


alecta

Annual Report and Sustainability Report 2017





When trust is shared, it grows




CONTENTS

The formal annual report comprises pages 30–100.

This document is a translation of the Swedish original. While every effort is made to ensure the accuracy of the translation, portions may be incorrect. In the event of any discrepancies between this version and the Swedish original, the Swedish original shall prevail.

About Alecta's Annual Report and Sustainability Report 2017

Alecta's Annual Report and Sustainability Report are presented by the Board of Directors, and are intended to give all stakeholders a fair representation of our activities and results in the past year. The Administration Report and the financial statements on pages 30–97 constitute Alecta's statutory financial information and are subject to external auditing. Alecta's statutory sustainability report has been prepared in accordance with the Global Reporting Initiative (GRI) Guidelines, and the key sections of the report on Alecta's sustainability work in 2017 are those presented on pages 12–29 as well as the supplementary in-depth information on governance and sustainability on pages 102–113, where we also present processes, supplementary data, and the scope and boundaries. The Sustainability Report has been examined by external auditors. The Audit Report on the statutory financial information and the review report on the Sustainability Report from Alecta's auditors, Ernst & Young AB, are presented on pages 98–100 and 114, respectively.

” I want to be able to decide myself when to retire.

Andreas Fasth
A resident in Sollentuna, on parental leave.

– This is the third time I've taken paternity leave, so it wasn't really a big deal when I asked for leave again. The pharmaceutical industry employs a lot of women, so perhaps that's why parental leave is something completely normal at my job, and dads too are encouraged to be at home.

– We have received advice on occupational pensions at work, so I have a good understanding of what is included. For me, being able to decide myself when to retire is important, but right now I look forward to going back to work again.

Alecta in brief

When trust is shared, it grows

Alecta was founded in 1917 based on the insight that the greatest possible security in old age and in illness is achieved if we take shared responsibility. That has remained the “Alecta model” to this day.

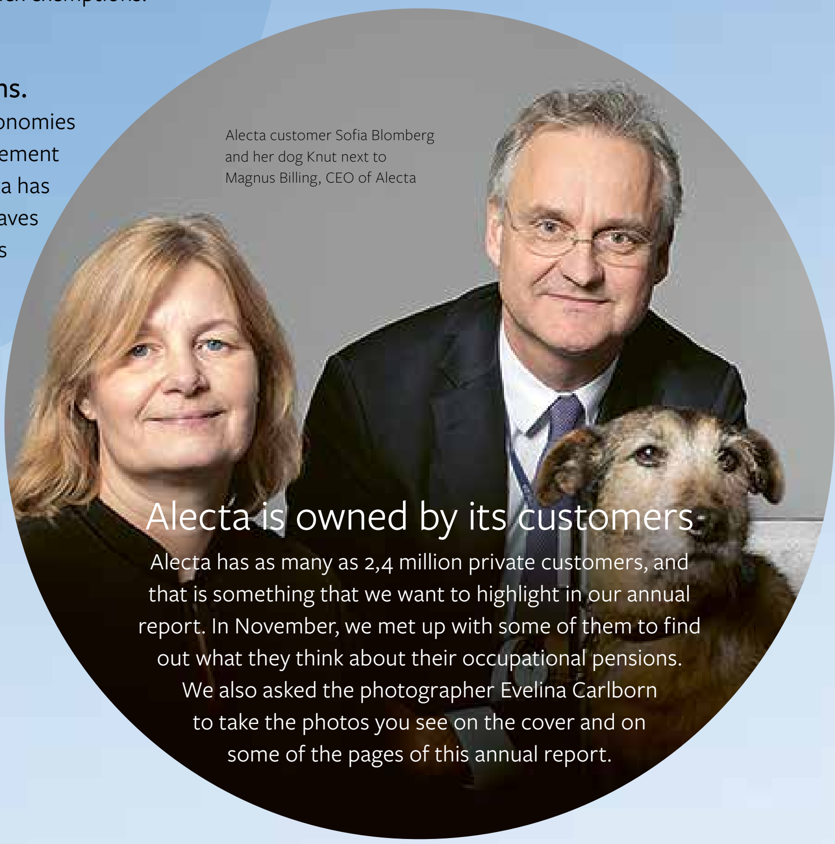
Alecta is a mutual insurance company – we are owned by our customers.
We always have our customers’ best interests at heart. Any surplus that we generate is returned to our customers in the form of better pensions or lower costs for our corporate customers.

The risk and responsibility are shared between the customers.
With a single insurance solution, everyone takes collective responsibility for each other’s security. This creates greater security and flexibility. Alecta can, for example, offer a lifelong pension and disability insurance without any complex exemptions.

Our services are purchased collectively by the employer and employee organisations.
Purchasing insurance collectively – in a group – creates economies of scale, which means that the administrative and management expense per insured is low. Another benefit is that Alecta has no need to incur costs for sales and marketing. That leaves a bigger pension pot for the employees and reduces the costs for the employers.

Our mission

Alecta’s mission is to maximise the value of collectively agreed occupational pension schemes for our corporate and private clients.



Alecta customer Sofia Blomberg and her dog Knut next to Magnus Billing, CEO of Alecta

Alecta is owned by its customers

Alecta has as many as 2,4 million private customers, and that is something that we want to highlight in our annual report. In November, we met up with some of them to find out what they think about their occupational pensions. We also asked the photographer Evelina Carlborn to take the photos you see on the cover and on some of the pages of this annual report.

2,4 million insured private customers

34 000 corporate customers

SEK 830 billion in assets under management

364 employees

Alecta's fundamental insight – a good pension starts with a low fee

One of the key factors determining the value of a pension is low fees. A low fee reduces the costs for the companies and results in a better pension for the pensioners. Over the course of a working life, 25 per cent of a saver's pension capital disappears if the fee is one per cent. At three per cent, half the capital disappears.

Our vision and our core values

Based on our insight, we have formulated our vision and our values.

Our vision:

To be the world's most efficient occupational pension fund.

Our core values:

Simplicity – Customer benefit – Responsibility

Our goals

Based on our mission, vision and values, we have defined three goals:

– Secure and satisfied customers
– High cost-effectiveness
– A robust return and strong financial position

We offer occupational pensions with retirement, disability and survivor's pension:

– Defined benefit ITP 2 for private-sector salaried employees born in 1978 or earlier.

– Defined benefit ITP 1 for those born in 1979 or later.

Since its introduction in 2007, our Alecta Optimal Pension product has been the contracted default option for the ITP defined contribution pension plan. We are also the default option for the FTP collective bargaining agreement for salaried employees in the insurance industry. Moreover, Alecta Optimal Pension is a selectable option in all major collective bargaining agreements.

0,02
investment management expense ratio

0,06
management expense ratio for pension products
(excl. selection centre costs)

SEK 20,4 billion
in retirement, disability and survivor's pension payments

Message from the CEO

Focusing on the ITP-procurement and customer value

2017 was an eventful year that saw big swings in financial markets and property prices as well as an extensive debate about those parts of our pension system which fall outside the collectively agreed occupational pension schemes. In this environment, Alecta stood strong. Once again, we showed that our model of asset management generates strong returns. Many of those participating in the debate also highlighted the employer-union procurement model as an example for other areas of the pension market.

Developments in the market in 2017 strengthened Alecta's position in the ITP 1 defined contribution plan procurement for 2018–2023, which was initiated in 2017. Much of the year was taken up by preparations for the procurement, and in March 2018 we were delighted and proud to receive the news that our status as the default option had been extended.

High returns and low fees

The return on our ITP 2 defined benefit plan was 6,5 per cent in 2017 and the return on Alecta Optimal Pension was 9,1 per cent. Assets under management grew to SEK 830 billion and we welcomed 100 000 new customers.

Ten years with Alecta Optimal Pension

Thanks to the collective procurement and our strong focus on cost-effectiveness, we still offer one of the lowest fees in the industry. In 2017, Alecta was once again named the world's third most cost-effective occupational pension fund in CEM Benchmarking's global study. In the autumn, our defined benefit product, Alecta Optimal Pension, marked its tenth anniversary. Since its launch, Sweden's biggest savings product has delivered an average annual return of 7,3 per cent. We were also named the most sustainable pension fund in Europe and best active manager at the 2017 IPE Awards. All said, these are tremendous achievements on the part of all our employees. A big thank you to you all!

A hundred years ago, a collectively procured insurance solution was a far-sighted idea. Although today many people use other words, such as customer power and the sharing economy, there is no doubt that collective insurance solutions mean a lot for people's sense of security and that they will be an important part of tomorrow's social security systems. When trust is shared, it grows.

Focusing on the customer meeting

We are owned by our 2,4 million private customers and 34 000 corporate customers. That's why we always have our eye on customer benefits and the best interests of the customer. Any surplus that is generated is returned to our customers in the form of increased pensions or lower premiums. Customer service, customer interfaces and sustainability were some of our main focus areas in 2017.

Digitisation is creating opportunities for improvements and more effective customer meetings. Inspired by two of our core values – simplicity and customer benefit – we are continually trying to make it easier for our customers to understand and manage their pensions. We are also continually evaluating our processes to maximise the value that we add for our customers. For example, in the past year we launched a new website, started work on developing improved self-service functionality for private customers and initiated the development of a new payment solution. We also hit a new record in terms of the number of customers who are withdrawing their pensions digitally. Over 60 per cent of our customers now make their first pension withdrawal entirely digitally through My Pages. Every fourth customer letter from Alecta is now sent digitally. Alecta is also a contributor to the Swedish insurance industry's common forecasting and calculation service, is connected to the MinPension pension portal and is supporting the development of a withdrawal plan and electronic transfer sheets.

> Our founders were driven by an important insight: **when trust is shared, it grows.** That is a conviction that we still hold.

Digitisation is creating new expectations

We have produced an ambitious survey of how and when our customers will need to receive pension information in the future. Digitisation has fundamentally changed consumers' and businesses' expectations with regard to ease of use, availability and presentation. Our aim is to be flexible enough to provide the level of service that our customers expect. Having secure and satisfied customers is one of our goals, and the way we interact with our customers is set to become yet more important in the future.

Sustainability – a key concern for a growing number of people

Sustainability is becoming increasingly important for a growing number of pension customers. The Swedish government also wants the banking and insurance industry to make a more active contribution to developing a sustainable society, with the UN's 17 sustainable development goals in Agenda 2030 as guiding principles.

Alecta welcomes the emerging focus on long-term value creation and sustainable risk management. We are convinced that sustainable investments generate good returns if you have a long-term perspective and factor in environmental concerns, social development and good corporate governance already at the investment process stage. In addition to high cost-effectiveness and capital growth, our unique asset management model also creates several significant sustainability benefits.

During the year, we initiated a sustainability certification of our research and investment process in which an independent certifier was invited to examine and verify our activities. That

Cont. next page

is a mark of quality. A sustainability perspective at the research stage further future-proofs our investment but also serves as a catalyst for identifying new investments or asset classes which promote sustainable development. One result of this focus is that Alecta at the end of 2017 had invested over SEK 17 billion in green bonds earmarked for projects or businesses which have a positive impact on the climate and environment.

In the public debate, we have highlighted the need for a wider choice of sustainable investment opportunities of a size and with a risk level consistent with our mission to deliver good pensions. This requires politicians who are able to lead the way, as an example by issuing green government bonds to finance a transition to a more sustainable society. We therefore welcome the government's proposed inquiry into green bonds.

A better society and environment

The banking and insurance industry can make a positive contribution to society and the environment if the companies in the industry take joint action and adhere to a set of common reporting standards. Alecta's strategy is therefore to adopt and take part in developing broadly accepted standards. In 2017, we led a working group under the Swedish Investors for Sustainable Development (SISD) initiative of the Swedish International Development Cooperation Agency (Sida). We have also, as the sole Swedish company, had the privilege of leading a working group that forms part of the EU's High-Level Expert Group on Sustainable Finance.

Both initiatives have produced draft standards and strategies that need to be agreed on and formalised. One concrete example is the Expert Group's recommendation that legislation governing pension funds' fiduciary duties place a clearer emphasis on sustainability – a recommendation that the European Commission has chosen to act on immediately.

Sustainability work with an impact

We have also strengthened our internal resources by appointing a Sustainability Officer, and have formulated a sustainability policy and clarified our sustainability approach. In our investment management activities, we have adopted the two-degree target as a long-term sustainability goal. This means that our investments will be geared to support the Paris Agreement on keeping a global temperature rise below two degrees.

We have also signed up to the UN Global Compact and support the Compact's ten principles on environment, human rights, labour and anti-corruption. We also support the recommendations of the Task Force on Climate-related Financial Disclosures (TFCD), as we want to see standardised and more forward-looking climate reports from the companies we invest in.

Our sustainability work has produced successful and concrete results. Alecta's equity portfolio has the lowest carbon footprint among all companies in our industry that publish their carbon footprint, by a wide margin. In spring, the World Wide Fund for Nature (WWF) published a report showing the extent to which European pension fund portfolios meet the Paris Agreement's two-degree target. Alecta's portfolio was deemed to be well positioned and came out top in two of three categories.

The companies in our equity portfolio score highly in external sustainability analyses. Over half of the companies in which Alecta has a seat on the nominating committee are among the top ten per cent in their industry. In the same companies, the share of women on the board is over 40 per cent – a target that we have been working towards for a long time.

Moving forward from a strong foundation

I am convinced that the collective procurement model for occupational pensions will stand the test of time. Alecta is well equipped to deliver the best solution, thanks to our strong team of competent and committed employees and our highly competitive products. I look forward to continuing to work with all my fantastic colleagues to realise our mission of maximising the value of the collectively agreed occupational pensions that we provide. Based on the strong foundation on which we stand, we will continue to develop Alecta in the best interests of our customers also in the future, whatever shape it may take.

When trust is shared, it grows!

Magnus Billing
CEO

Highlights of 2017

Alecta Optimal Pension turns ten

Our defined contribution and selectable product Alecta Optimal Pension turned ten in 2017. Since its inception in September 2007, the product has had an average annual total return of 7,3 per cent. That means that it has outperformed our benchmark index, Morningstar, by 3,0 percentage points annually over the same period. Alecta Optimal Pension has SEK 92,5 billion in assets under management.

100 years of taking responsibility for the future

In 2017, Alecta and the modern occupational pension celebrated their 100th anniversary, which was marked by various activities aimed at highlighting the value of occupational pensions yesterday, today and tomorrow. A notable event was a jubilee seminar on tomorrow's labour market and social security systems.

Page 18

Alecta's first impact investment

Alecta made a commitment to invest USD 100 billion in the company's first impact investment. The money will be invested in the Netherlands-based NN FMO Emerging Markets Loans Fund, which finances sustainable development, without compromising Alecta's required rates of return.

Page 26

The ITP procurement

In March 2018, Alecta, in competition with other companies, was again designated as the default option for the defined contribution retirement pension plan under the ITP supplementary pension scheme, i.e., both ITP 1 and ITPK, for private-sector salaried employees for a further five years.

Alecta named best pension fund for sustainability and active management

Alecta is the best European pension fund for sustainability and active management. This was made clear in late November 2017 at the IPE Awards, where Alecta came out on top in the ESG and Active Management categories, facing off competition from 440 rival nominations from pension funds in 24 countries.

