.

The survey showed that sustainability issues are particularly important for corporate customers, with three out of four having high expectations that their pension provider would display sustainable behaviour. The corresponding percentage among private salaried employees is somewhat lower while among Alecta employees is higher. Compared with the past, Alecta employees' awareness of sustainability work was higher, reflecting an increase in internal activities and focus in recent years. Almost half of corporate customers perceive that Alecta acts sustainably, although significantly fewer private salaried employees stated the same. As in the past, the customers consider the most important sustainability issues to be resource efficiency, responsible investments, ethical business behaviour and subjecting suppliers to requirements, as well as low fees. Corporate customers also assign greater importance to disseminating knowledge about pensions. In the interviews with sustainability experts from various key stakeholders that were conducted in 2017, responsible investments and being a stable company in the welfare system were the dominant issues, although resource efficiency, business ethics and responsible supplier work are also important matters.

CUSTOMERS – retail and corporate customers

Current issues:
A secure pension, low costs, efficient asset management, ethical business behaviour

Dialogue channels:
Customer service, surveys, e-mail contacts, company visits

Alecta's activities:
Clear targets for cost effectiveness and investment performance, increased transparency, membership of Global Compact

PRINCIPALS – unions and employers

Current issues:
Responsible investment, sustainability policy, fees, investment performance

Dialogue channels:
The Board of Directors, committees, seminars, procurements

Alecta's activities:
Certification work in asset management, increased transparency and new sustainability targets and indicators

EMPLOYEES

Current issues:
Skills development and career progression, equality, working environment, environmental impact, ethical business behaviour and responsible investment

Dialogue channels:
Employee surveys, the intranet, internal seminars, meetings with the CEO and various meeting forums, such as breakfast and lounge meetings

Alecta's activities:
Skills development plans, diversity plan, clear goals

PARTNERS AND SUPPLIERS

Mainly the selection centres for the collective bargaining areas, service providers in IT, real estate and asset management, PRI Pensionsgaranti

Current issues:
Procurements, environment and sustainability

Dialogue channels:
Negotiations and agreements, forums for cooperation

Alecta's activities:
Review of sustainability issues in agreements and procurement processes

SOCIETY AND BROADER STAKEHOLDER GROUPS

Current issues:
Knowledge about occupational pensions, stable management of pensions, the climate issue, sustainable financial market, the role of owner

Dialogue channels:
Lectures at universities, industry dialogue, meetings with politicians, seminars, media debate

Alecta's activities:
Take part in the debate on pensions, collaboration through the "Gilla Din Ekonomi" ("Like Your Personal Finances") network and involvement in EU's work on a sustainable finance market.

Materiality analysis

Alecta's materiality analysis has constituted the basis for the targets and indicators that were formulated in 2018. The analysis was calibrated in relation to external monitoring, including reviews, and exchanges of experiences within the industry. During 2017, we decided to elevate the environment and purchasing as an area outside the materiality analysis but with great expectations of high transparency, which we also took into account in the work with our targets.

Skills development is an identified area in the materiality analysis and in the organisation's work. We see that a diversity of perspectives is important for developing the work conducted by the operations and we have therefore highlighted this as a general sustainability target going forward. The diversity perspective is included when we monitor skills development and training.

MATERIAL TOPIC

	RISK	BOUNDARY*	ACTIVITIES	KPIs	Page reference
A good pension at a low cost	• Loss of default option role for Alecta • Customers migrate from Alecta • Damage to Alecta's brand/ reputation • Increased costs for society	Impact outside the organisation – impact on the customers.	We avoid complicated solutions, are cost aware and utilise economies of scale so that we can offer the lowest fees in the industry. For private individuals paying into a defined contribution scheme, the size of the contribution has a significant impact on the size of the final pension.	• Operating expenses • CEM ranking	12, 14–15
Economic value for many	• Regulations that disfavour the customers • Alecta's legitimacy is challenged • Collective agreement widely viewed as having a lower value • Increased costs for society	Impact within and outside the organisation, as the value that is created benefits Alecta's customers and employees as well as society at large.	By providing a good, stable occupational pension, Alecta adds value to the national social security system and to the economy. We have therefore sharpened the focus on our long-term operational goals: secure and satisfied customers, low costs and high efficiency, as well as good returns and a strong financial position. We are also working to spread knowledge among and influence our stakeholders to help more people understand how the choices they make will affect their pensions.	• Generated and distributed value (GRI 201-1) • CSI • Return	12–13, 14–17, 31
Responsible investments	• Financial loss for Alecta and therefore for our customers, who are our owners • Negative impact on society and the environment • Damage to Alecta's brand/ reputation	Impact outside the organisation through the companies and properties that Alecta invests in.	We work closely and in dialogue with the companies that we have invested in and are involved in the work of nomination committees. We assess the companies' activities from the sustainability perspectives described, for example, in Alecta's corporate governance policy. The properties we own have a significant direct impact on the environment that Alecta is working actively to minimise.	• Percentage of companies with which Alecta has interacted (GRI FS10) • Percentage of screened assets (GRI FS11)	18–21
Skills development	• Higher employee turnover at Alecta • Reduced competitiveness for Alecta • Alecta less attractive as an employer • Increased health problems among Alecta's staff	Impact internally in the organisation through increased knowledge and employee satisfaction as well as outside the organisation, primarily in the form of increased customer benefits.	We work continuously on skills development with the aim of ensuring a continued high level of expertise in all departments. On the basis of annual reviews of the competency status and requirements, including a mapping of ITP competencies, we work with compulsory individual skills development plans, training programmes about ITP, seminars and introduction courses for new employees.	• Hours of training (GRI 404-1) • Evaluation and monitoring (GRI 404-3)	22–23, 31

* The indicated boundaries are based on the GRI framework, where the material impact takes place within or outside the organisation.

MATERIAL TOPIC

	RISK	BOUNDARY*	ACTIVITIES	KPIs	Page reference
Strong regulatory compliance	• Alecta loses a licence or is hit by sanctions • Damage to Alecta's brand/ reputation • General loss of trust in the welfare system and the financial system	Impact internally, as this is the foundation for our activities.	A pension provider operates in a carefully regulated environment and regulations are updated continuously. We attach the greatest importance to ensuring compliance with laws, regulations, internal governance documents and good practices so that our customers feel secure.	• Fines or sanctions (GRI 419-1)	14–15, 28, 32
High level of customer privacy	• Violations of personal integrity • Financial loss for Alecta • Damage to Alecta's brand/ reputation	Impact within the organisation in the processing of customer data and outside the organisation through the impact on customer privacy.	Alecta processes large amounts of sensitive personal information and other customer data. We do our utmost to protect our customers' information in all situations.	• Complaints about breaches of customer privacy (GRI 418-1)	14, 32

AREAS WITH HIGH EXPECTATIONS OF TRANSPARENCY

	RISK	BOUNDARY*	ACTIVITIES	KPIs	Page reference
Purchasing and environment	• Damage to Alecta's brand/ reputation • Lack of credibility	Impact within the organisation and outside with the possibility of engaging suppliers.	Alecta includes environmental and sustainability questions in all procurements and reviews measures to reduce the direct environmental impact of its business. During 2018, we started to measure a number of environmental performance indicators.	• See new targets and indicators for 2019 and data for 2018 on pages 24 and 32, respectively.	24, 32

* The indicated boundaries are based on the GRI framework, where the material impact takes place within or outside the organisation.

Description of risk analysis and preventive anti-corruption efforts

Alecta's preventive anti-corruption efforts focus on bribes and unauthorised influence and are conducted in line with the Code of Business Conduct issued by the Swedish Anti-Corruption Institute; "Code on gifts, rewards and other benefits in the business community" ("the Code"). In 2018, Insurance Sweden produced recommendations for the insurance industry.

The insurance industry is characterized by integrity-sensitive activities, whereby integrity shortcomings could have major adverse effects on both the insured and continued confidence in conducting the business. For this reason, particular restraint is required in connection with benefits and other favours that could influence behaviours or attitudes when performing duties.

Alecta has conducted an analysis of the risk of improper influencing in respect of various risk categories, such as Alecta's products, customers, distribution channels and geographic areas. The overall assessment is that the risk of improper influencing within Alecta is low. The risk analysis is updated annually and forms the basis for Alecta's governance documents, which provide tangible guidance in what constitutes improper influencing and what is appropriate behaviour. The policy comprises Alecta's employees, Board Members, contractors and others who represent Alecta.

During 2017, a comprehensive training initiative was implemented in respect of the ethical guidelines, bribery and unauthorised impact. During this year, Compliance took targeted actions, such as inviting all employees that were to participate in the political week in Almedalen for a review of Alecta's guidelines for business entertainment and travel and for discussions about integrity and the risk of unauthorised influence in various situations. At the end of the year, two information sessions were held about Insurance Sweden's new industry recommendation for the insurance companies' anti-corruption work.

Partnerships and memberships

Alecta participates in the following initiatives or organisations with a connection to sustainability:

CDP (previously Carbon Disclosure Project)

By supporting the work of CDP, investors aim to drive the companies' transparency and environmental reports, and to get companies to work actively to reduce their environmental impact.

Global Compact

The purpose is that the business sector will support the UN's central international conventions. As a member of the Global Compact, Alecta supports the ten principles about the environment, human rights, labour standards and anti-corruption upon which this initiative is based.

Hållbart värdeskapande ("Sustainable value creation")

Cooperation between the largest Swedish institutional investors in order to highlight the importance of companies working in a structured manner with sustainability issues.

Institutionella ägares förening ("Association of Institutional Shareholders")

The association's aim is to promote self-regulation in the Swedish stock market, for example by continuing to develop the Swedish Corporate Governance Code. Alecta's Head of Corporate Governance is a member of the association's board of directors.

Stockholm Sustainable Finance Centre (SSFC)

The initiative is a collaboration between Stockholm Environment Institute (SEI) and the Stockholm School of Economics. The focus is on accelerating the development of a sustainable financial market through a focus on research, innovation and new technology. Alecta's CEO is Chairman of SSFC's Advisory Board.

Insurance Sweden

Alecta participates in reference groups set up by Insurance Sweden, the employers' organisation for the Swedish insurance industry, including ones for Sustainability and Green Bonds. Alecta submits opinions on proposals for consultation and engages in dialogue with the Swedish Financial Supervisory Authority, the Ministry of Finance and other government agencies.

Sweden Green Building Council

The Sweden Green Building Council members' organisation promotes exchanges of experiences between different operators in the field of civil engineering. The organisation provides tools and training as well as support for developing sustainability activities.

Swesif

Swesif is a members' association for organisations in Sweden that want to spread and increase knowledge about sustainable investments. Alecta is an active member of the Board of Directors and of the Seminar Committee through its Head of Responsible Investments.

UN PRI

The UN Principles for Responsible Investment is a global initiative for institutional investors. By signing up to UN PRI, Alecta has undertaken to integrate the initiative's six principles for responsible investment in its activities. Alecta pursues direct engagement activities under the UN PRI's Climate Action 100+ initiative.

Other investor initiatives

Alecta has signed a number of initiatives with various purposes. The Access to Medicine Index surveys how the largest pharmaceutical companies work to increase access to medicine in developing countries. Alecta supports TCFD (Taskforce on Climate-related Financial Disclosure) and The Montreal Pledge, through which investors pledge to measure and report on the climate impact of their equity investments.

Research partnerships

Alecta is involved in and contributes to various academic research projects. In 2018, Alecta, together with the Karolinska Institute, presented for the first time a cross-sectional study of sick leave among private-sector salaried employees. Alecta also supports the research activities of the Stockholm School of Economics.

Gilla Din Ekonomi ("Like Your Personal Finances")

Gilla Din Ekonomi is a personal finance network among public authorities, organisations and businesses. The goal is to increase people's understanding of personal finance through various educational initiatives. Alecta's Pension Economist contributes actively to these initiatives.

MinPension ("My Pension")

The MinPension portal is a cooperation among companies in the pension sector and is 50% driven and financed by the Swedish state and 50% by the pension companies. As several pension funds provide information to the same portal, users can log in and view their entire pension. The aim is to provide clear and simple information on pensions from an independent platform.

SNS

SNS, the Centre for Business and Policy Studies, is a dialogue-forum for key social issues based on knowledge and research. The members include representatives from business, politics, public administration and research.

Supplementary information and performance measures

For certain indicators, only selected data is presented in the first part of the report, pages 5–23. More detailed information and comparisons over time are presented in the following section.

GRI Employment information (102-8)

FORMS OF EMPLOYMENT	2018		2017		2016	
Group	Women	Men	Women	Men	Women	Men
Number of employees at 31 December	217	148	219	145	232	157
of whom, in Sweden	*217*	*148*	*219*	*145*	*224*	*153*
of whom, outside Sweden	–	–	*0*	*0*	*8*	*4*
Permanent employees	215	146	217	145	230	157
of which, full-time	*178*	*137*	*185*	*134*	*194*	*146*
of which, part-time	*37*	*9*	*32*	*11*	*36*	*11*
Temporary employees	2	2	2	0	2	0
Number of consultants	10	37	9	27	9	21

Other employee statistics

EMPLOYEE STATISTICS

Group	2018	2017	2016
Number of employees at 31 December	365	364	389
Average age of all employees	48	47	48
Employee turnover [1]	7,9 %	7,3 %	6,0 %
Sick leave [1]	3,6 %	3,4 %	3,7 %
Percentage covered by collective bargaining agreements [1, 2]	100 %	100 %	100 %
Percentage of female employees	59 %	60 %	60 %
Percentage of female managers	52 %	50 %	44 %
Percentage of women in management	33 %	33 %	25 %
Percentage of women on the Board	38 %	31 %	23 %

[1] Refers to the Parent Company in Sweden.
[2] Does not include employees in senior management.

From the Parent Company's viewpoint, there were relatively few major changes during the year. A few aspects are worth commenting on, such as employee turnover being somewhat higher than previously during the year, although it is still lower than the industry average. Alecta measures employee turnover in accordance with the approach of Nyckeltals-institutet, by choosing the lower of the number that started or the number that terminated their employment in relation to the average number of employees during the year. Recruitments during the year were mainly sourced externally. This was partly because new services or functions required new competencies.

Alecta conducts annual salary surveys to identify and correct unwarranted differences in salary.

Employee sick leave was slightly lower than the industry average. Alecta works with frequent follow-ups and dialogues in the event of repeated sick leave to be able to provide the support that is needed. We know that it is important to quickly return to work after a longer sick leave or rehabilitation and we have therefore done our utmost to faciltate work escalation at the pace that works for the employee.

GRI Generated and distributed value [1] (201-1)

SOCIO-ECONOMIC VALUE Group (SEK million)	2018	2017	2016
Economic value, generated			
Return on capital, before operating expenses [2, 3]	–17 809	53 252	37 783
	–17 809	53 252	37 783
Economic value, distributed			
Claims incurred [4]	–20 884	–20 353	–19 786
Waiver of premium, corporate customers	–2 531	–2 039	–1 882
Refunds in the form of adjustments to earned pension entitlement and premium reductions [5]	–10 511	–5 618	–3 638
Salaries and remuneration	–325	–352	–409
Suppliers and partners	–540	–518	–451
Yield tax and income tax in Sweden and abroad as well as social security fees for employees	–1 039	–2 594	–3 414
	–35 829	–31 474	–29 581

1) GRI requests a report of "retained value" but at Alecta the surplus goes to the policy holders.
2) Unrealised gains/losses are included in an amount of SEK –46 291 million (2017: 25 719, 2016: 4 074).
The year's return is described in the Message from the CEO on page 6, and on page 46 in the Administration Report.
3) In the income statement, asset management and property management expenses totalling SEK 234 million (2017: 250, 2016: 254) have been offset against capital turns. See also Note 8 Operating expenses.
4) Claims incurred also include refunds in the form of pension supplements and supplementary amounts, which are taken from the surplus fund; see Note 33 Equity.
5) Refunds are taken from the surplus fund, see Note 33 Equity.

Alecta creates economic value for its customers by giving them a good and secure pension. It does so by generating a strong return over time and by keeping the costs down. In the area of business in which Alecta operates, the value that is generated and delivered needs to be viewed from a long-term perspective. The value that is created during the year will be distributed for many years to come and the value that has been distributed during the present year has been worked up over prior years. For this reason, the value that is generated and distributed cannot be assessed on a year-by-year basis.

GRI Hours of training (404-1)

The average training period per employee in 2018 was 22 (26) hours. The average for women was 27 hours and the average for men was 14 hours. All training is registered by the employees themselves in the personnel administration system, whereby the human factor probably contributes to a lower figure than the actual number of hours. In 2019, Alecta will develop better systems support for facilitating the administration of training programmes and increase follow-up reliability, in part through central registration of external training programmes, formal enrolments to internal training programmes, etc. Alecta's goal is that all employees will have a skills development plan, in which skills development needs and training are planned. At year-end 2018, 76 per cent of Alecta's employees had a skills development plan, compared with 88 per cent in 2017. The majority of those who did not have a plan had been recruited late in the year.

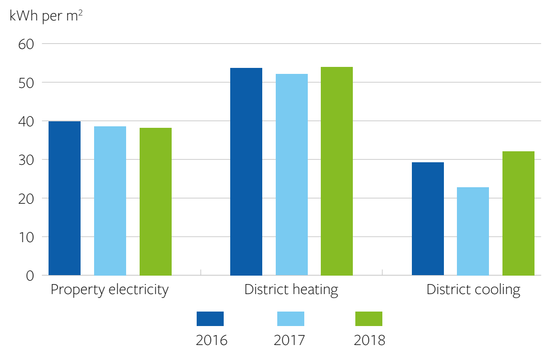
GRI Evaluation and development (404-3)

All employees should have annual performance reviews and 90 per cent of Alecta's employees had undergone one by year-end 2018. This is an increase compared with 2017, when the proportion was 88 per cent with the explanation that new employees who joined us in the latter part of the year did not have time to undergo a performance review by year-end.

Energy consumption in Alecta's properties

Normal-year adjusted energy consumption within Alecta's real estate portfolio is presented below. It includes holdings in the directly owned property portfolio with a history of three years. Energy consumption data for 2016 and 2017 has been corrected and is somewhat higher than previously reported. The 7 per cent increase in energy efficiency measured for 2017 should instead be 5 per cent. Alecta did not achieve its annual target of a 3 per cent increase in energy efficiency in 2018, mainly due to the considerable cooling requirement during the hot summer.

ENERGY CONSUMPTION,
ALECTA'S SWEDISH PROPERTY PORTFOLIO



Consumption in kWh per m² (leased area) in Alecta's Swedish property portfolio. For comparative purposes, only properties that were owned throughout the comparative period of 2016–2018 have been included. The figures reported in last year's annual report have therefore been slightly adjusted. Indirectly owned and residential properties are not included in the comparison.

GRI Complaints about breaches of customer privacy (418-1)

During the year, Alecta did not receive any complaints concerning the loss of customer data. Two complaints about breaches of privacy were registered. These were not of a nature that constituted a serious deficiency or that required a report to the Data Inspection Board.

GRI Fines or sanctions (419-1)

No fines or sanctions were imposed on Alecta in 2018.

Alecta's environmental activities and purchases

As a service-sector company with a centrally located office, our work associated with direct environmental impact is strongly connected to our property, our travel and our cooperation with various suppliers. During the past years, we improved the efficiency of resource use at our office, which has resulted in significant financial and environmental gains. Today, our most significant environmental footprint comes from the energy that is used in our property, from business travel, paper consumption and food waste. Alecta is reporting its direct environmental impact for the first time in 2018 and reducing its environmental impact is an overall sustainability target moving forward.

Direct environmental impact, operations 2018

ENERGY USE, OFFICES	MWh
Total	2 953
– of which electricity	1 390
– of which, district heating	1 267
– of which, district cooling	296
CARBON FOOTPRINT	**kg CO_2**
Energy, property [1]	43 715
Travel [2]	193 858
– of which, air travel	192 932
– of which, trains	926
USE OF PAPER	**KG**
Office operations	7 500 [3]
Customer letters	32 299 [4]

[1] All property electricity is origin-labeled from renewable sources. District cooling is produced from, for example, free cooling from water and waste heat. District heating is produced in part from coal and oil, and carbon emissions from these sources are climate compensated through purchases of emission rights.

[2] During 2018, 521 flights took place, of which 333 were international. There were 288 train journeys, of which two were international.

[3] Corresponding to 22,2 kg per capita.

[4] In addition, a large number of digital letters were sent and if these had been postal letters they would have corresponded to another 19 137 kg. Of the postal letters that were sent during the year, nearly 12 tonnes were connected to a non-recurring mailing connected to the ITP procurement.

During the year, the Head Office underwent comprehensive refurbishment, which probably entailed increased energy use compared with ordinary operations. This work is continuing in 2019. When procuring furniture for the refurbishment work, we subjected the supplier to tangible environmental requirements in terms of the use of chemicals and our ambition of renovating and re-using office furniture to the extent possible.

We have started to measure the carbon footprint of our business travels to enable us to make more informed decisions on the choice of travel. Most of the completed journeys related to customer visits or the operations of asset management. We also measure our paper consumption, and simultaneously look at how we can switch to a greater use of digital tools and work methods. A significant proportion of our customer correspondence is already digital, a development that we intend to actively influence by simplifying the information and making it available in a digital format.

Together with or through our suppliers, we have an opportunity to influence our carbon footprint. In 2018, for example, the IT supplier of our servers moved to a modern, newly built computer hall, where new technology significantly reduces energy consumption. Through the use of free cooling, which entails using outdoor air to balance the temperature in the computer hall for optimal operational efficiency, it is possible to cover 90 per cent of the need. Together with the contractor who has been operating our staff lunchroom since 2017, we implemented food-waste campaigns that resulted in tangible reductions, whereby the measured amount of food waste was halved from March to October.

An important supplier in our internal environmental work is our provider of janitor services, and for this we use a company that conducts active environmental work, chooses products that are a good environmental choice and also has collective agreements for its employees.

In addition to the above suppliers, Alecta mainly works with external parties in training contexts, for purchases of licences and software, maintenance of equipment, office supplies and research services for asset management. In 2018, Alecta implemented transactions with a total of 627 (636) suppliers, including 565 (568) in Sweden, 41 (49) in other EU countries and 21 (19) outside the EU. Five suppliers accounted for 61 per cent of the total transaction volume. Swedish suppliers accounted for 96 per cent of the transaction volume.

GRI table

About the sustainability reporting

Alecta's sustainability report for 2018 has been prepared according to guidelines for the Global Reporting Initiative (GRI), GRI Standards and the alternative Core. The content of the Sustainability Report is mainly found on pages 5–23 and in this supplement on pages 24–34. The sustainability reporting covers 2018 and forms part of Alecta's annual report. The Annual Report and Sustainability Report are published annually in March. The preceding annual report was published on 31 March 2018.

The report has been reviewed by Alecta's auditors, Ernst & Young AB.

Scope and boundaries

The Sustainability Report mainly encompasses the Parent Company Alecta pensionsförsäkring, ömsesidigt, and Alecta's subsidiaries, apart from those specified below. The subsidiaries are engaged in the direct or indirect ownership of real estate. The real estate companies that are joint-owned by Alecta are defined as joint ventures and are handled as financial instruments. The description of procedures and duties in the personnel section on pages 22–23 covers employees of the Parent Company while consolidated data including the subsidiary WTC is presented on page 30. The description of Alecta's direct environmental impact and suppliers on page 32 refers to the Parent Company. Other exceptions to the scope are indicated in the report.

Alecta manages collectively agreed occupational pension schemes in Sweden. Alecta's asset management activities comprise investments in shares, debt securities and real estate. Alecta's real estate portfolio is concentrated to Sweden. No material changes in the organisation's size, structure, ownership or suppliers occurred during the reporting period.

Calculation methods and definitions

GRI Disclosure 404-1: Employees refer to permanent employees of the Parent Company with the exception of employees on long-term leave, including employees on parental leave, sick leave or unpaid leave.

GRI Disclosure 418-1: Serious shortcomings are defined as events that constitute a serious violation of an individual customer's privacy or that have led to criticism from regulators.

Contact

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GRI STANDARDS INDEX 2018, CORE		REFERENCE	COMMENT
ORGANISATIONAL PROFILE			
102-1	Name	*45*	
102-2	Activities, brands, products and services	*33, 45*	
102-3	Location of headquarters	*45*	
102-4	Location of operations	*33*	
102-5	Ownership and legal form	*45*	
102-6	Markets served	*10–11, 45*	
102-7	Scale of the organisation	*30, 45–46*	
102-8	Information on employees and other workers	*30*	
102-9	Supply chain	*24–25, 32*	
102-10	Significant changes to the organisation and its supply chain	*33*	
102-11	Precautionary principle or approach	*See comment*	Alecta is not engaged in manufacturing activities, but environmental aspects are taken into account in the investment activities.
102-12	External initiatives	*20, 29*	
102-13	Membership of associations	*2, 21, 29*	
STRATEGY			
102-14	Statement from senior decision-maker	*6–7*	

GRI table, *cont.*

GRI STANDARDS INDEX 2018, CORE		REFERENCE	COMMENT
ETHICS AND INTEGRITY			
102-16	Values, principles, standards and norms of behaviour	*25*	
GOVERNANCE			
102-18	Governance structure	*24–25, 37–40*	
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholder groups	*26*	
102-41	Collective bargaining agreements	*30*	
102-42	Identifying and selecting stakeholders	*26*	
102-43	Approach to stakeholder engagement	*26*	
102-44	Key topics and concerns raised	*26*	
REPORTING PRACTICE			
102-45	Entities included in the consolidated financial statements	*84–85*	Note 16
102-46	Defining report content and topic boundaries	*27–28, 33*	
102-47	List of material topics	*27–28*	
102-48	Restatements of information	*See comment and pages 31 and 34*	Environmental and sustainability guidelines for Alecta's properties were adopted in 2018, not in 2017 as previously stated. Data on the energy consumption of properties for 2016 and 2017 has been corrected and is somewhat higher than previously reported.
102-49	Changes in reporting	*See comment*	No material adjustments
102-50	Reporting period	*33*	
102-51	Date of most recent report	*33*	
102-52	Reporting cycle	*33*	
102-53	Contact point for questions regarding the report	*33*	
102-54	Claims of reporting in accordance with GRI Standards	*33*	
102-55	GRI content index	*33–34*	
102-56	External assurance	*4, 33, 35*	
MANAGEMENT APPROACH			
103-1	Explanation of the material topic and its boundaries	*27–28*	
103-2	Management approach and its components	*24–25, 28*	
103-3	Evaluation of the management approach	*24–25, 39–40*	
ECONOMIC PERFORMANCE			
201-1	Direct economic value generated and distributed	*15, 31*	
SOCIAL TOPICS – EMPLOYMENT			
404-1	Average hours of training per employee by gender and employee category	*22–23, 31*	See Scope and boundaries, and Calculation methods and definitions
404-3	Percentage of employees receiving regular performance and career development reviews	*22, 31*	See Scope and boundaries
SOCIAL TOPICS – CUSTOMER PRIVACY AND PRODUCT RESPONSIBILITY			
418-1	Total number of substantiated complaints concerning breaches of customer privacy and losses of customer data	*32*	
419-1	Fines and sanctions concerning breaches of financial or social laws or regulations	*32*	
FS10	Percentage and number of companies in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues	*19*	
FS11	Percentage of assets subject to positive and negative environmental or social screening	*18*	

Auditor's report on the review of the sustainability reporting of Alecta pensionsförsäkring, ömsesidigt and opinion on the mandatory sustainability report

To the Council of Administration of Alecta Pensionsförsäkring, ömsesidigt, corp. ID no. 502014-6865

Introduction

We have been engaged by the the Board of Directors of Alecta Pensionsförsäkring AB to review the content of the company's sustainability reporting for 2018. The company has defined the scope of the sustainability reporting on pages 33–34 in this document, of which the mandatory sustainability report is defined on page 4.

Responsibilities of the Board of Directors and management

The Board of Directors and the CEO are responsible for the preparation of the sustainability reporting, including the mandatory sustainability report, in accordance with relevant criteria or the Annual Accounts Act. The criteria are presented in the sustainability reporting on page 33 and comprise those parts of the Sustainability Reporting Framework issued by GRI (Global Reporting Initiative) that are applicable to sustainability reporting, and the accounting and calculation policies prepared by the company itself. This responsibility also includes the internal controls considered necessary to prepare a sustainability report that is free from material misstatement, whether due to fraud or error.

The auditor's responsibility

Our responsibility is to express a conclusion about the sustainability reporting based on our review and to submit an opinion on the mandatory sustainability report.

We have conducted our review in accordance with ISAE 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. A review consists of making inquiries, primarily with persons responsible for the preparation of the sustainability report, and applying analytical and other review procedures. We have conducted our examination of the mandatory sustainability report in accordance with FAR's recommendation RevR 12 Auditor's opinion on the mandatory sustainability report. A review and an examination in accordance with RevR 12 have a different focus and significantly less scope than the focus and scope of an audit conducted in accordance with the International Standards on Auditing (ISA), and generally accepted auditing practices.

The audit firm applies the International Standard on Quality Control (ISQC 1) and therefore has a broad system for quality control consisting of documented guidelines and procedures for compliance with professional ethical requirements, standards for professional conduct, and applicable requirements in laws, regulations and administrative provisions. We are independent of Alecta Pensionsförsäkring AB according to generally accepted auditing practices in Sweden and have in other respects performed our professional responsibilities according to these requirements.

The procedures performed in a review and examination in accordance with RevR 12 do not enable us to obtain such assurance that we would become aware of all significant matters that might be identified in an audit. Therefore, the opinion expressed based on a review and examination in accordance with RevR 12 does not give the same level of assurance as a conclusion expressed based on an audit.

Our review of the sustainability report is based on the criteria selected by the Board of Directors and management, which are defined above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence that we have obtained during our review is sufficient and appropriate for the purpose of expressing our opinions below.

Opinion

Based on our review, we have not discovered any circumstances that would give us reason to believe that the sustainability report has not, in all material respects, been prepared in accordance with the above criteria indicated by the Board of Directors and management.

A statutory sustainability report has been prepared.

Stockholm, 19 March 2019
Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Outi Alestalo
Specialist Member of FAR

Corporate Governance Report 2018

Efficient corporate governance ensures that the company is managed responsibly, sustainably and as efficiently as possible with satisfactory risk management and internal controls.

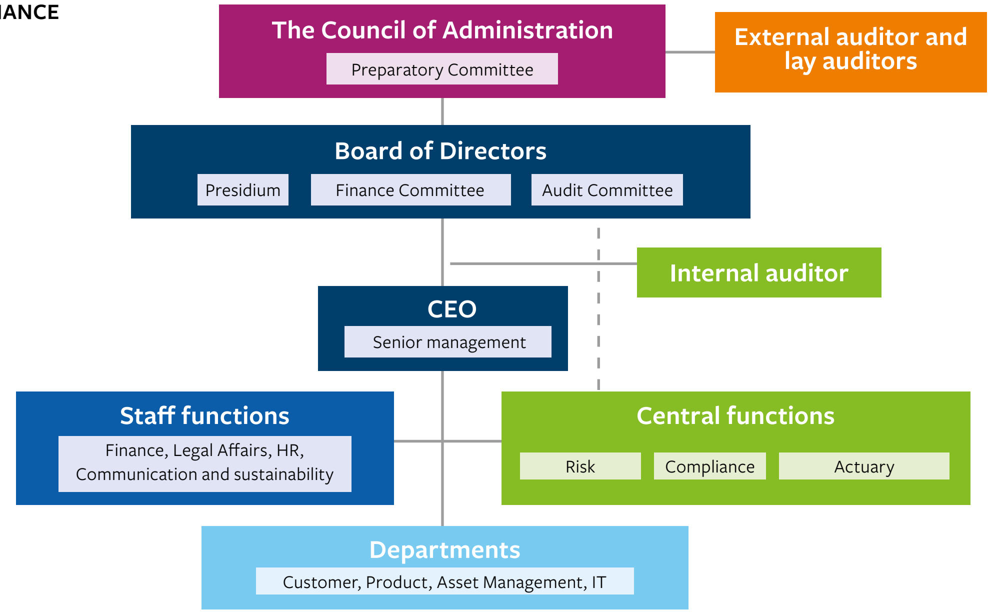
Alecta's corporate governance

Alecta is a mutual life insurance company that is owned by the employers that have concluded retirement pension agreements with Alecta and by the people insured by Alecta.

Preparing a corporate governance report is not a requirement for Alecta according to the Swedish Insurance Companies Annual Accounts Act. However, Alecta applies the Swedish Corporate Governance Code (the Code) even though it has no formal obligation to do so. Rules in the Code which are not adapted to the fact that the company is a mutual insurance company are not applied, however. One minor deviation from the Code is that the interim report is not reviewed by the company's auditor.

Corporate governance involves the decision-making systems and processes through which a company is governed and controlled.

CORPORATE GOVERNANCE MODEL



Council of Administration and Preparatory Committee

The Council of Administration is Alecta's highest decision-making body, corresponding to the General Meeting of Shareholders under the Swedish Insurance Companies Act. The Council's duties include electing the members of the Board of Directors and external auditors, addressing the issue of release from liability for the Board of Directors and CEO in respect of their management during the financial year, adopting income statements and balance sheets for the Parent Company and the Group, and deciding on the appropriation of the profit or loss for the year. To ensure that the interests and views of the retirees are represented, the principle that the Council's members should include a number of retirees who are insured in Alecta is applied. These members are appointed by the trade union organisations indicated below.

Council of Administration and Preparatory Committee

The Council of Administration consists of 38 members and eight deputies. Of which

a) 19 members and four deputy members are appointed by the Confederation of Swedish Enterprise and
b) 19 members and four deputy members are appointed by Unionen, the Association of Managerial and Professional Staff (Ledarna), the Swedish Association of Graduate Engineers (Sveriges Ingenjörer) and the Council for Negotiation and Cooperation (PTK).

The Council of Administration elects directors and the Chairman of the Board at the annual meeting of the Council of Administration for a period of one year and auditors for a period of one to four years.

Elections of directors, Chairman of the Board, external auditors and lay auditors are prepared by a preparatory committee, appointed by the Council of Administration. The committee works in close cooperation with the organisations that appoint members of the Council of Administration and with the Chairman of the Board. The Preparatory Committee also submits proposals on director fees, including remuneration for committee work and fees for Alecta's auditors and lay auditors.

Since the meeting of the Council of Administration held in April 2017, the Preparatory Committee has the following members: Kenneth Bengtsson, convenor, Peter Hellberg, deputy convenor, Peter Larsson and Ulrik Wehtje.

The convenor and deputy convenor of the Committee are also Chairman and Deputy Chairman of the Council of Administration. No special remuneration has been paid to the members for their work on the Preparatory Committee.

External auditors and lay auditors

External auditors are elected by the Council of Administration for a term of one to four years. The duty of the external auditors is to examine Alecta's Annual Report and accounting as well as the management performed by the Board of Directors and Chief Executive Officer.

The current external auditors, Ernst & Young AB, with Authorised Public Accountant Jesper Nilsson as auditor-in-charge, were initially elected at the 2014 annual meeting of the Council of Administration for a term of one year and were subsequently re-elected for one year at a time, most recently at the 2018 annual meeting of the Council of Administration. For each financial year, the external auditors issue an Audit Report, which is included in Alecta's annual report.

During the 2018 financial year, Ernst & Young, in addition to its external audit assignment, performed other assignments for Alecta, such as tax consultations and inquiry assignments. For more information on fees for the external auditors, refer to Note 49 Disclosures of auditors' fees.

For the purpose of examining that Alecta's operations are managed appropriately and satisfactorily from a financial standpoint, and for ensuring that other aspects of the internal control are appropriate, two lay auditors with two personal deputies are elected at the annual meeting of the Council of Administration until the time of the next annual meeting of the Council of Administration. For each financial year, the lay auditors issue a review report, which is included in Alecta's annual report. The 2018 annual meeting of the Council of Administration elected Niklas Hjert (with Kati Almqvist as personal deputy) and Lars Jansson (with Lisbeth Gustafsson as personal deputy) as lay auditors. For information regarding the fees paid to the lay auditors, see Note 48.

The Board of Directors

The Board of Directors is responsible for the organisation and administration of Alecta. The Board decides on Alecta's strategies and long-term targets, and is responsible for ensuring that Alecta has adequate internal control. The Board is thereby responsible for ensuring that the necessary governance documents for Alecta's operations are in place, and takes decisions on matters such as Investment Guidelines, Actuarial Guidelines and Guidelines for Managing Conflicts of Interest.

Directors and CEO

At the annual meeting of the Council of Administration, the Council of Administration elects at least seven and not more than 14 directors for a term until the close of the next annual meeting of the Council of Administration. The Board of Directors also includes the directors and deputies that have been appointed in accordance with the Board Representation (Private Sector Employees) Act.

The Board appoints Alecta's CEO and the head of the internal audit and defines the framework for their work. The CEO is responsible for the day-to-day management of the company in accordance with the guidelines and directions of the Board and for ensuring that the operations are organised so that the company complies with applicable laws and regulations. The CEO shall also ensure that the Board receives reports on the performance, results and financial position of Alecta on an ongoing basis, and is kept up to date on significant operational events. The CEO's general decisions in the day-to-day management of the company are normally prepared by the management team, which, in addition to the CEO, consists of eight of the heads of Alecta's departments and central functions.

Rules of procedure for the Board of Directors

As a feature of governance, Alecta applies both rules of procedure for the Board of Directors and instructions for the CEO, which are adapted to rules in the Code. As of 1 January 2016, Alecta also complies with the Solvency II regulations on corporate governance.

Alecta's Board of Directors continuously evaluates the CEO's work. A formal evaluation is conducted once a year. Similarly, the work within the Board is also evaluated annually. The results of the Board's evaluations are reported to the Council of Administration's Preparatory Committee.

Alongside the activities of the Board itself, the Board operates through three committees: the Board Presidium, which also functions as a Remuneration Committee, the Finance Committee and the Audit Committee. The duties of the committees are defined in the rules of procedure for the Board.

Board Presidium

The main duties of the Board Presidium are to administer and adopt decisions on those matters which the Board delegates to the Presidium, to advise the CEO in the day-to-day management of the company and to prepare the business that is expected to be presented at the following Board meeting. The Presidium also acts as a remuneration committee and convenes at the initiative of the Chairman of the Board. In 2018, the Presidium held five meetings, all of which were scheduled.

Finance Committee

The Committee's main task is to adopt detailed guidelines for and to follow up Alecta's day-to-day investment activities, to prepare finance management matters that will be addressed by the Board and to make decisions on certain investment-related matters falling outside the remit of the CEO. In 2018, the Finance Committee held five meetings, four of which were scheduled.

Audit Committee

The Audit Committee's main task is to continuously evaluate and communicate to the Board its view of Alecta's risk exposure and Management's risk management. When it comes to financial risks, this involves ensuring that financial risk reporting functions well. The Audit Committee also supports the Board in monitoring and evaluating the internal and external audits, preparing matters related to the Board's work on assuring the quality of Alecta's financial reporting and overseeing Alecta's financial reporting. In 2018, the Committee held five meetings, all of which were scheduled.

The work of the Board of Directors in 2018

In 2018, the Board of Directors held six meetings, all of which were scheduled. Once annually, the Board meets up in a Board seminar for a couple of days to discuss matters of strategic importance to Alecta.

The major matters addressed by the Board and its committees during the year included:

- Alecta 2023 – strategy work
- New consolidation policy
- Refunds and premium pricing
- Implementation of the occupational pensions directive into Swedish law
- Climate scenarios in ORSA reporting
- Outsourced operations
- PRI and monthly individual control data

Risk management and internal control

At Alecta, the duties of every employee and manager include working for well-balanced internal control and appropriate risk management, although the Board of Directors and the CEO have ultimate responsibility for this. In order to ensure adequate risk management and compliance with laws, regulations and internal governance documents, Alecta's risk management and internal control procedures are based on a model with three lines of defence.

The first line of defence – operational risk management

Alecta's operating units and support functions are responsible for the risks that arise in their respective activities. This responsibility entails identifying, evaluating, controlling and internally reporting risks. The operating units and support functions seek to ensure that clear processes and procedures have been established, which together with the internal governing documents govern Alecta's actions in various respects.

The second and third lines of defence – central functions

In support of the operations, the Board of Directors and the CEO, there are the central functions stipulated in the Swedish Insurance Companies Act, namely the Risk, Compliance and the Actuarial function (second line of defence) and the Internal Audit (third line of defence) which are responsible for independent company-wide monitoring in their respective areas of responsibility. These functions use a risk-based approach and therefore give priority to activities and follow-ups in those areas where Alecta's risks are greatest. Risk management is an integral part of Alecta's governance. To protect its customers and other stakeholders, Alecta applies strict standards for how risks are controlled and managed. More information on risks and risk management is provided in the Administration Report on page 55 and in in Note 3 Risks and risk management on page 75.

Risk

The mission of Risk is to make it easier for Alecta's Board of Directors, CEO and managers to manage, control and make decisions on risks. On a quarterly basis, Risk submits a written report to the Board and the CEO.
Risk's mission is to:

- work for increased awareness and better knowledge of risks and to support the operations in their risk management work.
- improve processes, methods and documentation for risk management.
- check and assess the quality of the business's risk management, make independent assessments and compile reports for Senior management and the Board of Directors.

Compliance

Compliance's mission involves regulatory compliance risks in the operations subject to licences and other regulations that govern Alecta's operations. On a quarterly basis, Compliance submits a written report to the Board and the CEO.
Compliance's mission is to:

- provide advice to managers, the CEO and the Board in order to avoid shortcomings in regulatory compliance.
- assess the consequences of changes in external and internal regulations.
- identify and assess regulatory compliance risks relating to external and internal regulations.
- assess whether Alecta's measures to prevent regulatory compliance shortcomings are appropriate.

Actuary

The Senior Actuary is organisationally a part of the Product Department, but has an independent role and reports on his own initiative to the CEO and the Board of Directors. The Senior Actuary within Alecta is responsible for the tasks that, according to the Swedish Insurance Companies Act and regulations, falls upon the Actuarial Function. These tasks include:

- coordinating and assuring the quality of Alecta's actuarial calculations and inquiries,
- assisting the Board and the CEO and, on his own initiative, submitting reports to them on matters relating to actuarial methods, calculations and assessments, and
- submitting the annual actuarial report.

Internal Audit

The internal audit is an independent examination function. The internal audit works on behalf of the Board and its duties are:

- to evaluate the internal control system,
- to evaluate other parts of the corporate governance system, and
- to report results and, following the evaluations, present recommendations to the Board of Directors.

Governance documents and monitoring

Everyone who works at Alecta has a responsibility to help ensure good internal control and is required to follow Alecta's governance documents. The governance documents are adopted by the CEO or the Board of Directors and are revised when required or at least annually. All employees are informed of changes to the regulations by their managers and also have an independent responsibility to keep themselves informed of those governance documents which affect them through Alecta's intranet. As part of their mandatory introduction programme, new employees receive information about Alecta's ethical rules. Regular monitoring and reporting of outcomes are essential to effective governance, ensuring that governance processes are adapted to new requirements or criteria. The heads of department are responsible for ensuring appropriate monitoring and that controls are in place in their respective areas of responsibility.

Business follow-up

The Controllers continuously monitors operational performance regarding planned activities as well as cost outcomes and target achievement in relation to business and operational plans. On a quarterly basis, the Controllers also prepares an internal report for the Board of Directors and Senior management.

Internal control over financial reporting

The Board assures the quality of the financial reporting through, inter alia, the work of the Audit Committee. In this context, the committee addresses, where necessary, the critical accounting matters and reviews the financial reporting that Alecta intends to submit.

When compiling data for financial reporting, Alecta's Finance Department conducts checks to ensure the quality of the data provided and that the financial reporting complies with laws and other regulations. In addition, the Controllers analyse the financial results and position on a quarterly basis, the results of which are reported to Senior management and the Board.

The external auditors attended three of the Audit Committee's meetings in 2018, whereby various matters related to the audit were subject to discussion between the auditors and members of the committee. During the year, the Audit Committee also examined and evaluated the work of the external auditors.

The entire Board takes part of the interim reports before they are published and takes part and approves the Annual Report before it is published.

The external auditors have submitted a written report to the Board of Directors concerning the year's examination. They have also participated in a Board meeting to orally present a report on the 2018 audit and on the evaluation of the work of Senior management.

Guidelines for remuneration of Senior management

In March 2018, the Board adopted guidelines for remuneration and other employment conditions of Alecta's Senior management and the Council of Administration adopted the below guidelines at its meeting on 18 April 2018:

Remuneration of the CEO and other senior executives in Senior management consists of a basic salary, pension provisions and other benefits. Other senior executives are defined as the currently eight individuals who together with the CEO comprise Senior management.

Salary

Salary is set taking into account competencies, spheres of responsibility, authorities and performance, and is to be based on market-aligned conditions and principles. Variable remuneration is not payable, either to the CEO or to any other senior executives in Senior management.

Provision for pensions

All members of Senior management are covered by the FTP plan. The normal retirement age is 65. For the CEO, a provision of 35 per cent of salary is set aside for pensions, including contributions to the FTP plan.

Severance pay and other benefits

The CEO and other Senior executives are subject to period of notice from Alecta of six months in combination with severance pay corresponding to 12 monthly salaries, which is fully deductible against income from new employment. According to an agreement that was reached before these period of notice conditions started to apply, one senior executive is subject to a period of notice of 18 months, with full deductibility of benefits received in any new employment during a corresponding period.

All members of Senior management are entitled to a company car, and sickness compensation corresponding to 90 per cent of cash gross salary during the first 12 months of any illness. Otherwise the same benefits as for other employees apply, such as health insurance and a fitness allowance.

Process and decision-making

Matters relating to salary and other terms of employment of the CEO and other senior executives, and to Alecta's variable remuneration programme, are prepared by the Board of Directors' Presidium, in its capacity as the Remuneration Committee, for adoption by the Board. For information on remuneration and incentive programmes for 2018, refer to Note 48 on page 105.

Council of Administration and auditors

Members and Deputy Members

The Council of Administration's 19 members and four deputy members elected by the Confederation of Swedish Enterprise for the period 2017–2019, unless otherwise indicated.

Members
Björn Alvengrip, Mölle
Kenneth Bengtsson, Stockholm, Chairman [1]
Jan Bosaeus, Solna
Anders Canemyr, Nacka (2018–2019)
Mattias Dahl, Stockholm
Marcus Dahlsten, Stockholm (2018–2019)
Eva Dunér, Gothenburg
Catharina Elmsäter-Svärd, Enhörna (2018–2019)
Inga-Kari Fryklund, Stockholm
Nils Åke Hallström, Nälden
Per Hidesten, Stockholm
Karin Johansson, Stockholm
Ulf Larsson, Sundsvall
Staffan Lindquist, Helsingborg
Martin Lindqvist, Stockholm
Jan Moström, Luleå
Ola Månsson, Alunda [2]
Ulrik Wehtje, Malmö [1]
Klas Wåhlberg, Västerås [2]

Deputy Members
Antje Dedering, Bromma
Hans Gidhagen, Upplands Väsby
Jonas Hagelqvist, Stockholm
Charlott Richardson, Sollentuna

The 19 members and four deputy members of the Council of Administration elected by Unionen, the Association of Managerial and Professional Staff (Ledarna), the Swedish Association of Graduate Engineers and the Council for Negotiation and Cooperation (PTK) for the period 2017–2019.

Members
Stefan Carlsson (Unionen), Norrköping
Per-Erik Djärf (Unionen), Vadstena
Björn Ekblom (Unionen), Svanesund
Annika Elias (Ledarna), Gothenburg [2]
Helena Hedlund (Ledarna), Märsta
Peter Hellberg (Unionen), Bandhagen, Deputy Chairman [1]
Gunnar Henriksson (Unionen), Tullinge, also a representative of Alecta's retirees
Martin Johansson (Unionen), Stockholm
Ulrika Johansson (Unionen), Luleå
Gun Karlsson (Unionen), Stockholm
Victoria Kirchhoff (Unionen), Klagshamn
Peter Larsson (Sveriges Ingenjörer), Enskede [1]
Hans Lindau (Unionen), Sandared
Leif Nicklagård (Unionen), Sundbyberg
Annica Pettersson (PTK), Enskede Gård
Kristina Rådkvist (PTK), Enköping
Therese Sysimetsä (Unionen), Stockholm
Anders Tihkan (Sveriges Ingenjörer), Värmdö
Marina Åman (Unionen), Strängnäs [2]

Deputy Members
Thomas Eriksson (Ledarna), Örebro
Nils-Harald Forssell (Unionen), Olofstorp,
also a representative of Alecta's retirees
Mikael Hansson (Unionen), Billdal
Stefan Jansson (Sveriges Ingenjörer), Stockholm

Auditors

Elected auditors
Ernst & Young AB,
Lead Audit Engagement Partner
Jesper Nilsson

Lay Auditors

Elected auditors
Niklas Hjert, Unionen
Lars Jansson, Confederation of Swedish Enterprise

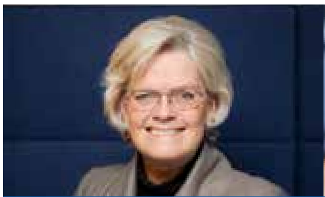
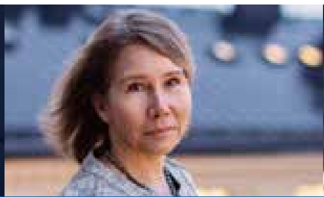
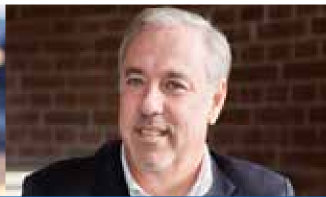
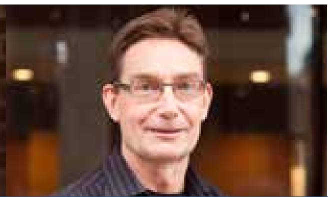
Deputy Members
Kati Almqvist, Ledarna
Lisbeth Gustafsson, Confederation of Swedish Enterprise

[1] Member of the Preparatory Committee
[2] Deputy member of the Preparatory Committee

Board of Directors




Name	Erik Åsbrink	Hanna Bisell	Cecilia Fahlberg Pihlgren	Martin Linder
Position	Chairman	Member	First Vice Chairman	Member
Born	1947	1969	1960	1973
Elected	2000	2016	2007	2016
Committee	Board Presidium (Chairman) Finance Committee (Chairman)	Audit Committee	Board Presidium	Finance Committee
Other directorships	Stiftelsen Cancercentrum Karolinska (Chairman) and Danske Hypotek AB	Medlemsförsäkring AB (Chairman)	–	PTK (Chairman) and TCO
Other assignments	Economic Council of the Swedish Trade Federation (Chairman) and the Board of Trustees of the Centre for Business and Policy Studies (SNS)	–	The Committee of Inquiry into the Labour Market (special investigator)	–
Other	–	–	–	Unionen (President)
Attendance Board Meetings	6/6	6/6	6/6	5/6
Committee attendance	10/10	5/5	5/5	5/5

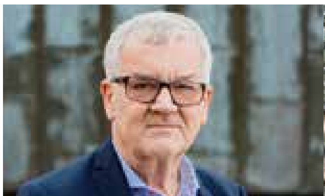





Name	Carola Lemne	Petra Hedengran	Per Hedelin	Mikael Persson
Position	Second Vice Chairman	Member	Member	Employee representative Saco
Born	1958	1964	1965	1962
Elected	2018	2017	2008	2008
Committee	Board Presidium	Finance Committee	Audit Committee (Chairman)	
Other directorships	Arjo AB and Calgo Enterprise AB	Electrolux AB	Försäkringsbolaget PRI Pensionsgaranti, Bliwa Livförsäkring Öms., Mgruppen, Svenska managementgruppen AB and Intermezzon AB	–
Other assignments	–	Association for good practice in the securities market and the Swedish Association of Listed Companies (vice Chairman)	–	–
Other	–	Investor AB (General Counsel)	–	–
Attendance Board Meetings	3/5 (Member from April 18l)	5/6	6/6	6/6
Committee Attendance	4/4 (Member from April 18l)	5/5	5/5	–

All directors, apart from employee representatives, are independent in relation to Alecta and Senior management. Since Alecta has no shareholders, the Code's regulations about independent directors in relation to major shareholders are not applicable.




Anna-Karin Hatt	Richard Malmborg	Peter Jeppsson	Magnus von Koch	Name
Member	Member	Member	Member	Position
1972	1961	1957	1962	Born
2016	2003	2016	2010	Elected
Finance Committee	Audit Committee	Audit Committee	Finance Committee	Committee
Almega AB, Almega Tjänsteförbunden, Castellum AB, Trygghetsfonden TSL and Trygghetsrådet TRR	PTK (Vice Chairman), SACO (First Vice Chairman), Akademikertjänst AB (Chairman)	Trygghetsrådet TRR (Chairman), Trygghetsfonden TSL (Chairman), Fora AB, AFA Livförsäkringsaktiebolag, AFA Trygghetsförsäkringsaktiebolag and AFA Sjukförsäkringsaktiebolag	Klara Norra Fastigheter AB (Chairman)	Other directorships
Almega Tjänsteförbunden (Director of Association), Swedish Higher Education Authority	–	–	–	Other assignments
Almega AB (CEO)[1]	Sveriges Ingenjörer (Director of Association)	Confederation of Swedish Enterprise (Deputy CEO)	Unionen (investment manager)	Other
6/6	4/6	4/6	5/6	Attendance Board Meetings
5/5	2/5	4/5	5/5	Committee attendance



Kaj Thorén	Birgitta Pernkrans	Anders Weihe	Name
Member	Employee representative FTF	Member	Position
1944	1969	1961	Born
2005	2015	2017	Elected
Finance Committee	–	Audit Committee	Committee
–	–	Trygghetsrådet TRR and Trygghetsfonden TSL	Other directorships
–	–	TEKO (CEO), Teknikarbetsgivarna and Tekniktjänstearbetsgivarna	Other assignments
–	–	Association of Swedish Engineering Industries (General Counsel, Director of Association and Chief negotiatior)	Other
6/6	6/6	5/6	Attendance Board Meetings
5/5	–	4/5	Committee attendance

[1] Through 31 August 2019, thereafter LRF (CEO).

Senior management



Name	Magnus Billing	Katarina Thorslund	Fredrik Palm
Position	CEO	Deputy CEO, Head of Customer Relations	Head of Products
Born	1968	1962	1976
Employed since	2016	2003	2013
Education	LL.M.	B.Sc. in Mathematics	M.Sc. in Mathematical Statistics
Previous experience	CEO of Nasdaq Stockholm and CEO of Nasdaq Nordics	Chief Financial Officer and Chief Actuary at Alecta. Previously Chief Actuary at Folksam Gruppförsäkring.	Self-employed actuarial consultant. Previously, consultant and partner of consulting firm.
Board assignments	Insurance Sweden, Employers' Organisation for the Swedish Insurance Industry		
Other assignments	Board of Trustees of the Centre for Business and Policy Studies (SNS) and Stockholm Sustainable Finance Centre (Chairman)		



Name	Hans Sterte	Martin Hedensiö	Camilla Wirth
Position	Head of Investment Management	Head of Communication and Sustainability	Chief Financial Officer
Born	1961	1964	1970
Employed since	2018	2016	2017
Education	M.Sc. in Business Administration and Economics, Stockholm University	M.Sc. in Accounting and Auditing	M.Sc. in Business and Economics
Previous experience	Head of Investment Management at Skandia. Previously, Director of Finance at Länsförsäkringar AB.	Director of Communications at Svenska Spel, Vice President Corporate Communications Europe, Middle East & Africa at Nasdaq, Executive Partner, Head of Corporate and Financial Communications at Hallvarsson & Halvarsson, Deputy CEO of Springtime, Investor Relations Director Electrolux.	CFO Nordax Bank AB (publ), CFO Aberdeen Property Investors IIM AB, Auditor and Consultant at KPMG Financial Services



Name	Maria Wahl Burvall	Magnus Landare	Ulf Larsson
Position	Director of Human Resources, Purchasing and Service	General Counsel [1]	Head of IT
Born	1964	1957	1968
Employed since	2014	1995	1998
Education	M Sc. in Business and Economics, majoring in Economics and Statistics	LL.M.	Bachelor of Arts in Business Administration
Previous experience	Economist, HR specialist and Head of HR at the Riksbank.	Lagerlöf & Leman law firm. Prior to that, Law Clerk at the Stockholm District Court.	Head of IT Architecture and Group Head of Infrastructure at Alecta, Previously, consultant at WM-data.

[1] Through the second quarter of 2019, when Charlotte Rydin assumes the position of General Counsel. Magnus Landare remains at Alecta as the CEO's senior advisor.

Administration Report

The Board of Directors and Chief Executive Officer of Alecta pensionsförsäkring, ömsesidigt hereby present their annual report for 2018, the company's one hundred and second year of operations.

Corporate Identity Number: 502014-6865
Registered office: Stockholm, Sweden

Ownership and structure

Alecta is a mutual life insurance company. This means that the company is owned by the policy holders and the insureds, and that any surplus generated is returned to the policy holders and the insureds.

Alecta pensionsförsäkring, ömsesidigt is the parent company of the Alecta Group. In 2018, the activities of the Group were conducted in-house with the exception of some parts of Alecta's asset management and IT operations, which were performed by external service providers under contract. Some of the tasks performed by Collectum and other selection centres outside the framework of the ITP and other pension plans are also considered to be performed on behalf of Alecta and the other participating insurance companies.

Operations and products

Alecta offers occupational pensions through selection centres under collectively agreed occupational pension plans, i.e. insurance schemes based on collective bargaining agreements that are tied to the employment relationship and for which the premiums are paid by the employer.

Alecta's principal mission is to manage the various parts of the ITP occupational pension plan on behalf of the Confederation of Swedish Enterprise and the Council for Negotiation and Cooperation (PTK), which have concluded collective bargaining agreements. Alecta manages the ITP 2 defined benefit retirement pension plan and the ITP 1 defined contribution retirement pension plan. In addition to retirement pensions, the ITP 2 plan also comprises defined benefit family pensions and ITPK defined contribution supplementary retirement pensions. Defined contribution retirement pensions are offered through the Alecta Optimal Pension product, which is the default option and a selectable option for ITP 1 as well as ITPK. Alecta has also been contracted to manage the disability and life insurance products provided under the ITP plan. These include the risk insurance products disability pension, waiver of premium and family cover.

Under the ITP agreement, employers have the option of funding their employees' retirement pensions by recognising liabilities in their balances sheets under the "PRI model". Obligations that have been secured under the PRI model are administered by Alecta on behalf of PRI Pensionsgaranti. The level of service and quality are the same as if the employees' retirement pensions had been secured through insurance.

Alecta Optimal Pension is also a selectable option in the other big collective bargaining areas: private-sector employees covered by the collective occupational pension plan Avtalspension SAF-LO, government employees in the PA 16 collective bargaining area, employees of municipally owned enterprises covered by the PA-KFS occupational pension plan, and local authority and county council employees covered by the KAP-KL/AKAP-KL plans. We are also the default option and a selectable option in the collective bargaining area for the insurance industry, FTP.

Alecta also offers occupational group life insurance (TGL).

Employees

In 2018, the average number of employees in the Alecta Group was 367 (371), or 356 on a full-time equivalent basis (354).

At year-end 2018, the total number of employees in the Group was 365 (364), of whom 340 worked in the Parent Company (340). The share of female employees was 59 per cent (60) and the average age of employees was 48 years (47).

Information on the average number of employees, salaries and benefits is provided in Note 48 on pages 105–109. The Note also describes the principles for determining the remuneration and benefits of senior executives as well as the applicable drafting and decision-making processes.

Net profit and financial position

The Group reports a net loss for the year of SEK 26,8 billion (net profit:57,3). Comments on Alecta's results and financial position are presented in the following.

Premiums written

Premiums written in 2018 totalled SEK 48,2 billion (38,5), see Note 4 on page 77. Premiums written can be divided into invoiced premiums and guaranteed refunds.

Invoiced premiums were SEK 37,7 billion (32,9). The increase on 2017 is attributable to increased benefits, a lower premium rate for defined benefit pensions and a growing portfolio of defined contribution pensions. Remaining premiums written pertain to guaranteed refunds, which totalled SEK 10,5 billion (5,6) and comprised reductions on employers' premiums for disability and premium waiver insurance, family pensions and TGL, and an increase in earned pension entitlements (adjustment of paid-up values). The increase compared with the preceding year was due to a higher adjustment of paid-up values.

Return on capital

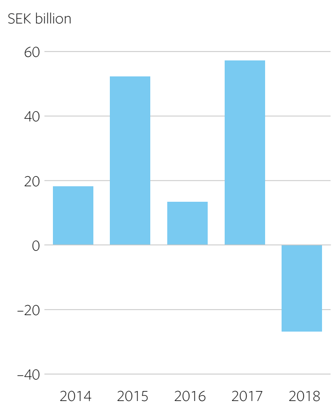
Financial markets

In 2018, the global economy was initially strong and macroeconomic statistics for GDP growth and employment showed a positive trend in the international economy. Economic performance in the US was particularly favourable, prompting the Federal Reserve (Fed) to begin a series of gradual increases in its benchmark rate. During the spring, concerns for an economic slowdown in China grew and the US hard-line trade policy, which seemed to be leading towards a trade war, added to the uncertainty.

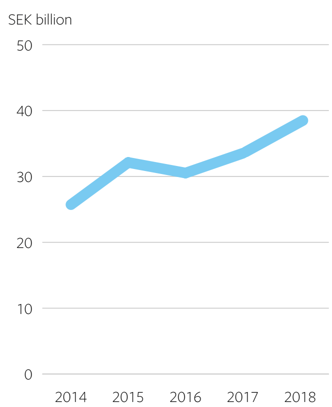
Growth also slowed somewhat in Sweden, whereby the Riksbank (Sweden's central bank) revised down its inflation forecast and postponed policy rate increases. The SEK subsequently weakened against other major currencies to levels not seen since the financial crisis in 2008. Strong company reports for the second quarter, especially from the US, supported stock markets, which showed positive returns at the end of June. In Europe, market rage arose by Italy's problems to form a government, and by budget discussions with the EU. Weak inflation in Europe compared with high growth in the US also meant that the difference between European and US monetary policy increased, and this is still reflected in the difference between the German and US 10-year rate, which has not been higher in 30 years.

However, the Swedish election and the protracted process to form a government had very little market impact. This was overshadowed by other geopolitical conflicts and political processes, such as Brexit and US-China trade tensions. Several market players also began to worry that the Fed was moving too fast with its monetary policy austerity. On top of that, more and more macroeconomic indicators began to point to a slowing global economy. Investors increasingly shifted from risk to more reliable assets, which led to major fluctuations in asset prices. Share prices and interest rates declined across a broad front. Like the Riksbank, the Fed raised its benchmark rate by 0,25 percentage points at the end of the year, but also signalled a more cautious approach to monetary policy moving forward. This put investors in a better mood, but also led to choppy markets with major price swings from day to day. The fourth quarter was overall gloomy for investors with stock market declines of 15 per cent or more for the major

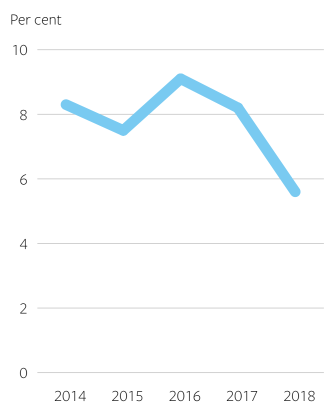
NET PROFIT FOR THE YEAR



INVOICED PREMIUMS



TOTAL RETURN, FIVE-YEAR AVERAGE



exchanges. During the year, the SEK weakened against both the EUR and the USD by 4,3 and 9,9 per cent, respectively.

The market year was highly coloured by the global fourth-quarter decline in stock markets. For the full-year, measured in local currencies, the MSCI Sweden Index fell 5,3 per cent, the MSCI USA Index fell 4,5 per cent and the MSCI Europe Index fell 10,0 per cent. Asian markets suffered the biggest decline, and the MSCI Emerging Markets Index subsequently fell 10,0 per cent.

In Sweden, real estate stocks performed well, with the Carnegie Real Estate Index rallying 15,9 per cent, but in the Swedish housing market prices have slowed down considerably. Compared with 2017, prices remained unchanged for the country as a whole.

Return

The total return on Alecta's investments in 2018 was a negative 2,2 per cent (pos: 6,7). The negative return was mainly driven by a decline in the stock market. Real estate made a positive contribution to the return. Due to lower Swedish and European interest rates, interest-bearing assets generated a positive return. Alecta's average annual return over the past five years is 5,6 per cent (8,2).

The return on shares was –6,9 per cent (12,6) while return on debt securities was 0,3 per cent (1,0) and real estate 6,6 per cent (12,1).

The return on Alecta's defined contribution savings product, Alecta Optimal Pension, was –3,5 per cent (9,1), outperforming Morningstar's benchmark index for balanced funds by 1,1 percentage points. Over the past five years, Alecta Optimal Pension has generated an average annual return of 6,7 per cent (10,9).

The return on Alecta's defined benefit insurance product was –2,0 per cent (6,5). The average annual return over the past five years is 5,6 per cent (8,0). In the income statement, the return on capital for the Group, including unrealised value changes, was SEK –18,0 billion (53,0).

Total return table for investments, total	Market value 31 Dec 2018		Market value 31 Dec 2017		Total return, per cent	
	SEK million	%	SEK million	%	2018	Average 2014–2018
Shares	322 577	39,2	345 250	41,6	–6,9	7,6
Debt securities	419 781	50,9	419 809	50,6	0,3	2,9
Real estate	81 574	9,9	64 733	7,8	6,6	11,7
Total investments	**823 932**	**100**	**829 792**	**100**	**–2,2**	**5,6**

Total returns for each year and asset class for the period 2014–2018, which are included in the average total return, are presented in the five-year summary on page 56.

The total return table has been prepared in accordance with the recommendations of Insurance Sweden. The reporting and valuation of the investments do not agree with the accounting principles applied in the financial statements. A reconciliation between the total return table and the financial statements is presented in Note 47.

Total return table for investments, defined contribution insurance (Alecta Optimal Pension)	Market value 31 Dec 2018		Market value 31 Dec 2017		Total return, per cent	
	SEK million	%	SEK million	%	2018	Average 2014–2018
Shares	54 518	56,6	52 592	60,5	–6,9	7,6
Debt securities	32 130	33,4	27 414	31,6	0,3	3,0
Real estate	9 654	10,0	6 862	7,9	6,6	11,7
Total investments	**96 302**	**100**	**86 867**	**100**	**–3,5**	**6,7**

The proportion of shares in Alecta Optimal Pension is higher than in Alecta's other products. The table above refers to the portfolio that constitutes Alecta's default option, which has a 60 per cent share component. The market value of the total Alecta Optimal Pension portfolio, i.e. including all asset classes, is SEK 103,0 billion (92,5).

Total return table for investments, defined benefit insurance	Market value 31 Dec 2018		Market value 31 Dec 2017		Total return, per cent	
	SEK million	%	SEK million	%	2018	Average 2014–2018
Shares	265 337	36,8	290 232	39,4	–6,9	7,6
Debt securities	384 353	53,3	389 627	52,8	0,3	2,9
Real estate	71 250	9,9	57 425	7,8	6,6	11,7
Total investments	**720 939**	**100**	**737 284**	**100**	**–2,0**	**5,6**

The total return tables refer to the Group. Due to rounding, the sum of the figures shown in the tables may differ from the totals.

At year-end 2018, the market value of Alecta's total investment assets amounted to SEK 823,9 billion (829,8). Of this, the Alecta Optimal Pension default portfolio accounted for SEK 96,5 billion (86,9).

Changes in the portfolio

At year-end, the proportion of shares of the portfolio was 39,2 per cent (41,6). The change is due to price declines in the stock market. The country allocation remained largely unchanged compared with the previous year.

At year-end, the real estate portion of the portfolio was 9,9 per cent (7,8). The increase was partly driven by the increased market value of the real estate, but mainly by net investments of SEK 10,8 billion. The composition of the portfolio is presented on page 49.

Claims incurred

Claims incurred consist partly of insurance claims paid and partly of changes in provisions for claims outstanding.

Insurance claims paid, which mainly comprise benefits incurred in retirement pensions, disability and life insurance, increased to SEK 21,0 billion (20,3). The increase is largely attributable to a greater number of new retirees and a higher average pension amount than for retirees whose payments ended due to death or because the beneficiary reached the final payment age. Operating expenses incurred in connection with the settlement of claims are included in insurance claims paid and totalled SEK 140 million (142). See also Note 8 on page 78.

The change in the provision for claims outstanding was SEK -0,2 billion (-0,5).

Technical provisions

Technical provisions comprise the net present value of Alecta's guaranteed obligations for insurance contracts in force and are divided into provisions for life insurance and provisions for claims outstanding. Technical provisions were SEK 513,1 billion at 31 December 2018. This is an increase of SEK 34,3 billion (12,5) for 2018, which was due to the following reasons:

- Premiums and payment resulted in an increase in technical provisions of SEK 27,3 billion (18,4), of which SEK 6,3 billion (1,5) refers to guaranteed refunds in the form of earned pension entitlements.
- Due to the difference between underlying premiums and assumptions in the calculation of technical provisions, the provisions declined with SEK 16,9 billion (13,4) for savings insurance.
- Due to the disability and waiver of premium insurance results, the provisions declined with SEK 2,5 billion (2,2).
- Due to changes in the yield curve used to measure the technical provisions, the provisions increased with SEK 8,4 billion (decreased: 2,5). The average cash flow-weighted rate decreased from 2,25 to 2,15 per cent in 2018.
- Cumulative return, after deduction for tax and operating expenses, increased the technical provisions by 13,6 billion (13,0).
- During the year, there was a change in the calculation of the provision for future yield tax. At 31 December 2018, the assumption of future government borrowing rates was changed from 10-year to 15-year discount rates. The change increased the life provisions by SEK 7,8 billion.
- The provision for future operating expenses was changed at 31 December 2018 in relation to future investment management expenses. The change reduced the life provision by SEK 3,1 billion, and is motivated by the fact that the provision must cover the essential investment management expenses for Alecta's guaranteed obligations. Previous provision also included investment management expenses for the active management of surplus funds.
- Other changes resulted in a decrease in technical provisions of SEK 0,3 billion.

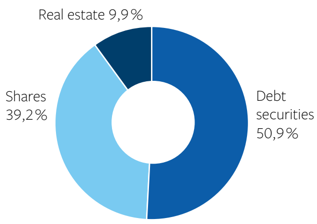
For further information, see Notes 36 and 37 on pages 101 and 102.

Operating expenses

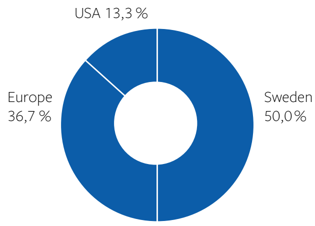
Operating expenses for the insurance business, which are termed operating expenses in the income statement, increased by SEK 16 million compared with the preceding year and amounted to SEK 575 million (559). The increase was mainly driven by higher costs for the Collectum selection centre, increased IT costs, higher fees to the Swedish Financial Supervisory Authority and increased information costs arising from Alecta's changed product terms and conditions in conjunction with the ITP procurement, where we remain a default option.