Report on Alecta's corporate governance

In mid-2017, we published Alecta's first annual corporate governance report, which provides a more detailed description of our corporate governance activities. The report describes Alecta's role as owner, trends identified at shareholders' meetings during the year and Alecta's corporate governance policy.

Page 26

Sale of foreign properties

In the first quarter, Alecta sold its eight remaining directly owned properties in the UK and US. In connection with the sales, we closed our offices in London and San Francisco. Following the sales, Alecta's foreign property portfolio consists exclusively of properties that are owned indirectly, through funds or other vehicles.

Among the top three in the world for cost-effectiveness

For the fourth time, Alecta participated in a benchmark study on cost-effectiveness. The study, conducted by Canadian benchmarking firm CEM, compares Alecta's defined benefit plan globally with companies of similar size that administer equivalent products. Alecta once again came third, but had improved its results compared with the previous survey in which the company participated, in 2015.

Page 16

Occupational pensions in Almedalen

For a number of years, Alecta has been represented at the political gathering in Almedalen. In 2017, we arranged three seminars together with News55 at which we discussed the value of collectively agreed pensions, tomorrow's pension systems and people's expectations for their retirement. In addition to our own seminars, we had the opportunity to exchange experiences with other industry stakeholders that are important for us and our customers. Alecta was the fifth most frequently mentioned company, in any category, in social media during the week-long gathering.

Page 18

Pension plagiarisms have higher costs and lead to lower pensions

Employees who are not covered by collective bargaining agreements risk losing hundreds of thousands of kronor in pension capital. Pension solutions outside the collective agreements also incur higher costs for the employers. These are some of the findings presented in the Pension Plagiarisms report, which was published by Alecta and PTK in late May 2017.

Page 18

alecta

100 Trusted with the future since 1917

ALECTA's LONG-TERM OPERATIONAL GOALS		FOLLOW-UP	OUTCOME 2017
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 customers who contact us receive good customer service, and that Alecta enjoys a good reputation as a responsible player in society.	Alecta measures customer satisfaction through customer surveys, based on a customer satisfaction index (CSI), for private and corporate customers. The surveys cover customers who contact Alecta as well as customers who are receiving their first payments from Alecta. The target for 2017 was 8,0 for private customers who contact Alecta, 8,1 for business customers who contact Alecta and 7,7 for private customers who receive their first payment from Alecta.	A CSI score of 8,0 for private customers contacting Alecta, 8,3 for corporate customers contacting Alecta and 7,7 for private customers receiving their first payment.
High cost-effectiveness	Our goal is to maintain a level of cost-effectiveness that is world-class. 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 other factors than operating expenses, the ambition is translated into a cost target defined in millions of kronor. For 2017, the target was operating expenses of less than SEK 865 million, excluding variable pay.	Alecta's operating expenses were SEK 853 million, excluding variable pay.
A robust return and strong financial position	Alecta's return should be competitive, both in terms of the overall return and the return for 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 that of the industry. Our 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 for 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 years.	Our average annual return over the past five years is 8,0 per cent, which is 0,7 percentage points better than the industry. Our average annual return over the past five years is 10,9 per cent, which is 2,3 percentage points better than the industry.

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 union through a collective bargaining agreement, or provided directly by the employer if the company is not party to a CBA. Roughly nine out of ten employees have an occupational pension. ITP is the largest of the pension schemes covered by the CBAs.
- **The State pension** is that part of a person's pension which is paid out by the government. It consists of an earnings-related pension (income pension and a premium pension), guaranteed pension, housing supplement for pensioners, income support for the elderly and a survivor's pension. Everyone who has worked or lived in Sweden receives a state pension, which is based on all taxed income. There are also components of the State pension that are not earnings related, such as the guaranteed pension. The State pension is lifelong.

Source: Pensionsmyndigheten

Nine out of ten Swedes have an occupational pension

An occupational pension is a benefit which Swedish employers offer their employees, and in 2017 occupational pensions worth around SEK 200 billion (192) were secured in Sweden. An occupational pension can be secured through premium payments to life and unit-linked insurance funds or a pension fund society. Employers can also secure occupational pensions by paying into a pension trust or by recognising promised retirement benefits as liabilities in their balance sheets. The occupational pension market therefore also includes promised retirement benefits that are secured by private employers, the central government, local authorities and county councils.

Contributions paid to life insurers and unit-linked insurance funds under occupational pension schemes that are open to competition totalled SEK 134 billion in 2017. Alecta's share of this market was 15 per cent (15).

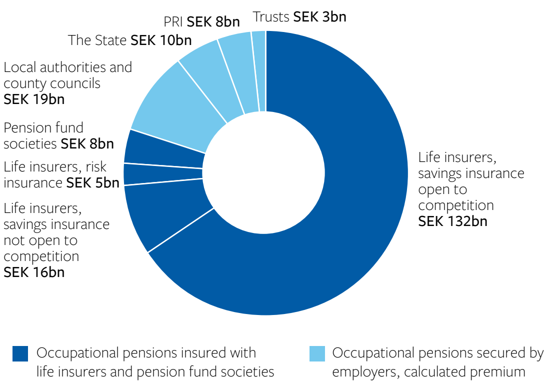
Occupational pensions plans that are open to competition can be divided into two categories: one in which the employees choose their pension fund through their selection centre ("check-the-box" plans) and one in which the employer decides how the pension funds should be managed and what options should be offered to the employees.

Outside the check-the-box plans, the Swedish occupational pension market generated premiums of around SEK 70 billion in 2017.

Premiums paid into collectively agreed check-the-box plans totalled around SEK 65 billion in 2017. The big pension schemes in this market segment are the ITP scheme for private-sector salaried employees, Avtalspension SAF-LO for private-sector workers, PA 16 for government employees and KAP-KL/AKAP-KL for local authority and county council employees.

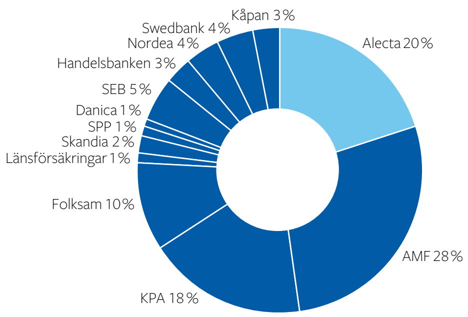
In the check-the-box market, the parties to the collective agreements select the insurance companies and savings options that will be made available to the employees, who then choose from among the selectable options. There are normally about a hundred options to choose from. The administration is handled by the selection centres.

OCCUPATIONAL PENSIONS, TOTAL
SEK 200 BILLION IN PREMIUMS IN 2017



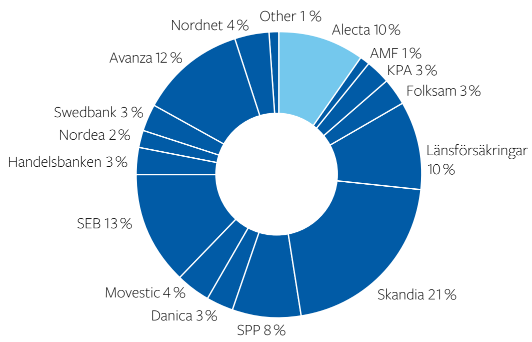
Source: Collectum's monthly statistics

OCCUPATIONAL PENSIONS OPEN TO COMPETITION, CHECK-THE-BOX
APPROX. SEK 65 BILLION IN PREMIUMS IN 2017



Source: Collectum's monthly statistics

OCCUPATIONAL PENSIONS OPEN TO COMPETITION,
NOT CHECK-THE-BOX APPROX. SEK 70 BILLION IN PREMIUMS IN 2017



Source: Collectum's monthly statistics

> September 2017 marked the tenth anniversary of Alecta Optimal Pension, which since its inception has generated an average annual return of 7,3 per cent. Alecta Optimal was created for the first ITP occupational pension procurement in 2007 and earned Alecta the status of default option. Since then, Alecta Optimal Pension has also become a selectable option for a number of other collective bargaining areas as well as the default product for the FTP collective bargaining area for insurance industry workers.

ITP for private-sector salaried employees

ITP is the occupational pension plan for the majority of private-sector salaried employees who are covered by collective bargaining agreements.

Previously, occupational pensions for salaried employees were mainly defined benefit pensions. In 2007, an entirely new defined contribution scheme, ITP 1, was introduced, fully open to competition. This has enabled an ever widening group of salaried employees to choose their pension fund.

For defined benefit pensions under the ITP scheme, Alecta is the main service provider. For ITP defined contribution pensions, Alecta is the default option, and Alecta Optimal Pension is a selectable option under all the big collective bargaining agreements.

Competition through procurement

Every five years, decisions are made on which companies should be selectable and which of these should be the default option for defined contribution pensions under the ITP scheme, i.e., which company should manage the occupational pension schemes for those employees who do not make their own choice. The procurement is arranged by the employer and employee organisations and is administered by a selection centre. For ITP, this means that the Confederation of Swedish Enterprise and the Council for Negotiation and Cooperation (PTK) are the contracting entities, and that the procurement is administered by Collectum. All insurance companies that meet the requirements may participate in the procurement.

The ten times earner market

In the defined benefit ITP 2 scheme, insureds with an annual salary exceeding ten income basic amounts, known as "ten times earners", have the option of choosing a different pension solution if this is permitted by the employer. These pension solutions can take a wide variety of forms. However, ten times earner solutions have faced mounting criticism, and many big employers no longer offer such solutions.

In December 2017, there were 119 000 ten times earners, of whom around 50 000 had chosen a different pension solution than defined benefit ITP 2. This was down from 53 000 people out of 125 000 at the same time in 2016.

Traditional or unit-linked?

Traditional insurance
In traditional insurance, the saver does not need to decide how to invest the money, which is managed by the pension fund. The saver always has a guarantee, which is now normally a money-back guarantee. Traditional insurance often has a slightly lower equity component and thus a lower risk than unit-linked insurance.

Unit-linked insurance
In unit-linked insurance, the saver chooses which funds to invest in from among those on offer. Unit-linked insurance is suited for savers who like to be more actively engaged in managing their savings. A higher equity share offers the chance of a higher return but also increases the risk. Fees have a big impact on the size of the pension.

What is a selection centre?

When we use the term "check-the-box" we mean the choices that the insureds make through the selection centres for the collective bargaining agreements. Collectum is the selection centre for the collectively agreed ITP 1 occupational pension scheme and serves as the link between the insureds, the employers and the contracted insurance companies that manage the ITP 1 scheme. Collectum is owned by the Confederation of Swedish Enterprise and the Council for Negotiation and Cooperation (PTK), which have also negotiated the ITP agreement.

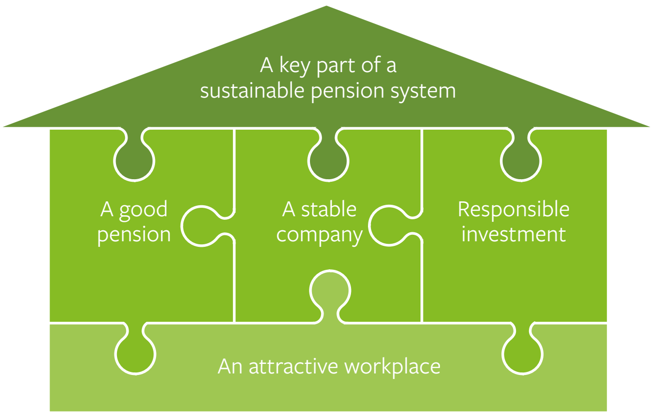
Source: www.collectum.se

A key part of a sustainable pension system

Alecta's role in society is to help build a sustainable pension system that gives people pensions they can live on now and in the future. We are a part of a system that relies on stable pension funds with a long-term approach and strong sense of responsibility.

Balance adds to stability

A key element of the Swedish social contract is that it should be possible to live on your pension and that pensions should give us a sense of security both during and after our working lives. Our business and our general sustainability responsibility are primarily about 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 funds which enjoy a high level of trust, and responsible investments which help to build a sustainable society. That's why we have a strong focus on good returns and low fees coupled with high cost-effectiveness while also integrating sustainability into our investment management activities.



When trust is shared, it grows

When trust is shared, it grows – this insight inspires everything that we do. It underpins our mission, which is to maximise the value of collectively agreed occupational pensions. It is also reflected in our operational goals – secure and satisfied customers, a high level of cost-effectiveness, and a good return and strong financial position.

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 2,4 million private customers and 34 000 corporate customers, and that any surplus that is generated is returned to them.
- A collective insurance solution – a solution in which the responsibility and the risk are shared by everyone 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, which, together with efficient management of pension assets, enables us to keep our fees low.

Alecta's investment strategy is based on intimate knowledge and thorough analysis of a number of selected shareholdings and investments. As an active long-term owner, we need to have a broad perspective on risks and opportunities that takes account of our invested companies' impact on society. By ensuring the right balance between a good pension, a stable company and responsible investment, Alecta helps to build a sustainable pension system.

Our employees are crucial to our ability to live up to our lofty goals and ambitions. We need people with the right skills to deal with our current as well as future challenges. We want to be an Alecta that we can be proud of, as far-sighted today as we were a hundred years ago when the company was founded.

Alecta's mission and goals

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

- Secure and satisfied customers.
- High cost-effectiveness.
- A robust return and strong financial position.

” I miss being part of problem solving.

Sven Palmér
A resident in Södertälje, pensioner.

– My big interests are travelling, photography and fishing. I also like to be active and keep fit, so I do a lot of cycling and canoeing, and in the winter I go skiing. And I also do a bit of work through Veteranpoolen [the retired persons part-time work agency].

– The best thing about being retired is that I am the master of my own time. I can choose what I want to do myself. Except that there is one thing that I miss sometimes, which is to be able to solve problems. Throughout my working life, I have been solving problems, and I have always found that exciting and challenging.

A good pension

A good pension has several components – low fees, a good return, good service and easy-to-access information. We want our private as well as corporate customers to understand the value of a good pension in different pension situations. That's how we will achieve our goal of secure and satisfied customers.

We always put the customer first

We are owned by our customers, and that is something that influences everything we do. Our focus is naturally on the customer. Ever since Alecta was founded in 1917, we have been working to give people financial security during and after the end of their working lives. Alecta has 2,4 million private customers and 34 000 corporate customers. Our customers are mainly salaried employees in the private sector and companies covered by collective bargaining agreements with the ITP pension plan.

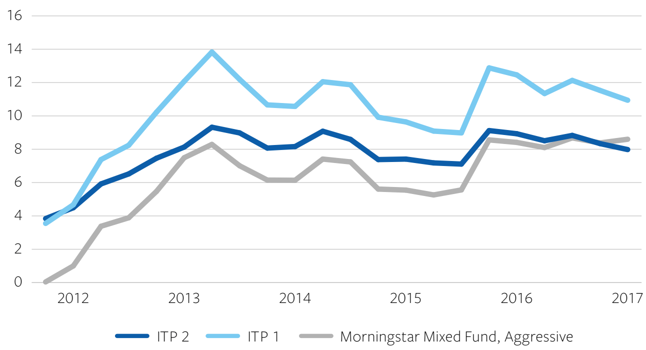
A long record of strong returns

Alecta manages assets of over SEK 800 billion. Under our investment management model, which is unique for such a large portfolio, nearly all asset management activities are conducted in-house. Our equity investments are concentrated to a limited number of shareholdings, around 100 companies, in which we hold significant stakes and have a good insight. This is an efficient model that results in low fees.