Alecta's portfolio composition, 31 December 2018

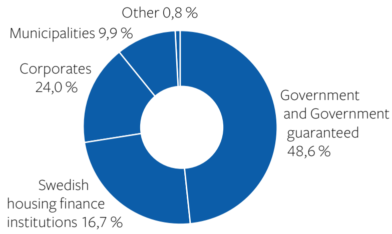
TOTAL INVESTMENT PORTFOLIO



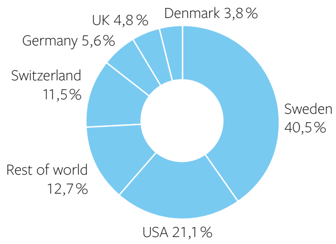
DEBT SECURITIES, geographic distribution



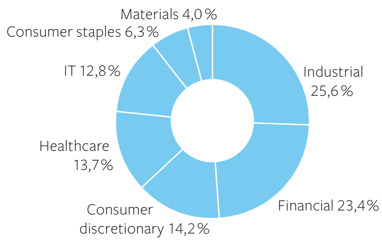
DEBT SECURITIES, type of issuer



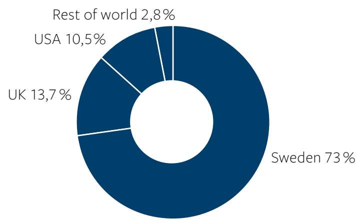
SHARES, geographic distribution



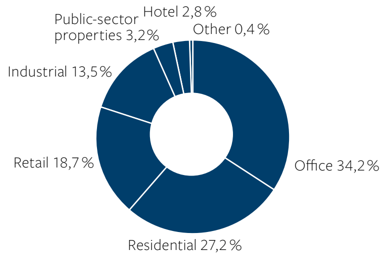
SHARES, sector



REAL ESTATE, geographic distribution



REAL ESTATE, category



Alecta's five largest shareholdings December 31, 2018

STOCK	SECTOR	MARKET VALUE, SEK MILLION
Investor AB (publ)	Financial	18 103
Skandinaviska Enskilda Banken AB (publ)	Financial	13 231
Novo Nordisk AS	Healthcare	12 056
Atlas Copco AB (publ)	Industrial	11 803
Roche Holding AG	Healthcare	11 538

Market value according to total return table and refers to listed shareholdings.

Management expense ratio

The management expense ratio declined during the year by one base point to 0,08 (0,09) compared with full-year 2017, due to an increase in average assets under management. Even for pension products excluding selection centre costs, the key ratio declined one base point to 0,05 (0,06).

Tax expense

The yield tax expense, net of foreign tax credits, was SEK 318 million (271). The increase compared with 2017 was due to an increase in the capital base and an increase in average government borrowing rates from 0,50 to 0,51 per cent. Yield tax is payable on Alecta's pension products and on family cover.

The income tax expense, which comprises current and deferred tax, was SEK 721 million (608). The deferred tax expense is net of income and expenses. The expense includes a deferred tax expense of SEK 773 million attributable to a reduction of the deferred tax asset associated with future deductions of foreign tax due to the fact that foreign tax is not in its entirety expected to be used for deductions within the period permitted by law. In addition to Swedish income tax, the item also includes coupon tax and foreign income tax. In Sweden, the business segments disability pension, waiver of premium and TGL are subject to income tax.

Distribution of surplus

A surplus arises when the return on Alecta's assets exceeds the financial cost of its guaranteed obligations but can also arise in other situations, for example when actual outcomes for mortality, morbidity and operational expenses are positive. A more detailed presentation of how the surplus arises is provided in the alternative income statement on pages 57–58 Alecta is a mutual company, which means that any surplus generated is returned to our customers – the policy holders and the insureds. The surplus is returned in the form of refunds. Over the past 15-year period (2004–2018), Alecta has distributed SEK 99 billion in refunds. The refunds have been distributed to the policy holders and the insureds in the form of pension supplements, increases in earned pension entitlements, premium reductions and client-company funds.

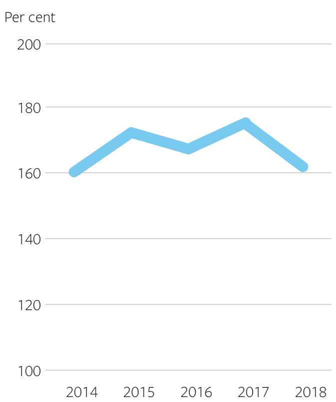
For Alecta's defined contribution insurance product, Alecta Optimal Pension, any surplus or deficit is allocated directly to the insureds on a monthly basis. For this reason, the collective funding ratio is nearly always 100 per cent. Any surplus is distributed in the form of refunds as a supplement to the guaranteed pension, in accordance with the actuarial guidelines adopted by Alecta's Board of Directors.

For defined benefit insurance products, Alecta's Board of Directors decides each year whether and in what form refunds should be distributed. For 2018, the Board approved an upward adjustment of defined benefit pensions by 2,12 per cent. The adjustment applies to pensions in payment as well as earned pension entitlements, known as paid-up policies, and is based on the change in CPI between September 2016 and September 2017. For 2018, the Board also approved premium reductions of 65 per cent for disability and waiver of premium insurance, 75 per cent for family cover and SEK 9 per insured per month for occupational group life insurance (TGL).

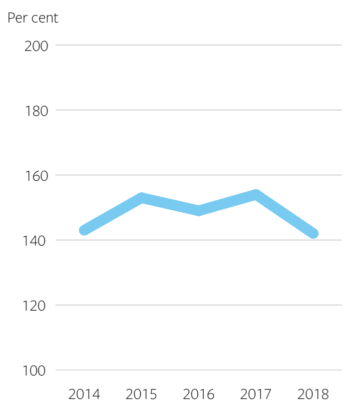
Collective funding and solvency

The defined contribution insurance products had a collective funding ratio of 100 per cent (100), which is the normal level when surpluses or deficits are allocated to the insureds on an ongoing basis.

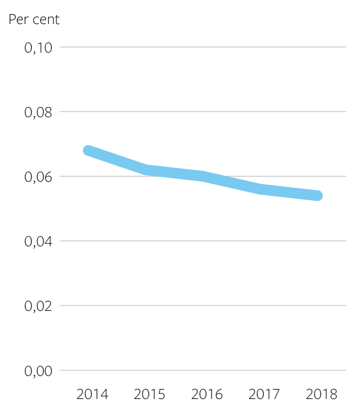
SOLVENCY RATIO



COLLECTIVE FUNDING RATIO, defined benefit insurance



MANAGEMENT EXPENSE RATIO for pension products, excluding selection centre costs



Alecta's funding policy (see also Significant events) for its defined benefit insurance products states to maintain a collective funding ratio of 125 to 175 per cent under normal conditions, and to apply the following limits for the allocation of refunds:

- 125 per cent – lowest limit for indexation of pensions (pension supplement)
- 135 per cent – lowest limit for increase in vested pension entitlements (adjustment of paid-up values)
- 150 per cent – lowest limit for premium reduction
- 175 per cent – lowest limit for other refunds to policy holders

At year-end 2018, the collective funding ratio for the Group's defined benefit insurance products was 142 per cent (154). The collective funding capital was SEK 210,6 billion (255,8).

Alecta's solvency ratio at year-end 2018 was 161 per cent (174).

Development in 2018	Solvency ratio	Collective funding ratio, defined benefit insurance
Opening balance	**174,2 %**	**153,8 %**
Return	–3,4 %	–2,8 %
Cumulative return, TP	–5,2 %	–4,5 %
Changed discount rate	–3,0 %	–2,5 %
Premiums	0,4 %	0,4 %
Guaranteed pension paid	3,1 %	2,3 %
Pension supplement paid	–0,5 %	–1,5 %
Adjustment of paid-up values	–2,3 %	–1,8 %
Premium reductions	–1,5 %	–1,5 %
Changed TP assumptions	–1,7 %	–1,3 %
Disability result	0,9 %	0,8 %
Other	0,4 %	0,3 %
Closing balance	**161,4 %**	**141,7 %**

Proposed appropriation of profits

The Board of Directors and Chief Executive Officer propose to the Council of Administration that the Parent Company's loss for 2018 of SEK 27 609 411 436 be transferred to the surplus fund.

The Board and CEO propose that the Council of Administration approve the resolution of the Board regarding refunds as set forth in the section Distribution of surplus in the Administration Report on pages 50–51.

Significant events

Alecta retains status as default option for ITP

In competition with other pension funds, Alecta was chosen to remain the default option for another five years, until the 30 September 2023. Alecta was also selected as one of the active choices an ITP-affiliated pension saver can make for traditional management (tick-box choice).

In connection with the commencement of the new agreement period, the offered product, Alecta Optimal Pension, was improved. The already low fee was cut from 0,10 to 0,09 per cent, and the annual cap on fees was lowered from SEK 900 to SEK 600. In addition, a better rule for minimising the variability of pension payments was introduced, as well as a strengthened guarantee during payment.

Changed funding policy for ITP 2

Alecta's Board decided to change the funding policy for defined benefit insurance products from 30 June 2018. The collective funding ratio in the new policy is allowed to vary between 125 and 175 per cent, which is a broadening of the interval, 125–155 per cent, that has applied since 2006. The change will be made to further safeguard the high indexation ambition in the plan, and to clarify the collective funding ratios that are required to enable refunds to the insureds and to the companies.

Decision on refunds and premiums for 2019

Alecta's Board of Directors has decided to increase defined benefit pensions by 2,32 per cent in January 2019, matching the inflation rate over the past year. The decision covers pensions in payment as well as earned pension entitlements.

The Board of Directors also approved premium reduction for the defined benefit age and family pension of 10 per cent in relation to the currently applicable premium, and to retain premium reductions of 65 per cent for disability and premium waiver insurance, 75 per cent for family cover and SEK 9 per insured and month for TGL. The invoiced premium for occupational group life insurance (TGL) was reduced from SEK 29 to SEK 26 per month and insured.

Organisational changes

Charlotte Rydin was recruited as Alecta's General Counsel and Head of the Legal Department and she will assume her position in the second quarter of 2019. Before joining Alecta, Charlotte Rydin held a similar position at the Swedish Financial Supervisory Authority, and prior to that at the National Debt Office. Alecta's current General Counsel, Magnus Landare, will remain at Alecta as the CEO's senior advisor.

Change in the law could enable Alecta to convert itself into a mutual occupational pension fund

On 4 July 2018, the Ministry of Finance finally presented a bill for a new regulation of occupational pension companies – memorandum (Fi2018/ 02661/FPM) "A new regulation concerning occupational pension companies" – with a review period until 12 October 2018. The bill is very important for Alecta because it addresses a completely new business regulation that could be of crucial significance for the rules that will govern Alecta for many years to come. Will Alecta's business regulation be based on Solvency II – the EU Directive that is essentially designed to suit all types of insurance operations in the EU, or on IORP II – the EU Directive designed for occupational pensions, i.e. exactly the type of business conducted by Alecta. The bill has been under consideration since 2011 and the long consideration period has created uncertainty in both the insurance industry and political circles along the way. The legislative process – like so many other things – was stalled by the inability to form a new government after the election in September 2018. In December 2018, the interim government announced that the plan was to submit a legislative proposal in early 2019, propose a bill later in spring 2019 and to come into force by mid-year 2019 at the earliest.

Several key issues for Alecta have received a satisfactory solution in the bill. These include:

- that an insurance company that currently provides only occupational pensions will be able to convert into an occupational pension company,
- that there is no time limit for when such a conversion can take place,
- that Alecta can continue to provide all of the benefits that it currently offers, including TGL,
- that the transitional measures applied by Alecta since Solvency II was introduced in the Insurance Business Act on 1 January 2016 will be extended until the end of 2022.

At the same time, there are a number of potential improvement areas that Alecta has drawn attention to in a comprehensive consultation response submitted jointly with AFA Försäkring, AMF and the Occupational Pension Fund Association, as a complement to the industry-wide response from Insurance Sweden. The government will hopefully consider the views submitted by Alecta and produce a substantially revised bill.

Significant events after the balance sheet date

No significant events took place after the balance sheet date.

Outlook

Financial markets

2018 was a weak year for stocks in most major markets. Stock markets performed favourably until the fourth quarter, but after economic fears, reduced stimulus from central banks and global political turmoil, investors moved more towards risk aversion at the end of the year. Cyclical sectors such as commodities and manufacturing were particularly affected, but banks also fell more than the CPI.

In the US, the Federal Reserve raised its benchmark rate four times in 2018 and the European Central Bank announced that its asset purchase programme would cease at the turn of the year. This initially affected the credit market, but as loan rates rose for companies, the stock market also needed to revise its earnings forecasts. The combination of higher interest expense moving forward and the risk of slowing sales is proving overall difficult for the market to swallow. Although central banks raised their interest rates and the fact that interest rates were very low at the beginning of the year, long-term bond yields fell in both Germany and Sweden. Long-term rates have risen in the US, but because the Federal Reserve has raised its rates faster, the yield curve has still flattened. Historically, this has predicted an imminent recession and been yet another indicator that investor risk aversion has increased.

The currency market was relatively stable in 2018. However, most currencies fell against the USD and the GBP weakened most. Despite an already record-low SEK at the beginning of the year, the SEK plunged another 5 per cent against a competitor-weighted index. During the year, the SEK was nearly as weak as it was in the height of the 2009 financial crisis, when there was an obvious risk that at least one Swedish bank would fall. On the other hand, the Riksbank has actively pursued a weaker SEK in order to achieve the overall target of 2 percent inflation.

To date, companies have not revised down their earnings forecasts to any major degree, and with substantially lower share prices, the calculation for owning shares today looks better than it did a year ago. If earnings are revised down clearly, the market will be subject to renewed pressure. Liquidity in the system will obviously fall, because the central banks are no longer providing financial stimulus to sustain the economy. This has already affected the credit market and will certainly remain a theme for the remainder of 2019. After ten years with extremely generous central banks, this will become an increasingly overshadowing theme.

Alecta's strategy for meeting these ever-present challenges in the financial market is to maintain very high safety margins in its use of risk, and by only owning, and lending money to, quality companies. Apart from faring relatively better in a stock market downturn, these companies are able to exploit turbulent situations to conclude corporate deals on favourable terms. The same applies for Alecta. With good margins, we can take a proactive approach in any recoil, and thus turn volatile markets into a good business opportunity, laying the foundation for good long-term returns for our customers.

The labour market and pensions market

The labour market is characterised by high demand for labour and lack of expertise in several parts of the business sector. Automation and digitalisation are increasing the need for change, where work content is changing, some jobs are disappearing and others are emerging. This means that skills development and transfer are becoming increasingly important for maintaining a high level of mobility. In Sweden, labour market parties have a tradition of embarking on structural transformation in a constructive spirit, which is a success factor for a continued competitive business sector.

Both the State pension and occupational pension are based on the principle of lifetime income, with a long working life as an employee. However, rapid changes in jobs and work content mean that certain groups are excluded from the labour market for long periods. In addition, relatively many newly arrived immigrants are entering the labour market when they are middle aged. That a growing group is unable to earn a pension throughout their entire working life – and will therefore have a low pension – raises questions about whether the pension system needs to be changed, alternatively supplemented with, for example, tax relief for private savings or increased deductibility for employers.

In recent decades, real wages have shown a relatively positive trend, which has increased the significance of occupational pensions in relation to the State pension, especially among private-sector employees. However, there is growing criticism that the industry's salary level is inhibiting wage growth in sectors driven by domestic demand. If the restraining function of the industry salary level was to lessen, wage growth could be higher, which would also lead to larger pension provisions.

The premiums for occupational pensions are already growing today at a rapid pace. A contributing factor is the transition from ITP 2 to ITP 1, because of the different premium profiles of these plans.

ITP 2 typically has a low premium for young employees and a high premium for older employees, since late wage growth provides a higher lifelong benefit that the employer pays for during the short time remaining until retirement. The premium profile in ITP 1 is flatter. When ITP 2 is phased out, employers will lose their younger employees' "low" ITP 2 premiums. Instead, ITP 1 premiums are paid for younger employees when their careers are taking off. At the same time, employers will still have older employees with ITP 2, which typically means higher premiums. This creates a "cost hump" which, although temporary, will take several decades to reverse. In addition, ITP 2 premiums have risen in recent years due to increased longevity and lower market rates. Pension effects of a longer life expectancy are addressed by a defined contribution plan with higher provisions. Flex pensions, for example, can be said to fulfil such a function.

There is now a trend that employers are seeking simple and rational solutions for occupational pensions, rather than creating special solutions. This is what makes the collectively agreed occupational pension attractive. Among employees – especially private-sector employees – there is still a high level of confidence in the occupational pension, which they mainly associate with the collective agreement, rather than their own savings. And the attitude to collective agreements is basically positive.

That the collectively agreed occupational pension is both perceived as attractive and generates growing premium volumes is increasing the interest of life insurance companies to be included in the collectively agreed platforms. While increasing demands for lower fees have certainly been a challenge for the industry, the rapid premium growth has never-theless resulted in good earnings. Several companies are currently investing in order to cut costs and digitalise their customer relationships. In the very near future, more competitors will be able to offer fees that are very close to Alecta's. Technological advances may also mean that new operators, who do not need to make heavy investment in old IT systems, can enter the market for collectively agreed occupational pensions.

Product reporting

Alecta operates in accordance with principles of mutuality and is required to ensure that income and expenses are allocated equitably among its various products. Our ability to use economies of scale and spread shared expenses across all products enables us to add value for our customers. Alecta's product areas are:

Pension insurance

- Defined benefit pensions (primarily ITP)
- Defined contribution pensions (mainly ITP but also in other collective bargaining areas)

Risk insurance

- Disability and life insurance products (mainly ITP)
- Occupational group life insurance (TGL).

Alecta monitors the financial performance of its various products very closely. The allocation of operating expenses among the various products is based on specific allocation principles and allocation keys. The allocation keys are reviewed regularly to ensure as equitable an allocation as possible.

In addition to allocating income and expenses equitably among its various products, Alecta also seeks to ensure that risks are borne in an equitable manner. Alecta's monitoring of solvency and risk is aimed at ensuring that each product has a capital that is adequate to cover these risks.

Product calculation for Alecta Optimal Pension

Alecta Optimal Pension is a product that was introduced in connection with the ITP procurement in 2007. The pricing is based on the principle that fees charged should balance the total operating expenses over time. For a number of years after its launch, the expenses incurred for Alecta Optimal Pension exceeded fees charged. The deficit was funded through an interest-bearing capital contribution from Alecta's defined benefit collective. For the period 1 July 2013–30 September 2018, the interest rate was set at Stibor (3-month) plus a fixed risk premium of 1,63 percentage points. The interest rate represents the four big Swedish banks' average financing cost for five-year debentures for the same period. For the period 1 October 2018–30 September 2023, the interest rate is correspondingly set at Stibor (3-month) plus 0,88 percentage points.

Alecta carefully distinguishes between operating expenses which have been incurred specifically as a result of the decision to invest in a defined contribution product, known as incremental costs, and the portion of the shared expenses to be borne by each product. It is the growth in the defined contribution product's income and incremental costs which creates the real financial risk for the defined contribution plan that is funding the deficit during the start-up phase.

Incremental costs comprise product-specific system administration and system development, direct customer service working hours, and costs for information and marketing activities. The incremental cost deficit was repaid in full during 2018.

Shared expenses comprise costs for management and staff functions, shared systems and infrastructure. Alecta Optimal Pension's total expenses, which comprise incremental costs, shared expenses and interest on the deficit, accounted for 0,09 per cent (0,09) of the capital in 2018. This corresponds to the fee level charged by Alecta for management of the product as of 1 October 2018.

The significant synergies that exist among Alecta's products also exist in the company's investment management activities. Alecta's total investment management expense is 0,02 per cent of assets under management, and is charged to all products.

The dominant risk in pension products like Alecta Optimal Pension is the financial risk exposure, i.e. the risk that the product will not be able to bear the associated market risks. However, Alecta Optimal Pension has a higher solvency ratio than Alecta as a whole, mainly because the guarantees in Alecta Optimal Pension are lower than in the defined benefit pension products. At year-end 2018, Alecta Optimal Pension had a solvency ratio of 213 per cent (242), compared with 161 per cent (174) for Alecta as a whole.

Risk management and risk organisation

To protect the interests of our customers and other stakeholders, we need to ensure that we maintain strict control of risks and of how risks are managed. Insurance risks need to be managed in a way which ensures that Alecta is able to meet its insurance commitments. The financial risks taken must generate the highest possible return without jeopardising Alecta's commitments to the insureds. Other risks, such as compliance, sustainability and information security risks, need to be managed in a way that does not prevent Alecta from fulfilling its mission. Operational risks should be managed in a way that strengthens internal control.

It is the responsibility of the Board of Directors to ensure that Alecta has a well balanced risk exposure and good internal control. The Board has delegated the task of monitoring Alecta's investment activities to its Finance Committee and the task of monitoring Alecta's risks and management's handling of these risks to its Audit Committee. The CEO is responsible for the day-to-day management of Alecta's operations, which includes ensuring a high level of internal control.

Insurance risks

The Board of Directors defines actuarial guidelines, which describe the methods and principles to be used for actuarial assumptions. The CEO determines the basis of actuarial calculations, which contains more detailed calculation models as well as the assumptions to be applied in the actuarial calculations. The Senior Actuary is responsible for the management and monitoring of Alecta's insurance risks, which involves a responsibility continuously to adapt actuarial guidelines and the basis of actuarial calculations by submitting proposals for changes.

Financial risks

The Board of Directors adopts Alecta's investment guidelines, which regulate the portfolio structure, risk limits and other aspects. The Board is responsible for ensuring compliance with the guidelines. The Board's Finance Committee adopts guidelines for Alecta's day-to-day investment activities, prepares matters related to the company's investment management activities that will be addressed by the Board and makes decisions on investment-related matters which fall outside the remit of the CEO. The CEO is responsible for the investment activities under the mandate set forth in the investment guidelines and other resolutions of the Board and the Finance Committee. Subject to certain restrictions, this mandate has been sub-delegated to the Head of Investment Management, who is responsible for the management and monitoring of Alecta's financial risks.

Other risks

All managers and employees are responsible for ensuring good internal control in their respective areas of activity, which entails a responsibility for managing and controlling risks and their potential consequences.

Alecta's management of the above risk categories is described in greater detail in Note 3 on pages 75–76.

Risk management support functions

- The independent central functions Compliance and Risk, and the Actuarial function make independent assessments of Alecta's risks. They also perform a supporting role in relation to management and other operational functions.
- The Data Protection Officer assists in ensuring that Alecta complies with the Data Protection Regulation (GDPR).
- The Anti-Money Laundering and Anti-Terrorist Financing Officer is responsible for assessing the risk of Alecta's products and services being used for such purposes.
- The Complaints Officer is tasked with assisting in the management of customer complaints.
- Risk & Performance, an Investment Management function which operates independently from Alecta's business activities, is responsible for daily control of financial risks.
- The Internal Audit function independently audits and evaluates the company's internal control on behalf of the Board. The Internal Audit function, or Compliance, is also the recipient of whistleblower reports.

Corporate governance

Alecta applies the Swedish Corporate Governance Code even though it has no formal obligation to do so. However, one minor deviation is that the interim report has not been reviewed by the company's auditor. A corporate governance report prepared in accordance with the Code is available on pages 36–44.

Sustainability report

In accordance with Ch. 6 § 1 of the Swedish Insurance Companies Annual Accounts Act, Alecta has chosen to present its statutory sustainability report separately from its Administration Report. Alecta's sustainability report covers the whole Group and describes Alecta's standpoint on key sustainability issues, including sustainability risks and governance. The sustainability report has been submitted to the auditors together with the annual report and comprises pages 5–34. For the auditor's report on the review of the sustainability report and opinion on the mandatory sustainability report, refer to page 35.

Five-year summary

GROUP, SEK MILLION	2018	2017	2016	2015	2014
Profit/loss					
Premiums written	48 184	38 514	33 557	34 377	36 122
Invoiced premiums	*37 674*	*32 895*	*29 919*	*31 581*	*25 145*
Guaranteed refunds	*10 510*	*5 619*	*3 638*	*2 796*	*10977*
Claims incurred	–21 238	–20 776	–21 907	–20 330	–20 195
Net return on capital	–18 043	53 000	37 529	38 965	75 789
Profit before tax	–26 118	57 863	12 320	52 916	18 876
Net profit for the year	–26 839	57 255	13 428	52 234	18 216
Financial position					
Assets under management [1]	828 572	834 416	774 059	730 511	682 355
– of which pension products	*791 297*	*794 982*	*735 430*	*692 150*	*645 726*
Technical provisions	513 149	478 814	466 273	427 877	427 618
Collective funding capital	210 613	255 779	226 484	228 404	188 275
Capital base [2]	308 585	349 663	302 376	294 553	248 935
Required solvency margin [2]	21 536	20 097	19 231	17 668	17 658
Key performance indicators					
Total return for the Group, per cent [3]	–2,2	6,7	5,2	5,9	13
– of which shares	*–6,9*	*12,6*	*7,2*	*9*	*17,*
– of which debt securities	*0,3*	*1,0*	*3,1*	*1,2*	*9,4*
– of which real estate	*6,6*	*12,1*	*9,2*	*18,4*	*12,3*
Total return table for investments, defined contribution insurance (Alecta Optimal Pension), per cent [4]	–3,5	9,1	5,8	7,9	14,9
Total return, defined benefit insurance, per cent [4]	–2,0	6,5	5,1	5,8	12,8
Direct return for the Group, per cent	2,2	2,4	2,6	2,7	3,5
Management expense ratio [5]	0,08	0,09	0,09	0,10	0,11
– of which pension products excluding selection centre costs	*0,05*	*0,06*	*0,06*	*0,06*	*0,07*
Investment management expense ratio [6]	0,02	0,02	0,02	0,03	0,03
Collective funding ratio, defined benefit insurance, per cent	142	154	149	153	143
Collective funding ratio, defined contribution insurance, per cent [7]	100	100	100	100	100
Solvency ratio, per cent	161	174	166	171	159

1) Defined as equity, provisions for life insurance and claims outstanding.
2) Refers to the Parent Company.
3) Refers to the Group (defined benefit and defined contribution retirement pensions and risk insurance). Calculated for all years in accordance with the recommendations of Insurance Sweden.
4) Calculated for all years in accordance with the recommendations of Insurance Sweden.
5) Calculated as operating expenses and claims settlement expenses divided by average assets under management.
6) Calculated as operating expenses for investment management divided by average assets under management.
7) Any surplus/deficit is allocated to the insureds on a monthly basis. The collective funding ratio is therefore nearly always 100 per cent.

Alecta has conducted a review of which items and key performance indicators are deemed to be relevant to report in the five-year summary. All indicators and most of the items specified in the general recommendations of the Swedish Financial Supervisory Authority (FFFS 2015:12) are presented. In addition, some additional items and indicators not included in the general recommendations are presented. As Alecta does not apply Solvency II but the transitional provisions for occupational pension funds, Solvency II-related data is not presented in the five-year summary.

Alternative income statement

Group

It can be difficult to obtain an understanding of how the profit of a life insurance company was achieved on the basis of the income statement. The main reason for this is that the changes made to the technical provisions (TP) during the year are recognised on a net basis in the income statement items Change in the provision for life insurance and Change in the provision for claims outstanding. As these figures are presented on a net basis, it is not possible to deduce, solely on the basis of the income statement, the company's mortality results or its total financial results for assets and liabilities.

The alternative income statement is intended to give readers a better understanding of the factors behind the reported results, and has been prepared by allocating the change in TPs and other items from the income statement among four sub-results: administration result, risk result, financial result and tax result. For each sub-result, income and expenses are matched.

The consolidated loss was SEK –26,8 billion (profit: 57,3).

ALTERNATIVE INCOME STATEMENT (SEK MILLION)	2018	2017
Administration result	14	31
Risk result	–2 154	2 728
Financial result	–24 274	54 834
Tax result	–425	–338
Net profit/loss for the year	**–26 839**	**57 255**

Administration result

The administration result was SEK 14 million (31) and represents the difference between Alecta's income and operating expenses (excluding investment management expenses, which are presented in the financial result). TPs include a provision for future operating expenses for the company's current insurance portfolio. The provision for operating expenses is reversed on an ongoing basis and constitutes, together with operating expenses charged to premiums written, Alecta's income (released operating expenses).

Other income, which mainly comprises administrative fees from PRI Pensionsgaranti, is presented separately in the alternative income statement. In Note 8 Operating expenses, other income has instead been deducted from operating expenses.

ADMINISTRATION RESULT (SEK MILLION)	2018	2017
Income	783	784
of which released operating expenses	*729*	*732*
of which other income	*54*	*52*
Expenses	–769	–753
Total administration result	**14**	**31**

Risk result

The risk result was SEK –2,2 billion (2,7) and shows how closely Alecta's assumptions on mortality, morbidity and use of insurance options agree with actual outcomes. The risk result also includes changes in the assumptions for calculating TP, and a description of changes in 2018 is included in the Technical provisions section in the Administration Report. Insurance options refer to the insured's potential right to transfer the value of his or her insurance, decide when payments should begin or end, and discontinue regular premium payments.

RISK RESULT (SEK MILLION)	2018	2017
Annual mortality result	–84	–48
Annual morbidity result	2 535	2 204
Insurance options	48	172
Changes in methods and assumptions used in calculating TPs	–4 716	853
Other	63	–453
Total risk result	**–2 154**	**2 728**

Financial result

The financial result was SEK –24,3 billion (54,8). The financial result is largely dependent on the performance of financial markets, and normally accounts for most of the net profit for the year. A longer description of Alecta's return on capital is given in the Return on capital section of the Administration Report.

The financial result is also affected by the cumulative return on TPs, changes to the discount rate, and by actual operating expenses in investment management. Finally, the financial result is affected by the profit arising when the discount rate used to value the insurance obligation exceeds the contractual premium interest rate. This profit is recognised in the item Other profit sources and is essential to Alecta's ability to distribute substantial refunds to the insureds and the policy holders over the long term. The decrease compared with the preceding year is mainly due to negative returns and lower market rates. Refer to the Technical provisions section in the Administration Report.

FINANCIAL RESULT (SEK MILLION)	2018	2017
Result, return on capital	–18 604	52 982
of which investment management expenses	*–163*	*–180*
Released operating expenses for investment management	152	147
Cumulative return on TPs	–14 906	–14 250
Other profit sources	16 978	13 453
Changes in TPs as a result of changed market interest rates	–8 434	2 502
Total financial result	**–24 274**	**54 834**

Tax result

The tax result was SEK –0,4 billion (–0,3). TPs include a provision for future yield tax. The result for yield tax is thus the income which arises on an ongoing basis as provisions for tax are reversed, less the actual cost. Income tax is described in the Tax section of the Administration Report.

TAX RESULT (SEK MILLION)	2018	2017
Result, yield tax	296	270
Income tax	–721	–608
Total tax result	**–425**	**–338**

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SEK MILLION	NOTE	2018	2017
Premiums written	4	48 184	38 514
Invoiced premiums		*37 674*	*32 895*
Guaranteed refunds		*10 510*	*5 619*
Net return on capital		–18 043	53 000
Return on capital, income	*5*	*29 275*	*33 017*
Unrealised gains on investment assets	*6*	*1 464*	*30 156*
Capital return, expenses	*9*	*–1 026*	*–5 735*
Unrealised losses on investment assets	*10*	*–47 756*	*–4 438*
Claims incurred		–21 237	–20 776
Claims paid	*7*	*–21 009*	*–20 262*
Change in provision for claims outstanding		*–228*	*–514*
Change in other technical provisions		–34 107	–12 026
Provision for life insurance		*–34 107*	*–12 026*
Operating expenses	8	–575	–559
Depreciation of owner-occupied properties	15	–22	–19
Yield tax	11	–318	–271
Total operating profit/loss		**–26 118**	**57 863**
Profit/loss before tax		**–26 118**	**57 863**
Income tax	12	–721	–608
NET PROFIT/LOSS FOR THE YEAR		–26 839	57 255

Statement of Comprehensive Income

Group

SEK MILLION	2018	2017
Net profit/loss for the year	**–26 839**	**57 255**
Items that can subsequently be reclassified to profit or loss		
Foreign exchange difference that can subsequently be reclassified to profit or loss	150	–179
Accumulated foreign exchange differences reclassified to profit or loss	–	–1 179
Other comprehensive income	**150**	**–1 358**
COMPREHENSIVE INCOME FOR THE YEAR	–26 689	55 897

Comprehensive income for the year is wholly attributable to the owners of the Parent Company.

Balance Sheet

Group

SEK MILLION	NOTE	31 DEC 2018	31 DEC 2017
ASSETS			
Intangible assets	13	233	259
Property, plant and equipment	14	20	14
Deferred tax	12	5 689	5 509
Investment assets			
Land and buildings			
Investment properties	15	30 901	28 216
Owner-occupied properties	15	933	878
Investments in jointly controlled entities			
Shares and participations in jointly controlled entities (joint ventures)	18, 19, 22, 23	23 870	15 359
Loans to jointly controlled entities (joint ventures)	18, 19	1 857	1 591
Other financial investment assets			
Shares and participations	19, 22, 23, 24	352 238	375 390
Bonds and other debt securities	19, 22, 23, 25, 43, 44	405 487	399 975
Loans secured by real estate	19, 22, 26	2 777	–
Other loans	19, 22, 23, 27	3 133	2 097
Derivatives	19, 22, 28, 29	5 841	6 221
		827 037	829 727
Receivables			
Receivables related to direct insurance operations	19, 30	1 726	1 747
Current tax		874	970
Other receivables	19, 31	1 046	1 738
		3 646	4 455
Cash and bank balances	19, 44	3 392	2 731
Prepaid expenses and accrued income			
Accrued interest and rental income	19, 32	8 031	8 173
Other prepaid expenses and accrued income	19	63	61
		8 094	8 234
TOTAL ASSETS		848 111	850 929

Balance Sheet, *cont.*

Group

SEK MILLION	NOTE	31 DEC 2018	31 DEC 2017
EQUITY AND LIABILITIES			
EQUITY			
Translation reserve	33	279	129
Discretionary participation features reserve	33	94 720	89 388
Special indexation funds	33	10 162	10 298
Retained earnings including net profit for the year	33	210 262	255 787
Total equity		**315 423**	**355 602**
LIABILITIES			
Provision for life insurance	36	495 679	461 572
Claims outstanding	37	17 470	17 242
Pensions and similar commitments	38	2	4
Other provisions	39	9	29
Current tax		0	35
Deferred tax	12	1 639	1 377
Liabilities related to direct insurance operations	19, 40	732	706
Derivatives	19, 22, 28, 28	9 139	8 302
Other liabilities	19, 41	2 999	1 903
Other accrued expenses and deferred income	19, 42	5 019	4 157
Total liabilities		**532 688**	**495 327**
TOTAL EQUITY AND LIABILITIES		**848 111**	**850 929**

Statement of Changes in Equity

Group

SEK MILLION	Translation reserve [1]	Discretionary participation features reserve [1, 2]	Special indexation funds [1]	Retained earnings including net profit/ loss for the year [1]	Total
OPENING EQUITY AT 1 JANUARY 2017	1 487	70 855	10 445	224 999	307 786
Net profit for the year				57 255	57 255
Other comprehensive income	–1 358				–1 358
Comprehensive income for the year	**–1 358**			**57 255**	**55 897**
Allocated refunds		26 268		–26 268	–
Guaranteed refunds		–7 671		–220	–7 891
Collective risk premium [3]			–112		–112
Other changes		–64	–35	21	–78
Closing equity at 31 December 2017	**129**	**89 388**	**10 298**	**255 787**	**355 602**

OPENING EQUITY AT 1 JANUARY 2018	129	89 388	10 298	255 787	355 602
Net profit/loss for the year				–26 839	–26 839
Other comprehensive income	150				150
Comprehensive income for the year	**150**			**–26 839**	**–26 689**
Allocated refunds		16 914		–16 914	–
Guaranteed refunds		–11 588		– 1 468	–13 056
Collective risk premium			–116		–116
Other changes		6	–20	–304	–318
Closing equity at 31 December 2018	**279**	**94 720**	**10 162**	**210 262**	**315 423**

[1] See Note 33.

[2] Discretionary participation features refer to allocated refunds. See Note 33.