0,06 % management expense ratio for pension products.
(excl. selection centre costs)

0,02 % investment management expense ratio.

FIVE-YEAR RETURN COMPARED WITH MORNINGSTAR



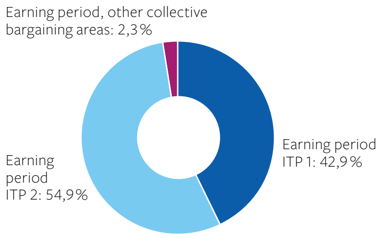
Our strategy has produced one of the highest returns in the industry over a long period of time. At year-end 2017, the average annual return over the past five years for our defined contribution pension product, Alecta Optimal Pension, was 10,9 per cent. The same figure for our defined benefit ITP 2 product was 8,0 per cent.

Among the lowest fees in the industry

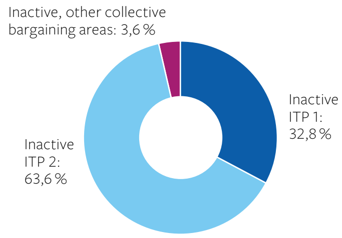
Thanks to the system of collective procurement and our efficient asset management model coupled with a high level of cost awareness and our ability to exploit economies of scale, Alecta is able to offer one of the lowest fees in the industry. In 2017 and in the previous year, the management expense ratio for our pension products was 0,06 per cent excluding selection centre costs and our investment management expense ratio was 0,02.

ALECTA'S PRIVATE CUSTOMERS

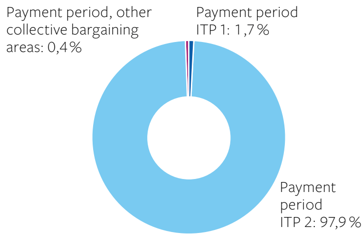
Earning period
Customers whose employers are paying premiums.



Inactive
Customers who are covered by an occupational pension plan administered by Alecta but for whom no premiums are currently being paid and who have not yet started to draw their pensions.



Payment period
Customers whose pensions are being paid.



Our goal is secure and satisfied customers

Customer relations are an important part of our mission. We work continuously to develop the quality of our interaction with customers and to further improve the efficiency of our pension administration activities.

Twice a year, we conduct customer surveys based on the customer satisfaction index (CSI) model. In these surveys, our private and corporate customers are asked to rate the service we provide by telephone, by e-mail and on login-protected web pages. We also contact a sample of customers who have received their first retirement or disability pension payments. Our CSI score for 2017 was 8,0 for private customers who contact us, 8,3 for corporate customers who contact us and 7,7 for customers who have received their first payments. In 2017, we achieved our targets for all measured customer service parameters.

We know that many of our customers think that occupational pensions are complex. That's why we offer our corporate customers the opportunity to take part in a number of different training and networking events free of charge.

A new website adapted to the customer's needs

In 2017, we launched a new website with a structure and content that are based on the needs of our customers. The design of the new site was based on the results of several surveys and statistics on customer visits. Most customers visit our website with a specific purpose – a task that they want to solve. That's why our website is structured around the most common questions and needs. We want our visitors to feel that it is surprisingly easy to get help with their enquiry on our website.

Following the launch of the new website, we conducted surveys which show that a clear majority are satisfied with their visit to alecta.se. Only six per cent say they are not satisfied. Our customers' views are crucial to Alecta's improvement activities.

Digitisation and pension withdrawals

Digitisation is a clear trend in society that is also having an impact on Alecta's administration of pensions. We are, for example, seeing that digitisation is affecting the way our private customers choose to withdraw their pensions. On average, 60 per cent of all applications for pension withdrawals are made digitally through our Calculate and Withdraw service. But it is a good idea to read up on what occupational pension you will receive even before you approach retirement age. Using a specially designed service at alecta.se, visitors can find out if they are customers with Alecta and in which collective bargaining area. This is a very popular and much-used service. An external service like Kivra, which Alecta signed up to in 2016, also makes life easier for our private customers. Here, all documents are dispatched digitally, which is positive from an environmental perspective.

Our corporate customers can retrieve cost estimates and forecasts digitally from our website. One of the most popular services is "What does the ITP2 cost for an employee?"

25 % of the letters we send go to customers who have asked to receive them digitally.

60 % of all pension withdrawal requests are made through our Calculate and Withdraw service.

> "Alecta is a mutual company.
>
> This means that we are owned by our customers – the insureds and their employers. Our customers are represented by Alecta's Council of Administration. The Council of Administration appoints Alecta's Board of Directors, which in turn appoints Alecta's CEO.

A stable and trusted company

The level of trust in occupational pensions is influenced by the trust that our stakeholders have for the pension system as a whole. That's why we need to ensure that Alecta acts 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. Everything we do must create value for our customers.

Cost-effectiveness adds to stability

Acting responsibly is about using resources with care, and we have a strong focus on cost-effectiveness. This comes naturally for us, as it is our customers' and thus our owners' money that we are managing. Our cost-effectiveness also enables us to keep our fees down, which increases the value of the pensions and reduces the employers' costs for occupational pensions.

In our striving to achieve our vision of becoming the world's most efficient occupational pension fund, we regularly compare ourselves with our peers in the global arena. As part of this effort, we have engaged the services of CEM Benchmarking, a Canadian firm which produces a study of around 70 pension companies around the world. The study covers both costs and service. In the latest study, Alecta came third, and we are edging closer to second place.

The more cost-effective we are, the greater the value we are able to offer our customers and society.

In 2017, we paid out a total of SEK

20,4 billion

to our private customers.

PAYMENTS TO PRIVATE CUSTOMERS IN 2017 [1]	
Retirement pension	
Number of people	Amount in SEK
543 000	17 342 000 000
Survivor's pension	
Number of people	Amount in SEK
55 000	1 506 000 000
Disability compensation	
Number of people	Amount in SEK
45 000	1 505 000 000

[1] The indicated amounts include distributed refunds.

An average private customer with ITP 1

37
years old

53
per cent are women

SEK 2 495
monthly premium in 2017

SEK 83 723
capital at 31 Dec 2017

Financial strength is a part of our undertaking

Managing pensions is a long-term commitment. The money we manage will be returned to our private customers over many years to come. Our relationship with a private customer can last for over 60 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 2017, Alecta had a solvency ratio of 174 per cent, which is well above the statutory requirement of 104 per cent for traditional insurance.

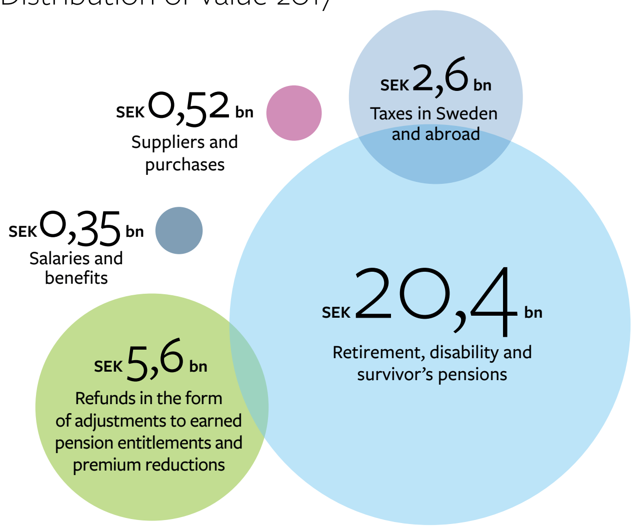
Generating value that benefits many

In 2017, Alecta generated a return on capital of SEK 53,3 billion (37,8) before operating expenses. The value accrues to the customers in the form of higher insurance payouts and refunds. On top of that, we also compensate our employees, suppliers and business partners, and pay taxes and fees to the government.

In 2017, we paid out a total of SEK 20,4 billion to our private customers. The majority, SEK 17,3 billion, was in the form of retirement pensions. Payments for disability pension, a smaller but important benefit that is paid in case of extended illness or disability during a person's working life, totalled SEK 1,5 billion in 2017. In the same period, SEK 1,5 billion was paid in the form of survivor's pensions.

Alecta also creates benefits for employers and their employees through our premium waiver insurance, under which Alecta assumes responsibility for premium payments when

Distribution of value 2017



Examples of the value distributed during the year.
For a complete GRI-compliant presentation, see page 111.

the employee is ill and in some cases also when he or she is on parental leave. In 2017, SEK 1,4 billion (1,3) was paid in the form of premium of waiver insurance. Alecta also allocated refunds in the form of premium reductions of SEK 4,1 billion, which represents the surplus arising mainly from a decrease in claims and a higher than expected return.

Strong compliance has the highest priority

Our industry is subject to extensive regulatory requirements, and a licence is required for the provision of pension and insurance services. Regulators monitor that Alecta and other companies in the industry are complying with the applicable regulations, and these have undergone significant changes in recent years. The regulations are designed to ensure financial stability, transparency and customer protection. Alecta is engaged in an ambitious effort to introduce and update internal procedures and systems for compliance.

We work to ensure that the regulations governing our industry are appropriately designed, both through trade associations like Insurance Sweden and independently. Alecta's governance is described in greater detail on page 102.

Training on ethical guidelines

Alecta operates in a privacy-sensitive industry. Our employees therefore have an important responsibility to act with a high level of integrity and exercise good judgement. During the year, Alecta's employees and full-time consultants participated in a mandatory training course on ethical guidelines and the company's whistleblower function.

The course was aimed at giving employees guidance on how to act in various situations where it may not be clear what the appropriate course of action is, and to familiarise the course participants with the governing documents and guidelines which describe the company's expectations. During the course, the employees discussed issues and dilemmas linked to inappropriate benefits, the importance of confidentiality and correct handling of personal data and conflicts of interests as well as other matters.

Another objective was to ensure that the employees know how to report any deviations through Alecta's whistleblower function. The participants discussed cases that have been highlighted in the media and the #MeToo movement as examples of when a whistleblower function is important. In 2017, 96 per cent of all employees of the parent company and full-time consultants took part in the course.

THE EU'S NEW GENERAL DATA PROTECTION REGULATION – customer privacy and data protection

In 2017, Alecta further stepped up its efforts to ensure privacy and security in the processing of personal data. The activities are based on Alecta's own risk and vulnerability analysis, legislation and industry agreements on the processing of personal data.

A particular point of emphasis during the year was the company's ongoing adaptation to the EU's General Data Protection Regulation, which becomes effective in 2018. The changes will create greater clarity on how we process data and how long the data is retained. The protective measures include training employees in how to handle personal data, random checks of access, documentation and the handling of identified shortcomings, and measures to enhance the protection of personal data.

A stable and trusted company, *cont.*

On the customers' side

Customers' insight into pensions and the system affect their ability to make well-founded decisions and ultimately their trust in the pension system as a whole. Today, providers of pension products often have a knowledge advantage over the buyer, mainly in terms of their understanding of what impact the fee has, and they may be driven by short-term incentives rather than the long-term interests of the customer.

Alecta takes the interests of the consumers very seriously and wants to help increase awareness about pensions. For the past eleven years, Alecta has had a Pension Economist with a mandate and responsibility to challenge the pension industry, including Alecta. Our Pension Economist works to spread knowledge on the consumer side. All our stakeholders should be able to feel confident that we always have the consumers' interests at heart. It is on that basis that we have produced fact-based reports such as Rovdriften på pensionärerna ("The Exploitation of Pensioners") and Deltidsfällan ("The Part-time Trap").

In 2017, we published the Pensionsplagiaten ("Pension Plagiarisms") report together with PTK. The report shows how much alternative pension solutions to ITP, including products which are marketed as copies of ITP, cost for the individual and the companies in terms of savings or premiums to achieve the same level of cover.

The Pension Plagiarisms report was produced by Alecta in collaboration with PTK.

In connection with Alecta's 100th anniversary during the year, we arranged a seminar on future challenges and opportunities with the aim of highlighting and discussing how digitisation, the expected sharp increase in life expectancy and new forms of working will affect social security systems and thereby also pension systems in the long term.

Pension plagiarisms and tomorrow's social security systems were also focal points at the seminars which Alecta arranged at the Almedalen political gathering in summer 2017. The seminars were very well attended and led to Alecta being the fifth most frequently mentioned company across all industries in social media during the week-long political gathering.

During a jubilee week in March, Alecta celebrated its 100th anniversary with a film premiere, a book release and the launch of a history website, an exhibition and podcasts. In April, a jubilee seminar was arranged with a focus on tomorrow's social security systems.

Alecta's CEO Magnus Billing and Chairman Erik Åsbrink talk with the descendants of Alecta's founders, Jacob Wallenberg and Per Olof Söderberg.

Gilla Din Ekonomi

Gilla Din Ekonomi ("Like Your Personal Finances") is a network of government agencies, organisations and businesses that works 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. Alecta has been a member of the programme council since the network was established in 2010.

The network has a coordinating office 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 initiatives that Alecta is participating in include:

Secure your financial future

Participants include budget and debt advisors, consumer advisors, chief guardians and trade union representatives.

Better financial security in old age

A course that is aimed at improving pensioners' knowledge about pensions, housing benefit, taxes, consumer rights and everyday law.

Pensions and insurance

A basic training course for insurance information officers. Participants are taught about statutory and collectively agreed pensions and insurance policies.

For employers and trade unions

Alecta is happy to share its knowledge and provide inspiration at seminars, panels and courses at Swedish workplaces, at trade union and employers' associations, and at universities and university colleges. During the year, we gave presentations at the annual conference of the Council for Negotiation and Cooperation (PTK), taught at IFL/the Stockholm School of Economics, served as lecturers for several trade union-organised courses on insurance and gave presentations at a large number of pension seminars.

Together with the MinPension pension portal, we have also informed employees about their occupational pensions, for example at Volvo Cars in Gothenburg.

Staffan Ström
Pension Economist

Pension studies at Swedish universities

Many Swedish employers feel that they know much too little about pensions to be able to professionally discharge their responsibilities in the area of pensions and insurance. We therefore decided to find out whether pension studies is part of the syllabus for HR and economics degrees at Swedish universities and university colleges. The result was discouraging. Not one single seat of learning in Sweden had pension studies on the syllabus. We therefore decided to initiate such a programme, and in 2015 the first courses were held. This was seen as a pioneering initiative that has been praised by the National Government Employee Pensions Board (SPV) and others.

Since then, the pension studies course has been arranged as part of the Gilla Din Ekonomi personal finance network. 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.

A stable and trusted company, *cont.*

The Pension Economist's blog

Alecta's Pension Economist, Staffan Ström, works to stimulate a debate on how to develop and improve Sweden's current pension system. The debate is conducted in the media, through participation in inquiries and panels, in meetings with researchers and politicians, and through training courses and lectures.

Staffan Ström is also acquiring in-depth knowledge about factors that affect pensions and then explaining things in a way that is easy to understand, in plain language.

A new channel for this was launched in summer 2017: the Staffan Ström blog (www.staffansstrom.se). 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.

A long-term approach and sustainability in the EU

Alecta's CEO has, as the sole Swede, participated in the European Commission's High-Level Expert Group that is tasked with producing recommendations for a long-term sustainable financial market. The general objective is to create a better development climate and conditions in the EU for investments in long-term sustainable initiatives which promote innovation, new technology and new business models that also help to create more jobs.

Another ambition is to expand the financial market's risk and time perspective in order to create clearer incentives to factor in sustainability aspects and thereby help to ensure financial stability in the long term. There are unique opportunities to combine the pension funds' mission of adding value to occupational pensions with responsible and sustainable investments, provided that there is a clear political framework and a level playing field for all players in the industry.

The mid-term report which the group released in July contained a number of preliminary recommendations that attracted a lot of attention. In late August, Alecta hosted a seminar with Swedish and international experts on sustainable finance to discuss the report.

The European Commission has already chosen to act on some of the proposals presented in the mid-term report, notably with regard to the financial regulators' responsibility to take sustainability aspects into consideration and the proposal to integrate sustainability more clearly into pension funds' fiduciary duties. The final recommendations were published in January 2018.

Knowledge initiative for Agenda 2030

In 2017, Alecta took part, along with a number of other institutional investors and holding companies, in Swedish Investors for Sustainable Development (SISD), a platform for cooperation established by the Swedish International Development Cooperation Agency (Sida). The initiative is primarily designed to enable the participants to learn together how to implement the global sustainable development goals in their businesses.

In May, Alecta and Folksam helped to arrange an international investor seminar in Stockholm hosted by Sida in collaboration with the Global Reporting Initiative and the Global Compact. It resulted in the Stockholm Declaration, which

is an international investor appeal for support for Agenda 2030 and the development of a reporting framework for the sustainable development goals. As part of SISD, Alecta's CEO led a working group on Goal 8, Decent Work and Economic Growth. This resulted in a proposal to introduce indicators that can be used by businesses to report their impact in respect of each of the goals.

” The best thing about my job is meeting the travellers each day.

Anne-Marie Edin
A resident in Älta, Train Attendant at SJ.

– I have been working at SJ for seven years now. It all began when I was earning some extra money as a “summer child” in 2011 – imagine being a summer child at the age of 55.

– Before that, I had worked in the conference and event industry for over 20 years, where I didn’t have an occupational pension. So for me it’s fantastic that SJ is party to a collective agreement and that they are now paying into my pension.

Responsible investment

Our ambition is to help create long-term value in businesses and society at large. We believe a sound attitude to environmental, business ethical and social issues is essential to a company's ability to remain competitive and achieve sustainable profitability.

Responsible and sustainable asset management

With over SEK 800 billion in assets under management, Alecta is a significant international pension fund manager and one of the largest actors in the Swedish financial market. We are one of the largest owners of listed Swedish companies, and through our investing activities we can influence the sustainability management activities of the companies we invest in.

Active, internal portfolio management

Alecta manages its customers' pension capital in-house and only engages in active asset management. This means that we do not seek to track an index and that each investment is the result of a thorough internal analysis.

Alecta invests in shares, debt securities and real estate, mainly in Europe and the United States. The composition of the portfolio is presented on page 34 and at alecta.se.

At year-end 2017, Alecta had investments worth SEK

830 billion

Investments in a concentrated portfolio of select companies

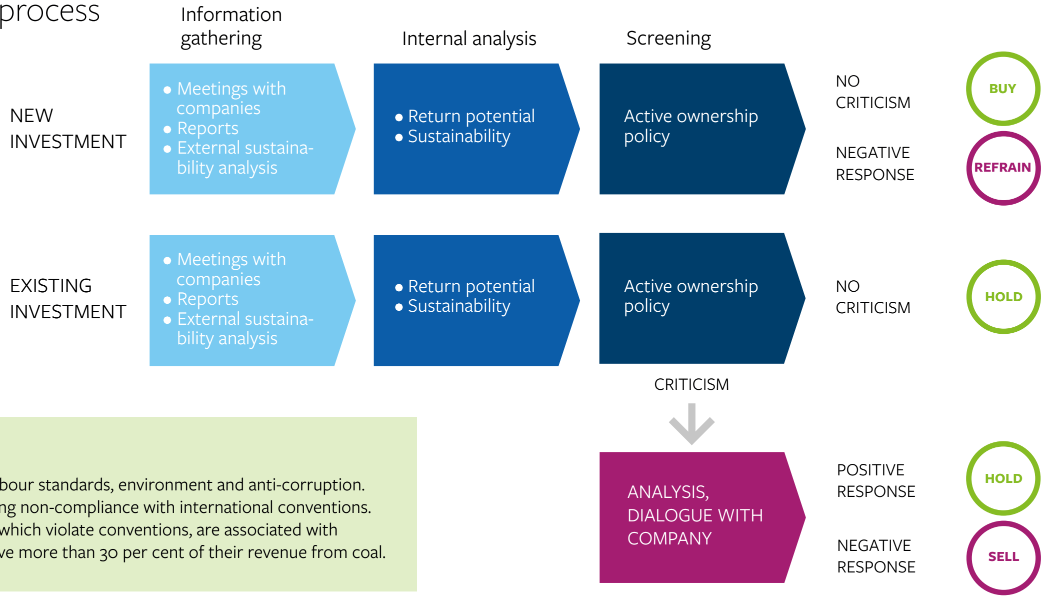
Alecta's philosophy is to invest in a small number of carefully selected assets. At year-end, our equity portfolio consisted of slightly more than 100 listed shareholdings, all of which are presented at alecta.se. As we invest for the long term, environmental considerations, social issues and corporate 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 help our customers' pension capital to grow.

Unlike many other investors, we meet with representatives of all the companies that we invest in and engage in an ongoing dialogue. These dialogues allow us to gain a better understanding of how the companies are managed and to discuss sustainability issues. Companies which do not meet our sustainability criteria do not qualify for inclusion in the portfolio.

A clear decision-making process for investments

Sustainability is an important criterion in Alecta's decision-making process for investments. The process is applied for all equity and credit investments, which account for around 75 per cent of our total assets.

Alecta's investment process



Sustainability analysis

– Indicators for human rights, labour standards, environment and anti-corruption.
– Reviews after incidents involving non-compliance with international conventions.
– No investments in businesses which violate conventions, are associated with controversial weapons or derive more than 30 per cent of their revenue from coal.

Information gathering and internal analysis

The first step in our investment process is to gather information about the company, which is often done through personal meetings. We also look at a number of sustainability criteria with the help of Sustainalytics, a company specialising in sustainability analysis. We then do a financial analysis to assess the company's return potential. Before deciding to invest, we make our own assessments of whether the business model is sustainable, for example, and weigh the return potential against sustainability risks associated with the company or the industry.

Screening of new investments

Alecta's Board of Directors has adopted an active ownership policy, which is based on the principle that the companies in which Alecta invests must 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.

Each decision to invest in a new company is preceded by a screening carried out by research firm GES Investment Services to assess whether the company is complying with international conventions and standards.

Alecta refrains from investing in companies which:

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

Screening of existing investments

Companies that have got through our investment process and are included in Alecta's portfolio are subject to in-depth screening twice a year and on an ongoing basis through weekly updates on alleged norm breach. In case of a norm breach, we will contact the company to engage in a dialogue on those areas where the company needs to take action. As Alecta is often a significant shareholder, we are in a good position to engage in a close dialogue with the company and exercise influence. If it is not expected that the dialogue will achieve the desired result, Alecta will sell its shares. In 2017, we held five dialogues in response to suspected violations of the active ownership policy and a further ten sustainability-related dialogues with other companies. A selection of our dialogues is presented at alecta.se.

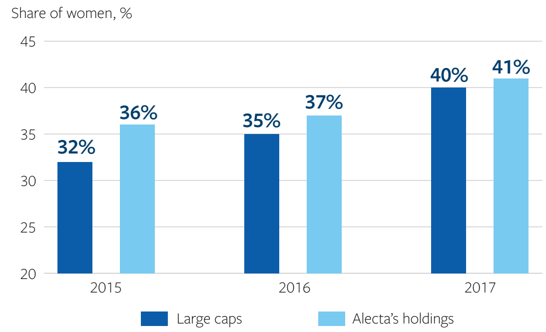
Corporate governance, nomination committees and voting

Alecta exercises active ownership mainly by participating in nomination committees and voting at shareholders' meetings, but also by engaging in dialogue with the companies in which Alecta holds shares. In 2017, we voted at shareholders' meetings of all Swedish and foreign companies in which we hold shares apart from two.

In the run-up to the 2017 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's participation in nomination committees is based on our long-term ownership commitment and our belief in the future of the company. 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 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 2017.

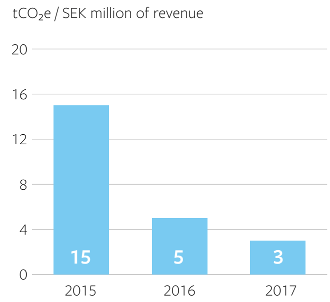
Responsible investment, *cont.*

SHARE OF WOMEN ON CORPORATE BOARDS



Share of female AGM-elected directors in companies where Alecta has a seat on the nominating 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 only for 2017. Source: AP2/Nordic Investor Services.

CARBON FOOTPRINT, ALECTA'S EQUITY PORTFOLIO



Tonnes of carbon dioxide equivalents (CO_2e) emitted by businesses per SEK million of revenue.

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 expressed in terms of carbon dioxide equivalents (CO_2e), a unit of measurement which makes it possible to measure greenhouse gases in a uniform manner.

Reduced carbon footprint in equity portfolio

Alecta has 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. Through these measurements, we obtain knowledge about the emissions of individual companies and industries. The carbon footprint is used to assess climate-related financial risks, such as the price of carbon dioxide. It also provides a basis for Alecta to use its position as an asset manager to influence companies to reduce their emissions, for example by introducing targets for emission cuts, risk management, business strategies and transparency.

Our measurement of the carbon footprint of Alecta's equity portfolio covers all listed companies in the portfolio at 31 December 2017. The carbon footprint decreased by a quarter in 2017 compared with 2016. As few changes have been made to the companies included in the equity portfolio, the main reason for the decrease is that the companies have become more effective in managing their emissions. Out of the companies in Alecta's equity portfolio, 72 per cent (70) publish emissions data. These account for around 87 per cent (86) of the market value of the portfolio.

For the remaining holdings, the emissions data has been estimated by research firm ISS-Ethix. More information on the carbon footprint of Alecta's equity portfolio is provided at alecta.se.

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, but demand additional documentation from the issuer.

We want 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 2017, Alecta increased its investments in green bonds by around SEK 10 billion and now has over SEK 17 billion invested in green bonds issued by 16 different issuers. The issuers include the Nordic Investment Bank, the French State and the City of Gothenburg.

A sustainable property owner

Alecta owns properties directly and indirectly in Sweden and indirectly outside of Sweden. Indirect ownership means, for example, that the properties are held by a fund or through a joint venture. In Sweden, we are a significant property owner, with properties with a total market value of around SEK 45 billion, representing six per cent of Alecta's total assets. As a property owner, Alecta has a significant direct impact on the environment, mainly through energy use, consumption of materials and waste management.

Our properties are subject to environmental and sustainability guidelines that have been adopted by the CEO. To ensure compliance with the guidelines, we regularly establish environmental targets for our external property managers and construction projects that we participate in. We also specify environmental requirements for procurements of operations and maintenance work.

An environmental officer is appointed for each contract and

Lustgården 10 and 18 on Kungsholmen, Stockholm, is classified as a Green Building.

We own 10 properties, worth SEK

9,7 billion

that have some form of environmental certification.

specific targets are defined in an environmental action plan. The plan, which is reviewed continuously, contains explicit targets, such as requirements on the use of specific materials in construction projects or energy targets for individual properties.

Alecta is a member of the Sweden Green Building Council, which promotes sustainability in the construction and real estate industries. Alecta is a direct owner of ten environmentally certified buildings.

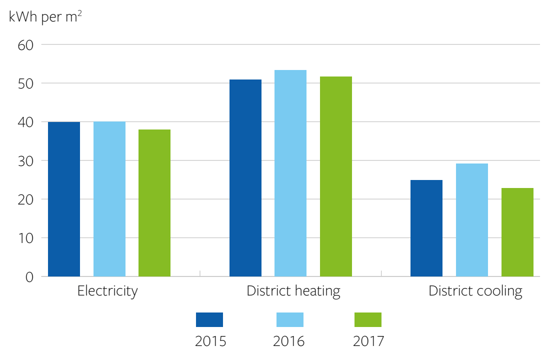
In its directly owned Swedish properties, Alecta's target is to reduce energy consumption, measured as a normal year's consumption of electricity, district heating and cooling in terms of kWh per square metre, by three per cent each year.

In 2017, energy consumption was reduced by nearly seven per cent compared with 2016, which means that we achieved our target. Since 2015, all of Alecta's directly owned Swedish properties, including our head office, only use electricity from renewable energy sources.

Initiatives and partnerships

Alecta is a member of several partnerships and industry initiatives. The objective is to show our standpoint as an investor while enabling collaboration with other investors with the aim of influencing the market as a whole as well as individual companies to take an active approach to sustainability management. Examples of such partnerships are shown below.

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 2015–2017 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.

Signatory of:

PRI Montréal PLEDGE
Principles for Responsible Investment

SWESIF
SVERIGES FORUM FÖR HÅLLBARA INVESTERINGAR

CDP
DISCLOSURE INSIGHT ACTION

Responsible investment, *cont.*

Impact investing

In 2017, Alecta committed to invest USD 100 billion in a loan fund managed by the Dutch development bank FMO. The fund focuses on financing businesses and projects in emerging countries. Alecta has also undertaken to invest USD 200 million in a new green bond fund that will be investing in green bonds issued in emerging countries. The fund is managed by French asset manager Amundi with guarantees from the World Bank. The investments are very much in line with our long-term investment model, which, in addition to a competitive return, also has a positive social and environmental impact.

Certification and skills development

In 2017, Alecta worked to obtain certification under the ESG-4Real standard. In the certification process, which is scheduled for 2018, our processes will be examined by an independent party with regard to the four requirements for certification: exclusion of controversial weapons, norm-based screening of investments, integration of sustainability in investment decisions and active ownership. Certification is an important signal to our customers that we have good processes for integrating sustainability.

As part of our effort to continually develop and strengthen our research capacity, all members of our equities team have completed an online course in sustainability integration. This will make us even better equipped to continue to identify long-term sustainable business models.

Increased transparency on active ownership issues

In 2017, Alecta published its first active ownership report, which is aimed at providing a clearer and more transparent picture of how we operate, and explain what we are doing to help build a sustainable pension system and a sustainable society.

At the end of the year, Alecta took the initiative to propose that the Swedish Corporate Governance Code be clarified with regard to the board's sustainability responsibility.

Alecta's active ownership report provides an overview of the company's active ownership work.

ALECTA'S RESPONSIBLE INVESTMENT GOALS *	OUTCOME 2017
Increase the share of companies that report their carbon footprint.	Increased from 70 to 72 per cent
Increase Alecta's investments in green bonds.	Increased by SEK 10 billion
Participate in nomination committees when this is warranted by Alecta's ownership interest in the company.	100 per cent (17 nominating committees)
Vote at all shareholders' meetings, both Swedish and foreign.	98 per cent
By 2020, the underrepresented sex should account for at least 40 per cent of the AGM-elected Directors.	41 per cent

* Alecta is producing new general sustainability targets and key performance indicators in a structured process for 2018 and future years.