[3] Premiums for waiver of premium insurance and collective final payments have been reduced as a result of the increase in employers' expenses resulting from the rules for coordination and calculation of pensionable salaries introduced by the parties to ITP 2 in 2008.

Cash Flow Statement

Group

SEK MILLION	2018	2017
OPERATING ACTIVITIES		
Profit/loss for the year before tax and appropriations	–26 118	57 863
Interest received	5 138	4 994
Interest paid	583	1 156
Dividends received	11 969	12 180
Adjustment for non-cash items [1) 2)]	43 185	–44 821
Tax paid	–894	–1 917
Cash flow from operating activities before changes in assets and liabilities	**33 863**	**29 455**
Change in investment assets	–32 868	–26 498
Change in other operating assets	729	2 292
Change in other operating liabilities	1 923	–2 864
Cash flow from operating activities	**3 647**	**2 385**
INVESTING ACTIVITIES		
Investments in property, plant and equipment	–11	–8
Cash flow from investing activities	**–11**	**–8**
FINANCING ACTIVITIES		
Pension supplements/Supplementary amounts	–2 545	–2 273
Payment of indexation funds	–117	–112
Other changes [2)]	–321	–77
Cash flow from financing activities	**–2 983**	**–2 462**
Cash flow for the year	**653**	**–85**
Cash and cash equivalents at beginning of year	2 731	2 856
Exchange rate differences in cash and cash equivalents	8	–40
CASH AND CASH EQUIVALENTS AT END OF YEAR	**3 392**	**2 731**
1)		
Depreciation/Amortisation/Impairment, Notes 13, 14, 15	54	51
Yield tax, Note 11	318	271
Foreign exchange gains, Note 5	–4,074	–
Foreign exchange loss, Note 9	–	4 685
Capital gains, Note 5	–6 518	–13 088
Capital losses, Note 9	1	–
Unrealised gains, Note 6	–1 464	–30 156
Unrealised losses, Note 10	47 756	4 438
Interest income, Note 5	–4 996	–6 043
Interest expenses, Note 9	294	291
Dividends, Note 5	–11 988	–12 170
Adjustment of paid-up values, Note 4	–6 308	–1 487
Premium reductions, Note 4	–4 202	–4 131
Change in provision for life insurance, Note 36	34 107	12 026
Change in provision for claims outstanding, Note 37	229	514
Other [2)]	–24	–22
	43 185	**–44 821**

[2)] Adjustments compared with the Annual Report 2017 through reclassifications in operating activities.

Income Statement

Parent Company

SEK MILLION	NOTE	2018	2017
TECHNICAL ACCOUNT, LIFE INSURANCE BUSINESS			
Premiums written	4	48 184	38 514
Invoiced premiums		*37 674*	*32 895*
Guaranteed refunds		*10 510*	*5 619*
Return on capital, income	5	29 390	34 629
Unrealised gains on investment assets	6	375	30 744
Claims incurred		–21 238	–20 777
Claims paid	*7*	*–21 009*	*–20 262*
Change in provision for claims outstanding		*–229*	*–515*
Change in other technical provisions		–34 107	–12 026
Provision for life insurance		*–34 107*	*–12 026*
Operating expenses	8	–575	–559
Capital return, expenses	9	–1 099	–11 171
Unrealised losses on investment assets	10	–47 756	–3 385
Life insurance, balance on the technical account		**–26 826**	**55 969**
NON-TECHNICAL ACCOUNT			
Life insurance, balance on the technical account		–26 826	55 969
Profit/loss before appropriations and tax		**–26 826**	**55 969**
Appropriations		–	–
Profit/loss before tax		**–26 826**	**55 969**
Tax on profit/loss for the year	12	–783	–628
NET PROFIT/LOSS FOR THE YEAR		–27 609	55 341

Statement of Comprehensive Income

Parent Company

SEK MILLION	2018	2017
Net profit/loss for the year	–27 609	55 341
Other comprehensive income	–	–
COMPREHENSIVE INCOME FOR THE YEAR	–27 609	55 341

Performance Analysis

Parent Company 2018

SEK MILLION	Total	DIRECT INSURANCE OF SWEDISH RISKS			
		Occupational pension insurance			Other life insurance
		Defined benefit insurance	Defined contribution traditional insurance	Occupational disability insurance and waiver of premium insurance	Group life and occupational group life insurance
Premiums written	48 184	25 915	15 690	6 363	216
Return on capital, income	29 390	22 000	6 257	1 114	19
Unrealised gains on investment assets	375	281	80	14	0
Claims incurred	–21 238	–16 379	–509	–4 198	–151
Claims paid	*–21 009*	*–16 377*	*–509*	*–3 966*	*–156*
Change in provision for claims outstanding	*–229*	*–1*	*–*	*–233*	*5*
Change in other technical provisions	–34 107	–23 967	–10 140	–	–
Provision for life insurance	*–34 107*	*–23 967*	*–10 140*	*–*	*–*
Operating expenses	–575	–322	–68	–172	–14
Capital return, expenses	–1 099	–837	–220	–43	–1
Unrealised losses on investment assets	–47 756	–35 749	–10 166	–1 811	–30
Life insurance, balance on the technical account	**–26 826**	**–29 057**	**924**	**1 269**	**38**

Technical provisions					
Provision for life insurance	495 679	447 255	48 423	–	–
Claims outstanding	17 470	21	–	17 409	41
Total technical provisions	**513 149**	**447 277**	**48 423**	**17 409**	**41**
Surplus fund	336 427	266 788	53 091	16 114	435

Total operating expenses, excluding property management expenses					
Operating expenses (administrative expenses in the insurance business)	–575	–322	–68	–172	–14
Claims management expenses (included in Claims paid)	–140	–80	–18	–39	–2
Investment management expenses (included in Return on capital, expenses)	–162	–134	–20	–7	0
Total operating expenses, excluding property management expenses	**–877**	**–536**	**–107**	**–219**	**–16**

Balance Sheet

Parent Company

SEK MILLION	NOTE	31 DEC 2018	31 DEC 2017
ASSETS			
Intangible assets			
Intangible assets	13	233	259
		233	**259**
Investment assets			
Land and buildings	15	12 203	11 282
Investments in Group companies and jointly controlled entities			
Shares and participations in Group companies	16	4 902	3 909
Debt securities issued by, and loans to, Group companies	17, 19	9 066	9 272
Shares and participations in jointly controlled entities (joint ventures)	18, 19, 22, 23	22 597	13 900
Loans to jointly controlled entities (joint ventures)	18, 19	1 857	1 591
Other financial investment assets			
Shares and participations	19, 22, 23, 24	351 727	374 944
Bonds and other debt securities	19, 22, 23, 25, 44, 45	405 487	399 975
Loans secured by real estate	19, 22, 26	2 777	–
Other loans	19, 22, 23, 27	3 133	2 097
Derivatives	19, 22, 28, 29	5 841	6 221
		819 590	**823 191**
Receivables			
Receivables related to direct insurance operations	19, 30	1 726	1 747
Other receivables	19, 31	8 434	8 959
		10 160	**10 706**
Other assets			
Tangible assets	14	14	9
Cash and bank balances	19, 44	2 970	2 644
		2 984	**2 653**
Prepaid expenses and accrued income			
Accrued interest and rental income	19, 32	8 031	8 173
Other prepaid expenses and accrued income	19	34	36
		8 065	**8 209**
TOTAL ASSETS		841 032	845 018

Balance Sheet, *cont.*

Parent Company

SEK MILLION	NOTE	31 DEC 2018	31 DEC 2017
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Surplus fund	34	336 427	294 580
Net profit for the year		–27 609	55 341
		308 818	**349 921**
Technical provisions			
Provision for life insurance	36	495 679	461 572
Claims outstanding	37	17 470	17 242
		513 149	**478 814**
Other provisions			
Pensions and similar commitments	38	2	4
Taxes		0	35
Other provisions	39	3	23
		5	**62**
Liabilities			
Liabilities related to direct insurance operations	19, 40	732	706
Derivatives	19, 22, 27, 28	9 139	8 302
Other liabilities	19, 41	4 440	3 311
		14 311	**12 319**
Accrued expenses and deferred income			
Other accrued expenses and deferred income	19, 42	4 749	3 902
		4 749	**3 902**
TOTAL EQUITY, PROVISIONS AND LIABILITIES		841 032	845 018

Statement of Changes in Equity

Parent Company

SEK MILLION	FUNDING RESERVE [1] Collective consolidation	FUNDING RESERVE [1] Discretionary participation features reserve [2]	FUNDING RESERVE [1] Other reserves	Net profit/loss for the year	Total
OPENING EQUITY AT 1 JANUARY 2017	**205 452**	**70 855**	**10 446**	**15 908**	**302 661**
Net profit for the year				55 341	55 341
Other comprehensive income					–
Comprehensive income for the year				**55 341**	**55 341**
Appropriation of profits from previous years	15 908			–15 908	–
Allocated refunds	–26 268	26 268			–
Guaranteed refunds	–220	–7 671			–7 891
Collective risk premium [3]			–112		–112
Other changes	20	–63	–35		–78
Closing equity at 31 December 2017	**194 892**	**89 389**	**10 299**	**55 341**	**349 921**
Opening equity at 1 January 2018	**194 892**	**89 389**	**10 299**	**55 341**	**349 921**
Net profit/loss for the year				–27 609	–27 609
Other comprehensive income					–
Comprehensive income for the year				**–27 609**	**–27 609**
Appropriation of profits from previous years	55 341			–55 341	–
Allocated refunds	–16 914	16 914			–
Guaranteed refunds	–1 468	–11 588			–13 056
Collective risk premium [3]			–116		–116
Other changes	–306	5	–21		–322
Closing equity at 31 December 2018	**231 545**	**94 720**	**10 162**	**–27 609**	**308 818**

1) See Note 34.
2) Discretionary participation features refer to allocated refunds. See Note 34.
3) Premiums for waiver of premium insurance and collective final payments have been reduced as a result of the increase in employers' expenses resulting from the rules for coordination and calculation of pensionable salaries introduced by the parties to ITP 2 in 2008.

Cash Flow Statement

Parent Company

SEK MILLION	2018	2017
OPERATING ACTIVITIES		
Profit/loss for the year before tax and appropriations	–26 826	55 969
Interest received	5 250	5 123
Interest paid	583	1 156
Dividends received	11 719	17 877
Adjustment for non-cash items [1] [2]	43 154	–43 650
Tax paid	–870	–1 893
Cash flow from operating activities before changes in assets and liabilities	**33 010**	**34 582**
Change in investment assets [2]	–32 251	–31 946
Change in other operating assets	616	2 171
Change in other operating liabilities	1 942	–2 139
Cash flow from operating activities	**3 317**	**2 668**
INVESTING ACTIVITIES		
Investments in property, plant and equipment	–8	–6
Cash flow from investing activities	**–8**	**–6**
FINANCING ACTIVITIES		
Pension supplements/Supplementary amounts	–2 545	–2 273
Payment of indexation funds	–117	–112
Other changes [2]	–321	–77
Cash flow from financing activities	**–2 983**	**–2 462**
Cash flow for the year	**326**	**200**
Cash and cash equivalents at beginning of year	2 644	2 444
CASH AND CASH EQUIVALENTS AT END OF YEAR	**2 970**	**2 644**

[1]		
Depreciation/Amortisation/Impairment, Notes 13, 14	29	29
Foreign exchange gains, Note 5	–4 074	–
Foreign exchange loss, Note 9	–	5 863
Capital gains, Note 5	–6 518	–9 872
Capital losses, Note 9	1	–
Unrealised gains, Note 6	–375	–30 744
Unrealised losses, Note 10	47 756	3 385
Impairment of shares in Group companies, Note 9	371	4 599
Reversal of impairment of shares in Group companies, Note 5	–393	–
Interest income, Note 5	–5 108	–6 172
Interest expenses, Note 9	294	291
Dividends, Note 5	–12 654	–17 947
Adjustment of paid-up values, Note 4	–6 308	–1 487
Premium reductions, Note 4	–4 202	–4 131
Change in provision for life insurance, Note 36	34 107	12 026
Change in provision for claims outstanding, Note 37	229	514
Other [2]	–1	–4
	43 154	**–43 647**

[2] Adjustments compared with the Annual Report 2017 through reclassifications in operating activities.

Notes

NOTE 1 Group and Parent Company accounting principles

These annual financial statements for Alecta Pensionsförsäkring, ömsesidigt, Corporate Identity Number 502014-6865, with registered office in Stockholm, cover the financial year 2018. The company's postal address is SE-103 73 Stockholm. The visiting address of the head office is Regeringsgatan 107.

The annual report was approved for publication by the Board of Directors on 14 March 2019 and will be presented to the Council of Administration for adoption on 11 April 2019.

Amounts indicated in the Notes refer to millions of Swedish kronor (SEK million) unless otherwise indicated. Figures in parentheses refer to the previous year.

Presentation

General accounting principles and new accounting rules are described in Note 1 below. Other accounting principles are described in the relevant Note in order to enhance the reader's understanding of each area of accounting.

Basis of preparation of financial statements

Laws and regulations applying to the Group

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and IFRIC interpretations, as adopted by the EU. In preparing the financial statements, the Swedish Insurance Companies Annual Accounts Act, the Regulations and General Guidelines on the Annual Accounts of Insurance Companies (FFFS 2015:12) of the Swedish Financial Supervisory Authority and Recommendation RFR 1 Supplementary Accounting Rules for Corporate Groups of the Swedish Financial Reporting Board have also been applied.

Consolidated financial statements

The consolidated financial statements comprise the Parent Company, Alecta Pensionsförsäkring, ömsesidigt, and those subsidiaries in which the Parent Company directly or indirectly owns more than half of the voting rights for all shares and participations or otherwise has control. Control means that Alecta has the ability to govern the company, is exposed to or has the right to returns that may vary and is able to govern those activities of the company which affect the returns. Disclosures on shares and participations in Group companies are provided in Note 16. Profits or losses from the operations of subsidiaries that were acquired or sold during the year are included in the consolidated financial statements from the acquisition date until the date when the Parent Company ceases to have control. All intercompany transactions, balance sheet items, income and expenses are fully eliminated on consolidation. Untaxed reserves in legal entities are eliminated in the consolidated financial statements and allocated to equity and deferred tax.

Basis of measurement

The basis of measurement applied in preparing the consolidated financial statements is historical cost, except for derivatives, and assets and liabilities classified to the category financial assets and financial liabilities at fair value through profit or loss. The breakdown by category is described in Note 19.

Technical provisions are calculated at present value and these calculations are based on prudent actuarial assumptions on interest rates, mortality, morbidity, operating expenses and other variables.

The preparation of financial statements in compliance with IFRS requires the use of critical accounting estimates. Management is also required to make certain judgements in applying the Group's accounting principles. Areas which involve a high degree of judgement, are complex or where assumptions and estimates have a material impact on the consolidated financial statements are described in Note 2.

Asset acquisitions and business combinations

In preparing the financial statements, the purchase method has been applied for the acquisition of participations in entities as well as for the direct acquisition of assets and assumption of liabilities of entities. Under this method, an acquisition of participations in an entity is regarded as a transaction in which the Group indirectly acquires the subsidiary's assets and contingent assets and assumes its liabilities and contingent liabilities. The consolidated cost is determined through a purchase price allocation (PPA) in conjunction with the acquisition. In the PPA the cost of the participations or assets and liabilities, and the fair value of acquired identifiable assets and assumed liabilities and contingent liabilities are determined.

When an entity is acquired an assessment is made of whether the acquisition should be classified as a business or an asset. If a property is acquired through the acquisition of a company, the acquisition is treated as if the property had been purchased directly. This type of company normally has no employees and no organisation, or any operations other than those directly linked to the holding of the property. The cost comprises the fair value of the assets and any associated loans. Deferred tax is not recognised as a liability on premiums attributable to the acquisition. Any deductions related to deferred tax received in addition to reported tax in the acquired entity are recognised as a reduction of the fair value of the acquired property, both on acquisition and in the subsequent financial statements.

If the acquired assets and assumed liabilities belong to an entity which also engaged in business activities through employees, Alecta will define the acquisition as a business combination. Business combinations are accounted for in accordance with IFRS 3, which means, for example, that acquisition costs are expensed directly and that deferred tax is recognised as the difference between the market value of the acquired assets and their tax residual value.

For each acquisition, Alecta determines whether the acquisition should be classified as a business or an asset. As at 31 December 2018, all of Alecta's acquisitions have been classified as asset acquisitions.

Translation of foreign currency

The Parent Company's functional currency is the Swedish krona and the financial statements are presented in Swedish kronor.

The balance sheets of foreign subsidiaries are translated at the closing rates at the balance sheet date while income statements of foreign subsidiaries are translated at the average exchange rate for the year. Translation differences arising on translation are recognised in Other comprehensive income and are transferred to the Group's translation reserve.

Monetary assets and liabilities in foreign currency have been translated into Swedish kronor at the closing rates at the balance sheet date. Realised and unrealised changes in value resulting from changes in exchange rates are recognised on a net basis in the income statement in Return on capital, income or Return on capital, expenses.

Insurance contracts

As an insurer, Alecta provides a range of insurance products. Alecta distinguishes between pension products and disability and life insurance products. Disability and life insurance products comprise risk insurance policies, for which the premium is determined for periods of one year at a time. These insurance policies do not include a savings component. For pension products, the pension entitlement is earned during the premium payment period. For accounting and actuarial purposes, all of Alecta's products are classified as insurance contracts. The defining feature of an insurance contract is the existence of a significant insurance risk of some kind.

Allocation of surplus and deficit funds

As regards Alecta Optimal Pension, which is a defined contribution product, surpluses and deficits are allocated to the insureds on a monthly basis. An allocated surplus is disbursed in the form of a supplement to the guaranteed pension ("supplementary amount"). The surplus is not guaranteed but is part of Alecta's risk capital. The size of the surplus or deficit depends on

NOTE 1 Group and Parent Company accounting principles, *cont.*

changes in the pension capital, which in turn reflects actual outcomes for returns, tax, mortality and operating expenses in the relevant defined contribution insurance collective. The Company allocates surpluses and deficits by calculating the refund rate on a monthly basis in arrears, which means that the collective funding ratio normally remains close to 100 per cent. The surplus is recognised in equity in the balance sheet.

A surplus or deficit arising in other products is transferred to Alecta's funding reserve. The primary function of the funding reserve is to safeguard Alecta's ability to meet its insurance commitments. In the second hand, it is used for distribution of surpluses to policy holders and insureds. A surplus that is distributed to policy holders and the insureds can take the form of a pension supplement for pensions in payment, an increase in earned pension entitlements, a reduction of insurance premiums, cash payments and allocations to policy holders in the form of client company funds. Pension supplements, premium reductions and client company funds become guaranteed in conjunction with disbursement, deposit and use, respectively, and in connection therewith capital is transferred from the funding reserve. An increase in vested pension entitlements becomes guaranteed in conjunction with its allocation to the insurance policies and results in a technical provision.

Changes in accounting principles

New and changed IASB accounting standards applied from 1 January 2018:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is an integrated model for recognition of revenue from customer contracts that is not covered by other standards. The basis for the standard is a contract between two parties for the sale of a good or service. The first step is to identify a contract with a customer, which creates an asset (rights, a promise of payment) and a liability (obligation, a promise to transfer goods/services) for the seller. Under the model, revenue should be recognised when an obligation to deliver goods or services to the customer is satisfied. The standard does not cover Alecta's core operations, since insurance operations are regulated by IFRS 4 and income from financial instruments by IAS 39.

Alecta has made the assessment that only some income in property management is covered by the standard. Income for which the tenant is re-invoiced for property improvements and the sale of property and/or companies is considered covered by this standard. All re-invoicing for property improvements in 2018 was of a non-recurring nature and fully debited directly. Income from property improvements, which amounted to SEK 17,2 million, is recognised in the Income from land and buildings item and defined in Note 5, Return on capital, income. No properties or companies were sold in 2018.

The introduction of IFRS 15 did not have any impact on the Group's balance sheets or income statements.

New and changed IASB accounting standards to be applied from 1 January 2019 or later:

Only those standards that are expected to have an impact on Alecta are described.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments includes new bases for the classification and measurement of financial instruments, a forward-looking impairment model and simplified criteria for hedge accounting. IFRS 9 is effective from 1 January 2018.

Alecta conducts insurance-related activities and believes it therefore qualifies for the temporary exemption and will postpone the application of IFRS 9 until 1 January 2022. Alecta's assessment that its activities are mainly insurance-related is based on the definition in IFRS 4 of the fact that the portion of insurance-related liabilities relating to insurance contracts covered by IFRS 4 exceeds the threshold of 90 per cent of the company's total liabilities for the financial year ending on 31 December 2015. Accordingly, Alecta will only provide those disclosures related to effects of IFRS 9 that are required under IFRS 4 to facilitate comparison with companies that apply IFRS 9. Refer to Note 3 Risks and risk management, Note 16 Shares and participations in Group companies, Note 18 Investments in jointly controlled entities (joint ventures) and Note 19 Classification of financial assets and liabilities.

Classification and measurement

Under IFRS 9, all recognised financial assets covered by IAS 39 Financial Instruments should be measured at either amortised cost or fair value through other comprehensive income or at fair value through profit or loss. The classification into the three categories should be based on the company's business model for the various holdings and the characteristics of the cash flows generated by the assets.

Alecta's assessment is that the new standard will not result in any material change in the classification and measurement of Alecta's financial assets and liabilities. All financial instruments with the exception of loans to joint ventures and loans secured by real estate are currently measured in the fair value through profit or loss category. The loans are measured at amortised cost and account for a small portion of Alecta's investment assets.

Impairment (Recognition of expected credit losses)

Under IFRS 9, provisions for credit losses should be recognised for loans and receivables which are measured at amortised cost or fair value through other comprehensive income. The provisions should be based on expected future credit losses and probability-weighted outcomes. Under the model, twelve-month expected credit losses should be recognised on the initial recognition of the instrument (Stage 1). If the credit risk of the instrument increases significantly, the instrument is moved to Stage 2, where the provision must cover the credit losses which are expected to be incurred during the remaining term of the instrument.

Alecta's assessment in respect of the impairment part of the standard, which covers Alecta's loans and rent receivables, is that it will not have a material impact on Alecta's financial statements. The loans account for a small portion of Alecta's financial instruments, and historically no credit losses have been incurred. With regard to rent receivables, too, the transition to IFRS 9 and the introduction of a model for expected rental losses will have no material impact on Alecta's financial statements compared with the model for provisions for rental losses that is applied today.

Hedge accounting

As Alecta does not apply hedge accounting, this part of the standard will not have any impact on the financial statements.

IFRS 16 Leases

IFRS 16 will replace IAS 17 Leases and enter into force on 1 January 2019. For the lessee, IFRS 16 means that the classification of leases as either operating or finance leases will be eliminated and replaced by a model in which the assets and liabilities for all leases where the lease term is longer than 12 months or the leased asset does not have a low value must be recognised in the balance sheet. The right-of-use asset is subsequently depreciated and an interest expense is recognised for the lease liability. For lessors, the classification of leases as either operating lease or finance leases will continue and means that their recognition will remain essentially unchanged.

In the analysis, Alecta has identified the following leases: Leasehold agreements for which the lease payments amounted to SEK 1,3 million in 2018, and car leases for which the lease payments amounted to SEK 4,3 million in 2018. In addition to the above, the Group has identified a lease pertaining to a rental contract in the US, which Alecta has terminated but will remain valid until September 2020, and that Alecta will continue to sub-let for the remaining lease term. The net cost is an estimated SEK 0,4 million for 2019.

NOTE 1 Group and Parent Company accounting principles, *cont.*

Alecta's assessment is that the standard will not have any material impact on the financial statements in monetary terms.

IFRS 17 Insurance Contracts (Not adopted by the EU)
On 18 May 2017, the IFRS 17 standard for insurance contracts was published. The standard affects all companies with insurance contracts that report in accordance with IFRS. The standard will become effective on 1 January 2022 if it is approved by the EU.

IFRS 17 brings extensive changes in relation to the measurement of insurance contracts, the presentation of line items in the income statement and revenue recognition. In addition, the profit margins of insurance contracts must be accrued over the terms of the contracts. Those parts of the standard to be applied by unlisted insurance companies in Sweden is not clear. The Swedish Financial Supervisory Authority is investigating whether and how IFRS 17 should be implemented in legal entities and consolidated accounts in Sweden.

A project is taking place in Alecta to analyse the effects of adopting the standard. The assessment is that the adoption of IFRS 17 will have a major impact on Alecta's financial statements.

Return on capital

Return on capital includes net operating income from investment properties, interest income, interest expenses, dividends on shares and participations, foreign exchange gains and losses, capital gains and losses, and unrealised changes in value on investment assets less operating expenses for investment management. Capital gains and losses are recognised on a net basis for each asset class in Return on capital, income and Return on capital, expenses, respectively. Unrealised gains and losses are also recognised on a net basis for each asset class. Unrealised gains and losses comprise the change for the year in the difference between cost and fair value. When an asset is sold the accumulated unrealised changes in value are reversed as unrealised gain or loss. Changes in value for the year, both realised and unrealised, are recognised through profit or loss in the period in which they arise. Return on capital is presented in Notes 5, 6, 9 and 10.

Investment assets

General information

Investment assets consist of the balance sheet items Land and buildings, Investments in Group companies and jointly controlled entities, and Other financial investment assets.

Reporting of business events

Financial assets at fair value are recognised at fair value after the acquisition date. The cost of investment assets excludes transaction costs related to financial instruments. Purchases and sales of financial assets are recognised in the balance sheet on the transaction date. Transactions which have not been settled at the balance sheet date are recognised as a receivable from or liability to the counterparty in Other receivables or Other liabilities. Purchases and sales of land and buildings are recognised in the balance sheet on the completion date.

Transaction costs

Transaction costs which are directly attributable to purchases and sales of financial investment assets are recognised through profit or loss and included in net capital gain or loss in the items Return on capital, income or Return on capital, expenses. Transaction costs attributable to purchases and sales of land and buildings and assets measured at amortised cost are accounted for as an increase in cost or a decrease in capital gain or loss, respectively.

For acquisitions of companies classified as a business combination, the transaction costs are recognised through profit or loss and included in the item Return on capital, expenses.

Other financial investment assets

Alecta identifies and classifies its financial investment assets as financial assets at fair value through profit or loss on initial recognition. Derivatives are also accounted for in the financial assets at fair value through profit or loss category, as they are considered, by definition, to be held for trade. This classification is based on the fact that Alecta manages and measures all investment assets at fair value. One exception is a small loan portfolio, which has been recognised at amortised cost. The measurement of financial assets traded in an active market is based on observable market data. The fair values of financial assets that are not traded in an active market are determined with the help of established valuation techniques. Note 22 provides fair value disclosures for each class of financial instrument in a table format, based on a hierarchy with three levels of fair value.

Cash and cash equivalents

Cash and cash equivalents constitute a financial asset and are classified in the loans and receivables category. Cash and cash equivalents are termed cash and bank balances in the Group as well as the Parent Company.

Technical provisions

Technical provisions comprise the capital value of the Company's guaranteed commitments for insurance contracts in force and consist of the provision for life insurance and the provision for claims outstanding. These provisions are calculated according to generally accepted actuarial principles. This means that the provisions are measured at present value and that the calculations are based on prudent actuarial assumptions on interest rates, mortality, morbidity, operating expenses and other variables. Technical provisions also include pension commitments to Alecta's employees in accordance with the FTP plan.

Pensions in the Alecta Group

All pension plans in the Group are accounted for as defined contribution plans. This means that contributions are recognised as an expense in the period in which the benefits are earned, which in most cases is the same as when the contribution is paid.

Cash flows

Cash flows are recognised according to the indirect method. Alecta recognises cash flows from operating activities, investing activities and financing activities by applying the necessary adjustments for the insurance business. As cash flows in the insurance business are mostly invested, investment assets are accounted for as an integral part of operating activities. Financing activities in Alecta refer to payments that flow directly to/from equity. Bank balances are recognised as cash and cash equivalents, i.e. the same as the Cash and bank balances item in the balance sheet. Short-term investments are not included in cash and cash equivalents but are recognised as investment assets. Interest received or paid and dividends received are recognised as cash flow from operating activities.

Laws and regulations applying to the Parent Company

The Parent Company applies IFRS with certain limitations contained in Swedish statutes, which means that international financial reporting standards are applied to the extent possible under Swedish accounting legislation. The Parent Company's financial reporting follows the Swedish Insurance Companies Annual Accounts Act (ÅRFL), the Regulations and General Guidelines on the Annual Accounts of Insurance Companies (FFFS 2015:12) of the Swedish Financial Supervisory Authority and Recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board. In the Parent Company, the mandatory formats for income statements and balance sheets provided for in the Swedish Insurance Companies Annual Accounts Act are applied whereas IAS/IFRS formats are used in the consolidated financial statements.

NOTE 1 Group and Parent Company accounting principles, *cont.*

As the Group complies with IAS/IFRS standards, as adopted by the EU, the accounting treatment for certain income statement and balance sheet items in the Parent Company differs from the accounting treatment applied in the Group. The most significant differences are described below.

Land and buildings
In the Parent Company, investment properties and owner-occupied properties are recognised at fair value. In the Group, owner-occupied properties are recognised at cost less accumulated depreciation.

Shares and participations in Group companies
Shares and participations in Group companies are recognised at cost in the Parent Company but are eliminated in the consolidated financial statements.

Debt securities issued by, and loans to, Group companies
Intercompany loans and receivables are recognised at cost in the Parent Company but are eliminated in the consolidated financial statements.

Surplus fund
Life insurance companies which do not have the right to distribute profits are required to maintain a surplus fund to which funds are allocated that can be used to cover losses. The funding reserve is part of equity in the Parent Company and consists of collective funding, the discretionary participation features reserve and other reserves. This differs from the composition of equity in the Group.

Appropriations, untaxed reserves, Group contributions
Swedish tax legislation allows companies to reduce their taxable income for the year by transferring funds to untaxed reserves in the balance sheet through the income statement item Appropriations.

Due to the relationship between accounting and taxation, the deferred tax liability attributable to untaxed reserves is not accounted for separately in the Parent Company.

The Parent Company recognises Group contributions received from and provided to subsidiaries as appropriations.

Yield tax
In the Parent Company income statement, yield tax is recognised together with income tax in the Tax on profit for the year item. In the consolidated financial statements, yield tax is included in operating profit.

Business combinations
On the acquisition of a real estate company, all acquisition costs are accounted for as an increase in the cost of shares and participations in the Parent Company.

NOTE 2 Significant estimates and judgements

The preparation of financial statements and application of different accounting standards are often based on estimates and judgements made by management and the Board of Directors. These estimates and judgements are in most cases based on historical experience but may also be based on other factors, including expectations of future events. Management evaluates these estimates and judgements on a continuous basis. Actual outcomes may differ from the estimates and judgements applied.

Those estimates and judgements which Alecta deems to have the biggest impact on earnings and/or on assets and liabilities are presented below or in the notes indicated in the table

Significant estimates and judgements	Note	
Technical provisions	36, 37	Provision for life insurance, Provision for claims outstanding
Financial instruments	22	Valuation categories for financial instruments measured at fair value
Investment properties	15	Land and buildings
Intangible assets	13	Intangible assets
Income tax	12	Tax
Deferred tax	12	Tax

Technical provisions
The calculation of technical provisions requires qualified judgements as well as assumptions on mortality, morbidity, interest rates, expenses, tax and other variables. The valuation of technical provisions and information on current assumptions are described in the accounting principles in Notes 35 and 36. Significant estimates and judgements The sensitivity of the assumptions used as a basis for the valuation of technical provisions is described in Note 3.

Financial instruments
The measurement of financial instruments at fair value is based primarily on quoted prices in active markets. For holdings for which quoted prices in an active market are not available, valuation techniques are used. These are described in Note 22. The measurement of financial instruments is described in the accounting principles in the relevant note. A sensitivity analysis is shown in Note 3.

NOTE 3 Risks and risk management

A general description of Alecta's risk management and risk organisation is provided on page 55 of the Administration Report. In this note Alecta's various risk categories are described in greater detail.

Risk of loss

This risk category refers to the risk of consequences in the form of loss of reputation or financial loss, for example. Such consequences may result from a failure to manage risks in the risk categories described below.

Insurance risks

Insurance risks are risks associated with Alecta's insurance products and insurance portfolio, and relate to factors such as pricing, the calculation of technical provisions, and the calculation and allocation of surplus funds. These calculations are based on actuarial assumptions, primarily assumptions on mortality, morbidity, operating expenses and interest rates, each of which constitutes a risk.

To determine the reliability of the actuarial assumptions used, Alecta's reported earnings are analysed from an actuarial perspective each year. This is done by comparing actual outcomes for mortality, morbidity, operating expenses and return on capital with the assumptions used. The assumptions are revised when the analysis shows this to be necessary. Changes to assumptions can lead to a change in technical provisions and/or the determination of premiums. As Alecta's insurance collectives are large and diversified, concentration risks are negligible.

Mortality risk

Mortality risk is the risk that the average life expectancy of the insureds will differ from what has been assumed. The risk varies depending on whether the insurance offers a death benefit or life benefit. In a death benefit insurance policy the insurance amount is paid out when the insured dies. Alecta's family pension, family cover and TGL (occupational group life insurance) products are death benefit policies. In a life benefit insurance policy the insurance amount is paid out when the insured reaches the age specified in the contract. Retirement pension is a life benefit insurance policy. Retirement pension with repayment cover is an example of a combined death benefit and life benefit insurance policy.

A reduction in mortality means that the insureds live longer than the Company had assumed. A life benefit insurance policy is negatively affected by reduced mortality, as the costs for the policy increase because the pensions have to be paid out over a longer period than originally assumed. The opposite applies to death benefit insurance.

Under the mortality assumptions used, a man or a woman born in the 1950s is expected to live for a further 22,2 (22,2) and 23,9 (23,9) years, respectively, after their 65th birthday. The increase in life expectancy for individuals born thereafter is assumed to be approximately 0,8 (0,8) years for each birth decade.

A 20 per cent decrease in assumed mortality means that the life expectancy of people aged 65 today will increase by 1,6 (1,6) years and that Alecta's life insurance provision will increase by approximately 5 (5) per cent.

Morbidity risk

Morbidity risk is the risk that the insured will remain ill for a longer period or at a higher level of compensation than originally assumed. Alecta's morbidity risk is included in its disability and waiver of premium insurance products. When an insured falls ill, a technical provision is made based on specific assumptions on the future degree of incapacity to work and the duration of the illness.

If the probability of recovery decreases by 20 per cent at each future date while the level of working capacity decreases by 20 per cent, the technical provisions for disability pension and waiver of premium would increase by approximately 20 (21) per cent.

Operating expenses risk

The operating expenses risk consists in the possibility that Alecta's operating expenses will be higher than was assumed. Alecta monitors operating expenses on an ongoing basis to ensure that they are in line with the levels assumed in the calculations.

Interest rate risk

Interest rate risk arises from the assumptions on future returns used as a basis for calculating premiums and benefits and calculation of technical provisions. Technical provisions are valued mainly on the basis of the yield curve defined in the regulations of the Swedish Financial Supervisory Authority. In the annual report the yield curve is expressed as a cash flow-weighted average interest rate. The impact of the interest rate on Alecta's results and solvency ratio is described in the sensitivity analysis on page 76. A further description of the management of the total interest rate risk for assets and liabilities is provided under Matching risk on the next page.

Financial risks

Financial risks exist in the investment activities and comprise market, credit and liquidity risks, matching risk and solvency risk. The goal for the investment activities is to generate a sustainable positive inflation-adjusted return, i.e. a return which consistently exceeds both inflation and the growth of Alecta's insurance commitments. In 2018, the central function Risk assessed the value of Alecta's investment assets. Some aspects of risk management in Alecta's investment management activities were also reviewed.

Market risk

Market risk is the risk that the value of Alecta's investments will be negatively affected by changes in interest rates, exchange rates or the prices of shares, bonds or real estate. To limit market risk and avoid concentrations in the portfolio, Alecta spreads its investments across different asset classes and markets.

Asset allocation

	Exposure		Share of portfolio	
Asset class	2018	2017	2018	2017
Shares	322 577	345 250	39,2 %	41,6%
Debt securities	419 781	419 809	50,9 %	50,6 %
Real estate	81 574	64 733	9,9 %	7,8%
Total	**823 932**	**829 792**	**100 %**	**100 %**

The table shows Alecta's asset allocation based on the classification in the total return table, see page 47. A detailed breakdown by asset class is presented in the diagrams on page 49.

To ensure that Alecta is able to meet its solvency requirements by a comfortable margin even in adverse market conditions, the investment policy establishes limits for risk levels. Various derivatives, such as interest rate futures, equity futures, forward exchange contracts and interest rate and currency swaps, are used to reduce the risks in the event of major price fluctuations, and to increase the cost-effectiveness of Alecta's asset management activities. Alecta also hedges its entire holdings of foreign bonds and real estate and a portion of its holding of foreign shares. Alecta's total currency exposure after hedging was equal to 11,0 per cent (12,4) of total investments at year-end. Without currency hedging, 43,3 per cent (42,1) of Alecta's assets would have been exposed to exchange rate fluctuations.

Currency exposure after hedging

	Exposure		Share of investment portfolio	
	2018	2017[1)]	2018	2017
DKK	12 320	13 381	1,5 %	1,6 %
EUR	–28 857	63	–3,5 %	0,0 %
CHF	–34	3 409	0,0 %	0,4 %
GBP	9 140	5 559	1,1 %	0,7 %
USD	37 834	75 960	4,6 %	9,2 %
Other currencies	2 257	4 519	0,3 %	0,5 %
Net exposure	**90 443**	**102 891**	**11,0 %**	**12,4 %**

Summation is in absolute terms, which means that a negative position in one currency cannot cancel a positive exposure in another currency.

1) The currency exposure deviates slightly from the 2017 Annual Report due to a refined calculation method.

NOTE 3 Risks and risk management, *cont.*

Credit risk

Credit risk is the risk of financial losses due to the insolvency of an issuer or counterparty. Alecta analyses the credit risks associated with different types of investment and establishes credit limits for issuers and counterparties. Limits have also been established for single exposures, i.e. limits for Alecta's total equity and fixed income exposure to the same corporate group. Risk & Performance verifies that these limits are not exceeded on a daily basis. Fixed income investments mainly comprise investments in securities issued by borrowers with very high credit ratings. Investments are made mainly in bonds assigned a rating of BBB– or higher by the Standard & Poor's, Moodys and Fitch rating agencies. In addition to external ratings, all issuers are assessed for credit risk using internal credit rating models.

Credit exposure	Bonds and other debt securities			
	Market value including forward exposure		Share	
	2018	2017[1]	2018	2017
Rating Aaa/AAA	173 930	161 456	42,9 %	40,5 %
Rating Aa/AA	107 371	126 895	26,5 %	31,8 %
Rating A/A	72 572	54 331	17,9 %	13,6 %
Rating Baa/BBB	23 386	33 410	5,8 %	8,4 %
Rating Ba/BB	5 564	3 146	1,4 %	0,8 %
Unrated	22 928	19 408	5,7 %	4,9 %
of which securities issued by stated-owned issuers	*8 018*	*6 689*	*2,0 %*	*1,7 %*
Total	405 751	398 646	100 %	100 %

[1] Market value including forward exposure deviates slightly from the 2017 Annual Report due to a refined calculation method.

Liquidity risk

Liquidity risk is the risk of loss on financial instruments arising from the inability to immediately sell an instrument without a reduction in the price or the risk that Alecta will be unable to meet its payment obligations at maturity without an increase in the cost of obtaining the necessary funds. Alecta's payment obligations consist of insurance obligations and financial liabilities. Of Alecta's total obligations, approximately 95 per cent have a maturity in excess of five years, see Notes 35 and 36. Alecta's financial liabilities are limited to the derivatives used to hedge foreign currency risk and interest rate risk, and usually have a maturity of less than one year. Information on the nominal values of Alecta's derivatives is presented in Note 27. A maturity analysis of financial liabilities is also presented in Note 21. Liquidity risk is monitored through detailed cash flow forecasts and is limited by the fact that a large portion of Alecta's investments is invested in highly liquid assets. Note 22 shows that SEK 326.3 billion of Alecta's investments consist of shares in listed companies that can be converted into cash within one week. The remaining investments are deemed to convertible into cash within one year, and the liquidity risk is therefore regarded as negligible.

Matching risk

Matching risk is the risk of a deterioration in the Company's financial position due to differing characteristics between assets and technical provisions. The value of Alecta's insurance commitments and fixed income investments depends on the level of interest rates. When interest rates fall, Alecta's commitments increase, as does the value of its fixed income investments. Given that the commitments are larger and have a longer average maturity than the fixed income investments, a decrease in interest rates has a negative impact. Information on the maturities of the commitments as well as fixed-rate terms for the asset portfolio is provided in Notes 35 and 36, and Note 25, respectively.

To calculate the matching risk, Alecta uses an asset liability management (ALM) analysis that is aimed at identifying the optimal composition of investment assets with regard to Alecta's insurance commitments. The analysis also takes account of how Alecta's investment assets and liabilities at market value, and thus also its risk capital, are affected by price fluctuations in financial markets. Decisions on the composition of investments are based on Alecta's long-term assessments of market conditions in relation to its obligations, targets and financial position. Decisions are reported on an ongoing basis in Board's Finance Committee.

Solvency risk

Solvency risk is the risk that Alecta will be considered to have insufficient risk capital to ensure that it is able to meet its guaranteed commitments. The Swedish Financial Supervisory Authority measures solvency risk using its traffic light model. Alecta's risk capital meets the criteria for "green light" by a wide margin. In addition, Alecta performs its own stress tests on a daily basis. The tests identify significant financial risks and are based on slightly more adverse market scenarios than those prescribed in the traffic light model. The stress tests measure risk exposure, and in the event that a limit is reached, action is taken to safeguard Alecta's solvency.

Sensitivity analysis	Effect on			
	Solvency ratio (% points)		Net profit for year/Equity	
Group	2018	2017	2018	2017
Interest rate decrease 1% point, [1]	–11,7 %	–13,3 %	–35 773	–34 487
Share price decrease 10 %	–6,3 %	–7,2 %	–32 258	–34 525
Real estate value decrease 10 %	–1,6 %	–1,4 %	–8 157	–6 473
Exchange rate decrease 10 %	–1,8 %	–2,2 %	–9 095	–10 344

[1] The comparative figures deviate slightly from the 2017 Annual Report due to a refined calculation method.

The table shows how the solvency ratio and net profit for the year would be affected by a decrease in the value of shares, properties and currencies, and by a decrease in the market interest rates, regardless of maturity and market. A decrease in the market rates increases the value of Alecta's commitments by SEK 48.8 billion (47.6) and the value of its fixed income investments by SEK 15.9 million (16.6).

Other risks

In addition to the aforementioned risks, Alecta needs to manage other risks, such as compliance risks, sustainability risks and information security risks. An important method for mitigating these risks, as well as the above risk categories, is to control operational risks, see below. More information on Alecta's management of these risks is presented in the Corporate Governance Report on page 36.

Operational risks

Alecta defines operational risk as the risk of operational inadequacies or failures related to personnel, organisation and processes, IT systems or security. Such inadequacies or failures can cause risks in other risk categories. For example, inadequate expertise on the part of Alecta's personnel could result in the Company unknowingly being exposed to financial risks. Operational risks are counteracted by good internal control. Good internal control is achieved through a clear division of responsibilities, documented processes and procedures, effective controls and by other means.

Risk self-assessment

Using a central self-assessment method, all departments at Alecta identify and assess their risks and controls in various risk categories on an annual basis. Areas of potential improvement are identified and decisions are made on which risk reduction measures or financially motivated or other measures to take. Work on continuous improvement in Alecta's day-to-day operations also helps to reduce risks.

Incident management

Despite the preventive actions that are taken to identify and reduce risks, incidents may still occur. Such incidents must of course be addressed immediately to limit any possible damage and loss. Equally important is to learn from what has occurred and take measures to try to prevent similar incidents from occurring again. Incidents are therefore discussed and reported at all levels of Alecta on a regular basis.

NOTE 4 Premiums written

Group and Parent Company	2018	2017
Current premiums	35 173	31 279
Single premiums	2 601	1 721
Premium tax [1]	–100	–105
Invoiced premiums	**37 674**	**32 895**
Adjustment of paid-up values	6 308	1 487
Premium reduction	4 202	4 132
Guaranteed refunds	**10 510**	**5 619**
Total premiums written	**48 184**	**38 514**

[1] The tax base is 95 per cent (95) of premiums received for TGL. The tax is 45 per cent (45) of the tax base.

Accounting principle

Premiums written can comprise paid-in and credited premiums as well as refunds in the form of adjustments of paid-up values and premium reductions. Reductions are made for special premium tax (relates to TGL). The accounting treatment of premiums written differs depending on whether the premiums relate to defined contribution or defined benefit insurance. The cash principle is applied for defined contribution insurance while the charging system is applied for defined benefit insurance when accounting for premiums written.

Premiums are recognised as income and affect different balance sheet items depending on whether the premium relates to pension insurance or risk insurance. For pension insurance, an increase is made in technical provisions on the liabilities side of the balance sheet while risk insurance premiums are allocated through profit or loss to equity.

Calculation of premiums

Premiums are intended to cover Alecta's commitments to its policy holders. The premium is determined on the basis of actuarial assumptions on interest rates, mortality, morbidity and operating expenses. These assumptions are based on experience and observations, and are broken down by insurance portfolio. Pension insurance can either be defined benefit or defined contribution. For defined benefit insurance, the benefits are specified in the insurance contract and premiums are determined on the basis of actuarial assumptions. Premiums are determined individually for each insured. For defined contribution insurance, the premium is specified in the insurance contract and the benefits are determined on the basis of actuarial assumptions.

The premium for risk insurance is either calculated individually for each insured or distributed collectively over a group of insureds and applies for one calendar year at a time.

NOTE 5 Return on capital, income

	Group		Parent Company	
	2018	2017	2018	2017
Rental income from land and buildings	1 682	1 702	643	638
Dividends received	11 988	12 170	12 654	17 947
of which Group companies	*–*	*–*	*952*	*5 867*
Interest income, etc.	4 996	6 043	5 108	6 172
bonds and other debt securities	*4 518*	*5 815*	*4 518*	*5 815*
loans secured by real estate	*66*	*–*	*66*	*–*
other interest income	*412*	*228*	*410*	*227*
other interest expenses, Group companies	*–*	*–*	*114*	*130*
Reversal of impairment	–	–	393	–
shares in Group companies	*–*	*–*	*393*	*–*
Net foreign exchange gains	4 074	–	4 074	–
Net capital gains	6 518	13 088	6 518	9 872
land and buildings	*3*	*3 361*	*3*	*145*
shares and participations	*5 764*	*8 175*	*5 764*	*8 175*
bonds and other debt securities	*751*	*1 552*	*751*	*1 552*
Other	17	14	–	–
Total capital return, income	**29 275**	**33 017**	**29 390**	**34 629**

NOTE 6 Unrealised gains on investment assets

	Group		Parent Company	
	2018	2017	2018	2017
Land and buildings	1 380	–	291	611
Shares and participations	–	30 148	–	30 124
Bonds and other debt securities	–	–	–	–
Other loans	84	8	84	9
Total unrealised gains on investment assets	**1 464**	**30 156**	**375**	**30 744**

NOTE 7 Claims paid

Group and Parent Company	2018	2017
Basic amount paid before indexation	–17 970	–17 513
Waiver of premium paid	–2 531	–2 039
Cancellations and repurchases [1]	–368	–568
Operating expenses for claims management	–140	–142
Total claims paid	**–21 009**	**–20 262**

[1] The item includes transferred capital of SEK 353 million (550).

Accounting principle

Benefits can either be guaranteed under the concluded contract or contingent in the form of a pension supplement, for example. A guaranteed benefit is recognised in the income statement as an expense and reduces the technical provision in the balance sheet by the same amount. A contingent benefit does not affect profit or loss but is recognised directly in equity.

NOTE 8 Operating expenses

	Group		Parent Company	
	2018	2017	2018	2017
Administrative expenses	–575	–559	–575	–559
Total operating expenses in the insurance business	**–575**	**–559**	**–575**	**–559**
Claims management [1]	–140	–142	–140	–142
Investment management [2]	–163	–180	–162	–170
Property management [3]	–71	–70	–34	–34
Total operating expenses	**–948**	**–951**	**–911**	**–905**
Specification of total operating expenses				
Personnel costs	–409	–435	–409	–430
Costs for premises	–18	–21	–20	–22
Amortisation/depreciation	–26	–26	–26	–26
IT costs	–226	–216	–226	–215
Property management costs	–71	–70	–34	–34
Selection centre costs	–142	–133	–142	–133
Other costs [4]	–105	–98	–103	–93
Administration fees	49	48	49	48
Total operating expenses	**–948**	**–951**	**–911**	**–905**

1) Recognised in Insurance claims paid in the income statement, see Note 7.
2) Recognised in Return on capital, expenses in the income statement, see Note 9.
3) Recognised in Return on capital, expenses in the income statement (included in the item Operating expenses for land and buildings in Note 9).
4) Other expenses largely comprise costs for consultants and fees paid to the Swedish Financial Supervisory Authority.

Accounting principle

Operating expenses are expenses for employees or temporary staff, costs for premises, IT costs, scheduled depreciation of property, plant and equipment and amortisation of intangible assets, costs for the agency agreement with Collectum related to defined benefit retirement pension and disability insurance, and other operations-related costs. These expenses are recognised as incurred. Operating expenses are divided into the following functions: acquisition, administration, claims management, investment management and property management. Acquisition expenses and administrative expenses are recognised in the item Operating expenses in the income statement. Alecta does not regard depreciation and impairment of owner-occupied property as an operating expense in the insurance business. These are therefore recognised as a separate item in the income statement.

Acquisition expenses

Acquisition expenses refer to expenses incurred by the company in acquiring new insurance contracts. Alecta does not capitalise its acquisition expenses, as the amount is insignificant.

Administrative expenses

Administrative expenses consist of operating expenses incurred by Alecta for the day-to-day administration of its insurance contracts as well as costs for central Group functions, such as finance and legal counsel.

Claims management

Expenses for claims management consist of expenses for managing contracts that are under payment. They also include a portion of the IT costs incurred in supporting the claims management process and expenses allocated to cover a portion of costs for the central Group functions. Claims management expenses are recognised in the income statement in the item Claims paid.

Investment management

Investment management expenses are recognised in the item Return on capital, expenses in the income statement. These expenses consist of direct costs, primarily personnel, information and IT costs, as well as indirect costs, such as the share of costs for premises and costs allocated for central Group functions.

Property management

Like investment management expenses, property management expenses are recognised in Return on capital, expenses in the income statement. A significant expense item related to property management is external costs, as the management of Alecta's real estate has to a large extent been outsourced to external service providers.

NOTE 9 Capital return, expenses

	Group		Parent Company	
	2018	2017	2018	2017
Operating expenses for land and buildings	–516	–527	–249	–225
Investment management expenses [1]	–163	–180	–162	–170
Interest expenses, etc.	–294	–291	–294	–290
bonds and other debt securities	*–262*	*–259*	*–262*	*–258*
other interest expenses	*–32*	*–32*	*–32*	*–32*
other interest expenses, Group companies	–	–	–	–
Custodian expenses	–23	–24	–23	–24
Depreciation/amortisation and impairment	–	–	–371	–4 599
shares in Group companies	–	–	*–371*	*–4 599*
Net foreign exchange losses	–	–4 685	–	–5 863
Net capital losses	–1	–	–	0
land and buildings	*–1*	–	–	–
other loans	–	–	–	*0*
Other	–29	–28	–	–
Total capital return, expenses	**–1 026**	**–5 735**	**–1 099**	**–11 171**

1) In addition to these expenses, external fees of approximately SEK 157 million (90) were paid for investments in unlisted real estate and fixed-income holdings. These fees have been recognised as a negative change in the value of the holding and are therefore included in the net amount of unrealised losses on shares and participations in Note 10.

NOTE 10 Unrealised losses on investment assets

	Group		Parent Company	
	2018	2017	2018	2017
Land and buildings	–	–1 053	–	–
Shares and participations	–43 271		–43 271	–
Bonds and other debt securities	–4 484	–3 385	–4 484	–3 385
Loans secured by real estate	–1		–1	–
Total unrealised losses on investment assets	**–47 756**	**–4 438**	**–47 756**	**–3 385**

NOTE 11 Yield tax

Group and Parent Company	2018	2017
Yield tax [1]	–318	–271
Adjustment of tax attributable to previous years	0	0
Total yield tax	**–318**	**–271**
[1] **Yield tax**		
Capital base [2]	797 009	737 227
Tax base [3]	4 065	3 686
Yield tax before tax credit [4]	–610	–553
Tax credit for paid coupon tax and income and property tax (foreign properties) in previous year	292	282
Yield tax after tax credits	**–318**	**–271**

Sensitivity analysis	Effect on yield tax before foreign tax credit	
Group	2018	2017
Capital base +/– 10 %	–/+ 61	–/+ 55
Allocation percentage +/– 1 % point	–/+ 6	–/+ 6
Average government borrowing rates +/– 1 % point	–/+ 1 196	–/+ 1 106

[2] The calculation of the capital base for yield tax is based on the value of all assets at the beginning of 2018 less financial liabilities at the same date. The capital base is adjusted for premiums on indirectly owned foreign and Swedish properties. Of the capital base, SEK 6 529 million (5 790) refers to premiums. The capital base for yield tax, which includes Alecta's pension products and family protection, represents 95,42 per cent (95,16) of the total base. This portion is calculated on the basis of equity and technical provisions attributable to these products.

[3] The tax base is calculated as the capital base multiplied by the average government borrowing rate for the calendar year immediately preceding the beginning of the tax year, which results in a form of standardised yield. Average government borrowing rates amounted to 0,51 per cent (0,50).

[4] Tax rate: 15 per cent (15).

Accounting principle

Yield tax is payable on Alecta's pension products and on family cover.

Group: Alecta has made the assessment that the standardised return on the basis of which the yield tax is determined does not constitute a taxable profit as defined in IAS 12. Yield tax is therefore not classified as income tax but is recognised as an expense in operating profit in the consolidated income statement.

Parent Company: In the Parent Company income statement, yield tax is recognised together with income tax in the Tax on profit for the year item.

NOTE 12 Tax

	Group		Parent Company	
	2018	2017	2018	2017
Current tax				
Tax on profit for the year in Sweden [1]	–24	–24	–	–
Foreign tax on directly and indirectly owned properties	–77	–1 626	–77	–1 626
Adjustment of tax attributable to previous years	80	–	80	–
Coupon tax	–616	–591	–616	–591
Total current tax	**–637**	**–2 241**	**–613**	**–2 217**
Deferred tax				
Change in deferred tax assets/liabilities	–84	1 633	148	1 860
Total deferred tax	**–84**	**1 633**	**148**	**1 860**
Income tax (Group)	**–721**	**–608**	–465	–357
Yield tax				
Yield tax [2]			–318	–271
Adjustment of tax attributable to previous years			–	0
Total yield tax			**–318**	**–271**
Tax on profit for the year (Parent Company)			**–783**	**–628**

[1] In the Parent Company, the portion subject to income tax comprises disability pension, waiver of premium and occupational group life insurance (TGL).

[2] For the calculation of yield tax, see Note 11.

Reconciliation of theoretical tax expense and reported tax	Group 2018	Group 2017	Parent Company 2018	Parent Company 2017
Profit/loss before yield tax and income tax according to income statement	–25 800	58 134	–26 826	55 969
Less: Profit/loss from operations subject to yield tax, including consolidation adjustments	28 710	–50 792	28 138	–51 462
Profit/loss from operations subject to income tax	**2 910**	**7 342**	**1 312**	**4 507**
Tax at applicable tax rate, 22 %	**–640**	**–1 615**	**–289**	**–991**
Difference in tax rate [1]	–	–53	–	–
Effect of changed tax rate	73		–5	
Non-deductible expenses	–9	–1	–5	–50
Non-taxable income	16	386	22	75
Taxable income not included in profit	–3	–6	–3	–6
Guaranteed premium reduction	908	891	908	891
Effect of initial recognition of properties	14	4	–	–
Other	0	0	–	–
Adjustment of tax attributable to previous years	13	–76	4	–32
Creditable foreign tax [2]	–473	638	–485	1 973
Foreign income tax	–4	–185	4	–1 626
Coupon tax	–616	–591	–616	–591
Reported income tax	**–721**	**–608**	**–465**	**–357**
Effective tax	**–25 %**	**–8 %**	**–35 %**	**–8 %**

[1] Refers to the USA.

[2] Comprises creditable foreign tax exceeding the maximum limit, creditable foreign tax paid during the year and the corresponding deferred tax on the difference between the book and tax values of foreign properties.

NOTE 12 Tax, *cont.*

	Group				Parent Company			
	2018		2017		2018		2017	
	Tax asset	Tax liability	Tax asset	Tax liability	Tax asset	Tax liability	Tax asset	Tax liability
Deferred tax related to:								
Temporary differences								
Land and buildings in Sweden	–	–1 450	–	–1 226	–	–44	–	–48
Land and buildings outside of Sweden	–	–183	–	–155	–		–	–
Other financial investment assets	–	–836	–	–1 337	–	–836	–	–1 337
Accelerated depreciation	–	–50	–	–47	–	–	–	–
Loss carry-forwards	966	–	837	–	963	–	837	–
Creditable foreign tax [1)]	5 603	–	6 060	–	5 427	–	5 911	–
Deferred tax assets and liabilities	**6 569**	**–2 519**	**6 897**	**–2 765**	**6 390**	**–880**	**6 748**	**–1 385**
Netting of assets and liabilities	–880	880	–1 388	–1 388	–880	880	–1 385	1 385
Net deferred tax assets and liabilities	**5 689**	**–1 639**	**5 509**	**–1 377**	**5 510**	**–**	**5 363**	**–**
of which expected to be settled after more than 12 months, amount before netting	*6 263*	*–2 519*	*6 607*	*–2 765*	*6 090*	*–880*	*6 458*	*–1 385*

1) Comprises creditable foreign tax exceeding the maximum limit, creditable foreign tax paid during the year and the corresponding deferred tax on the difference between the book and tax values of foreign properties.

	Group		Parent Company	
Changes in net deferred tax assets and liabilities	2018	2017	2018	2017
Opening balance	4 132	2 496	5 362	3 502
Recognised in profit or loss	–84	1 633	148	1 860
Foreign exchange differences	2	1	–	–
Change through business combinations/sale	–	2	–	–
Closing balance	**4 050**	**4 132**	**5 510**	**5 362**

Accounting principle

The tax is calculated individually for each company based on the applicable tax rules. Income tax refers to current tax and deferred tax. Current tax includes tax on profit for the period and coupon tax on dividends received.

Deferred tax is calculated using the balance sheet liability method for temporary differences between the carrying amounts and tax bases of assets and liabilities as well as tax loss carry-forwards and other unused tax deductions. In an asset acquisition, the temporary difference arising on the initial recognition of assets and liabilities is not taken into account. Deferred tax assets are recognised to the extent that it is probable that they can be used.

Alecta is entitled to deduct foreign tax credits when calculating future yield tax and income tax. Alecta's tax expense (yield tax and income tax) will thus be reduced, resulting in future economic benefits. Alecta's assessment is that a tax asset should be recognised if the future tax credit can be reliably estimated. The offset of future tax credits against yield tax is not specifically regulated in IFRS. Alecta's assessment is that the right to future tax credits is of a similar nature to income tax credits under IAS 12. An asset related to future tax credits will therefore be recognised as a deferred tax asset even though it will mainly be offset against yield tax.

Deferred tax assets and deferred tax liabilities are recognised on a net basis when there is a legal right of set-off and the assets and liabilities refer to taxes levied by the same tax authority.

The business segments in the Parent Company on which income tax is levied are disability pension, waiver of premium and occupational group life insurance (TGL).

Significant estimates and judgements

Income tax

When calculating the basis for income tax in the Parent Company, an assessment needs to be made of the allocation of income and expenses between operations subject to income tax and operations subject to yield tax. The principles applied have a direct impact on the estimated income tax.

Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences, unused tax loss carry-forwards and other unused tax deductions. The reported deferred tax is affected by assumptions and judgements used in determining the carrying amounts of different assets and liabilities, and in estimating future taxable profits.

Each year, Alecta assesses whether new deferred tax assets can be recognised and whether tax loss carry-forwards or unused tax deductions from previous years have been impaired.

Alecta is entitled to deduct foreign tax credits when calculating future yield tax and income tax. The resulting future economic benefits are recognised as a deferred tax asset, even though the asset will largely be offset against yield tax. An asset is recognised when the future tax credit can be reliably measured.

NOTE 13 Intangible assets

	Group		Parent Company	
	2018	2017	2018	2017
Cost				
Opening balance, cost	683	683	683	683
Investments during the year	–	–	–	–
Disposals during the year	–	–	–	–
Closing balance, cost	**683**	**683**	**683**	**683**
Accumulated amortisation and impairment				
Opening balance, amortisation	–310	–284	–310	–284
Amortisation for the year	–26	–26	–26	–26
Disposals during the year	–	–	–	–
Closing balance, amortisation	**–336**	**–310**	**–336**	**–310**
Opening balance, impairment	–114	–114	–114	–114
Closing balance, impairment	**–114**	**–114**	**–114**	**–114**
Carrying amount, intangible assets	**233**	**259**	**233**	**259**

Intangible assets comprise internally generated expenditure for IT development, mainly IT development for the insurance system that was taken into use in April 2008, and account for SEK 680 million (680) of the total cost.

Accounting principle

Intangible assets comprise direct expenditure for in-house-developed software. Internally generated intangible assets in the Group are measured at cost. They are expected to generate future economic benefits. All internally generated intangible assets related to in-house-developed software are recognised only if all of the following criteria are met: an identifiable asset exists, it is probable that the asset will generate future economic benefits, the Company has control over the asset, and the cost of the asset can be reliably measured.

Capitalised development costs are amortised on a straight-line basis from the date on which the asset goes into production. Amortisation schedules are prepared based on the estimated useful lives. The amortisation period is 20 years for the insurance system's core system and five years for other, peripheral functions. For other capitalised development costs the amortisation period is three years. The insurance system's core system has functionality for managing Alecta's long-term insurance commitments. Amortisation methods and useful lives are reviewed at each closing date. An individual review is made for each asset. Amortisation is recognised as an operating expense. The value of Alecta's intangible assets is reviewed at each closing date through an assessment of internal and external indications of impairment. If there are indications of impairment, the asset's recoverable amount is determined, and if this amount is less than the carrying amount, the asset is written down to the lower amount.

Significant estimates and judgements

Alecta has a significant intangible asset in the form of accrued development costs for the insurance system. At each closing date, the value of each asset is assessed individually. The amortisation method and the useful life of the asset are also reviewed.

NOTE 14 Property, plant and equipment

	Group		Parent Company	
	2018	2017	2018	2017
Cost				
Opening balance, cost	55	51	27	21
Purchases during the year	11	8	8	6
Sales/disposals during the year	–	–4	–	–
Translation difference	–	–	–	–
Closing balance, cost	**66**	**55**	**35**	**27**
Accumulated depreciation				
Opening balance, depreciation	–41	–40	–18	–15
Depreciation for the year	–5	–4	–3	–3
Sales/disposals during the year	–	3	–	–
Translation difference	–	–	–	–
Closing balance, depreciation	**-46**	**–41**	**–21**	**–18**
Carrying amount, property, plant and equipment	**20**	**14**	**14**	**9**

Accounting principle

Property, plant and equipment consist of IT equipment, machinery and equipment, and artwork, and are measured at cost less accumulated depreciation. Assets are depreciated on a straight-line basis based on their estimated useful lives. The depreciation period is three years for IT equipment and three to five years for machinery and equipment. Artwork is not depreciated. Depreciation methods and useful lives are reviewed at each closing date. At each closing date, an assessment is made of whether there are any indications of impairment of items of property, plant and equipment. If this is the case, the asset's recoverable amount is determined, and if this amount is less than the carrying amount, the asset is written down to the lower amount.

NOTE 15 Land and buildings

Investment properties

Specification of change in fair value

Group 2018	Sweden	United Kingdom	Total
Opening balance	28 216	–	28 216
New builds, extensions and conversions	1 027	–	1 027
Acquisitions	113	–	113
Sales	–	–	–
Change in value	1 545	–	1 545
Exchange rate fluctuations	–	–	–
Closing balance	**30 901**	**–**	**30 901**

Group 2017	Sweden	United Kingdom	Total
Opening balance	25 447	–	25 447
New builds, extensions and conversions	3 212	–	3 212
Acquisitions	140	–	140
Sales	–2 830	–	–2 830
Change in value	2 247	–	2 247
Exchange rate fluctuations	–	–	–
Closing balance	**28 216**	**–**	**28 216**

Parent Company 2018	Sweden	United Kingdom	Total
Opening balance	11 282	–	11 282
New builds, extensions and conversions	631	–	631
Acquisitions	–	–	–
Sales	–	–	–
Change in value	290	–	290
Exchange rate fluctuations	–	–	–
Closing balance	**12 203**	**–**	**12 203**

Parent Company 2017	Sweden	United Kingdom	Total
Opening balance	10 614	127	10 741
New builds, extensions and conversions	240	–	240
Acquisitions	–	–	–
Sales	–272	–125	–397
Change in value	700	–1	699
Exchange rate fluctuations	–	–1	–1
Closing balance	**11 282**	**–**	**11 282**

Specification of historical costs

Parent Company	Sweden	United Kingdom	Total
2018	7 292	–	7 292
2017	6 661	–	6 661

	Group		Parent Company	
Fair value by sector	2018	2017	2018	2017
Industrial	160	163	160	163
Office	20 278	18 425	7 247	6 445
Residential	1 100	644	–	–
Retail	7 948	7 731	3 947	3 839
Other	1 415	1 253	849	835
Total	**30 901**	**28 216**	**12 203**	**11 282**

	Group	
Lettable floor area by sector, sq.m	2018	2017
Industrial	17 146	17 146
Office	420 667	449 292
Residential	33 719	4 212
Retail	279 652	274 473
Other	24 396	24 396
Total	**775 580**	**769 519**

	Group	
Future lease payments by maturity	2018	2017
Within one year	1 395	1 395
Later than one year but within five years	3 423	3 267
Later than five years	2 381	1 966
Total	**7 199**	**6 628**

Owner-occupied properties

Group	2018	2017
Cost		
Opening balance, cost	1 037	994
Purchases during the year	77	43
Closing balance, cost	**1 114**	**1 037**
Accumulated depreciation		
Opening balance, depreciation	–159	–139
Depreciation for the year	–22	–20
Closing balance, depreciation	**–181**	**–159**
Carrying amount, owner-occupied properties	**933**	**878**

NOTE 15 Land and buildings, *cont.*

Accounting principle

Investment property

All properties in the Group, other than owner-occupied properties, are classified and accounted for as investment properties in accordance with IAS 40, as they are held for rental income or capital appreciation of a combination of the two.

Investment properties are measured at fair value, which is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In accordance with IFRS 13, Alecta's investment properties are classified in Level 3 of the fair value hierarchy, which means that non-observable inputs have been used. No properties were transferred to a different level of the hierarchy during the year. Alecta's current use of the investment properties is deemed to be the best use, which means that the valuation of the properties should reflect the assets' maximum value. Gains and losses arising from changes in the fair values of the investment properties are recognised in the income statement in the period in which the gain or loss occurs. Purchases and sales of investment properties are recognised in the balance sheet on the completion date.

Alecta also owns properties that are being developed or exploited for future use as investment properties. These project properties are measured at fair value or, if fair value cannot be determined at the time of construction, this investment property is measured at cost until its fair value can be reliably determined. Project properties recognised at cost account for SEK 3 340 million (2 863) of the total carrying amount of SEK 30 901 million (28 216) in the Group.

Owner-occupied property

Alecta's owner-occupied properties are recognised at fair value in the Parent Company in accordance with the Swedish Insurance Companies Annual Accounts Act and classified as land and buildings in the balance sheet. The Group applies IAS 16 for owner-occupied properties, since a large portion of the property is held for the provision of the company's own services. In the Group, owner-occupied properties are measured at cost. The cost is recognised less accumulated depreciation and any accumulated impairment. Owner-occupied properties are divided into components and the depreciation method used reflects the time at which the asset's future economic benefits are expected to have been exhausted. Actual operating and maintenance expenses for Alecta's owner-occupied properties are recognised in operating expenses in the income statement. The full amount of depreciation and impairment of owner-occupied properties is recognised as depreciation of owner-occupied properties in the consolidated income statement.

Significant estimates and judgements

Valuation method

Alecta engages an external valuation firm to assess the market value of all properties as at 31 December and 30 June each year. The external valuer bases its estimates on information about the specific characteristics of each property, such as current tenancies, running costs and estimated market rents. In connection with the external valuation the information is quality-assured by Alecta.

The total value of Alecta's property portfolio is based on the estimated market value of each individual property. The market value consists of the future benefits which an acquirer could obtain from the property. The key factors are what the property may be used for, and the extent to which and in what way an acquirer can use the property.

Market values of properties are normally determined through cash flow assessments based on estimates of each property's earnings potential. The method involves analysing expected future cash flows over a period of time, normally ten years, and calculating the present value of these cash flows using an estimated discount rate. The components of the nominal discount rate are the estimated inflation rate, the risk-free real interest rate and a risk premium. In determining the risk premium, account is taken of the nature of the investment, the property, contractual relationships and financial risks. The valuations have been designed to meet the requirements of the MSCI Sweden Real Estate Index.

Significant valuation assumptions

The valuation method used is based on several assumptions, such as estimates of market rents, future costs, long-term vacancies, inflation, discount rates and required rates of return in the residual value assessment. A change in any of these assumptions will affect the valuation. Some of the key valuation assumptions are presented below.

Valuation assumptions, weighted	2018	2017
Market rent per square metre	2 366	2 218 kr
Long-term vacancy rate	4,16 %	4,40 %
Required rate of return, initial	4,10 %	4,09 %
Required rate of return, exit	4,47 %	4,63 %

Sensitivity analysis

The value-affecting parameters used in the valuation should reflect the reasoning of a prospective buyer in the market. To illustrate the uncertainty in the valuation, a number of parameters which show the impact on the valuation in SEK million have been singled out.