New climate target for the equity portfolio

In late 2017, Alecta's investment management business adopted a long-term climate target for the equity portfolio. Alecta is aiming to maintain an equity portfolio that evolves and is managed in line with the two-degree climate target.

This means that our investments must be in line with the ambitions of international climate initiatives to ensure that the rise in global temperatures stays below two degrees, and that our investment model should promote a transition that is in line with our mission to maximise the value of occupational pensions. We are developing measurement and analysis methods that we can use in our investment management business and investment processes to support the achievement of the target.

In 2018, Alecta will be presenting a number of general sustainability goals along with key performance indicators that support our mission and operational goals.

” *Alecta’s disability pension makes a difference.*

***Loes Vollenbroek**. A resident in Trelleborg. On half-time disability pension.*

– A few years ago, an acquaintance suggested that I should check if I was eligible for a disability pension from Alecta. Now I receive sickness benefit from the Social Insurance Agency and an ITP 1 disability pension from Alecta. I have a fifty per cent early retirement pension and take jobs as a lecturer twice a month.

– Do I know about collective agreements? Yes, I do. When I moved to Sweden ten years ago, I joined the union and was told about them. They’re a good thing. It’s thanks to the collective agreement that I now receive a small but very welcome financial allowance each month.

An attractive workplace

Alecta is a long-term employer. We need employees who are motivated and committed, and who have the skills required to handle the challenges we face today as well as future challenges. Based on our mission and our goals, we are focusing on measures which promote health, skills development and leadership development. In doing so, we ensure that our employees help to build a sustainable pension system.

Our employees enjoy working at Alecta

Alecta is a popular employer. This is borne out by the number of years our employees stay with us, the feedback we receive in our annual employee surveys and the interest we see in Alecta among job applicants. The parent company Alecta employs 340 people, and we are continually working on improving our overall performance by identifying any shortcomings that exist and addressing them.

The employee survey – a useful tool

To monitor the situation at the company, Alecta conducts an annual employee survey. The survey provides excellent comparability over time on key issues such as how our employees perceive Alecta as an employer and the well-being of our employees. The response rate has long been exceptionally high, with 94 per cent responding in 2017, which ensures a high level of credibility as well as a small margin of error.

We are proud that the majority of our employees feel motivated, that the dialogue between managers and employees is highly rated, and that our employees have a high level of trust in their managers. A large majority would also consider recommending Alecta as an employer. We conduct follow-up interviews with new employees after six months and again after one year, and termination interviews with all those who leave Alecta. This gives us a good picture of what our employees think of us as an employer.

Creating more opportunities for development

During the year, we made an extra effort to make our employees aware of the opportunities for development that exist at Alecta. That there was a need for this was evident from the results of the employee survey, where opportunities for development received a slightly lower than average score.

We conducted an in-depth study of our employees' perception of development opportunities which resulted in several concrete measures.

One such measure is to develop a basic training course which will ensure that all employees have a shared knowledge about Alecta and our business. We have also launched an initiative to produce advanced courses in which our employees can gain in-depth knowledge about the products we offer – ITP 2 defined benefit occupational pensions and our defined contribution product, Alecta Optimal Pension. For our employees working with insurance matters and claims settlement, these advanced courses are generally mandatory.

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 2017, 88 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.

100 % of Alecta's employees are covered by collective bargaining agreements

Leading with the right skills

Alecta has a clear and shared view of leadership that helps to promote active employeeship. To ensure good leadership, all managers took part in a programme centred on transformational leadership in 2017. In recruiting people to managerial positions, we look for individuals with a high level of expertise in their field as well as the right personal qualities. We want managers who are clear, who are able to coach their employees to make the most of their potential, and who are good at developing our business as well as our employees.

Through regular internal managers' forums, we provide opportunities for dialogue and feedback among managers, training based on concrete cases, and discussions aimed at increasing our managers' self-awareness and leadership skills.

Active promotion of diversity

Our view is that diverse groups are essential to our ability to fulfil our mission and achieve our goals. With diversity, we receive different perspectives in our work, which enables us to keep up with what is happening and make wise, well-grounded decisions when faced with difficult choices. It also makes us better representatives for our customers.

In 2017, we introduced a new diversity policy which describes Alecta's view on diversity and our long-term diversity goals. The policy is supported by an action plan with interim objectives and activities that push things forward.

Diversity is an important factor in recruitments. We practice affirmative action and strive to always have at least one person of the underrepresented sex among the final selection of candidates.

Around 52 per cent of Alecta's managers are women. In 2017, Alecta's management team consisted of three women and six men. For a number of years, we have been conducting annual salary surveys to identify and correct unwarranted differences in salary.

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.

Discussions on abusive behaviour

Starting in spring 2017, we arranged discussions in all working groups at Alecta on unequal, unfair and abusive behaviour and how we can avoid such problems. This initiative is part of our diversity efforts and is aimed at raising awareness of what abusive behaviour is, how we can prevent it at Alecta and what can be done if it happens nonetheless. The #MeToo initiative that emerged at the end of the year lent added relevance to our internal dialogue on these issues. The scope of the campaign in terms of appeals in different industries has clearly shown the importance of continued discussion on the problem.

59 % of Alecta's employees are women.

52 % of Alecta's managers are women.

(The figures refer to employees of the parent company Alecta.)

ALECTA'S GOALS* AS A LONG-TERM EMPLOYER	OUTCOME 2017
All employees should have a skills development plan.	88 per cent of Alecta's employees, including all new employees during the year, have a skills development plan. In 2017, each employee completed an average of 26 hours of training.
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.
An action plan for increased diversity should be prepared and presented.	Alecta's diversity plan and policy were presented to the whole organisation and all groups held discussions on abusive behaviour.

* Alecta is producing new general sustainability targets and key performance indicators in a structured process for 2018 and future years.

Administration Report

The Board of Directors and Chief Executive Officer of Alecta pensionsförsäkring, ömsesidigt hereby present their annual report for 2017, the company's one hundred and first 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 2017, the activities of the Group were conducted in-house with the exception of some parts of Alecta's property management and IT operations, which were performed by external service providers under contract. Some of the tasks performed by Collectum and other selection centres within 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

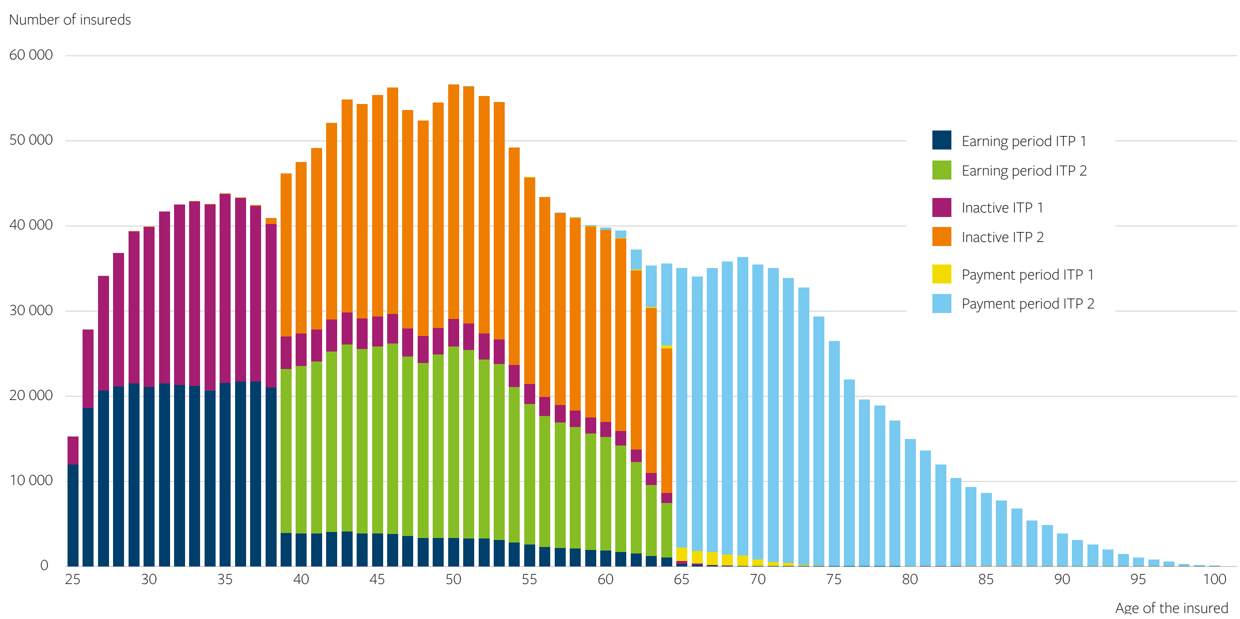
Alecta offers occupational pensions through selection centres under collectively agreed occupational pension plans, i.e., insurance schemes based on collective bargaining agreements that are tied to the employment relationship and for which the premiums are paid by the employer.

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 balance sheets under the "PRI model". Obligations that have been secured under the PRI model are administered by Alecta on behalf of PRI Pensionsgaranti. The

NUMBER OF INSUREDS COVERED BY AN ITP RETIREMENT PENSION PLAN WITH ALECTA

Alecta's core business is the ITP plan. Only seven per cent of Alecta's customers come from other collective bargaining areas, but the number is growing.



Source: Alecta

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 and organisation

In 2017, the average number of employees in the Alecta Group was 371 (390), or 354 on a full-time equivalent basis (373).

At year-end 2017, the total number of employees in the Group was 364 (389), of whom 340 worked in the parent company (353). The share of female employees was 60 per cent (60) and the average age of employees was 47 years (48).

Information on the average number of employees, salaries and benefits is provided in Note 48 on pages 91–95. 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 profit for the year of SEK 57,3 billion (13,4). Comments on Alecta's results and financial position are presented in the following.

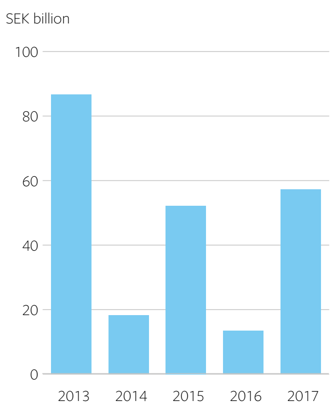
Premiums written

Premiums written in 2017 totalled SEK 38,5 billion (33,6); see Note 4 on page 62. Premiums written can be divided into invoiced premiums and guaranteed refunds.

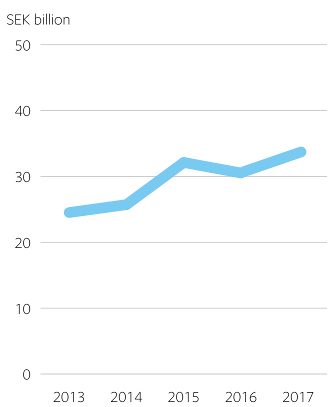
Invoiced premiums were SEK 32,9 billion (29,9). The increase on 2016 is attributable to regular premiums. For defined benefit insurance products, the rise was due to increased benefits, and for defined contribution insurance the main reason was a growing portfolio. For risk insurance, the increase was partly due to the increase in the gross premium at the beginning of 2017 and partly due to a decrease in the premium reduction for disability and waiver of premium insurance from 75 to 65 per cent, which meant that the portion that is billed to the companies increased.

Guaranteed refunds, which totalled SEK 5,6 billion (3,6), comprise reductions of employers' premiums for disability and premium waiver insurance and family pensions as well as an increase in earned pension benefits (paid-up policies).

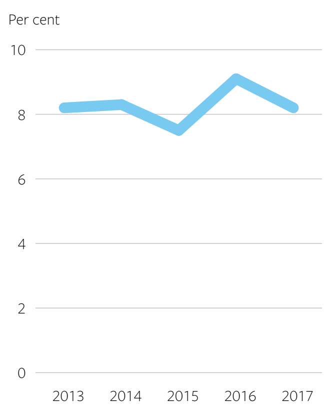
NET PROFIT FOR THE YEAR



INVOICED PREMIUMS



TOTAL RETURN, FIVE-YEAR AVERAGE



Return on capital

Financial markets

The global economy grew at a stable pace throughout 2017. Economic developments in continental Europe were particularly encouraging, but markets in Sweden, China and the UK also performed better than expected in many areas. Employment continued to grow and unemployment rates declined in the US, EU and Sweden. Inflation increased from 1,2 to 1,7 per cent in the EU but remained flat in Sweden and the United States, at 1,7 and 2,1 per cent, respectively.

The past year was a year of elections in Europe, with voters going to the polls in Germany, France, the Netherlands, the UK and other countries. Populism was one of the most prominent issues. Angela Merkel received a new mandate to lead Germany, albeit with less support from the people than previously and with no obvious coalition partners. The populist AfD party enjoyed considerable success in the elections, as did Le Pen's National Front in France and Geert Wilders' PVV in the Netherlands.

The US central bank, the Federal Reserve, raised its policy rate three times during the year, and three further hikes are pencilled in for 2018. The yield on US 10-year government bonds remained stable, ending the year roughly where it began. The Bank of England also raised its policy rate but is now awaiting the outcome of the Brexit negotiations. As of 2018, the European Central Bank will start to scale back its emergency bond purchases, as planned. The Riksbank has a similar stance, having announced that it does not intend to extend its bond purchase programme and signalled that the first interest rate rise may occur in mid-2018.

The Swedish krona lost 2,6 per cent against the euro but strengthened by 9,9 per cent against the dollar. Of the three currencies, the dollar was the clear laggard.

Emerging markets were the strongest performers, with the

Total return table for investments, total	Market value 2017-12-31		Market value 2016-12-31		Total return, per cent	
	MSEK	%	MSEK	%	2017	Average 2013–2017
Shares	345 250	41,6	332 862	43,2	12,6	14,1
Debt securities	419 809	50,6	383 172	49,7	1,0	3,2
Real estate	64 733	7,8	54 409	7,1	12,1	12,5
Total investments	**829 792**	**100,0**	**770 444**	**100,0**	**6,7**	**8,2**

Total returns for each year and asset class for the period 2013–2017, which are included in the average total return, are presented in the five-year summary on page 41.

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 2017-12-31		Market value 2016-12-31		Total return, per cent	
	MSEK	%	MSEK	%	2017	Average 2013–2017
Shares	52 592	60,5	43 947	63,4	12,6	14,1
Debt securities	27 414	31,6	20 401	29,4	1,0	3,3
Real estate	6 862	7,9	4 962	7,2	12,1	12,5
Total investments	**86 867**	**100,0**	**69 311**	**100,0**	**9,1**	**10,9**

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 92,5 billion (73,6).

Total return table for investments, defined benefit insurance	Market value 2017-12-31		Market value 2016-12-31		Total return, per cent	
	MSEK	%	MSEK	%	2017	Average 2013–2017
Shares	290 232	39,4	286 996	41,2	12,6	14,1
Debt securities	389 627	52,8	360 723	51,8	1,0	3,2
Real estate	57 425	7,8	49 141	7,1	12,1	12,5
Total investments	**737 284**	**100,0**	**696 860**	**100,0**	**6,5**	**8,0**

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.