Sensitivity analysis	Change	2018	2017
Market rent	+/– 10 %	+/– 2 967	+/– 2 675
Property costs	+/– SEK 50/sq.m	+/– 729	+/– 716
Long-term vacancy rate	+/– 2 %	+/– 619	+/– 560
Required rate of return, exit	+/– 0,25 %	+/– 1 652	+/– 1 441

NOTE 16 Shares and participations in Group companies[1)]

Parent Company	Corporate Identity Number	Registered office	Number of shares	Share of equity	Carrying amount 2018	Carrying amount 2017
Swedish companies						
Alecta AB	556597-9266	Stockholm	1 000	100 %	0	0
Alecta Köpcentrum AB	556943-7071	Stockholm	500	100 %	10	10
Alfab Nacka 12 AB	559006-1015	Stockholm	1 000	100 %	–	–
Alfab Värmdö 1 AB	556687-7071	Stockholm	1 000	100 %	–	–
Alfab Värmdö 2 AB	556743-0102	Stockholm	100 000	100 %	–	–
Alecta Retail Holding AB	556660-2594	Stockholm	1 000	100 %	124	124
Alfab Borås 1 AB	556708-2002	Stockholm	100 000	100 %	–	–
Alfab Järfälla 1 AB	556664-7599	Stockholm	1 000	100 %	–	–
Alfab Jönköping 1 AB	556692-9385	Stockholm	1 000	100 %	–	–
– Alfab Västerås 1 AB	556606-3656	Stockholm	1 000	100 %	–	–
Alfab Jönköping 4 AB	556188-6127	Stockholm	1 000	100 %	–	–
Alfab Jönköping 5 AB	556658-9783	Stockholm	1 000	100 %	–	–
Alfab Valutan 13 AB	556708-2713	Stockholm	100 000	100 %	–	–
Fastighet Ädel AB	556604-9275	Stockholm	1 000	100 %	–	–
Fastighetsaktiebolaget Borås Filtret	556790-5525	Stockholm	1 000	100 %	–	–
Fastighetsaktiebolaget Åkersberga Österåker Runö	556785-6389	Stockholm	1 000	100 %	–	–
Fyrfast AB	556604-5513	Stockholm	1 000	100 %	–	–
Alecta Tjänstepensioner AB	556713-7160	Stockholm	1 000	100 %	0	0
Alecta Fastigheter AB [2)]	559103-4086	Stockholm	500	100 %	0	–
Alfab Indirekt Holding AB	556931-5459	Stockholm	50 000	100 %	319	318
Kabelverket Holding AB	556587-1075	Stockholm	1 000	100 %	500	500
Alfab Göteborg 3 AB	556913-5717	Stockholm	500	100 %	–	–
Alfab Göteborg 4 AB	556718-6654	Stockholm	1 000	100 %	–	–
Alfab Göteborg 5 AB	556690-0386	Stockholm	1 000	100 %	–	–
Alfab Helsingborg 1 AB	559032-2128	Stockholm	1 000	100 %	–	–
Alfab Stockholm 1 AB	556660-5530	Stockholm	1 000	100 %	–	–
Alfab Vällingby 1 AB	556892-7858	Stockholm	500	100 %	–	–
Alfab Vällingby 2 AB	556892-7882	Stockholm	500	100 %	–	–
Alfab Västerport 1 AB	556690-0378	Stockholm	1 000	100 %	–	–
Alfab Västerport 2 AB	556946-8944	Stockholm	500	100 %	–	–
Fastighets AB Kablaget	556577-4642	Stockholm	1 000	100 %	–	–
– Alecta Fastighetsutveckling AB	556577-4618	Stockholm	1 000	100 %	–	–
– Fastighets AB Kabelverket	556577-4568	Stockholm	1 000	100 %	–	–
Vasaterminalen AB	556118-8722	Stockholm	2 022 000	100 %	–	–
– World Trade Center Stockholm AB	556273-0803	Stockholm	1 000	100 %	–	–
– WTC Parkering AB	556424-3920	Stockholm	1 000	100 %	–	–
Fastighetsbolaget Augustendal KB	916635-9084	Stockholm	–	99,9 %	679	401
Fastighetsbolaget Båthamnen KB	916626-5711	Stockholm	–	99,9 %	51	50
Fastighetsbolaget Ellensvik KB	916625-6991	Stockholm	–	99,9 %	163	152
Fastighetsbolaget Gustafshög KB	916625-6983	Stockholm	–	99,9 %	4	4
Fastighetsbolaget Klaraberg KB	916625-6975	Stockholm	–	99,9 %	445	242
Fastighetsbolaget Mässan KB	916626-5653	Stockholm	–	99,9 %	85	62
Fastighetsbolaget Oljekällaren KB	916626-5638	Stockholm	–	99,9 %	187	166
Fastighetsbolaget Philipin KB	916626-5679	Stockholm	–	99,9 %	315	295
Fastighetsbolaget Saluhallen KB	916626-5695	Stockholm	–	99,9 %	46	16
Kontorshotellet Nacka Strand KB	969646-7225	Stockholm	–	99,9 %	0	1
Morgonen 1 i Lund KB [2)]	969784-9975	Stockholm	–	99,9 %	12	–
2 Kilo i Halmstad KB [2)]	969784-9967	Stockholm	–	99,9 %	44	–
Alfab Helsingborg 2 KB	969775-2583	Stockholm	–	99,9 %	12	2
Naraden Göteborg 1 KB	969697-7892	Stockholm	–	99,9 %	320	317
Total, Sweden					3 316	2 660

1) As all shares are unlisted, market values are not indicated. Carrying amounts are not indicated for subsidiaries of sub-groups.
2) The company was acquired in 2018.

NOTE 16 Shares and participations in Group companies[1], *cont.*

Parent Company	Corporate Identity Number	Registered office	Number of shares	Share of equity	Carrying amount 2018	Carrying amount 2017
Foreign companies, USA [2]						
Alecta Real Estate USA, LLC	DE ID 4078782	Delaware	–	100 %	1 586	1 249
Alecta Real Estate Investment, LLC	DE ID 4223706	Delaware	–	100 %	–	–
– Alecta Real Estate Winsted, LLC	DE ID 3601057	Delaware	–	100 %	–	–
Alecta Value Add Investments, LLC	DE ID 5469880	Delaware	–	100 %	–	–
Boylston Street Investors, LLC	DE ID 5405204	Delaware	–	100 %	–	–
Cupertino – Tantau, LLC	DE ID 4895201	Delaware	–	100 %	–	–
SRP Valley, LLC	DE ID 5125176	Delaware	–	100 %	–	–
Total, USA					**1 586**	**1 249**
Total shares and participations in Group companies					**4 902**	**3 909**

1) As all shares are unlisted, market values are not indicated. Carrying amounts are not indicated for subsidiaries of sub-groups.
2) In 2017, the sale of the entire directly owned foreign real estate property portfolio in the US was completed. The remaining assets of foreign companies mainly comprise indirect holdings.

Parent Company	Carrying amount 2018	Carrying amount 2017
Cost		
Opening balance, cost	13 245	11 556
Purchases during the year	55	1 320
Shareholder contributions during the year	–	289
Liquidations during the year	–	–
Share of profit for the year	916	80
Closing balance, cost	**14 216**	**13 245**
Accumulated impairment		
Opening balance, impairment	–9 336	–4 737
Impairment for the year	–371	–4 599
Reversal of impairment	393	–
Liquidations during the year	–	–
Closing balance, impairment	**–9 314**	**–9 336**
Total shares and participations in Group companies	**4 902**	**3 909**

Accounting principle

In the Parent Company, shares and participations in Group companies are recognised at cost less impairment.

NOTE 17 Debt securities issued by, and loans to, Group companies

Parent Company	Carrying amount 2018	Carrying amount 2017
Cost		
Opening balance, cost	9 272	10 380
Change for the year	–206	–1 108
Total debt securities issued by, and loans to, Group companies	**9 066**	**9 272**

The item consists wholly of long-term loans to property-owning subsidiaries that are measured at amortised cost.

Accounting principle

Intercompany loans and receivables are financial assets which are not quoted in an active market. These assets are classified as loans receivable and are measured at amortised cost by applying the effective interest method.

NOTE 18 Investments in jointly controlled entities (joint ventures)

31 Dec 2018 Parent Company	Country	Corporate Identity Number	Share of equity	Fair value, shares	Carrying amount, loans	Interest income
Alfa SSM JV AB	Sweden	556840-4262	50,00 %	0	–	–
KB Alfa SSM	Sweden	969715-3998	49,00 %	44	121	3
Ancore Fastigheter AB	Sweden	556817-8858	50,00 %	1 396	–	–
Bredden III Förvaltning AB	Sweden	556922-4198	39,30 %	194	105	19
Convea AB	Sweden	556912-4505	50,00 %	54	–	–
Fastighets AB Stenvalvet	Sweden	556803-3111	25,60 %	655	652	59
Global Business Gate JV AB	Sweden	559109-9030	50,00 %	0	–	–
Global Business Gate JV KB	Sweden	969781-4847	49,50 %	35	–	–
Heimstaden Bostad AB – Pref B	Sweden	556864-0873	59,20 %	12 527	–	–
Heimstaden Bostad AB – Stamaktie	Sweden	556864-0873	30,80 %	3 331	–	–
Kongahälla Holding AB	Sweden	559126-1903	50,00 %	105	275	–
Logistikfastigheter Sverige AB	Sweden	559047-9738	50,00 %	515	370	21
Midstar Hotels AB	Sweden	559007-7979	49,90 %	1 140	–	–
Sollentuna Stinsen JV AB	Sweden	559085-9954	50,00 %	77	334	20
Stadsrum Fastigheter AB	Sweden	559028-9624	49,00 %	828	–	–
Swedish Airport Infrastructure Holding AB	Sweden	559012-5182	50,00 %	0	–	–
Swedish Airport Infrastructure Holding KB	Sweden	969775-2609	49,90 %	1 696	–	–
Total, Parent Company				**22 597**	**1 857**	**122**
Group company						
Långeberga Logistics AB	Sweden	556928-2840	50,00 %	429	–	–
ARE-LEI Venture, LLC	USA	DE ID 5473708	95,00 %	839	–	–
Boylston Street Associates, LLC	USA	DE ID 4906542	95,00 %	5	–	–
Total, Group				**23 870**	**1 857**	**122**

31 Dec 2017 Parent Company	Country	Corporate Identity Number	Share of equity	Fair value, shares	Carrying amount, loans	Interest income
Alfa SSM JV AB	Sweden	556840-4262	50,00 %	0	–	–
KB Alfa SSM	Sweden	969715-3998	49,00 %	166	46	3
Ancore Fastigheter AB	Sweden	556817-8858	50,00 %	1 259	–	–
Convea AB	Sweden	556912-4505	50,00 %	30	–	*0*
Fastighets AB Stenvalvet	Sweden	556803-3111	25,60 %	512	614	*52*
Global Business Gate JV AB	Sweden	559109-9030	50,00 %	0	–	–
Global Business Gate JV KB	Sweden	969781-4847	49,50 %	15	–	–
Heimstaden Bostad AB – Pref B	Sweden	556864-0873	55,04 %	6 545	–	56 [1]
Heimstaden Bostad AB – Stamaktie	Sweden	556864-0873	29,35 %	1 762	–	–
Kongahälla Holding AB	Sweden	559126-1903	50,00 %	77	275	–
Logistikfastigheter Sverige AB	Sweden	559047-9738	50,00 %	254	103	2
Midstar Hotels AB	Sweden	559007-7979	49,90 %	936	–	–
Profi III Infracity AB	Sweden	556922-4198	39,30 %	176	269	21
Sollentuna Stinsen JV AB	Sweden	559085-9954	50,00 %	107	284	31
Stadsrum Fastigheter AB	Sweden	559028-9624	49,00 %	591	–	–
Swedish Airport Infrastructure AB	Sweden	559012-5182	50,00 %	0	–	–
Swedish Airport Infrastructure KB	Sweden	969775-2609	49,90 %	1 470	–	–
Total, Parent Company				**13 900**	**1 591**	**165**
Group company						
Långeberga Logistics AB	Sweden	556928-2840	50,00 %	431	–	–
ARE-LEI Venture, LLC	USA	DE ID 5473708	95,00 %	1 022	–	–
Boylston Street Associates, LLC	USA	DE ID 4906542	95,00 %	6	–	–
Total, Group				**15 359**	**1 591**	**165**

[1] In 2017, Heimstaden Bostad AB converted debt into equity.

Accounting principle

Alecta's investments in jointly controlled entities are made through joint ventures. A joint venture is a joint arrangement in which Alecta exercises joint control together with the other co-owners. Alecta's investments consist of shares and participations as well as shareholder loans to jointly owned real estate companies.

Shares and participations in joint ventures are recognised as financial instruments at fair value through profit or loss in accordance with IAS 28. In the balance sheet, shares and participations are recognised in the investment assets category. Changes in value are accounted for in the balance sheet as unrealised gains or losses. Dividends are recognised as dividends received in the item Return on capital, income. Valuation techniques for shares and participations are described in Note 22.

Loans in joint ventures refer to shareholder loans which are measured at amortised cost using the effective interest method and recognised in the loans receivable category. Accrued interest income and interest payments received are recognised as interest income in the item Return on capital, income.

Information on transactions between Alecta and the above joint ventures is provided in Note 51 Related party disclosures.

NOTE 19 Classification of financial assets and liabilities

Group, 31 Dec 2018 Financial assets	Financial assets/ liabilities measured at fair value through profit or loss on initial recognition	Financial assets/ liabilities measured at fair value through profit or loss through trading	Loans and receivables/ other financial assets and liabilities	Total carrying amount	Fair value
Shares and participations in jointly controlled entities (joint ventures)	23 870	–	–	23 870	23 870
Loans to jointly controlled entities (joint ventures)	–	–	1 857	1 857	1 857
Shares and participations	352 238	–	–	352 238	352 238
Bonds and other debt securities	405 487	–	–	405 487	405 487
Loans secured by real estate	–	–	2 777	2 777	2 777
Other loans	3 133	–	–	3 133	3 133
Derivatives	–	5 841	–	5 841	5 841
Receivables related to direct insurance operations	–	–	1 726	1 726	1 726
Other receivables	–	–	966	966	966
Cash and bank balances	–	–	3 392	3 392	3 392
Accrued interest and rental income	–	–	8 028	8 028	8 028
Total	**784 728**	**5 841**	**18 746**	**809 315**	**809 315**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	6	6	6
Derivatives	–	9 139	–	9 139	9 139
Other liabilities	–	–	2 898	2 898	2 898
Other accrued expenses and deferred income	–	–	4 458	4 458	4 458
Total	**–**	**9 139**	**7 362**	**16 501**	**16 501**

Group, 31 Dec 2017 Financial assets	Financial assets/ liabilities measured at fair value through profit or loss on initial recognition	Financial assets/ liabilities measured at fair value through profit or loss through trading	Loans and receivables/ other financial assets and liabilities	Total carrying amount	Fair value
Shares and participations in jointly controlled entities joint ventures)	15 359	–	–	15 359	15 359
Loans to jointly controlled entities (joint ventures)	–	–	1 591	1 591	1 591
Shares and participations	375 390	–	–	375 390	375 390
Bonds and other debt securities	399 975	–	–	399 975	399 975
Other loans	2 039	–	58	2 097	2 097
Derivatives	–	6 221	–	6 221	6 221
Receivables related to direct insurance operations	–	–	1 747	1 747	1 747
Other receivables	–	–	1 696	1 696	1 696
Cash and bank balances	–	–	2 731	2 731	2 731
Accrued interest and rental income	–	–	8 170	8 170	8 170
Total	**792 763**	**6 221**	**15 993**	**814 977**	**814 977**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	7	7	7
Derivatives	–	8 302	–	8 302	8 302
Other liabilities	–	–	1 800	1 800	1 800
Other accrued expenses and deferred income	–	–	3 579	3 579	3 579
Total	**–**	**8 302**	**5 386**	**13 688**	**13 688**

NOTE 19 Classification of financial assets and liabilities, *cont.*

Parent Company, 31 Dec 2018 Financial assets	Financial assets/ liabilities measured at fair value through profit or loss on initial recognition	Financial assets/ liabilities measured at fair value through profit or loss through trading	Loans and receivables/ other financial assets and liabilities	Total carrying amount	Fair value
Debt securities issued by, and loans to, Group companies	–	–	9 066	9 066	9 066
Shares and participations in jointly controlled entities (joint ventures)	22 597	–	–	22 597	22 597
Loans to jointly controlled entities (joint ventures)	–	–	1 857	1 857	1 857
Shares and participations	351 727	–	–	351 727	351 727
Bonds and other debt securities	405 487	–	–	405 487	405 487
Loans secured by real estate	–	–	2 777	2 777	2 777
Other loans	3 133	–	–	3 133	3 133
Derivatives	–	5 841	–	5 841	5 841
Receivables related to direct insurance operations	–	–	1 726	1 726	1 726
Other receivables	–	–	2 050	2 050	2 050
Cash and bank balances	–	–	2 970	2 970	2 970
Accrued interest and rental income	–	–	8 028	8 028	8 028
Total	**782 944**	**5 841**	**28 474**	**817 259**	**817 259**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	6	6	6
Derivatives	–	9 139	–	9 139	9 139
Other liabilities	–	–	4 390	4 390	4 390
Other accrued expenses and deferred income	–	–	4 458	4 458	4 458
Total	**–**	**9 139**	**8 854**	**17 993**	**17 993**

Parent Company, 31 Dec 2017 Financial assets	Financial assets/ liabilities measured at fair value through profit or loss on initial recognition	Financial assets/ liabilities measured at fair value through profit or loss through trading	Loans and receivables/ other financial assets and liabilities	Total carrying amount	Fair value
Debt securities issued by, and loans to, Group companies	–	–	9 272	9 272	9 272
Shares and participations in jointly controlled entities (joint ventures)	13 900	–	–	13 900	13 900
Loans to jointly controlled entities (joint ventures)	–	–	1 591	1 591	1 591
Shares and participations	374 944	–	–	374 944	374 944
Bonds and other debt securities	399 975	–	–	399 975	399 975
Other loans	2 039	–	58	2 097	2 097
Derivatives	–	6 221	–	6 221	6 221
Receivables related to direct insurance operations	–	–	1 747	1 747	1 747
Other receivables	–	–	2 625	2 625	2 625
Cash and bank balances	–	–	2 644	2 644	2 644
Accrued interest and rental income	–	–	8 170	8 170	8 170
Total	**790 858**	**6 221**	**26 107**	**823 186**	**823 186**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	7	7	7
Derivatives	–	8 302	–	8 302	8 302
Other liabilities	–	–	3 254	3 254	3 254
Other accrued expenses and deferred income	–	–	3 570	3 570	3 570
Total	**–**	**8 302**	**6 831**	**15 133**	**15 133**

NOTE 20 Net profit by class of financial assets and liabilities

	Group		Parent Company	
	2018	2017	2018	2017
Financial assets at fair value through profit or loss				
shares and participations	–14 308	35 181	–14 363	35 181
debt securities	11 349	2 493	11 349	2 493
loans	418	237	418	237
Financial assets and liabilities held for trade				
derivatives	–18 269	10 445	–18 269	10 445
Loans and receivables	232	211	346	342
Other liabilities	–27	–29	–27	–29
Total net profit [1]	**–20 605**	**48 538**	**–20 546**	**48 669**
Land and buildings, net	2 745	4 664	1 637	2 340
Investment management and custodian expenses	–186	–204	–184	–194
Other, net	3	2	3	2
Total return on capital as reported in income statement	**–18 043**	**53 000**	**–19 090**	**50 817**

[1] Net profit includes realised and unrealised changes in value as well as interest, dividends and foreign exchange gains and losses.

NOTE 21 Maturity analysis of financial liabilities

Time to maturity **Group, 31 Dec 2018**	< 3 months	3 months < 1 year	1–5 years	>5 years	Total
Non-liquidated securities transactions	–554	–	–	–	–554
Liability for cash collateral received for derivatives	–2 069	–	–	–	–2 069
Derivatives gross – outflow	–325 526	–27 027	–30 616	–42 059	–425 228
Derivatives gross – inflow	326 500	27 419	29 525	34 941	418 385
Other liabilities	–281	–	–	–	–281
Other accrued expenses and deferred income	–4 458	–	–	–	–4 458
Total cash flow	**–6 388**	**392**	**–1 091**	**–7 118**	**–14 205**

Time to maturity **Group, 31 Dec 2017**	< 3 months	3 months < 1 year	1–5 years	>5 years	Total
Non-liquidated securities transactions	–72	–	–	–	–72
Liability for cash collateral received for derivatives	–1 443	–	–	–	–1 443
Derivatives gross – outflow	–255 046	–1 811	–29 442	–40 461	–326 760
Derivatives gross – inflow	254 283	2 203	29 800	35 131	321 417
Other liabilities	–292	–	–	–	–292
Other accrued expenses and deferred income	–3 579	–	–	–	–3 579
Total cash flow	**–6 149**	**392**	**358**	**–5 330**	**–10 729**

The purpose of this Note is to illustrate when the Group's financial liabilities fall due for payment. The table shows actual future cash flows in each period, based on remaining times to maturity. The amounts presented for each time to maturity refer to undiscounted cash flows. For derivatives, cash flows are reported on a gross basis, i.e. both outflows and inflows, to create a better understanding of these flows. For variable interest rate derivatives, the last known interest rate has been applied to approximate future cash flows. For a description of liquidity risk, see Note 3 Risks and risk management.

NOTE 22 Valuation categories for financial instruments measured at fair value

Under the disclosure requirements in IFRS 13, financial assets and liabilities which are measured at fair value must be classified into three levels based on the valuation technique that is used. Assets and liabilities must be measured using the valuation technique that is appropriate in the circumstances, maximising the use of relevant observable inputs. The objective is to identify the valuation technique which best estimates the price at which the financial assets can be sold or the financial liabilities transferred between market participants under current market conditions.

The three levels of valuation categories are:

Level 1: Measurement using prices quoted in an active market

Fair value measurement based on prices quoted in an active market is used if quoted prices are easily and regularly available and these prices represent actual and regularly occurring market transactions. Examples of financial assets which are classified to this level include listed shares, government bonds and Swedish mortgage bonds.

Prices for these financial assets are obtained daily through providers of index prices retrieved from each exchange, which, where applicable, are translated at exchange rates quoted on a daily basis (5 p.m.) from the price provider, WM Company. Last trading day in Sweden rates are used.

Level 2: Measurement based on observable inputs

Financial assets and liabilities for which there are no quoted prices in an active market are measured at fair value based on as many available market inputs as possible. Examples of market inputs used in the measurement include:

- Quoted interest rates, credit spreads and exchange rates
- Market information on prices for similar financial instruments
- Market information on prices in recently completed transactions in the same or similar financial instruments

Examples of financial assets and liabilities which are classified to this level include debt instruments in the form of Swedish and foreign corporate bonds, structured bonds, and all OTC derivatives in the form of interest rate swaps, currency derivatives and credit derivatives.

For debt instruments, daily prices from external price providers Thomson Reuters and Bloomberg are used. Under the concluded agreements, Alecta has the right to inspect the price provider's valuation data to assure the quality of the provided price information.

For OTC derivatives fair value is determined on a daily basis in Alecta's financial system in accordance with market practice by estimating the present value of each derivative's future cash flows based on quoted market prices in respect of interest rates, credit spreads and exchange rates.

Level 3: Measurement based on unobservable inputs

Financial assets which are measured at fair value without access to observable market inputs are classified to Level 3.

Financial assets at fair value which are measured on the basis of some observable inputs but for which Alecta does not have the ability to inspect the used valuation technique are also classified to this level.

Examples of financial assets in this level mainly comprise financial instruments with real estate and fixed income investments as underlying asset but also, to a lesser degree, unlisted shares and venture capital investments. Fair values for these assets are obtained from fund managers, counterparts or the property-owning companies following an external valuation of the underlying properties.

Principles for reclassification between levels

Financial assets and liabilities measured at fair value are classified to one of the three valuation categories on acquisition and then normally retain their classification until they are sold. Under certain circumstances a financial asset may, however, be reclassified to another level after the acquisition date. The following principles apply to such reclassification:

Principle for reclassification between Level 1 and Level 2

To be reclassified from Level 1 to Level 2, a financial instrument must no longer be traded in an active market but still be capable of being measured in accordance with the description for Level 2. Similarly, a reclassification from Level 2 to Level 1 may be made if the Level 2 financial instrument is quoted in an active market.

No financial instrument was transferred from Level 1 to Level 2 or from Level 2 to Level 1 either in 2018 or in 2017.

Principle for reclassification between Level 2 and Level 3

A reclassification from Level 2 to Level 3 may be made if it is no longer possible to measure a financial instrument at fair value based on observable market inputs. Similarly, Level 3 financial instruments may be transferred to Level 2 if observable market inputs become available and an external price provider is able to measure fair value based on these inputs.

In 2018, no financial instruments were transferred from Level 2 to Level 3 or from Level 3 to Level 2, nor in 2017.

Principle for reclassification between Level 1 and Level 3

A reclassification from Level 1 to Level 3 is made if a financial instrument is delisted from an active market and there are insufficient market inputs to allow for Level 2 measurement. Similarly, a reclassification from Level 3 to Level 1 may be made if the Level 3 financial instrument is quoted in an active market.

In 2018, one share was transferred from Level 3 to Level 1 since the share was listed on an active market and one share was transferred from Level 1 to Level 3 after delisting. In 2017, no financial instruments were transferred from Level 1 to Level 3 or from Level 3 to Level 1.

Sensitivity analysis for Level 3 financial instruments

Under IFRS 13, a sensitivity analysis must be presented for those financial instruments which have been measured at fair value in accordance with Level 3. The sensitivity analysis must include a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs.

Alecta's assets in Level 3 mainly comprise financial instruments with real estate and fixed income investments as underlying asset but also, to a lesser degree, unlisted shares and venture capital investments.

As we do not have the means to inspect the unobservable inputs used by external price providers, fund managers, counterparts or real estate companies in their fair value measurements of these financial instruments, any sensitivity analysis is subject to a degree of uncertainty. For real estate-related investments, however, it is reasonable to assume that these will be affected by roughly the same value-influencing factors as directly owned properties, i.e. changes in net operating income and required rates of return, while the fixed-income investments are mainly impacted by interest and credit risk and unlisted shares, and venture capital by equity market risk.

The following table presents the estimated effects of fair value if the required rates of return on property rose 0,5 percentage points, an interest-rate increase of 1 per cent and a share-price decrease of 10 per cent.

Sensitivity analysis

Group (SEK million)	Fair value	Value-influencing factor	Effect on fair value
Real estate -related holdings	40 605	Return requirement increase of 0,5 percentage points	–4 512
Interest-related holdings	11 168	Interest-rate increase of 1 percentage point	–127
Equity-related holdings	3 396	Share price decrease of 10 per cent	–340
Total Level 3	**55 169**		**–4 978**

NOTE 22 Valuation categories for financial instruments measured at fair value, *cont.*

Group	Fair values of financial instruments, 31 Dec 2018 Measurement using prices quoted in an active market Level 1	Measurement based on observable inputs Level 2	Measurement based on unobservable inputs Level 3	Carrying amount 31 Dec 2018
Assets				
Shares and participations	330 327	–	21 911	352 238
Shares and participations in jointly controlled entities (joint ventures)	–	–	23 870	23 870
Bonds and other debt securities	212 358	186 874	6 255	405 487
Other loans	–	–	3 133	3 133
Derivatives	–	5 841	–	5 841
Total assets	**542 685**	**192 715**	**55 169**	**790 569**
Liabilities				
Derivatives	–	9 139	–	9 139
Total liabilities	**–**	**9 139**	**–**	**9 139**
Parent Company				
Assets				
Shares and participations	330 327	–	21 400	351 727
Shares and participations in jointly controlled entities (joint ventures)	–	–	22 597	22 597
Bonds and other debt securities	212 358	186 874	6 255	405 487
Other loans	–	–	3 133	3 133
Derivatives	–	5 841	–	5 841
Total assets	**542 685**	**192 715**	**53 385**	**788 785**
Liabilities				
Derivatives	–	9 139	–	9 139
Total liabilities	**–**	**9 139**	**–**	**9 139**

Group	Fair values of financial instruments, 31 Dec 2017 Measurement using prices quoted in an active market Level 1	Measurement based on observable inputs Level 2	Measurement based on unobservable inputs Level 3	Carrying amount 31 Dec 2017
Assets				
Shares and participations	360 080	–	15 310	375 390
Shares and participations in jointly controlled entities (joint ventures)	–	–	15 359	15 359
Bonds and other debt securities	243 295	156 680	–	399 975
Other loans	–	–	2 039	2 039
Derivatives	–	6 221	–	6 221
Total assets	**603 375**	**162 901**	**32 708**	**798 984**
Liabilities				
Derivatives	–	8 302	–	8 302
Total liabilities	**–**	**8 302**	**–**	**8 302**
Parent Company				
Assets				
Shares and participations	360 079	–	14 865	374 944
Shares and participations in jointly controlled entities (joint ventures)	–	–	13 900	13 900
Bonds and other debt securities	243 295	156 680	–	399 975
Other loans	–	–	2 039	2 039
Derivatives	–	6 221	–	6 221
Total assets	**603 374**	**162 901**	**30 804**	**797 079**
Liabilities				
Derivatives	–	8 302	–	8 302
Total liabilities	**–**	**8 302**	**–**	**8 302**

NOTE 23 Disclosures on financial instruments measured at fair value based on Level 3[1)]

Group	Shares and participations	Shares and participations in jointly controlled entities (joint ventures)	Bonds and other debt securities	Other loans	Total
	Fair value at year-end 2018				
Opening balance 2018	15 310	15 359	–	2 039	32 708
Purchased	7 565	6 815	6 327	1 069	21 776
Sold	–275	–141	–	–109	–525
Gains and losses					
Realised gains/losses, sold entire holding	*–40*	*0*	*–*	*–*	*–40*
Realised gains/losses, sold portion of holding	*7*	*25*	*–*	*–*	*32*
Unrealised gains/losses	*458*	*1 760*	*–1*	*84*	*2 301*
Unrealised foreign exchange gains/losses	*742*	*52*	*–71*	*50*	*773*
Transferred from Level 3	–1 856	–	–	–	–1 856
Transferred to Level 3	0	–	–	–	0
Closing balance 2018	**21 911**	**23 870**	**6 255**	**3 133**	**55 169**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	1 167	1 837	–72	134	3 066
Gains and losses recognised as return on capital during the period	1 167	1 837	–72	134	3 066

Parent Company	Shares and participations	Shares and participations in jointly controlled entities (joint ventures)	Bonds and other debt securities	Other loans	Total
Opening balance 2018	14 865	13 900	–	2 039	30 804
Purchased	7 537	6 802	6 327	1 069	21 735
Sold	–275	–	–	–109	–384
Gains and losses					
Realised gains/losses, sold entire holding	*–40*	*–*	*–*	*–*	*–40*
Realised gains/losses, sold portion of holding	*7*	*–*	*–*	*–*	*7*
Unrealised gains/losses	*451*	*1 895*	*–1*	*84*	*2 429*
Unrealised foreign exchange gains/losses	*711*	*–*	*–71*	*50*	*690*
Transferred from Level 3	–1 856	–	–	–	–1 856
Transferred to Level 3	0	–	–	–	0
Closing balance 2018	**21 400**	**22 597**	**6 255**	**3 133**	**53 385**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	1 129	1 895	–72	134	3 086
Gains and losses recognised as return on capital during the period	1 129	1 895	–72	134	3 086

[1)] The definition of Level 3 is found in Note 22 Valuation categories.

NOTE 23 Disclosures on financial instruments measured at fair value based on Level 3[1)], *cont.*

Group	Fair value at year-end 2017 Shares and participations	Shares and participations in jointly controlled entities (joint ventures)	Bonds and other debt securities	Other loans	Total
Opening balance 2017	8 770	6 045	–	2 161	16 976
Purchased	5 598	8 542	–	–	14 140
Sold	–689	–77	–	–201	–967
Gains and losses					
Realised gains/losses, sold entire holding	*–53*	*1*	–	*68*	*16*
Realised gains/losses, sold portion of holding	*41*	–	–	–	*41*
Unrealised gains/losses	*1 965*	*929*	–	*9*	*2 903*
Unrealised foreign exchange gains/losses	*–322*	*–81*	–	*2*	*–401*
Transferred from Level 3	–	–	–	–	–
Transferred to Level 3	–	–	–	–	–
Closing balance 2017	**15 310**	**15 359**	**–**	**2 039**	**32 708**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	1 590	848	–	89	2 527
Gains and losses recognised as return on capital during the period	1 631	849	–	79	2 559

Parent Company	Shares and participations	Shares and participations in jointly controlled entities (joint ventures)	Bonds and other debt securities	Other loans	Total
Opening balance 2017	8 309	4 825	–	2 161	15 295
Purchased	5 571	8 227	–	–	13 798
Sold	–686	–77	–	–201	–964
Gains and losses					
Realised gains/losses, sold entire holding	*–53*	*1*	–	*68*	*16*
Realised gains/losses, sold portion of holding	*41*	–	–	–	*41*
Unrealised gains/losses	*1 973*	*924*	–	*9*	*2 906*
Unrealised foreign exchange gains/losses	*–290*	–	–	*2*	*–288*
Transferred from Level 3	–	–	–	–	–
Transferred to Level 3	–	–	–	–	–
Closing balance 2017	**14 865**	**13 900**	**–**	**2 039**	**30 804**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	1 630	924	–	89	2 643
Gains and losses recognised as return on capital during the period	1 671	925	–	79	2 675

1) The definition of Level 3 is found in Note 22 Valuation categories.

NOTE 24 Shares and participations

	2018		2017	
Group	Fair value	Cost	Fair value	Cost
Swedish listed shares	143 306	106 635	158 938	99 486
Swedish unlisted shares	1 636	1 503	166	1
Foreign listed shares	187 021	160 390	201 141	152 935
Foreign unlisted shares	20 275	16 473	15 145	10 572
Total	**352 238**	**285 001**	**375 390**	**262 994**
Parent Company				
Swedish listed shares	143 306	106 635	158 938	99 486
Swedish unlisted shares	1 636	1 503	166	1
Foreign listed shares	187 021	160 390	201 141	152 935
Foreign unlisted shares	19 764	16 118	14 699	10 276
Total	**351 727**	**284 646**	**374 944**	**262 698**

A list of all shares is available at alecta.se

Accounting principle

Shares and participations are measured at fair value through profit or loss on initial recognition. Valuation techniques for shares and participations are described in Note 22. Accumulated changes in value for shares comprise the difference between cost and fair value. Dividends are accounted for as dividends received in the item Return on capital, income (Note 5).

NOTE 25 Bonds and other debt securities

	2018		2017	
Group and Parent Company	Fair value	Amortised cost	Fair value	Amortised cost
Swedish government	48 996	44 908	60 079	55 712
Swedish mortgage bonds	56 822	56 423	97 679	97 189
Other Swedish issuers	92 738	92 124	55 577	54 309
Foreign governments	131 577	125 089	115 541	106 899
Other foreign issuers	75 354	69 758	71 099	70 157
Total	**405 487**	**388 302**	**399 975**	**384 266**

The fair value of debt securities exceeds or is lower than the amount payable on the due date by SEK 20 289 million (24 854) and SEK 786 million (428), respectively. The items Swedish government and Foreign governments also include state-guaranteed holdings.

Group and Parent Company	2018	2017
Fixed-rate term		
0–1 years	133 689	136 383
>1–5 years	143 465	135 375
>5–10 years	85 633	72 126
>10 years	42 700	56 091
Total	**405 487**	**399 975**

Accounting principle

Bonds and other debt securities are measured at fair value through profit or loss on initial recognition. Valuation techniques for bonds and other debt securities are described in Note 22. Accumulated changes in value for debt instruments comprise the difference between amortised cost and fair value. Amortised cost refers to future payments discounted to present value at the effective interest rate. The effective interest is the interest that is accrued over the term of the financial instrument. The calculation takes account of any premiums or discounts at acquisition that have been allocated over the remaining term of the instrument. Accruals of premiums and discounts, accrued interest income and coupon payments received are recognised as interest income in the item Return on capital, income.

NOTE 26 Loans secured by real estate

Group and Parent Company	2018 Fair value	2018 Cost	2017 Fair value	2017 Cost
Swedish loans secured by real estate	312	312	–	–
Foreign loans secured by real estate	2 465	2 465	–	–
Total	**2 777**	**2 777**	**–**	**–**

Accounting principle

Loans secured by real estate are measured at amortised cost using the effective interest method.

NOTE 27 Other loans

Group and Parent Company	2018 Fair value	2018 Cost	2017 Fair value	2017 Cost
Other loans, Swedish	1 071	1 025	362	189
Other loans, foreign	2 062	1 581	1 735	2 465
Total	**3 133**	**2 606**	**2 097**	**1 654**

Accounting principle

Alecta's other loans consist mainly of real estate-related profit participating loans. Participating loans are classified as financial assets at fair value through profit or loss.

NOTE 28 Derivatives

	2018			2017		
		Fair value			Fair value	
Group and Parent Company	Nominal value	Assets	Liabilities	Nominal value	Assets	Liabilities
Equity-related instruments	**–5 862**	**–**	**–**	**–15 189**	**–**	**–**
Futures	*–5 862*	*–*	*–*	*–15 189*	*–*	*–*
Fixed-income instruments	**129 760**	**3 608**	**6 828**	**166 606**	**4 396**	**4 960**
Swaps	*136 780*	*3 608*	*6 828*	*148 979*	*4 396*	*4 960*
Futures	*–7 020*	*–*	*–*	*17 627*	*–*	*–*
Currency-related instruments	**282 573**	**2 233**	**2 311**	**206 723**	**1 825**	**3 342**
Futures/swaps	*282 573*	*2 233*	*2 311*	*206 723*	*1 825*	*3 342*
Total	**406 471**	**5 841**	**9 139**	**358 140**	**6 221**	**8 302**

The management of collateral for derivatives is described in Note 29 Financial instruments subject to enforceable master netting agreements.

For a description of the use of derivatives, see the section Market risk in Note 3 Risks and risk management.

Accounting principle

A derivative is a financial instrument whose value is based on the performance of an underlying instrument. Alecta uses derivatives to improve the efficiency of the management of its assets and to reduce financial risks. Derivatives are classified as held for trade and recognised in the balance sheet at fair value, while changes in value are recognised through profit or loss. Derivatives with positive fair values are recognised as financial investment assets while derivatives with negative fair values are recognised as liabilities in the balance sheet. In the income statement, derivatives are accounted for together with the underlying instrument and the net gain or loss is presented in Note 20. Alecta does not apply hedge accounting.

NOTE 29 Financial instruments subject to enforceable master netting agreements

Group and Parent Company 2018–12–31	Financial assets recognised in the balance sheet	*of which amounts are not netted but which are subject to enforceable master netting agreements or similar agreements in the event of insolvency*	Financial collateral received	Cash collateral received	Net amount [3]
Assets					
Derivatives [4]	8 497	–7 459	–46	–2 069	0
Securities lending [1]	22 995	–	–23 456	–	0

	Financial liabilities recognised in the balance sheet	*of which amounts are not netted but which are subject to enforceable master netting agreements or similar agreements in the event of insolvency*	Financial collateral pledged [2]	Cash collateral pledged	Net amount [3]
Liabilities					
Derivatives [4]	11 973	–7 459	–5 986	–512	0

Group and Parent Company 2017–12–31	Financial assets recognised in the balance sheet	*of which amounts are not netted but which are subject to enforceable master netting agreements or similar agreements in the event of insolvency*	Financial collateral received	Cash collateral received	Net amount [3]
Assets					
Derivatives [4]	8 611	–7 791	–	–1 443	0
Securities lending [1]	19 012[5]	–	–19 392[5]	–	0

	Financial liabilities recognised in the balance sheet	*of which amounts are not netted but which are subject to enforceable master netting agreements or similar agreements in the event of insolvency*	Financial collateral pledged [2]	Cash collateral pledged	Net amount [3]
Liabilities					
Derivatives [4]	10 775	–7 791	–4 885	–262	0

1) Lending of debt securities is described in Note 45 Transfer of financial assets.
2) Collateral pledged is also presented in Note 44 Other pledged assets and comparable collateral.
3) In accordance with IFRS 7, the net amount can never be less than 0.
4) The amounts include accrued interest income of SEK 2 656 million (2 390) and accrued interest expenses of SEK 2 834 million (2 473).
5) Adjusted compared with the Annual Report 2017.

Disclosures on financial instruments subject to enforceable master netting agreements

The purpose of this Note is to provide information on Alecta's ability to settle assets and liabilities on a net basis (netting) in the event of the insolvency of either party, and on the collateral that has been exchanged for the net asset/liability which remains between the parties after netting.

Derivatives and loaned debt securities are reported on a gross basis in the balance sheet. These financial instruments are subject to enforceable master netting agreements in the event of the insolvency of either party. All values in the table above are stated at fair value.

Derivatives

At 31 December Alecta had derivatives with a positive value of SEK 8 497 million and derivatives with a negative value of SEK 11 973 million. All derivatives are subject to ISDA Master Agreements, under which the parties have a legally enforceable right to set off the recognised amounts in the event of insolvency. If there is no insolvency situation, the amounts are not netted.

In addition to having the right to settle on a net basis, Alecta has concluded CSA agreements which regulate the daily exchange of collateral during the term of the contracts. From those counterparties for which the sum of all derivatives is positive Alecta obtains corresponding collateral, and in cases where the sum of all derivatives is negative Alecta provides corresponding collateral. Under these CSA agreements, Alecta has received SEK 46 million in debt securities in the form of Swedish cash in cases where the sum of all derivatives is positive. Similarly, Alecta has pledged SEK 5 986 million in debt securities in the form of Swedish mortgage bonds, and French and US government bonds, and SEK 512 million in cash in cases where the sum of all derivatives is negative.

NOTE 30 Receivables related to direct insurance operations

Group and Parent Company	2018	2017
Receivables from policy holders	1 726	1 747
Total	1 726	1 747

Refers mainly to a receivable from Collectum, which handles Alecta's receivables from insurance customers in the defined benefit plan.

Accounting principle

Receivables related to direct insurance operations are recognised at amortised cost.

NOTE 31 Other receivables

Group	2018	2017
Payment receivables from sale of investment assets	29	1 067
Approved dividend	66	48
Value-added tax	81	42
Receivable, PRI Pensionsgaranti	193	185
Collateral pledged for derivatives [1]	512	262
Other	165	134
Total	1 046	1 738
Parent Company		
Payment receivables from sale of investment assets	29	1 067
Swedish tax	30	54
Foreign tax	844	916
Deferred tax [2]	5 510	5 363
Approved dividend	66	48
Value-added tax	0	1
Receivable from subsidiary	1 129	982
Receivable, PRI Pensionsgaranti	193	185
Collateral pledged for derivatives [1]	512	262
Other	121	81
Total	8 434	8 959

1) See also Note 28.
2) See also Note 12.

Accounting principle

Other receivables are recognised at amortised cost.

NOTE 32 Accrued interest and rental income

	Group		Parent Company	
	2018	2017	2018	2017
Accrued interest income	8 031	8 173	8 031	8 173
Total	8 031	8 173	8 031	8 173

Accounting principle

Prepaid expenses and accrued income

Prepaid expenses and accrued income comprise expenditure for future financial years and income earned during the financial year that has not been received or invoiced at the balance sheet date. Alecta's prepaid expenses and accrued income mainly comprise interest receivables not yet due for investment assets.

NOTE 33 Equity

Group	Translation reserve	Discretionary participation features reserve [1]	Special indexation funds [2]	Retained earnings including net profit for the year	Total
Opening balance 2017	1 487	70 855	10 445	224 999	307 786
Net profit/loss for the year	–	–	–	57 255	57 255
Allocated refunds					
Defined benefit plan	–	*13 957*	–	*–13 957*	–
Defined contribution plan	–	*12 311*	–	*–12 311*	–
Guaranteed refunds					
Pension supplements, defined benefit plan	–	*–2 156*	–	–	*–2 156*
Supplementary amounts, defined contribution plan	–	*–117*	–	–	*–117*
Adjustment of paid-up values, defined benefit plan	–	*–1 267*	–	*–220*	*–1 487*
Premium reduction	–	*–4 131*	–	–	*–4 131*
Collective risk premium [3]	–	–	–112	–	–112
Other changes					
Fees	–	–	*15*	*–15*	–
Interest	–	*251*	*–51*	*–200*	–
Effect of changes in market interest rates	–	*–106*	–	*106*	–
Exchange rate fluctuations for the period	*–179*	–	–	–	*–179*
Accumulated foreign exchange differences reclassified to profit or loss	*–1 179*	–	–	–	*–1 179*
Other [4]	–	–209	1	130	–78
Closing balance 2017	129	89 388	10 298	255 787	355 602
Opening balance 2018	129	89 388	10 298	255 787	355 602
Net profit/loss for the year	–	–	–	–26 839	–26 839
Allocated refunds					
Defined benefit plan	–	*15 751*	–	*–15 751*	–
Defined contribution plan	–	*1 162*	–	*–1 162*	–
Guaranteed refunds					
Pension supplements, defined benefit plan	–	*–2 390*	–	–	*–2 390*
Supplementary amounts, defined contribution plan	–	*–156*	–	–	*–156*
Adjustment of paid-up values, defined benefit plan	–	*–4 841*	–	*–1 468*	*–6 309*
Premium reduction	–	*–4 202*	–	–	*–4 202*
Collective risk premium [3]	–	–	–116	–	–116
Other changes					
Fees	–	–	*6*	*–6*	–
Interest	–	*290*	*–47*	*–243*	–
Effect of changes in market interest rates	–	*126*	–	*–126*	–
Effect of changes in assumptions	–	*141*	–	*–141*	–
Exchange rate fluctuations for the period	*150*	–	–	–	*150*
Other [4]	–	–549	21	211	–317
Closing balance 2018	279	94 720	10 162	210 262	315 423

1) Funds which have been allocated to Alecta's insureds and policy holders under various discretionary resolutions. These funds constitute a part of Alecta's risk capital and are not guaranteed until assigned. Formally, Alecta can claw back the funds. SEK 1 468 million (1 468) of a total of SEK 94 720 million (89 388) refers to funds intended to cover the cost of measures forming part of the ITP plan, under which the parties to the collective agreement have the right to decide how the funds are used. The decision on the final use of the funds is made by Alecta's Board of Directors, provided that the Board unanimously agrees that the designated use is consistent with Alecta's interests as an insurance company.

2) Funds contributed to Alecta for indexation of pensions or for other pension-promoting purposes or, alternatively, to be transferred to a foundation designed for indexation of pensions. The Council of Administration decides how the funds should be used.

3) Premiums for waiver of premium insurance and collective final payments have been reduced as a result of the increase in employers' expenses resulting from the rules for coordination and calculation of pensionable salaries introduced by the parties to ITP 2 in 2008.

4) The item comprises cumulative return, inheritance gains and portfolio changes.

NOTE 33 Equity, *cont.*

Accounting principle

Translation reserve

Balance sheets of foreign subsidiaries are translated at the closing rates at the balance sheet date and income statements of foreign subsidiaries are translated at the average exchange rate for the year. Foreign exchange differences arising on translation are recognised in Other comprehensive income and transferred to the Group's translation reserve. Currencies that have been translated are the US dollar.

Discretionary participation features reserve

The discretionary participation features reserve in equity consists of refunds to policy holders and insureds that have been allocated on a preliminary basis. Allocated refunds to the insureds include pension supplements and adjustments of paid-up values for defined benefit pension products as well as refunds for defined contribution insurance that have been allocated on a preliminary basis. Allocated refunds to policy holders comprise a premium reduction for risk insurance. Allocated refunds to policy holders and the insureds also include funds intended to cover the cost of measures forming part of the ITP plan, under which the parties to the collective agreement have been given the right to indicate how the funds should be used. The decision on the final use of the funds is made by Alecta's Board of Directors, provided that the Board unanimously agrees that the designated use is consistent with Alecta's interests as an insurance company. The allocation of surpluses is regulated in the Company's funding policy in the actuarial guidelines. As the surplus is preliminary and not guaranteed, it is regarded as risk capital and is included in the Company's funding reserve. The surplus is allocated in conjunction with payment under the applicable internal regulations and is recognised directly in equity.

Special indexation funds

Special indexation funds are funds contributed to Alecta for indexation of pensions in payment and for other pension-promoting purposes or, alternatively, to be transferred to a foundation designed for indexation of pensions. Decisions on the use of the funds for these purposes are made by the Council of Administration. Special indexation funds are not included in collective funding capital. Change items are recognised directly in equity.

Retained earnings including net profit for the year

This item includes collective funding and net profit for the year. Collective funding includes other risk capital, which is not allocated.

NOTE 34 Surplus fund

Parent Company	Collective funding	Discretionary participation features reserve Allocated refunds to insureds and policy holders [1]	Other reserves Special indexation funds [2]	Total
Opening balance 2017	**205 453**	**70 855**	**10 445**	**286 753**
Appropriation of profits from previous years	15 908	–	–	15 908
Allocated refunds				
Defined benefit plan	*–13 957*	*13 957*	–	–
Defined contribution plan	*–12 311*	*12 311*	–	–
Guaranteed refunds				
Pension supplements, defined benefit plan	–	*–2 156*	–	*–2 156*
Supplementary amounts, defined contribution plan	–	*–117*	–	*–117*
Adjustment of paid-up values, defined benefit plan	*–220*	*–1 267*	–	*–1 487*
Premium reduction	–	*–4 131*	–	*–4 131*
Fees	–15	–	*15*	–
Interest	–200	251	–51	–
Collective risk premium [3]	–	–	–112	–112
Effect of changes in market interest rates	106	–106	–	–
Other changes [4]	130	–209	1	–78
Closing balance 2017	**194 894**	**89 388**	**10 298**	**294 580**
Opening balance 2018	**194 894**	**89 388**	**10 298**	**294 580**
Appropriation of profits from previous years	55 341			55 341
Allocated refunds				
Defined benefit plan	*–15 751*	*15 751*		–
Defined contribution plan	*– 1 162*	*1 162*		–
Guaranteed refunds				
Pension supplements, defined benefit plan		*–2 390*		*–2 390*
Supplementary amounts, defined contribution plan		*–156*		*–156*
Adjustment of paid-up values, defined benefit plan	*–1 468*	*–4 841*		*–6 309*
Premium reduction		*–4 202*		*–4 202*
Fees	–6		6	–
Interest	–243	290	–47	–
Collective risk premium [3]			–116	–116
Effect of changes in market interest rates	–126	126		–
Effect of changes in assumptions	–141	*141*		–
Other changes [4]	208	–549	20	–320
Closing balance 2018	**231 546**	**94 720**	**10 161**	**336 427**

1) Funds which have been allocated to Alecta's insureds and policy holders under various discretionary resolutions. These funds constitute a part of Alecta's risk capital and are not guaranteed until assigned. Formally, Alecta can claw back the funds. SEK 1 468 million (1 468) of a total of SEK 94 720 million (89 388) refers to funds intended to cover the cost of measures forming part of the ITP plan, under which the parties to the collective agreement have the right to decide how the funds are used. The decision on the final use of the funds is made by Alecta's Board of Directors, provided that the Board unanimously agrees that the designated use is consistent with Alecta's interests as an insurance company.

2) Funds contributed to Alecta for indexation of pensions or for other pension-promoting purposes or, alternatively, to be transferred to a foundation designed for indexation of pensions. The Council of Administration decides how the funds should be used.

3) Premiums for waiver of premium insurance and collective final payments have been reduced as a result of the increase in employers' expenses resulting from the rules for coordination and calculation of pensionable salaries introduced by the parties to ITP 2 in 2008.

4) The item comprises cumulative return, inheritance gains and portfolio changes.

Accounting principle

Surplus fund

Life insurance companies which do not have the right to distribute profits are required to maintain a surplus fund to which funds are allocated that can be used to cover losses. If permitted by the articles of association, the fund may also be used for other purposes. The surplus fund is part of equity and consists of collective funding, the discretionary participation features reserve and other reserves.

NOTE 35 Proposed appropriation of profits

The Board of Directors and Chief Executive Officer propose to the Council of Administration that the Parent Company's loss for 2018 of SEK 27 609 411 436 be transferred to the surplus fund. The Board and CEO propose that the Council of Administration approve the resolution of the Board regarding refunds as set forth in the section Distribution of surplus in the Administration Report on pages 50–51.

See also Proposed appropriation of profits in the Administration Report on page 51.

NOTE 36 Provision for life insurance

Group and Parent Company	2018	2017
Opening balance	**461 572**	**449 546**
Change for the year	37 964	28 652
Premiums	*41 821*	*32 287*
Payments	*–16 943*	*–16 652*
Cumulative returns	*14 712*	*14 064*
Released operating expenses	*–627*	*–638*
Yield tax	*–614*	*–542*
Mortality result	*84*	*48*
Other changes	*–469*	*85*
Change in interest rate assumption	8 349	–2 409
Difference between premium and provisioning assumptions	–16 922	–13 364
Change in operating expenses assumption	–3 075	722
Changed assumption for yield tax	7 791	–
Changed assumption for redistribution	–	–2 074
Changed family pension assumptions	–	499
Closing balance	**495 679**	**461 572**

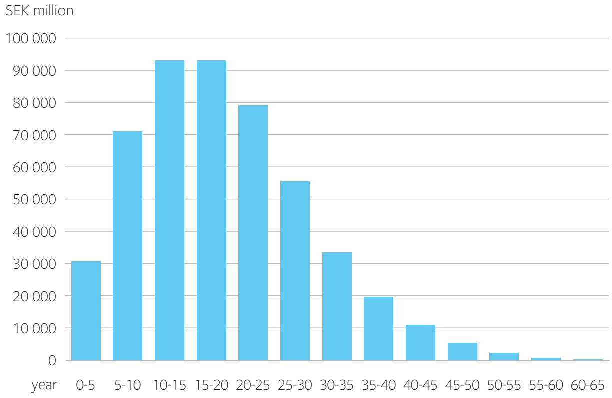
The following assumptions have been applied in calculating the provision for life insurance at 31 December 2018:

- Interest rate assumption: The average rate of interest was 2,16 per cent (2,27) at 31 December 2018. The method of determining this rate is described in Note 3.
- Mortality assumption: General mortality is applied. It is assumed that a 65-year-old male and a 65-year-old female born in the 1950s will live for a further 22,2 (22,2) years and 23,9 (23,9) years, respectively.
- Family pension assumption: Gender-dependent assumptions on family composition are applied.
- Operating expenses assumption: Future operating expenses are considered to comprise the present value of future expected expenses including cost increases due to inflation. Operating expenses are also recognised in connection with premium payments.
- Deduction for yield tax: Future yield tax is considered to comprise the present value of the yield tax that Alecta is expected to pay on assets representing the present value of guaranteed commitments.

Interest rate sensitivity

- For longer tenors, a fixed forward rate has been applied, which means that the average interest rate does not fluctuate as much as long-term market rates. If market rates were to fall by 1 percentage point, the average interest rate would fall by 0,5 percentage points and the provision for life insurance would increase by SEK 42,6 billion (47,5).

EXPECTED DISCOUNTED NET CASH OUTFLOW FOR RETIREMENT PENSION, FAMILY PENSION AND ORIGINAL ITPK



Accounting principle

Provision for life insurance

The provision for life insurance is calculated as the capital value of expected guaranteed future pension payments, operating expenses, yield tax and contractual future premiums.

Change in the provision for life insurance

The change in the provision for life insurance reflects actual events during the period, such as premium payments received or outgoing payments made in conjunction with an insured event. The provision for life insurance is also adjusted by the period's cumulative returns, assumed operating expenses, mortality results and the exercise of the right to switch pension providers, and by the amount of paid-up policies. In addition, the provision for life insurance is affected by any changes to the method of calculation and the assumptions applied. Examples of assumptions used in calculating the provision for life insurance are the discount rate, mortality and operating expenses. Changes in the provisions are recognised as an income and expense item in the income statement.

NOTE 37 Provision for claims outstanding

Group and Parent Company	2018	2017
Opening balance	17 242	16 727
Change for the year	144	608
Provision for new claims	*6 234*	*5 899*
Discontinuation income	*–2 907*	*–2 608*
Payments	*–3 241*	*–2 865*
Cumulative returns	*194*	*186*
Released operating expenses	*–56*	*–57*
Other changes	*–80*	*53*
Change in interest rate assumption	85	–93
Change in operating expenses assumption	–	–
Closing balance	17 470	17 242

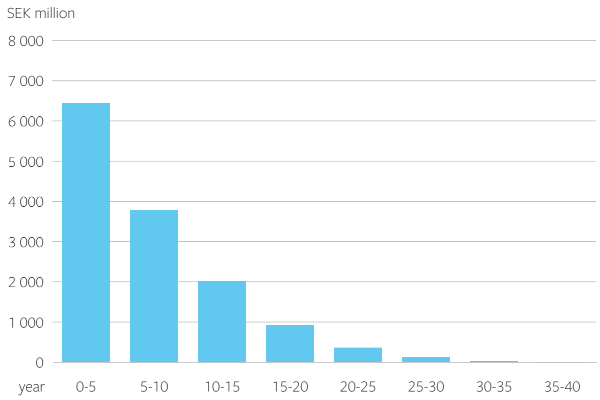
The following assumptions have been used in calculating, as at 31 December 2018, the provision for claims outstanding in respect of disability pension and waiver of premium, which comprise the dominant portion of the provision:

- Interest rate assumption: The rate of interest was 1,03 per cent (1,09) at 31 December 2018. The method of determining this rate is described in Note 3.
- Morbidity assumption: Assumptions regarding the probability of remaining ill at a given point in time and regarding changes in benefit levels and the degree of incapacity for work.
- Operating expenses assumption: Future operating expenses have been taken into account in the form of a supplement for expected pension payments. Operating expenses are also recorded in conjunction with premium payments.
- Indexation: It is assumed that benefits linked to changes in the price basic amount and income basic amount (guaranteed indexation) will increase annually by 2 per cent and 3 per cent, respectively.

Interest rate sensitivity

- If market rates fall by 1 percentage point, the provision increases by SEK 0,5 billion (0,7).

EXPECTED DISCOUNTED NET CASH OUTFLOW FOR DISABILITY INSURANCE AND WAIVER OF PREMIUM INSURANCE



Accounting principle

Provision for claims outstanding

The provision for claims outstanding is intended to cover future costs for insurance claims arising from incapacity to work. The technical provision is determined when the right to compensation arises. A portion of the provision for claims outstanding relates to claims incurred but not reported and is based exclusively on the company's experience of the backlog of reported cases of illness, which does not normally extend beyond one year.

Change in provision for claims outstanding

The calculation of the provision for claims outstanding is based on Alecta's insurance portfolio and on actuarial assumptions made on the basis of Alecta's actuarial calculation data. Changes in the portfolio or in the assumptions lead to a change in the provision for claims outstanding. Such changes are recognised as an income or expense item in the income statement.

NOTE 38 Provision for pensions and similar obligations

	Group		Parent Company	
	2018	2017	2018	2017
Provision for pensions	2	4	2	4
	2	**4**	**2**	**4**

The provision for pensions is largely attributable to employees born in 1955 or earlier, who are entitled to retire on their own initiative from the age of 62 under the terms of the FTP agreement. See Notes 1 and 47.

Accounting principle

All pension plans in the Group are recognised as defined contribution plans. The FTP Agreement provides an option for employees born in 1955 or earlier to retire on their own initiative with effect from the month after they turn 62. If this option is exercised, Alecta will pay a single premium to cover the additional retirement benefits. An unfunded provision equal to 100 per cent of the expected premium is made for employees who have notified Alecta that they intend to exercise this option. For other employees who have the opportunity to retire early, an unfunded provision is made based on the assumptions that the benefit will be earned on a straight-line basis up to the age of 62 and that 60 per cent (60) of employees will exercise the option.

NOTE 39 Other provisions

	Group		Parent Company	
	2018	2017	2018	2017
Indexation of pensions for former employees	1	18	1	18
Provision for real estate	8	11	2	5
	9	29	3	23

Accounting principle

A provision is a liability that is uncertain in terms of its due date and/or amount. A provision is recognised in the balance sheet when an existing obligation arises as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and that the amount can be reliably estimated. An obligation can be legal or constructive. If these criteria are not met, no provision is recognised in the balance sheet. Instead, a contingent liability will arise, if the criteria for a contingent liability are met. Provisions are reviewed at each closing date. Provisions are used only for the expenditure for which the provision was originally intended.

NOTE 40 Liabilities related to direct insurance operations

Group and Parent Company	2018	2017
Liabilities to policy holders	6	6
Preliminary tax, pensions	716	689
Other	10	11
Total	732	706

Accounting principle

Liabilities related to direct insurance operations are recognised at amortised cost.

NOTE 41 Other liabilities

Group	2018	2017
Payment liability on purchase of investment assets	554	72
Collateral received for derivatives [1]	2 069	1 443
Accounts payable	238	248
Property tax	97	91
Value-added tax	4	12
Other	37	37
Total	2 999	1 903

All liabilities mature within one year of the balance sheet date.

Parent Company	2018	2017
Liabilities to subsidiaries	1 573	1 550
Payment liability on purchase of investment assets	554	72
Collateral received for derivatives [1]	2 069	1 443
Accounts payable	171	162
Property tax	46	45
Value-added tax	4	12
Other	23	27
Total	4 440	3 311

[1] See also Note 28.

NOTE 42 Other accrued expenses and deferred income

	Group		Parent Company	
	2018	2017	2018	2017
Accrued interest expense	4 439	3 562	4 439	3 562
Accrued property costs	82	72	56	44
Accrued personnel costs	96	136	93	131
Prepaid rental income	383	370	142	157
Other	19	17	19	8
Total	5 019	4 157	4 749	3 902

Accounting principle

Accrued expenses and deferred income comprise expenses for the financial year that have been incurred by the business but have not been paid or invoiced at the balance sheet date, and income that has been paid or invoiced but has not been earned at the balance sheet date. Alecta's accrued expenses and deferred income mainly relate to property costs, rental income, personnel costs and interest expenses for currency swaps.

NOTE 43 Assets and comparable collateral pledged for own liabilities and for obligations reported as provisions

Group and Parent Company	2018	2017
Assets registered on behalf of policy holders	803 574	811 221
in addition to required pledge	*287 628*	*332 408*
	803 574	811 221
Land and buildings	23 025	20 947
Shares and participations in jointly controlled entities (joint ventures)	22 597	13 900
Loans to jointly controlled entities (joint ventures)	1 859	1 594
Shares and participations	351 727	374 944
Bonds and other debt securities	398 946	397 257
Loans secured by real estate	2 794	–
Other loans	3 133	2 098
Derivatives	–3 477	–2 163
Cash and bank balances	2 970	2 644
Total	803 574	811 221

The table above shows assets that have been registered for debt coverage under Regulation FFFS 2011:20 of the Swedish Financial Supervisory Authority.

NOTE 44 Other pledged assets and comparable collateral

Group and Parent Company	2018	2017
Collateral pledged to clearing houses for derivatives trading		
Bonds and other debt securities	2 460	2 734
Cash and bank balances	62	168
Collateral pledged for derivatives trading in accordance with CSA contracts		
Bonds and other debt securities	5 748	4 483
Cash and bank balances	511	262
Total	8 781	7 647

Collateral pledged for derivatives trading in accordance with CSA contracts is described in Note 29 Financial instruments subject to enforceable master netting agreements.

NOTE 45 Transfers of financial assets

Group and Parent Company	2018	2017
Loaned debt securities	22 995	19 012 [1)]
Collateral received for loaned securities	23 456	19 392 [1)]

[1)] Adjusted compared with the Annual Report 2017.

Accounting principle

Loaned debt securities consist of Swedish government bonds, which are recognised at fair value in the balance sheet, in accordance with the applicable accounting principles. Collateral received for loaned debt securities consist of Swedish and Danish covered bonds and are not recognised in the balance sheet. Compensation received for loaned debt securities has been recognised as interest income in the item Return on capital, income, see Note 5.

NOTE 46 Contingent liabilities

Group	2018	2017
Remaining balance to be invested in investment assets	15 622	9 328
Guarantee commitments	709	825
Total	**16 331**	**10 153**
Parent Company		
Remaining balance to be invested in investment assets	15 614	9 237
Liabilities in limited partnerships	97	103
Total	**15 711**	**9 340**

Contingent liabilities is a generic term for guarantees, financial commitments and obligations that are not included in the balance sheet.

Remaining balance to be invested in investment assets refers to an obligation to inject capital, if requested, into unlisted real estate-related investments and unlisted fixed-income investments.

The majority of Alecta's guarantee commitments refer to loans in connection with the development of tenant-owner apartments.

In the course of its normal business operations Alecta is party to several disputes, most of which relate to minor amounts. Alecta does not expect these disputes to have a material adverse impact on the Group's financial position.

NOTE 47 Reconciliation of total return table to financial statements

Group	2018	2017
Market value according to total return table[1]	823 932	829 792
Assets not classified as investments	7 482	7 259
Items from the liabilities side of the balance sheet which have been deducted in the total return table	16 852	14 039
Valuation differences	–155	–159
Other	–	–2
Total assets according to balance sheet	848 111	850 929

Group	2018	2017
Total return according to total return table	–18 300	51 980
Items from the income statement (Notes 5, 6, 9, 10) which are not included in the total return table	–367	743
Foreign exchange effects in foreign subsidiaries, recognised in equity in the financial statements	–152	238
Tax included in the total return table, classified as income tax in the income statement	797	23
Other	–21	16
Net return on capital according to income statement [2]	–18 043	53 000

1) See page 47.
2) Notes 5, 6, 9 and 10 in the income statement.

NOTE 48 Average number of employees, salaries and remuneration

Average number of employees [1]	2018 Number of employees	2018 Of whom women	2018 Of whom men	2017 Number of employees	2017 Of whom women	2017 Of whom men
Parent Company						
Sweden	343	202	141	343	202	141
United Kingdom [2]	–	–	–	0	0	0
Total, Parent Company	343	202	141	343	202	141
Subsidiaries						
Sweden	24	17	7	25	17	8
USA [2]	–	–	–	3	2	1
Total, subsidiaries	24	17	7	28	19	9
Total, Group	367	219	148	371	221	150

Gender distribution in senior positions	2018 Women	2018 Men	2017 Women	2017 Men
Parent Company				
Board of Directors	5	8	4	11
CEO	–	1	–	1
Other senior executives	3	6	3	5
Total, Parent Company	8	15	7	17
Subsidiaries				
Board of Directors	1	6	–	6
Other senior executives	–	–	1	1
Total, subsidiaries	1	6	1	7
Total, Group	9	21	8	24

Salaries, remuneration and fees paid to the CEO, senior executives, Directors and other employees [3]

kSEK	2018 Salaries, fees and other remu-neration	2018 Social security contributions	2018 Pension costs	2018 Total	2017 Salaries, fees and other remu-neration	2017 Social security contributions	2017 Pension costs	2017 Total
Parent Company								
CEO and senior executives[4]	23 558	9 216	7 479	40 253	28 008	10 591	7 380	45 979
Board of Directors[5]	3 077	833	–	3 910	3 003	759	–	3 762
Other employees	229 867	70 064	49 684	349 615	238 737	66 873	52 038	357 648
Total, Parent Company	256 502	80 113	57 163	393 778	269 748	78 223	59 418	407 389
Subsidiaries								
Sweden								
Other employees	11 073	3 690	972	15 735	10 660	3 302	872	14 834
USA								
Senior executives	–	–	–	–	5 107	66	748	5 921
Other employees	–	–	–	–	4 303	184	647	5 134
Total, subsidiaries	11 073	3 690	972	15 735	20 070	3 552	2 267	25 889
Total, Group	267 575	83 803	58 135	409 513	289 818	81 775	61 685	433 278

1) Refers to the average number of employees, both full-time and part-time.
2) All employees had left Alecta as at 31 May 2017 in connection with the closure of the foreign offices.
3) The Note shows salaries, remuneration and fees charged to expense in each financial year.
4) Consists of senior management for 2018. For the current composition of senior management, see page 44.
5) Members of the Board receive Directors' fees and fees for work on Board committees, which are determined by the Council of Administration. One Director also receives remuneration for nomination committee work.

NOTE 48 Average number of employees, salaries and remuneration, *cont.*

Salaries, remuneration, fees and benefits paid to senior executives and Directors

	2018					
kSEK	Salaries, fees and other remuneration [1]	Variable remuneration [1, 4]	Benefits [3]	Total remuneration	Social security contributions	Pension costs
Parent Company						
CEO						
Magnus Billing	5 925	–	78	6 003	2 423	2 212
Deputy CEO						
Katarina Thorslund	2 402	–	13	2 415	889	537
Senior executives						
Senior executives [2]	14 948	190	2	15 140	5 904	4 730
Total, CEO and senior executives	**23 275**	**190**	**93**	**23 558**	**9 216**	**7 479**
Chairman of the Board						
Erik Åsbrink	609	–	–	609	100	–
Other members of the Board						
Hanna Bisell (previously Brandt Gonzalez)	190	–	–	190	60	–
Cecilia Fahlberg	225	–	–	225	71	–
Anna-Karin Hatt	190	–	–	190	60	–
Per Hedelin	219	–	–	219	69	–
Peter Jeppsson	190	–	–	190	60	–
Carola Lemne	114	–	–	114	36	–
Martin Linder	190	–	–	190	60	–
Petra Hedengran	190	–	–	190	60	–
Richard Malmborg	190	–	–	190	60	–
Anders Weihe	190	–	–	190	60	–
Kaj Thorén	280	–	–	280	46	–
Magnus von Koch	190	–	–	190	60	–
Other members of the Board that have left						
Christer Ågren	110	–	–	110	35	–
Total, Board	**3 077**	**–**	**–**	**3 077**	**833**	**–**
Total, Parent Company	**26 352**	**190**	**93**	**26 635**	**10 049**	**7 479**

[1] Salaries, fees, other remuneration and variable remuneration shown as total salaries, fees and other remuneration charged to expense in the financial year 2018.
[2] Other senior executives refer to seven positions (seven), which together with the CEO and the Deputy CEO comprised Alecta's senior management team. For the composition of senior management, see page 44. The expense refers to those individuals who held a position as senior executive at some point during the year.
[3] Typical benefits include a company car, attractive mortgage rates, household services and healthcare insurance.
[4] Refers to variable remuneration under the Investment Management incentive scheme for which provisions have been made. A presentation of remuneration paid by Alecta, including variable remuneration, in accordance with the Swedish Financial Supervisory Authority's Regulations and General Guidelines on Annual Reports of Insurance Undertakings (FFFS 2015:12) will be published on alecta.se in April 2019.

NOTE 48 Average number of employees, salaries and remuneration, *cont.*

Salaries, remuneration, fees and benefits paid to senior executives and Directors

	2017					
kSEK	Salaries, fees and other remuneration [1]	Variable remuneration [1, 5]	Benefits [4]	Total remuneration	Social security contributions	Pension costs
Parent Company						
CEO						
Magnus Billing	5 924	–	76	6 000	2 478	2 444
Deputy CEO						
Per Frennberg [2]	5 833	1 612	7	7 452	2 701	1 484
Katarina Thorslund	2 369	–	18	2 387	887	564
Senior executives						
Senior executives [3]	10 678	1 452	39	12 169	4 525	2 888
Total, CEO and senior executives	**24 804**	**3 064**	**140**	**28 008**	**10 591**	**7 380**
Chairman of the Board						
Erik Åsbrink	594	–	–	594	60	–
Other members of the Board						
Hanna Brandt Gonzalez	185	–	–	185	58	–
Cecilia Fahlberg	219	–	–	219	69	–
Anna-Karin Hatt	185	–	–	185	58	–
Per Hedelin	199	–	–	199	63	–
Peter Jeppsson	185	–	–	185	58	–
Martin Linder	185	–	–	185	58	–
Petra Hedengran	94	–	–	94	30	–
Richard Malmborg	185	–	–	185	58	–
Anders Weihe	94	–	–	94	30	–
Kaj Thorén	276	–	–	276	28	–
Magnus von Koch	185	–	–	185	58	–
Christer Ågren	219	–	–	219	69	–
Other members of the Board that have left						
Jonas Milton	106	–	–	106	33	–
Lars Wedenborn	*92*	–	–	*92*	*29*	–
Total, Board	**3 003**	**–**	**–**	**3 003**	**759**	**–**
Total, Parent Company	**27 807**	**3 064**	**140**	**31 011**	**11 350**	**7 380**

1) Salaries, fees and other remuneration, variable remuneration and severance pay shown as total salaries, fees and other remuneration charged to expense in the financial year 2017.
2) Per Frennberg was Deputy CEO until 31 May 2017 and remained an employee until 19 November 2017. Salaries, fees and other remuneration include severance pay of SEK 3 132 000, representing 12 months' salary, of which SEK 2 740 000 will be paid in 2018.
3) Other senior executives refer to seven positions (five), which together with the CEO and the Deputy CEO comprised Alecta's senior management team from August 2017. During the period January to May 2017, the other senior executives category consisted of five individuals. From June 2017, the Acting Head of Investment Management has been included in other senior executives and from August 2017 the senior management team was increased by one person. The expense refers to those individuals who held a position as senior executive at some point during the year.
4) Typical benefits include a company car, attractive mortgage rates, household services and healthcare insurance.
5) Refers to variable remuneration under the Investment Management incentive scheme for which provisions have been made. A presentation of remuneration paid by Alecta, including variable remuneration, in accordance with the Swedish Financial Supervisory Authority's Regulations and General Guidelines on Annual Reports of Insurance Undertakings (FFFS 2015:12) was published on alecta.se in April 2018.