MSCI Emerging Markets Index increasing by as much as 31,0 per cent in local currency. MSCI USA gained 21,9 per cent, MSCI Europe 13,7 per cent and MSCI Sweden 9,8 per cent. In the third quarter, stock markets retreated on a broad front. The setback proved short-lived, however, with nearly all markets recovering strongly to end the year at new record highs.

In Sweden, real estate stocks performed well, with the Carnegie Real Estate Index rallying 13,9 per cent, but in the Swedish housing market prices hit a wall towards the end of the year. In the final three-month period, house prices fell by 8 per cent nationwide and by 9 per cent in Stockholm.

Return

The total return on Alecta's investments in 2017 was 6,7 per cent (5,2). The return was driven mainly by shares and real estate. Marginally lower interest rates during the year ensured a positive return also on Alecta's portfolio of debt securities. Alecta's average annual return over the past five years is 8,2 per cent (9,1).

The return on the share portion of Alecta's portfolio was 12,6 per cent (7,2) while debt securities increased by 1,0 per cent (3,1) and real estate by 12,1 per cent (9,2).

Alecta's defined contribution savings product, Alecta Optimal Pension, gained 9,1 per cent (5,8), outperforming Morningstar's benchmark index for balanced funds by 0,6 percentage points. Over the past five years, Alecta Optimal Pension has generated an average annual return of 10,9 per cent (12,5).

The return on Alecta's defined benefit insurance product was 6,5 per cent (5,1). The average annual return over the past five years is 8,0 per cent (8,9),

In the income statement, the consolidated return on capital, including unrealised changes in value, was SEK 53,0 billion (37,5).

At year-end 2017, the market value of Alecta's total investment assets stood at SEK 829,8 billion (770,4). Of this, the Alecta Optimal Pension default portfolio accounted for SEK 86,9 billion (69,3).

Changes in the portfolio

At year-end, the share portion of the portfolio was 41,6 per cent (43,2). The decrease was a result of the active selling of shares in order to reduce the overall risk in the portfolio, following a strong performance in the stock markets.. The country allocation remained largely unchanged compared with the previous year.

At the beginning of the year, the final sales of Alecta's directly owned foreign properties were completed, but due to strong capital growth and significant new investments the real estate portion of the portfolio increased to 7,8 per cent (7,1).

The composition of Alecta's portfolio is presented on page 34.

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 20,3 billion (19,5). 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 142 billion (134). See also Note 8 on page 63.

The change in the provision for claims outstanding was SEK 0,5 billion (2,4).

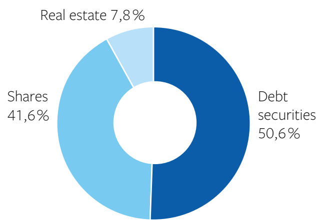
Technical provisions

Technical provisions comprise the sum of provisions for life insurance and provisions for claims outstanding, and constitute the capital value of Alecta's guaranteed obligations for insurance contracts in force. Technical provisions were SEK 478,8 billion at 31 December 2017. This is an increase of SEK 12,5 billion (38,4) for 2017, which was due to the following reasons:

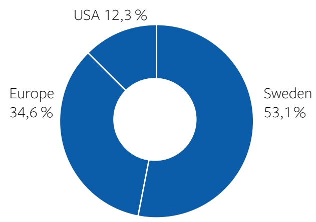
- Changes in the yield curve that is used to value technical provisions. The average cash flow-weighted rate increased from 2,22 to 2,25 per cent in 2017. This resulted in a decrease in technical provisions of SEK 2,5 billion (increase of 20,9).
- The return for the period and deductions for taxes and operating expenses, which together increased technical provisions by SEK 13,0 billion (12,6).
- Premiums and outgoing payments for savings products, including the difference resulting from the fact that premium assumptions differ from the assumptions applied in calculating provisions. This resulted in an increase in technical provisions of SEK 2,3 billion (3,9), of which SEK 1,5 billion (0,0) refers to guaranteed refunds in the form of earned pension benefits.
- The provision for new insurance cases in Alecta's disability pension and waiver of premium products exceeded the reversal of provisions for existing insurance cases. The net increase was SEK 0,4 billion (1,9).
- Tariffs were changed with effect from 1 March 2017, and the whole portfolio was therefore recalculated based on the new tariffs. The premium rate for regular premiums was reduced from 2 to 1,25 per cent and the operating expense charge for the premium was reduced from 1,5 to 1,0 per cent. The tariff changes are prospective, which means that Alecta's corporate customers will be paying higher premiums for new policies and increases in benefits but not for existing benefits

Alecta's portfolio composition at December 31, 2017

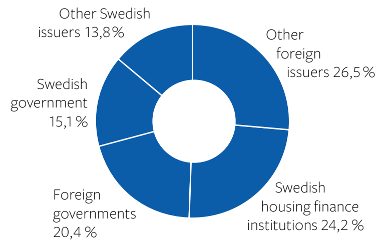
TOTAL INVESTMENT PORTFOLIO



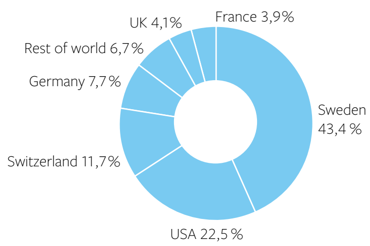
DEBT SECURITIES, geographic distribution



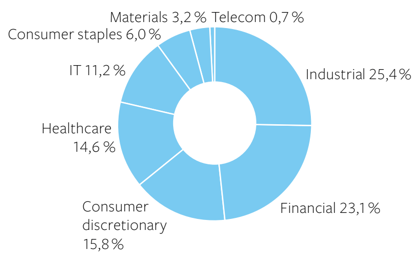
DEBT SECURITIES, type of issuer



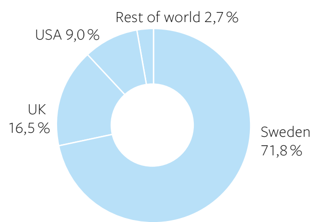
SHARES, geographic distribution



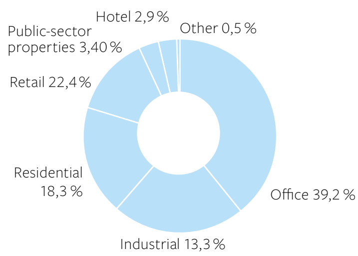
SHARES, sector



REAL ESTATE, geographic distribution



REAL ESTATE, category



ALECTA'S FIVE LARGEST SHAREHOLDINGS December 31, 2017

STOCK	SECTOR	MARKET VALUE, SEK MILLION
Atlas Copco AB	Industrial	16 823
Investor AB	Financial	16 815
Skandinaviska Enskilda Banken AB	Financial	13 598
AB Volvo	Industrial	13 472
Alphabet Inc	IT	12 964

Market value according to total return table.

under outstanding policies. In connection with the tariff changes, changes were also made to the assumptions used for redistribution of defined benefit retirement pensions, and in the fourth quarter of 2017 a minor change was made to the model for calculating future operating expenses. The net effect of these changes is a decrease in provisions of SEK 0,9 billion.

- Other changes resulted in an increase in technical provisions of SEK 0,2 billion.

For further information, see Notes 36 and 37 on pages 87 and 88.

Operating expenses

Operating expenses for the insurance business, which are termed operating expenses in the income statement, were SEK 559 million (560). Although operating expenses remained largely unchanged, a number of activities of a non-recurring nature took place, including the launch of our new, revamped website, alecta.se, a redevelopment of Alecta's offices, which is scheduled for completion in 2019, and activities to mark Alecta's 100th anniversary. We have also reduced our IT operating expenses significantly after renegotiating our contract.

Management expense ratio

The management expense ratio was 0,09 per cent, the same as in 2016. The ratio for pension products excluding selection centre costs was also unchanged, at 0,06 per cent.

Tax expense

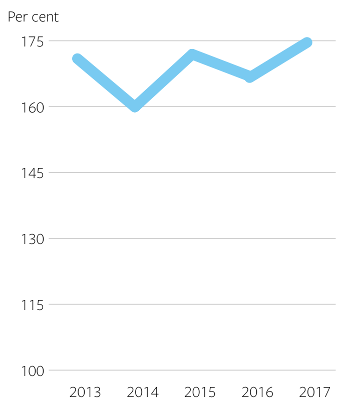
The yield tax expense, net of foreign tax credits, was SEK 271 million (298). Despite an increase in the capital base, the yield tax expense was lower than in 2016. This was due to the decrease in the average government borrowing rate from 0,58 to 0,50 per cent, which represents the floor for the government borrowing rate that applies from 1 January 2017 for calculating the tax base. 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 608 million, compared with tax income of SEK 1 108 million in the previous year. In addition to Swedish income tax, the item also includes coupon tax and foreign income tax. The change compared with the previous year is mainly due to significant deferred income in 2016 that was attributable partly to tax losses and partly to an asset arising from foreign tax which the company expects to be able to offset against future Swedish tax. In Sweden the business segments disability pension, waiver of premium and TGL are subject to income tax.

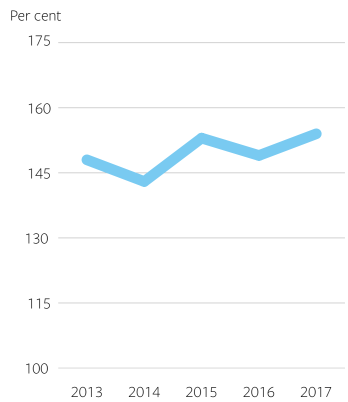
Distribution of surplus

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 42–43. 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 (2003–2017), Alecta has distributed

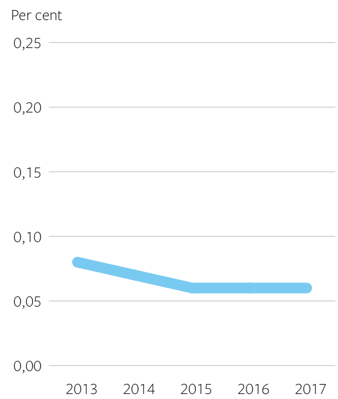
SOLVENCY LEVEL



COLLECTIVE FUNDING RATIO,
Defined benefit insurance



MANAGEMENT EXPENSE RATIO
for pension products, excluding selection centre costs



SEK 97 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 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 2017, the Board approved an upward adjustment of defined benefit pensions by 0,59 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 2013 and September 2016. For insureds who retired in 2015 or 2016, however, the Board authorised an upward adjustment of 0,91 per cent to compensate for inflation in the past year. For 2017, 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 7 per insured per month for occupational group life insurance (TGL).

For 2018, the Board approved an upward adjustment of defined benefit pensions by 2,12 per cent, based on the change in CPI between September 2016 and September 2017. The decision covers pensions in payment as well as earned pension entitlements, known as paid-up policies. 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 TGL.

Collective funding and solvency

Alecta's defined contribution insurance products have 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.

At year-end 2017, the collective funding ratio for the Group's defined benefit insurance products was 154 per cent (149). The collective funding capital was SEK 255,8 billion (226,5). Under Alecta's funding policy for its defined benefit insurance products, the collective funding ratio may vary between 125 and 155 per cent in normal circumstances, with a target level of 140 per cent. If Alecta's collective funding ratio falls below 125 per cent or exceeds 155 per cent measures must be taken that will allow the collective funding ratio to return to the normal range within three years, provided that such measures are not expected to impede Alecta's ability to fulfil its insurance commitments or protect pensions in payment against inflation.

Alecta's solvency ratio at year-end 2017 was 174 per cent (166).

Proposed appropriation of profits

The Board of Directors and Chief Executive Officer propose to the Council of Administration that the parent company's profit for 2017 of SEK 55 340 835 771 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 35–36.

Significant events

Sale of foreign properties

At the beginning of the year, Alecta completed the sale of its directly owned foreign real estate portfolio in the US and UK, which had been initiated in 2016. The total consideration for properties sold in 2017 was around SEK 6 billion. In connection with the sales, Alecta's offices in London and San Francisco were closed.

Adjustment of premiums

With effect from 1 March 2017, the premium rate for regular premiums was reduced from 2 to 1,25 per cent. As a result, the average regular premium for new policies and increases in benefits increased by 15 per cent. Single premiums payable on redemption of defined benefit retirement pensions were also raised by 3 per cent on average. The changes were prompted by the prevailing low interest rate environment and an increase in life expectancy.

The premium for risk insurance was further increased as of 2017. The existing 75 per cent premium reduction was maintained for family cover but was reduced to 65 per cent for disability and waiver of premium insurance. These premium reductions totalled SEK 4,1 billion (3,6) during the year.

Adjustment of paid-up values

In the first half of 2017, Alecta recognised an increase in earned pension entitlements (adjustment of paid-up values) of SEK 1,5 billion following a decision by the Board to increase defined benefit pensions by 0,59 per cent. The increase reflects the change in CPI for the period September 2013–September 2016.

Resolution on refunds and premiums for 2018

Alecta's Board of Directors has decided to increase defined benefit pensions by 2,12 per cent in January 2018, matching the inflation rate over the past year. The increase, which is worth around SEK 10 billion, reduced the collective funding ratio as at 31 December 2017.

The Board has also decided to cut the premiums for disability and waiver of premium insurance slightly in 2018, and to maintain the current 65 per cent premium reduction for disability and waiver of premium insurance and 75 per cent reduction for family cover. The monthly invoiced premium for occupational group life insurance (TGL) will be reduced from SEK 32 to SEK 29 per employee.

Organisational changes

In August, Camilla Wirth became Alecta's Chief Financial Officer. She took over from Katarina Thorslund, who has chosen to focus on her role as head of Alecta's Customer department. Before joining Alecta, Camilla Wirth was CFO at Nordax Bank.

Hans Sterte has been recruited for the position of Head of Investment Management and will take up his post in March 2018. Before joining Alecta, Hans Sterte worked in a similar role at Skandia. The previous Head of Investment Management, Per Frennberg, left Alecta in May, and Tony Persson, Head of Fixed Income and Strategy, was appointed Acting Head of Investment Management.

In July, Anders Munk took up the post of Chief Actuary at Alecta, replacing Fredrik Palm, who remains in charge of Alecta's Product department. Before joining Alecta, Anders Munk was Chief Actuary at AMF.

In March, Carina Silberg was appointed Sustainability Officer at Alecta. Her recruitment is an important step in Alecta's striving to raise its ambition in the area of sustainability. Carina Silberg previously worked at Hallvarsson & Halvarsson, where she was head of the CSR and Sustainability Communication business area.

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

Since the Solvency II Directive came into effect on 1 January 2016, Alecta has applied the transition rules which apply until 31 December 2019 for companies which exclusively or mainly provide occupational pensions. The question of which regulations Alecta will be operating under in the long term – the Solvency II-based Insurance Business Act or a new Swedish occupational pension law based on the IORP occupational pension directive – is of great import for Alecta.

Already in 2014, the Swedish government's Committee on Occupational Pension Service Providers presented a proposal for a new Swedish Occupational Pension Business Act, in the SOU 2014:57 report. Under the proposed Act, insurance companies which exclusively or mainly provide occupational pensions will be able to turn themselves into occupational pension funds and operate fully under the new Occupational Pension Business Act instead of the Insurance Business Act and Solvency II.

On 5 October 2016, the Swedish government announced, after several years of deliberation, that it intends to prepare a new Occupational Pension Business Act that is essentially based on the report produced by the Committee on Occupational Pension Service Providers. The proposed new Act will also enable insurance companies to turn themselves into occupational pension funds, and introduces stronger, risk-based regulation of solvency capital requirements. On 16 March 2017, the Swedish government instructed the Financial Supervisory Authority to draw up a draft for such stronger solvency capital regulations. After consulting with the insurance industry, including Alecta, the FSA submitted its draft to the government on 1 September 2017. The FSA proposes that the risk-sensitive capital requirement should be in line with the requirement that has applied since 2006 under the FSA's "traffic light" regulatory system, which Alecta also considers to be reasonable. The final decision on whether and how the FSA's draft regulations should be integrated into the proposed new Occupational Pension Business Act will be made by the government.

The new Occupational Pension Business Act, through which the IORP 2 occupational pensions directive will be introduced in Swedish law, will take effect on 13 January 2019. This means that the schedule for the remaining legislative work in 2018, including the ministry report and standard consultation process, referral to the Council on Legislation, government bill and parliamentary debate, will be very compressed. Alecta will be following the process with great interest. A good legislative framework for Alecta and other occupational pension funds will be of great benefit for Alecta's customers. Alecta therefore hopes that Sweden will now make the best use of the opportunities created by the EU directives to create new, well-judged and fit-for-purpose regulations tailored to the type of business that Alecta is engaged in.

If the timetable holds, and the new Occupational Pension Business Act enters into force on 13 January 2019, Alecta will have the option, from 2019, of converting itself from a mutual insurance company into a mutual occupational pension fund. Such a reorganisation would also affect the extent to which Alecta will be covered by other legislation, including anti-money-laundering and insurance distribution regulations.

Significant events after the balance sheet date

Alecta retains status as default option for ITP1

In mid-November 2017, Alecta submitted its bid in the procurement of a service provider for the management of the ITP 1 occupational pension scheme, and in early March 2018 Collectum announced the results of the procurement. In competition with other pension funds, Alecta was chosen to remain the default option for another five years, covering the period 1 October 2018–30 September 2023.

In connection with the procurement, Alecta is further improving its Alecta Optimal Pension product by cutting the already low fee, to 0,09 per cent, and lowering the annual cap on fees from SEK 900 to SEK 600.

Outlook

Financial markets

The past year was another good year for equity markets, although the Stockholm Stock Exchange underperformed. The situation in the world in 2017 was marked by challenges and uncertainty, but this does not stand in the way of financial markets when the global economy remains strong. It needs to be borne in mind, however, that this strong performance of financial markets and the real economy has been shored up by several years of accommodative monetary policy. Although inflation and unemployment levels are now back at more normal levels in several economies, central banks' policy rates remain at very low levels. This combination makes the current situation unique. Developments in the next few years will be strongly influenced by how well central banks succeed in winding down their stimulus programmes and bringing interest rates back to more normal levels.

The flip side of a strong run in stock markets is that the potential future returns will generally be lower. With price multiples already at high levels, robust earnings growth will be required to sustain current share prices. While there are good reasons to expect earnings to continue to rise, the margins are thin, and even minor changes in the market outlook can trigger large movements in share prices. Indications as to how concerned the equity market actually is about current prices also evidence that the level of any such concern is very low. High share prices and low risk awareness are rarely a good combination. On the other hand, experience tells us that it is very hard to predict turnarounds in the stock market. Alecta's strategy for meeting this challenge is to have very high safety margins in its use of risk but also to own only quality companies. Apart from faring relatively better in a stock market downturn, these companies are able to exploit the new situation to conclude corporate deals on favourable terms. The same applies for Alecta. With good margins, we can take a proactive approach in any sell-off, and thus turn a weak market into a good business opportunity, laying the foundation for good long-term returns for our customers.

The labour market and pensions market

There is currently strong demand for labour, and many companies are struggling to recruit people with the right skills. The ongoing process of automation and digitisation is leading to the disappearance of some jobs while new jobs are being created, but the main impact is in the changing nature of the tasks involved. This increases the need for skills development. Unfortunately, in an economic downturn employers have fewer resources for retraining, which increases the risk that some people will drop out of the labour market. While some areas of industry are struggling to find the right people, there are therefore also groups of employees who are struggling to find work because they do not have the necessary knowledge or previous experience of the Swedish labour market.

The Swedish pension system is being adapted to increasing life expectancies. The reform proposals presented by the government's pensions group in December 2017 are aimed at raising the actual retirement age, but also hint that the government wants to have more influence over occupational pensions. Among other initiatives, the pensions group is proposing that the current deduction rules for occupational pensions be reviewed. Tax deduction rules are crucial for employers' pension costs and for entering into agreements on ways to supplement the collectively agreed occupational pension schemes.

The volume of occupational pensions grows when more people receive salary increases above the ceiling for the State pension. Provisions for part-time and flexible pensions are also set to increase in future, and there is a growing interest in individual savings through salary exchange, mainly among high-earning salaried employees. Many employers therefore risk incurring retirement benefit costs that are not deductible. A limited right of deduction also creates problems for employers who want to strengthen occupational pensions for employees who have moved to Sweden in mid-life.

Negotiations between employers and unions, especially within the framework of the ITP scheme, have been a driving force for greater efficiencies in the Swedish life insurance industry. The fees charged by the industry have been slashed for collectively agreed occupational pensions, but also in markets outside the collective bargaining agreements. To cope with the reduced fees, the industry is implementing efficiencies by investing in new systems and digitising customer contacts.

In many areas, customers have become accustomed to fast and personal service through digital channels. They expect the same level of service from providers of financial services. Although occupational pensions still engage only a small number of players, we are seeing signs of a growing interest in pension matters. Digitisation is making it easier for new players to create customer-facing services, which can quickly spur greater interest in occupational pensions. To meet these challenges, several life insurers and banks are initiating partnerships with fintech companies.

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 ensures 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 the income, in the form of the 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 the income. The deficit was funded through an interest-bearing capital contribution from Alecta's defined benefit collective. For the period 1 July 2013–30 June 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.

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.

In summer 2014, a milestone was passed as Alecta Optimal Pension's regular annualised income reached a level where it is sufficient to cover the incremental costs. Incremental costs comprise product-specific system administration and system development, direct customer service working hours, and costs for information and marketing activities. The accumulated deficit (fees less incremental costs including interest) peaked in 2014 at just under 0,02 per cent of assets under management in the defined benefit plan, which funded the deficit through loans during the start-up phase. The incremental cost deficit is expected to have been fully eliminated by 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 (0,11) of the capital in 2017, which is below Alecta's fee ratio of 0,10 per cent in its main ITP business. A second milestone has thus been passed – Alecta Optimal Pension is covering its total costs and has started to pay back the capital contribution to the defined benefit collective.

The significant synergies that exist among Alecta's products also exist in the company's investment management activities. The capital is managed on the basis of an investment model that is used for all products. No separate decisions are therefore made in respect of the management of each asset class for Alecta Optimal Pension. The difference lies in occasional decisions to adjust the allocation among asset classes and in the requirement for separate monitoring and reporting. 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 2017, Alecta Optimal Pension had a solvency ratio of 242 per cent (234), compared with 174 per cent (166) 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 Chief 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 60–62.

Risk management support functions

- The independent control 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 Swedish Personal Data Act.
- 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 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 Code

Alecta applies the Swedish Corporate Governance Code even though it has no formal obligation to do so. Rules in the Code which are not adapted to mutual insurance companies are not applied, however. In accordance with this Code, a corporate governance report has been prepared, which is available at alecta.se.

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 annual report. Alecta's sustainability report covers the whole Group and describes Alecta's standpoint on key sustainability issues, including sustainability risks and governance. In late 2017, Alecta launched an initiative to review its structure, goals and key performance indicators for sustainability, and this work will continue into 2018. The sustainability report was submitted to the auditor at the same time as the annual report, and is contained on pages 12–29 and in the Governance and sustainability section on pages 102–113 of this document.

Five-year summary

Group, SEK million	2017	2016	2015	2014	2013
Profit/loss					
Premiums written	38 514	33 557	34 377	36 122	25 059
Invoiced premiums	*32 895*	*29 919*	*31 581*	*25 145*	*23 954*
Guaranteed refunds	*5 619*	*3 638*	*2 796*	*10 977*	*1 105*
Claims incurred	–20 776	–21 907	–20 330	–20 195	–17 330
Net return on capital	53 000	37 529	38 965	75 789	55 219
Profit before tax	57 863	12 320	52 916	18 876	87 620
Net profit for the year	57 255	13 428	52 234	18 216	86 716
Financial position					
Assets under management [1]	834 416	774 059	730 511	682 355	602 266
– of which pension products	794 982	735 430	692 150	645 726	565 903
Technical provisions	478 814	466 273	427 877	427 618	353 930
Collective funding capital	255 779	226 484	228 404	188 275	181 152
Capital base [2]	349 663	302 376	294 553	248 935	246 144
Required solvency margin [2]	20 097	19 231	17 668	17 658	14 648
Key performance indicators					
Total return for the Group, per cent [3]	6,7	5,2	5,9	13,0	10,2
– of which shares	12,6	7,2	9,0	17,5	25,3
– of which debt securities	1,0	3,1	1,2	9,4	1,6
– of which real estate	12,1	9,2	18,4	12,3	10,9
Total return, defined contribution insurance (Alecta Optimal Pension), per cent [4]	9,1	5,8	7,9	14,9	17,3
Total return, defined benefit insurance, per cent [4]	6,5	5,1	5,8	12,8	9,8
Direct return, Group, per cent	2,4	2,6	2,7	3,5	3,6
Management expense ratio [5]	0,09	0,09	0,10	0,11	0,12
– of which pension products excluding selection centre costs	0,06	0,06	0,06	0,07	0,08
Investment management expense ratio [6]	0,02	0,02	0,03	0,03	0,03
Collective funding ratio, defined benefit insurance, per cent	154	149	153	143	148
Collective funding ratio, defined contribution insurance, per cent [7]	100	100	100	100	100
Solvency ratio, per cent	174	166	171	159	170

[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 are deemed to be relevant to report under Financial position and Key performance indicators. These items are presented in the five-year summary above. This means that there are items and KPIs specified in the general recommendations of the Swedish Financial Supervisory Authority (FFFS 2015:12) that are not presented here and that there are items in the five-year summary which do not appear in the recommendations. 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 combined financial results, which, in addition to capital return, also include interest rate effects for TPs.

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 profit was SEK 57,3 billion (13,4).

ALTERNATIVE INCOME STATEMENT (SEK MILLION)	2017	2016
Administration result	31	109
Risk result	2 728	241
Financial result	54 834	11 855
Tax result	–338	1 223
Net profit for the year	**57 255**	**13 428**

Administration result

The administration result was SEK 31 million (109) 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)	2017	2016
Income	784	856
of which released operating expenses	*732*	*803*
of which other income	*52*	*53*
Expenses	–753	–747
Total administration result	**31**	**109**

Risk result

The risk result was SEK 2,7 billion (0,2) and shows how closely Alecta's assumptions on mortality, morbidity and use of insurance options agree with actual outcomes. 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.

The annual morbidity result increased sharply in 2017, which was mainly attributable to discontinuation income for disability and waiver of premium insurance. The increase is mainly due to the fact that a larger number of cases of illness, especially cases of illness of long duration, have ended compared with our assumptions and with the previous year. The change is probably a consequence of changes in the regulations of the Swedish Social Insurance Agency.

The risk result also includes changes in the assumptions used in calculating technical provisions (TPs). The changes made to the assumptions in 2017 are described in the section Technical provisions in the Administration Report.

RISK RESULT (SEK MILLION)	2017	2016
Annual mortality result	–48	106
Annual morbidity result	2 204	–373
Insurance options	172	–308
Changes in methods and assumptions used in calculating TPs	853	1 460
Other	–453	–644
Total risk result	**2 728**	**241**

Financial result

The financial result was SEK 54,8 billion (11,9). 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 favourable investment performance contributed to the financial result for 2017. 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 on the insurance contracts when the interest rate used in discounting 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 increase compared with the previous year is mainly due to the fact that the premium rate for regular premiums was reduced as a result of the tariff changes made in 2017. See the section Technical provisions in the Administration Report.

FINANCIAL RESULT (SEK MILLION)	2017	2016
Result, return on capital	52 982	37 511
of which investment management expenses	*–180*	*–180*
Released operating expenses for investment management	147	147
Cumulative return on TPs	–14 250	–13 717
Other profit sources	13 453	8 842
Changes in TPs as a result of changed market interest rates	2 502	–20 928
Total financial result	**54 834**	**11 855**

Tax result

The tax result was SEK –0,3 billion (1,2). 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)	2017	2016
Result, yield tax	270	115
Income tax	–608	1 108
Total tax result	**–338**	**1 223**

Financial statements Contents

Financial statements

Group

Parent Company

Note		Page
1	Group and Parent Company accounting principles	56
2	Significant estimates and judgements	59
3	Risks and risk management	60
4	Premiums written	62
5	Return on capital, income	62
6	Unrealised gains on investment assets	62
7	Claims paid	62
8	Operating expenses	63
9	Return on capital, expenses	63
10	Unrealised losses on investment assets	64
11	Yield tax	64
12	Tax	64
13	Intangible assets	66
14	Property, plant and equipment	66
15	Land and buildings	67
16	Shares and participations in Group companies	69
17	Debt securities issued by, and loans to, Group companies	70
18	Investments in jointly controlled entities (joint ventures)	71
19	Classification of financial assets and liabilities	72
20	Net profit by class of financial assets and liabilities	74
21	Maturity analysis of financial liabilities	74
22	Valuation categories for financial instruments measured at fair value	75
23	Disclosures on financial instruments measured at fair value based on Level 3	77
24	Shares and participations	79
25	Bonds and other debt securities	79
26	Other loans	80

Note		Page
27	Derivatives	80
28	Financial instruments subject to enforceable master netting agreements	81
29	Receivables related to direct insurance operations	82
30	Other receivables	82
31	Accrued interest and rental income	82
32	Equity excluding guarantee reserve (Group)	83
33	Surplus fund (Parent Company)	85
34	Proposed appropriation of profits	86
35	Guarantee reserve	86
36	Provision for life insurance	87
37	Provision for claims outstanding	88
38	Provision for pensions and similar obligations	88
39	Other provisions	89
40	Liabilities related to direct insurance operations	89
41	Other liabilities	89
42	Other accrued expenses and deferred income	89
43	Assets and comparable collateral pledged for own liabilities and for obligations reported as provisions	90
44	Other pledged assets and comparable collateral	90
45	Transfer of financial assets	90
46	Contingent liabilities	90
47	Reconciliation of total return table to financial statements	91
48	Average number of employees, salaries and remuneration	91
49	Disclosure of auditors' fees	95
50	Leasing	95
51	Related party disclosures	95
52	Significant events after the balance sheet date	96