NOTE 48 Average number of employees, salaries and remuneration, *cont.*

Remuneration to Directors, CEO and senior executives

The Chairman and other members of the Board of Directors receive Directors' fees in accordance with resolutions adopted by the Council of Administration. The remuneration determined by the Council of Administration relates to the period until the next regular meeting of the Council of Administration. The remuneration paid to the CEO and senior executives in 2018 comprised basic salary, other benefits, such as a company car, mortgage interest benefits, healthcare insurance, household services, pension costs and social security contributions. Tony Persson, Acting Head of Investment Management as of 31 March 2018, has received variable remuneration under the Investment Management incentive scheme.

The remuneration of the CEO is determined by the Board and is reviewed annually. The remuneration of senior executives is determined by the CEO subject to approval by the Board of Directors.

Other senior executives refer to eight individuals who together with the CEO have constituted Alecta's management team. For the current composition of senior management, see page 44.

In accordance with the Swedish Financial Supervisory Authority's General Regulations and General Guidelines on Annual Reports of Insurance Undertakings (FFFS 2015:12), supplementary disclosures on remuneration will be presented on Alecta's website, alecta.se, in April 2019.

Pensions, severance pay and other benefits of the CEO, deputy CEOs and other senior executives

The CEO has a pension agreement under which 35 per cent of the monthly salary is set aside each month for pensions, including contributions to the FTP plan. Any portion of the contribution which exceeds the contribution required for the FTP plan may be used for retirement pension, survivor's pension and/or disability pension, as decided by the CEO. The pensionable age for the CEO is 65. The CEO's employment contract is terminable on six months' notice on the part of the company, in which case the CEO is entitled to severance pay in the amount of twelve months' salary. If a senior executive takes up other employment, the amount of severance pay will be reduced by any benefits received from such employment during the period of severance pay. The contract can be terminated by the CEO on six months' notice.

The Deputy CEO is also covered by the FTP plan. The Deputy CEO Katarina Thorslund is covered by a previous contract stipulating a notice period of 18 months, with any benefits received from other employment being fully deductible from severance pay. The contract can be terminated by the Deputy CEO on six months' notice.

Senior executives are covered by the FTP plan. Three executives are covered by FTP 2 and the remaining executives by FTP 1. Their contracts are terminable on six months' notice in case of termination by the Company and provide for severance pay in the amount of twelve months' salary. If a senior executive takes up other employment, the amount of severance pay will be reduced by any benefits received from such employment during the period of severance pay. Since early 2013 employees of Alecta have had the option of exchanging a part of their salary for occupational pension premiums. Salary exchange is cost-neutral for Alecta. This option is available to all employees of Alecta Pensionsförsäkring, ömsesidigt.

Incentive schemes

In 2018, employees in the Equity and Interest Management and Investment Management departments and employees of a subsidiary which provides restaurant and conference services were covered by an incentive scheme. Alecta has been running a general variable pay incentive scheme covering all employees except senior management, employees of the Equity and Interest Management Department and employees of the Internal Audit, Risk and Compliance units. The outcome for the general incentive scheme is contingent on achievement of targets linked to the business plan for 2018, with a maximum payout of kSEK 12 per employee in the form of increased occupational pension premiums. In 2018, one of the targets was fully achieved. The outcome per employee was kSEK 4 (12), representing a total cost for Alecta of approximately SEK 1 million (4), including social security contributions.

The Investment Management incentive scheme for employees in the Equity and Interest Management Department has an evaluation period of three years. The Board of Directors has defined caps for payouts as well as the targets against which performance will be measured. Key factors determining the outcome for variable remuneration are total return on investment assets, return in relation to Alecta's competitors and return from active management in the asset classes equities and debt instruments. The outcome for each individual also depends on the extent to which individually defined targets have been achieved. For 2018, a provision of SEK 1,7 million, excluding social security contributions, has been made for variable remuneration. For 2017, the vested variable remuneration was SEK 15,9 million excluding social security contributions.

In the incentive scheme for subsidiaries engaged in restaurant and conference activities, SEK 0,5 million excluding social security contributions was vested for 2018. For 2017, the vested variable remuneration was SEK 0,5 million excluding social security contributions.

Pension plans

All employees of Alecta Pensionsförsäkring, ömsesidigt, who are based in Sweden are covered by an occupational pension plan, FTP 17. The plan consists of two parts, FTP 1 and FTP 2. Employees born in 1972 or later are covered by FTP 1 while employees born in 1971 or earlier are covered by FTP 2. FTP 1 covers defined contribution retirement pensions with or without repayment cover, family protection, disability pension and waiver of premium insurance. The premium for retirement pension is 4,9 per cent of the gross salary on portions of salary up to 7,5 times the income basic amount and 30,5 per cent on portions of salary in excess of 7,5 times the income basic amount. Employees born in 1971 or earlier with a salary in excess of ten times the income basic amount can choose to be covered by FTP 1. FTP 2 is a defined benefit pension plan, which means that the employee is guaranteed a pension defined as a specific percentage of his or her final salary. FTP 2 includes retirement pension, family pension, FTPK, disability pension, family protection, waiver of premium insurance and a separate children's pension.

Pension commitments are secured through payments of fixed insurance premiums during the period of service. Under IAS 19, multi-employer defined benefit pension plans should, as a rule, be recoognised as defined benefit pension plans. If insufficient information is available to determine the employer's share of the obligations and plan assets, the pension plan should instead be accounted for as if it were a defined contribution pension plan. Alecta accounts for the whole FTP plan as a defined contribution plan, as the criteria for recognising the defined benefit components of the plan in accordance with the main rule in IAS 19 are not met. This means that the expense is recognised when the benefits are earned. The total insurance premium for defined benefit retirement and family pensions in FTP 2 was SEK 22,6 million in 2018 and is expected to reach SEK 31,8 million in 2019. The premium represents approximately 0,10 per cent of the total premiums for defined benefit retirement and family pensions paid to Alecta by the client companies. Premiums are calculated on a per insured basis and for each type of benefit by applying Alecta's assumptions on interest rates, operating expenses and yield tax.

Alecta's collective funding ratio for defined benefit plans at the end of the year was 142 per cent (154). The collective funding ratio is defined as the market value of Alecta's assets as a percentage of its commitments to policy holders calculated using Alecta's actuarial assumptions, which are not consistent with IAS 19. According to Alecta's funding policy for defined benefit insurance products, the specific normal range for the collective funding ratio is 125–175 per cent.

FTP 2 provides an option for employees born in 1955 or earlier to retire on their own initiative with effect from the month after they turn 62. The

NOTE 48 Average number of employees, salaries and remuneration, *cont.*

provision is recognised in the item Provision for pensions and similar obligations, see Note 37.

The subsidiaries have only defined contribution plans. These plans are secured mainly through payments of insurance premiums by each Group company and in some cases also by the employees. Some Group companies also provide various forms of healthcare insurance.

Provision for pensions

In the Parent Company, the calculation of the provision for pensions for Alecta's employees is made in compliance with the Swedish Pension Obligations Vesting Act and based on assumptions provided for in Regulation FFFS 2007:31 of the Swedish Financial Supervisory Authority.

Fee to lay auditors

The lay auditors receive fees in accordance with resolutions adopted by the Council of Administration. In 2018, fees amounted to kSEK 118 (115).

NOTE 49 Disclosure of auditors' fees

	Group		Parent Company	
	2018	2017	2018	2017
EY				
Statutory audit	3,6	3,4	3,6	3,4
Audit activities not included in statutory audit	0,4	0,6	0,4	0,6
Tax advisory services	2,0	1,2	0,4	–
Other services	0,3	0,1	0,2	0,1
Total, EY	**6,3**	**5,3**	**4,6**	**4,1**

NOTE 50 Leasing

Alecta has entered into operating leases for premises, office equipment and cars. The due dates for the sum of future minimum lease payments under non-cancellable leases at 31 December 2018 are indicated below.

	Group		Parent Company	
Expiration	2018	2017	2018	2017
Within one year	7,4	6,1	3,0	3,1
Later than one year but within five years	13,3	13,5	6,1	8,1
Later than five years	–	–	–	–
Total	**20,7**	**19,6**	**9,1**	**11,2**
Total lease payments during period	**13,4**	**7,4**	**5,5**	**4,5**
of which minimum lease payments	*13,4*	*7,4*	*5,5*	*4,5*

Rental contracts outside Sweden are sublet. The lease income was SEK 2,7 million (1,5) in 2018, is estimated at SEK 2,8 million (2,6) within one year and SEK 2,1 million (4,6) in total after more than one year but within five years.

NOTE 50 Leasing, *cont.*

Accounting principle

The recognition of leases is treated in IAS 17 Leases. Leases in which essentially all risks and rewards of ownership accrue to the lessor are classified as operating leases. Based on this definition, all of the Group's rental agreements are classified as operating leases. Lease payments for operating leases are recognised as an expense on a straight-line basis over the term of the lease. All rental agreements for the Group's investment properties are classified as operating leases, see Note 15. Rental income is recognised as income on a straight-line basis so that only that portion of the rent which is attributable to each period is recognised as income in the period.

NOTE 51 Related party disclosures

This Note contains descriptions of transactions between Alecta and related parties, as defined in IAS 24 Related Party Disclosures. Alecta considers the following legal entities and physical persons to be related parties according to this definition:

- all companies in the Alecta Group
- members of the Board and management team
- close family of members of the Board of Directors and management team
- the Confederation of Swedish Enterprise, PTK and their member organisations/unions
- associates and joint ventures
- the occupational pension information centres Collectum and Fora (the main owner of Collectum being the Confederation of Swedish Enterprise, which also owns half of Fora)
- AMF and AFA are half-owned by the Confederation of Swedish Enterprise.

Transactions with related parties must, like other transactions, be undertaken on commercial terms. When such transactions are undertaken particular attention must be paid to the internal rule on handling of conflicts of interest and Alecta's ethics policy, both of which have been adopted by Alecta's Board of Directors.

The operations of Alecta are conducted in accordance with principles of mutuality. The profit or loss arising in the company must be returned to or borne by the policy holders and the insureds. The operations are conducted on a non-profit basis and no profits are distributed. Subsidiaries are regarded chiefly as capital investments aimed at generating the best return for the owners.

Transactions between Alecta and subsidiaries

Alecta-to-subsidiary transactions refer to loans or shareholder contributions provided in connection with investments made by the subsidiaries. Subsidiary-to-Alecta transactions refer mainly to loan repayments and interest payments as well as dividends. Shares and participations in Group companies are presented in Note 16.

Transactions with members of the Board, senior management and their immediate family

Information on remuneration of senior executives and members of the Board is presented in Note 48. No remuneration was paid to family members of related parties in 2018.

NOTE 51 Related party disclosures, *cont.*

Transactions with the Confederation of Swedish Enterprise and PTK

The Confederation of Swedish Enterprise and the Council for Negotiation and Cooperation (PTK) are central labour market organisations in the Swedish private sector. Member organisations and unions of these central organisations are represented on the nomination committees which, on behalf of the owners, appoint members of Alecta's Council of Administration and thus indirectly also of Alecta's Board of Directors. No transactions took place between Alecta and the Confederation of Swedish Enterprise and PTK in 2018.

In 2018, Unionen and some of the Confederation of Swedish Enterprise's member organisations transferred insurance portfolios from another insurance provider to Alecta. The transferred portfolios had a total value of SEK 691 million (0) and the transfers were made on commercial terms.

Transactions with associated companies and joint ventures

Joint ventures are defined as entities in which Alecta exercises joint control together with the other co-owners. Alecta Pensionsförsäkring, ömsesidigt, is a co-owner of a number of jointly controlled real estate companies in Sweden and the United States. In the US, these participations are owned through the wholly owned subsidiary company Alecta Real Estate USA, LLC. A list of joint ventures is found in Note 18.

Transactions between Alecta and these joint ventures refer to lending, shareholder contributions and interest payments, and are shown in the table below. There are currently no investments in associated companies.

Transactions with the occupational pension information centres Collectum and Fora

Transactions made between Alecta and the Collectum and Fora selection centres are based on concluded agency agreements under which the selection centres undertake to perform a number of duties related to the ITP plans and the occupational pension plans collectively agreed between the Confederation of Swedish Enterprise and the Swedish Trade Union Confederation (Avtalspension SAF-LO). Collectum and Fora receive agency fees from Alecta for work performed under the agency agreements. Transactions with the selection centres are shown in the table below. The agency fees have been charged to operating expenses for the year and are shown in Note 8.

Transactions with AMF and AFA

No transactions took place with AMF or AFA.

			Payments received		Payments made	
	Related parties	**Transactions**	**2018**	**2017**	**2018**	**2017**
Information on transactions between the Parent Company, Alecta Pensionsförsäkring, ömsesidigt, and related parties	Swedish Group companies	Interest income	114	118	–	–
		Share of profit	917	80	–	–
		Management fee	9	9	–	–
	Foreign Group companies	Dividends	35	5 788	–	–
		Shareholder contributions provided	–	–	–	289
	Selection centres (Collectum and Fora)	Premium payments	35 102	29 386	–	–
		Agency fees	–	–	142	133
	Joint ventures	Interest income	122	165	–	–
			36 299	**35 546**	**142**	**422**

			Receivables		Liabilities	
	Related parties	**Balances**	**2018**	**2017**	**2018**	**2017**
Information on the Parent Company's, Alecta Pensionsförsäkring, ömsesidigt, outstanding claims and liabilities to related parties at 31 December	Swedish Group companies	Non-current receivables	9 066	9 272	–	–
		Receivables from/liabilities to Group companies	–	–	445	568
		Accrued interest expense	–	–	–	0
	Selection centres (Collectum and Fora)	Receivables	1 722	1 744	–	–
	Joint ventures	Loans receivable	1 857	1 591	–	–
		Accrued interest income	2	3	–	–
			12 647	**12 610**	**445**	**568**

NOTE 52 Significant events after the balance sheet date

No significant events occurred after the balance sheet date.

The Board of Directors' and CEO's signatures

We hereby declare that, to the best of our knowledge, the annual accounts and consolidated financial statements have been prepared in accordance with generally accepted accounting principles, the information provided gives a true and fair view of the circumstances of the Company and nothing of material significance has been omitted which could affect the view of the Company created by the annual accounts and consolidated financial statements.

Stockholm, 14 March 2019

Erik Åsbrink
Chairman

Cecilia Fahlberg Pihlgren
First Vice Chairman

Carola Lemne
Second Vice Chairman

Hanna Bisell
Board member

Anna-Karin Hatt
Board member

Per Hedelin
Board member

Petra Hedengran
Board member

Peter Jeppsson
Board member

Magnus von Koch
Board member

Martin Linder
Board member

Richard Malmborg
Board member

Kaj Thorén
Board member

Anders Weihe
Board member

Birgitta Pernkrans
Employee representative

Mikael Persson
Employee representative

Magnus Billing
CEO

Our audit report was submitted on 19 March 2019.

Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Audit Report

To the Council of Administration of Alecta Pensionsförsäkring, ömsesidigt, corp. ID no. 502014-6865

Report on the annual accounts and consolidated financial statements

Opinion

We have audited the annual accounts and consolidated financial statements of Alecta Pensionsförsäkring, ömsesidigt for 2018 (financial year). The company's annual accounts and consolidated financial statements are presented on pages 45–111 of this document.

In our opinion, the annual accounts have been prepared in accordance with the Swedish Insurance Companies Annual Accounts Act and give an essentially true and fair view of the Parent Company's financial position at 31 December 2018 and of its financial results and cash flows for the year in accordance with the Insurance Companies Annual Accounts Act. The consolidated financial statements have been prepared in accordance with the Swedish Insurance Companies Annual Accounts Act and give an essentially true and fair view of the Group's financial position at 31 December 2018 and of its financial results and cash flows for the year in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the Insurance Companies Annual Accounts Act. The Administration Report is consistent with the other parts of the annual accounts and consolidated financial statements.

We therefore recommend that the Council of Administration adopt the income statements and balance sheets for the Parent Company and the Group.

The opinion expressed in this report on the annual accounts and consolidated financial statements is consistent with the content of the supplementary report submitted to the Audit Committee of the Parent Company in accordance with Article 11 of the Audit Regulation (537/2014).

Basis of opinion

We have conducted our audit in accordance with the International Standards on Auditing (ISA) and generally accepted auditing standards (GAAS) in Sweden. Our responsibility under these standards is described in the section The auditor's responsibility. We are independent of the Parent Company and the Group in accordance with Swedish GAAS and have otherwise fulfilled our ethical responsibilities under these standards. This includes ensuring, based on our best knowledge and conviction, that no prohibited services within the meaning of Article 5.1 of the Audit Regulation (537/2014) have been provided to the audited company or, where applicable, its Parent Company or its controlled undertakings within the EU.

We believe that the audit evidence we have obtained is sufficient and adequate as a basis for our opinion.

Key audit matters

Key audit matters are those matters which, in our professional judgement, were of greatest significance for the audit of the annual accounts and consolidated accounts for the period concerned. These matters were addressed in the context of the audit of, and in the preparation of our opinion on, the annual accounts and consolidated accounts as a whole, but we do not present a separate opinion on these matters. The below description of how the audit has been implemented in these areas should also be read in this context.

We have fulfilled the obligations described in the section *The auditor's responsibility* in our report on the annual accounts also in these areas. We thus carried out audit procedures which have been designed to take account of our assessment of the risk of material errors in the annual accounts and consolidated financial statements. The outcome of our audit and the audit procedures that have been carried out to address the areas described below constitute the basis for our auditor's report.

Valuation of provisions for life insurance

Description of the matter

At 31 December 2018, the Group had life insurance provisions of SEK 496 billion, accounting for 93 per cent of total liabilities. In the Parent Company, these amounted to SEK 496 billion, accounting for 93 per cent of the Parent Company's liabilities. Disclosures on provisions for life insurance are provided in Note 1 Accounting principles, Note 2 Significant accounting estimates and judgements, Note 3 Risks and risk management, and Note 36 Provision for life insurance. Life insurance provisions need to cover expected future payments of insurance claims. Provisions for future claims are calculated using statistical methods. In view of the size of the balance sheet item relative to total liabilities, and the fact that the valuation requires management to make estimates and judgements, the valuation of life insurance provisions is considered a key audit matter in our audit.

How this matter was considered in the audit

We have evaluated the company's process for determining provisions and assessed whether material risks are covered by existing controls. We have also assessed the suitability of the methods and assumptions used, and have made independent calculations of provisions for those insurance classes which involve the highest degree of judgement. In our audit, we have engaged our internal actuaries to assist us in carrying out audit procedures in respect of technical provisions. We have also assessed whether the disclosures made in the financial statements in respect of life insurance provisions are appropriate.

Audit report, *cont.*

Valuation of investment assets

Description of the matter

At 31 December 2018, the Group had investment assets of SEK 827 billion, accounting for 98 per cent of total assets. In the Parent Company, these amounted to SEK 820 billion, accounting for 97 per cent of the Parent Company's total assets. Of the investment assets, SEK 818 billion is measured at fair value in the Group and SEK 798 billion is measured at fair value in the Parent Company. Financial instruments at fair value are divided into different levels based on a fair value hierarchy (Levels 1, 2 and 3). Level 1 consists of financial instrument for which quoted (unadjusted) prices in active markets are available for identical assets or liabilities. For financial instruments in Level 2, certain estimates and judgements may be required to determine fair value, although the use of estimates and judgements is much less significant than for financial instruments in Level 3. At 31 December 2018, there were investment assets of SEK 543 billion which are measured at fair value at Level 1, SEK 193 billion measured at Level 2 and SEK 55 billion measured at Level 3. For the Parent Company, there were investment assets of SEK 543 billion which are measured at fair value at Level 1, SEK 193 billion measured at Level 2 and SEK 53 billion measured at Level 3. Disclosures on the valuation of investment assets are found in Note 1 Accounting principles and Note 22 Valuation categories for financial instruments measured at fair value. Information is also provided in Note 19 Classification of financial assets and liabilities and in Note 23 Disclosures on financial instruments measured at fair value based on Level 3. Disclosures are also provided in Note 15 Land and buildings.

In view of the size of the balance sheet item relative to total assets, and the fact that the measurement of financial instruments at Level 2 and Level 3 requires management to make certain estimates and judgements, the valuation of investment assets is considered a key audit matter in our audit.

How this matter was considered in the audit

We have evaluated the company's process for the valuation of financial instruments and other investment assets, and the valuation methods used and have, where applicable, assessed the reasonableness of management's estimates and judgements in calculating fair values. We have tested a selection of key controls in the valuation process and have independently valued a selection of financial instruments and other investment assets. The results of this valuation have been compared with the company's own valuation and differences have been analysed. We have also assessed whether the disclosures made in the financial statements in respect of investment assets are appropriate.

Other information than the annual accounts and consolidated financial statements

This document also contains other information than the annual accounts and consolidated financial statements, which is found on pages 1–44 and 116–120. Responsibility for this other information rests with the Board of Directors and Chief Executive Officer.

Our opinion on the annual accounts and consolidated financial statements does not cover this other information, and we do not express any opinion, or make any certification, in respect of this information.

In connection with of our audit of the annual accounts and consolidated financial statements it is our responsibility to read the information identified above and, in so doing, to consider whether it is materially inconsistent with the annual accounts and consolidated financial statements. In this review we also take account of other knowledge obtained in the course of our audit and assess whether the information otherwise appears to contain material misstatements.

If, based on the work carried out in respect of this information, we conclude that the other information contains a material misstatement, we have a duty to report this. We have nothing to report in that regard.

Responsibilities of the Board of Directors and Chief Executive Officer

Responsibility for ensuring that the annual accounts and consolidated financial statements are prepared and give a true and fair view pursuant to the Insurance Companies Annual Accounts Act and, as regards the consolidated financial statements, pursuant to IFRS as adopted by the EU, rests with the Board of Directors and Chief Executive Officer. The Board and CEO are also responsible for such internal control as they deem necessary for the purpose of preparing annual accounts and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated financial statements, the Board and CEO are responsible for assessing the company's ability to continue as a going concern. Where applicable, they are also required to disclose circumstances which could affect the company's ability to continue as a going concern and use the going concern assumption. The going concern assumption applies unless the Board and CEO intend to liquidate the company or cease to operate, or have no realistic alternative to doing so.

The Audit Committee of the Board of Directors is tasked with monitoring, without prejudice to the other responsibilities and duties of the Board, the financial reporting of the company.

Audit report, *cont.*

The auditor's responsibility

Our objective is to obtain reasonable assurance that the annual accounts and consolidated financial statements as a whole are from material misstatement, whether due to fraud or error, and to submit an audit report containing our opinion. Reasonable assurance is a high degree of assurance, but does not constitute a guarantee that an audit conducted in accordance with ISA and generally accepted auditing standards in Sweden will always detect a material misstatement if it exists. Misstatements can arise due to fraud or error and are considered material if they individually or jointly can reasonably be expected to affect financial decisions made by users on the basis of the annual accounts and consolidated financial statements.

As part of our audit in accordance with ISA, we use our professional judgement and maintain a professionally sceptical attitude throughout our audit. We also:

- identify and assess the risks of material misstatement in the annual accounts and consolidated financial statements, whether due to fraud or error, devise and perform audit procedures partly on the basis of these risks and obtain audit evidence that is sufficient and appropriate as a basis for our opinion. The risk of not detecting a material misstatement that is due to fraud is higher than for a material misstatement that is due to error, as fraud can involve persons acting in collusion, falsification, intentional omissions, incorrect information or neglect of internal control.

- obtain an understanding of that part of the company's internal control system that is of significance for our audit in order to devise audit procedures which are appropriate in view of the circumstances, but not to express an opinion on the effectiveness of the internal control system.

- evaluate the appropriateness of the accounting principles used and the reasonableness of the Board of Directors' and CEO's estimates in the accounts and related disclosures.

- draw a conclusion on the appropriateness of the Board of Directors' and CEO's use of the going concern assumption in preparing the annual accounts and consolidated financial statements. We also draw a conclusion, based on the audit evidence obtained, on whether there is any material uncertainty related to events or circumstances which could cast significant doubt on the company's ability to continue as a going concern. If we draw the conclusion that there is a material uncertainty, we need to draw attention in our audit report to those disclosures which concern the material uncertainty in the annual accounts or, if such disclosures are insufficient, modify our opinion on the annual accounts and consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of the audit report. However, future events or circumstances could result in a company being unable to continue as a going concern.

- evaluate the overall presentation, structure and content of the annual accounts and consolidated financial statements, including the disclosures, and whether the annual accounts and consolidated financial statements provide a true and fair view of the underlying transactions and events.

- obtain sufficient and appropriate audit evidence in respect of the financial information for the entities or business activities in the Group so as to be able to express an opinion on the consolidated financial statements. We are responsible for the governance, monitoring and performance of the audit of the consolidated financial statements. We are solely responsible for the opinion that we issue.

We are required to inform the Board on, for example, the planned scope, focus and timing of the audit. We are also required to communicate any significant observations made in the course of our audit, including any significant internal control issues that we have identified.

We are furthermore required to submit a statement to the Board confirming that we have complied with all professional ethical requirements with regard to independence, address all relations and other circumstances which could reasonably affect our independence and, where applicable, take relevant countermeasures.

Of those areas that are communicated to the Board, we determine which were most significant for the audit of the annual accounts and consolidated financial statements, including the most important assessed risks of material misstatement, and which therefore constitute the key audit matters. We describe these areas in our audit report unless laws, regulations or administrative provisions prohibit the disclosure of the matter.

Report on other legal and regulatory requirements

Opinion

In addition to our audit of the annual accounts, we have audited the Board of Directors' and Chief Executive Officer's management of Alecta Pensionsförsäkring, ömsesidigt for 2018 and the proposed appropriation of the company's profit or loss.

We recommend that the Council of Administration allocate the retained earnings as proposed in the Administration Report and grant release from liability to the Directors and Chief Executive Officer in respect of the financial year.

Basis of opinion

We have conducted our audit in accordance with generally accepted auditing standards (GAAS) in Sweden. Our responsibility under these standards is described in the section The auditor's responsibility. We are independent of the Parent Company and the Group in accordance

Audit report, *cont.*

with Swedish GAAS and have otherwise fulfilled our ethical responsibilities under these standards.

We believe that the audit evidence we have obtained is sufficient and adequate as a basis for our opinion.

Responsibilities of the Board of Directors and Chief Executive Officer

Responsibility for the proposed appropriation of the company's profit or loss rests with the Board of Directors. The preparation of a dividend proposal involves assessing whether the dividend is justifiable with regard to the equity, consolidation, liquidity and financial position requirements of the Parent Company and Group arising from the nature, scope and risks of the operations of the Parent Company and Group.

The Board is responsible for the company's organisation and the management of its affairs. This involves continuously assessing the company's and Group's financial situation, and ensuring that the company's organisation is structured so as to ensure satisfactory control of its accounting, management of funds and financial affairs. The CEO is responsible for day-to-day management in accordance with the guidelines and instructions issued by the Board and shall take such actions as may be necessary to ensure compliance with the company's statutory accounting obligations and satisfactory management of funds.

The auditor's responsibility

Our objective for the management audit, and thus for our opinion on release from liability, is to obtain audit evidence that enables us to assess with reasonable assurance whether any member of the Board or the Chief Executive Officer has in any material respect:

- taken any action or been guilty of any neglect that could give rise to a liability to indemnify the company.
- otherwise acted in contravention of the Insurance Business Act, the Insurance Companies Annual Accounts Act or the Articles of Association.

Our objective in respect of our audit of the proposed appropriation of the company's profit or loss, and thus for our opinion on the same, is to obtain reasonable assurance that the proposed appropriation is consistent with the Insurance Business Act or the Articles of Association.

Reasonable assurance is a high degree of assurance but does guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden (Swedish GAAS) will always detect actions or neglect that could give rise to a liability to indemnify the company, or that the proposed appropriation of the company's profit or loss is consistent with the Insurance Business Act or the Articles of Association.

As part of our audit in accordance with Swedish GAAS, we use our professional judgement and maintain a professionally sceptical attitude throughout our audit. Our examination of the management and the proposed appropriation of the company's profit or loss is based primarily on our audit of the financial statements. We use our professional judgement to decide which additional audit procedures to carry out based on risk and materiality. This means that we focus our examination on such procedures, areas and circumstances that are material to the business and where deviations and violations would be particularly significant for the company's situation. We review and test the decisions that have been made, the bases for these decisions, the measures taken and other circumstances that are relevant to our opinion on release from liability. As a basis for our opinion on the Board of Directors' proposal for appropriation of the company's profit or loss, we have examined whether the proposal is consistent with the Insurance Business Act and the Articles of Association.

Ernst & Young AB, Box 7850, SE-103 99 Stockholm, were appointed auditors of Alecta Pensionsförsäkring, ömsesidigt by the Council of Administration on 18 April 2018 and have been the company's auditors since 10 April 2014.

Stockholm, 19 March 2019
Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Review report

To the Council of Administration of Alecta Pensionsförsäkring, ömsesidigt, corp. ID. no. 502014-6865

We have, in our capacity as lay auditors, reviewed the operations of Alecta Pensionsförsäkring, ömsesidigt for the year 2018.

We performed our review in accordance with the Swedish Insurance Companies Act and generally accepted auditing standards in Sweden. This means that we planned and performed our review so as to obtain reasonable assurance that the company's operations have been conducted in an appropriate and financially satisfactory manner, and that the company's internal control is adequate.

Our review did not result in any qualifications.

Stockholm, 20 March 2019

Niklas Hjert

Lars Jansson

Glossary

Adjustment of paid-up values
Assigned refunds through an increase of the pension entitlement earned prior to retirement age. This adjustment is primarily made to compensate for inflation.

Agency agreement with Collectum
An agreement under which Collectum performs administrative services relating to the ITP plan for Alecta.

Assets under management
Calculated as equity, provision for life insurance and claims outstanding, according to the balance sheet.

Capital base
The insurance company is required to maintain a capital base of sufficient size to be able to cover any unforeseen future losses. The capital base consists of the difference between the market value of the Company's assets, less intangible assets and financial liabilities, and technical provisions.

Capital value
The estimated present value of future payment flows.

Client-company funds
Funds assigned to the policy holders in 1998 from the surplus generated by Alecta during the years 1994–1998. The funds have primarily been used as pension premiums at Alecta and other life insurance companies.

Collective agreement guarantee
If an employer that has agreed to enrol in the ITP plan under a collective agreement subsequently fails to sign or maintain the ITP agreement, fees and other benefits shall accrue to the employee to the same extent as if the employer had fulfilled its obligations under the ITP plan. The collective agreement guarantee is administered by Collectum.

Collective funding capital
The difference between distributable assets, valued at market value, and insurance commitments (guaranteed commitments as well as allocated refunds) to policy holders and the insureds.

Collective funding ratio
Distributable assets in relation to insurance commitments to policy holders and insureds (guaranteed commitments as well as allocated refunds).

Default option
In a defined contribution plan where the employee does not make an active choice of insurance company, the employee automatically becomes a customer of the insurance company that has been designated as the default service provider in the procurement for the management of the plan.

Defined benefit insurance (ITP 2)
A defined benefit pension plan is a plan under which the size of the pension is determined in advance, for example as a specified amount or a percentage of the final salary.

Defined contribution insurance
In a defined contribution pension the size of the premium is defined in advance, either as a certain percentage of the employee's salary or as a specified amount. The size of the pension depends on the amount of pension capital on retirement.

Discount rate
The interest rate used to calculate the present value of future cash inflows and outflows.

Distributable assets
The total market value of assets less financial liabilities, special indexation funds and guarantee reserves.

Insurance contracts
A contract between an insurance provider and a policy holder containing a significant insurance risk.

Insured
The person covered by the insurance contract.

Investments
Investment assets, cash and bank balances, and other assets and liabilities related to investment assets (such as accrued interest and rental income) at market value in the balance sheet.

Investment assets
Assets having the character of a capital investment, i.e. debt securities, shares and real estate.

Investment management expense ratio
Operating expenses in the Company's investment management activities in relation to average assets under management.

Management expense ratio
Operating expenses in the insurance business (acquisition and administrative expenses) and claims settlement expenses in relation to average assets under management. The key ratio is calculated on an aggregate basis and for the pension products, excluding selection centre costs.

Occupational group life insurance (TGL)
A life insurance policy under which surviving family members receive a specified amount if the insured dies before retirement. Under the collective agreement, the employer is required to take out occupational group life insurance for its employees.

Original ITPK
Introduced in 1977, defined contribution ITPK was at that time automatically invested in Alecta. As of 1990 the individual beneficiary has been able to make their own choice. Those who had made no choice by year-end 2007 had their ITPK invested in the default option, the original ITPK. No further money has been invested in the original ITPK after 2007.

Pension supplement
Refunds allocated to the insureds in addition to the guaranteed pension. Under the applicable actuarial guidelines, the pension supplement must not exceed the increase in the consumer price index for the year concerned, starting from the date on which the first pension payment was made to the insured. The pension supplement is determined by the Board each year.

Policy holder
The party that has entered into an insurance contract with an insurance company.

Premium rate
For defined benefit insurance, the size of the premium depends partly on the applied premium rate. The premiums paid, including the cumulative return based on the premium rate, must be sufficient to pay the guaranteed benefit during the payment period. This means that the premium will be higher the lower the applied premium rate.

Premium reduction
Distribution of surplus funds through a reduction of premiums. Premium reduction is applied for risk insurance.

PRI model
Rather than paying premiums to an insurance company, the employer reports its pension commitment as a liability in the balance sheet. The distribution of funds begins only on the retirement of an employee. A credit insurance arrangement with PRI Pensionsgaranti guarantees that the employees will receive their pensions even if their employer becomes insolvent.

Refund
A surplus that is guaranteed or allocated to
- the policy holders in the form of premium reductions.
- the insureds, in the form of an increase of the insurance benefit.
- cost coverage for measures under the ITP plan. The parties to the collective agreement have been granted the right to indicate how the funds should be used. The decision on the final use of the funds is made by Alecta's Board of Directors, provided that the Board unanimously agrees that the designated use is consistent with Alecta's interests as an insurance company.

Guaranteed refunds are formally guaranteed. Allocated refunds are not formally guaranteed.

Risk insurance
Insurance for which the entire premium is used to protect against risk. There is no savings component in this type of insurance.

Solvency margin
The required solvency margin is a minimum requirement for the size of the capital base. Put simply, the solvency margin is defined as certain percentages of technical provisions and the Company's insurance risks.

Solvency ratio
Total assets at market value less intangible assets and financial liabilities, in relation to guaranteed commitments.

Special indexation funds
Funds allocated to guarantee the indexation of pensions or for other pension-promoting purposes. These funds only become available to Alecta subject to a decision by the Confederation of Swedish Enterprise and the Council for Negotiation and Cooperation (PTK). Special indexation funds are therefore not included in collective funding capital.

Technical provisions
Provisions in the balance sheet for an insurance company's obligations arising from insurance contracts. Technical provisions comprise the capital value of the insurance company's guaranteed obligations. Technical provisions consist of provisions for life insurance and claims outstanding.

Total return
The return on investments, adjusted for cash flows and expressed as a percentage, according to the recommendations of Insurance Sweden.

Waiver of premium insurance
Part of the collective risk insurance provided under the ITP plan, waiver of premium insurance means that the employer is released from paying premiums if an employee becomes incapacitated for work. In such case, premiums for insurance provided under the ITP plan will be paid from the waiver of premium insurance and are regarded as insurance compensation.

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