Income Statement

Group

SEK MILLION	NOTE	2017	2016
Premiums written	4	38 514	33 557
Invoiced premiums		*32 895*	*29 919*
Guaranteed refunds		*5 619*	*3 638*
Net return on capital		53 000	37 529
Return on capital, income	*5*	*33 017*	*35 482*
Unrealised gains on investment assets	*6*	*30 156*	*6 647*
Return on capital, expenses	*9*	*–5 735*	*–2 027*
Unrealised losses on investment assets	*10*	*–4 438*	*–2 573*
Claims incurred		–20 776	–21 907
Claims paid	*7*	*–20 262*	*–19 494*
Change in provision for claims outstanding		*–514*	*–2 413*
Change in other technical provisions		–12 026	–35 983
Provision for life insurance		*–12 026*	*–35 983*
Operating expenses	8	–559	–560
Depreciation of owner-occupied properties	15	–19	–18
Yield tax	11	–271	–298
Total operating profit		**57 863**	**12 320**
Profit before tax		**57 863**	**12 320**
Income tax	12	–608	1 108
NET PROFIT FOR THE YEAR		**57 255**	**13 428**

Statement of Comprehensive Income

Group

SEK MILLION	2017	2016
Net profit for the year	**57 255**	**13 428**
Items that can subsequently be reclassified to profit or loss		
Foreign exchange difference that can subsequently be reclassified to profit or loss	–179	1 304
Accumulated foreign exchange differences reclassified to profit or loss	–1 179	–1 470
Other comprehensive income	**–1 358**	**–166**
COMPREHENSIVE INCOME FOR THE YEAR	**55 897**	**13 262**

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

Balance Sheet

Group

SEK MILLION	NOTE	2017-12-31	2016-12-31
ASSETS			
Intangible assets	13	259	285
Property, plant and equipment	14	14	11
Deferred tax	12	5 509	5 097
Investment assets			
Land and buildings			
Investment properties	15	28 216	25 447
Owner-occupied properties	15	878	855
Investments in jointly controlled entities			
Shares and participations in jointly controlled entities (joint ventures)	18, 19, 22, 23	15 359	6 045
Loans to jointly controlled entities (joint ventures)	18, 19	1 591	3 655
Other financial investment assets			
Shares and participations	19, 22, 23, 24	375 390	346 171
Bonds and other debt securities	19, 22, 23, 25, 44, 45	399 975	372 328
Other loans	19, 22, 23, 26	2 097	2 284
Derivatives	19, 22, 27, 28	6 221	7 944
		829 727	764 729
Receivables			
Receivables related to direct insurance operations	19, 29	1 747	1 599
Current tax [1)]		970	1 559
Other receivables	19, 30	1 738	4 151
		4 455	**7 309**
Cash and bank balances	19, 44	**2 731**	**2 856**
Prepaid expenses and accrued income			
Accrued interest and rental income	19, 31	8 173	7 124
Other prepaid expenses and accrued income	19	61	99
		8 234	**7 223**
Assets held for sale	15	–	5 696
TOTAL ASSETS		850 929	793 206

1) Adjustment compared with the Annual Report 2016 through the reclassification of a foreign tax asset of SEK 831 million from Other receivables to Current tax.

Balance Sheet, *cont.*

Group

SEK MILLION	NOTE	2017-12-31	2016-12-31
EQUITY AND LIABILITIES			
EQUITY			
Translation reserve	32	129	1 487
Discretionary participation features reserve	32	89 388	70 855
Special indexation funds	32	10 298	10 445
Guarantee reserve	35	–	–
Retained earnings including net profit for the year	32	255 787	224 999
Total equity		**355 602**	**307 786**
LIABILITIES			
Provision for life insurance	36	461 572	449 546
Claims outstanding	37	17 242	16 727
Pensions and similar commitments	38	4	9
Other provisions	39	29	22
Current tax		35	29
Deferred tax	12	1 377	2 601
Liabilities related to direct insurance operations	19, 40	706	683
Derivatives	19, 22, 27, 27	8 302	8 552
Other liabilities	19, 41	1 903	4 475
Other accrued expenses and deferred income	19, 42	4 157	2 776
Total liabilities		**495 327**	**485 420**
TOTAL EQUITY AND LIABILITIES		850 929	793 206

Statement of Changes in Equity

Group

SEK MILLION	Translation reserve 1)	Discretionary participation features reserve 1, 2)	Special indexation funds 1)	Guarantee reserve 3)	Retained earnings including net profit for the year 1)	Total
OPENING EQUITY AT 1 JANUARY 2016	1 653	60 943	10 559	1 867	227 612	302 634
Net profit for the year					13 428	
Other comprehensive income	–166					
Total comprehensive income for the year	**–166**				**13 428**	**13 262**
Allocated refunds		14 957			–14 957	–
Guaranteed refunds		–5 946				–5 946
Collective risk premium 4)			–109			–109
Return on guarantee reserve in previous year 5)				107	–107	–
Return on guarantee reserve in current year 5)				95	–95	–
Transfer of guarantee reserve to foundation 3)				–1 955		–1 955
Other changes		901	–5	–114	–882	–100
Closing equity at 31 December 2016	**1 487**	**70 855**	**10 445**	**–**	**224 999**	**307 786**

SEK MILLION	Translation reserve 1)	Discretionary participation features reserve 1, 2)	Special indexation funds 1)	Guarantee reserve 3)	Retained earnings including net profit 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	
Other comprehensive income	–1 358					
Total 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 4)			–112			–112
Other changes		–64	–35		21	–78
Closing equity at 31 December 2017	**129**	**89 388**	**10 298**	**–**	**255 787**	**355 602**

1) See Note 32.
2) Discretionary participation features refer to allocated refunds. See Note 32.
3) Reserve for financing the collective agreement guarantee and for use as information funds. The guarantee reserve was eliminated on 12 December 2016, at which date all funds were transferred to an independent foundation with the same purpose as the guarantee reserve. See Note 35.
4) 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.
5) Until the financial year 2015 returns were transferred between the surplus fund and guarantee reserve in the following year subject to a decision by the Council of Administration. The return for 2016 was credited to the guarantee reserve in connection with its elimination on 12 December 2016. See Note 35.

Cash Flow Statement

Group

SEK MILLION	2017	2016
OPERATING ACTIVITIES		
Profit for the year before tax and appropriations	57 863	12 320
Interest received	4 994	8 581
Interest paid	1 156	–1 576
Dividends received	12 180	10 354
Adjustment for non cash-items [1] [2]	–44 898	–1 076
Tax paid [2]	–1 917	–4 309
Cash flow from operating activities before changes in assets and liabilities	**29 378**	**24 294**
Change in investment assets	–26 498	–18 943
Change in other operating assets [2]	2 292	–2 913
Change in other operating liabilities	–2 864	1 584
Cash flow from operating activities	**2 308**	**4 022**
INVESTING ACTIVITIES		
Investments in property, plant and equipment	–8	–3
Cash flow from investing activities	**–8**	**–3**
FINANCING ACTIVITIES		
Pension supplements/Supplementary amounts	–2 273	–2 308
Payment from guarantee reserve	–	–2 069
Payment of indexation funds	–112	–110
Cash flow from financing activities	**–2 385**	**–4 487**
Cash flow for the year	**–85**	**–468**
Cash and cash equivalents at beginning of year	2 856	3 302
Exchange rate differences in cash and cash equivalents	–40	22
CASH AND CASH EQUIVALENTS AT END OF YEAR	**2 731**	**2 856**
[1]		
Depreciation/Amortisation/Impairment, Notes 13, 14, 15	51	69
Yield tax, Note 11	271	298
Foreign exchange gains, Note 5	–	–4 245
Foreign exchange loss, Note 9	4 685	–
Capital gains, Note 5	–13 088	–10 283
Capital losses, Note 9	–	–
Unrealised gains, Note 6	–30 156	–6 647
Unrealised losses, Note 10	4 438	2 573
Interest income, Note 5	–6 043	–8 018
Interest expenses, Note 9	291	808
Dividends, Note 5	–12 170	–10 354
Adjustment of paid-up values, Note 4	–1 487	–3
Premium reductions, Note 4	–4 131	–3 635
Change in provision for life insurance, Note 36	12 026	35 983
Change in provision for claims outstanding, Note 37	514	2 413
Other [2]	–99	–35
	–44 898	**–1 076**

[2] Adjustments compared with the Annual Report 2016 through reclassifications in operating activities.

Income Statement

Parent Company

SEK MILLION	NOTE	2017	2016
TECHNICAL ACCOUNT, LIFE INSURANCE BUSINESS			
Premiums written	4	38 514	33 557
Invoiced premiums		*32 895*	*29 919*
Guaranteed refunds		*5 619*	*3 638*
Return on capital, income	5	34 629	39 891
Unrealised gains on investment assets	6	30 744	6 608
Claims incurred		–20 777	–21 907
Claims paid	*7*	*–20 262*	*–19 494*
Change in provision for claims outstanding		*–515*	*–2 413*
Change in other technical provisions		–12 026	–35 983
Provision for life insurance		*–12 026*	*–35 983*
Operating expenses	8	–559	–560
Return on capital, expenses	9	–11 171	–6 057
Unrealised losses on investment assets	10	–3 385	–729
Life insurance, balance on the technical account		**55 969**	**14 820**
NON-TECHNICAL ACCOUNT			
Life insurance, balance on the technical account		55 969	14 820
Profit before appropriations and tax		**55 969**	**14 820**
Appropriations		–	–
Profit before tax		**55 969**	**14 820**
Tax on profit for the year	12	–628	1 088
NET PROFIT FOR THE YEAR		55 341	15 908

Statement of Comprehensive Income

Parent Company

SEK MILLION	2017	2016
Net profit for the year	55 341	15 908
Other comprehensive income	–	–
COMPREHENSIVE INCOME FOR THE YEAR	55 341	15 908

Performance Analysis

Parent Company 2017

SEK MILLION	Total	DIRECT INSURANCE OF SWEDISH RISKS – Occupational pension insurance – Defined benefit insurance	Defined contribution traditional insurance	Occupational disability insurance and waiver of premium insurance	Other life insurance – Group life and occupational group life insurance
Premiums written	38 514	19 113	12 971	6 227	203
Return on capital, income	34 629	28 329	4 649	1 624	27
Unrealised gains on investment assets	30 744	25 151	4 127	1 442	24
Claims incurred	–20 777	–15 962	–646	–4 042	–127
Claims paid	*–20 262*	*–15 961*	*–646*	*–3 507*	*–148*
Change in provision for claims outstanding	*–515*	*–1*	*–*	*–535*	*21*
Change in other technical provisions	–12 026	–5 234	–6 792	–	0
Provision for life insurance	*–12 026*	*–5 234*	*–6 792*	*–*	*0*
Operating expenses	–559	–320	–60	–166	–13
Return on capital, expenses	–11 171	–9 143	–1 495	–524	–9
Unrealised losses on investment assets	–3 385	–2 769	–454	–159	–3
Life insurance, balance on the technical account	**55 969**	**39 165**	**12 300**	**4 402**	**102**
Technical provisions					
Provision for life insurance	461 572	423 288	38 284	–	–
Claims outstanding	17 242	20	–	17 176	46
Total technical provisions	**478 814**	**423 308**	**38 284**	**17 176**	**46**
Surplus fund	294 580	236 759	41 451	15 953	417
Total operating expenses, excluding property management expenses					
Operating expenses (administrative expenses in the insurance business)	–559	–320	–60	–166	–13
Claims management expenses (included in Claims paid)	–143	–82	–19	–40	–2
Investment management expenses (included in Return on capital, expenses)	–169	–143	–18	–8	0
Total operating expenses, excluding property management expenses	**–871**	**–545**	**–97**	**–214**	**–15**

Balance Sheet

Parent Company

SEK MILLION	NOTE	2017-12-31	2016-12-31
ASSETS			
Intangible assets			
Intangible assets	13	259	285
		259	**285**
Investment assets			
Land and buildings	15	11 282	10 741
Investments in Group companies and jointly controlled entities			
Shares and participations in Group companies	16	3 909	6 819
Debt securities issued by, and loans to, Group companies	17, 19	9 272	10 380
Shares and participations in jointly controlled entities (joint ventures)	18, 19, 22, 23	13 900	4 825
Loans to jointly controlled entities (joint ventures)	18, 19	1 591	3 366
Other financial investment assets			
Shares and participations	19, 22, 23, 24	374 944	345 710
Bonds and other debt securities	19, 22, 23, 25, 44, 45	399 975	372 328
Other loans	19, 22, 23, 26	2 097	2 284
Derivatives	19, 22, 27, 28	6 221	7 944
		823 191	**764 397**
Receivables			
Receivables related to direct insurance operations	19, 29	1 747	1 599
Other receivables	19, 30	8 959	10 030
		10 706	**11 629**
Other assets			
Tangible assets	14	9	6
Cash and bank balances	19, 44	2 644	2 444
		2 653	**2 450**
Prepaid expenses and accrued income			
Accrued interest and rental income	19, 31	8 173	7 124
Other prepaid expenses and accrued income	19	36	20
		8 209	**7 144**
TOTAL ASSETS		845 018	785 905

Balance Sheet, *cont.*

Parent Company

SEK MILLION	NOTE	2017-12-31	2016-12-31
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Surplus fund	33	294 580	286 753
Guarantee reserve	35	–	–
Net profit for the year		55 341	15 908
		349 921	**302 661**
Technical provisions			
Provision for life insurance	36	461 572	449 546
Claims outstanding	37	17 242	16 727
		478 814	**466 273**
Other provisions			
Pensions and similar commitments	38	4	8
Taxes		35	28
Other provisions	39	23	22
		62	**58**
Liabilities			
Liabilities related to direct insurance operations	19, 40	706	683
Derivatives	19, 22, 27, 28	8 302	8 552
Other liabilities	19, 41	3 311	5 193
		12 319	**14 428**
Accrued expenses and deferred income			
Other accrued expenses and deferred income	19, 42	3 902	2 485
		3 902	**2 485**
TOTAL EQUITY, PROVISIONS AND LIABILITIES		845 018	785 905

Statement of Changes in Equity

Parent Company

SEK MILLION	SURPLUS FUND 1) Collective funding	Discretionary participation features reserve 2)	Other reserves	Guarantee reserve 3)	Net profit for the year	Total
Opening equity at 1 January 2016	**170 419**	**60 943**	**10 560**	**1 867**	**51 074**	**294 863**
Net profit for the year					15 908	
Other comprehensive income						
Total comprehensive income for the year					**15 908**	**15 908**
Appropriation of profits from previous years	51 074				–51 074	–
Allocated refunds	–14 957	14 957				–
Guaranteed refunds		–5 946				–5 946
Collective risk premium 4)			–109			–109
Return on guarantee reserve in previous year 5)	–107			107		–
Return on guarantee reserve in current year 5)	–95			95		–
Transfer of guarantee reserve to foundation 3)				–1 955		–1955
Other changes	–882	901	–5	–114		–100
Closing equity at 31 December 2016	**205 452**	**70 855**	**10 446**	**–**	**15 908**	**302 661**
Opening equity at 1 January 2017	**205 452**	**70 855**	**10 446**	**–**	**15 908**	**302 661**
Net profit for the year					55 341	
Other comprehensive income						
Total 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 4)			–112			–112
Other changes	20	–63	–35			–78
Closing equity at 31 December 2017	**194 892**	**89 389**	**10 299**	–	**55 341**	**349 921**

1) See Note 33.
2) Discretionary participation features refer to allocated refunds. See Note 33.
3) Reserve for financing the collective agreement guarantee and for use as information funds. The guarantee reserve was eliminated on 12 December 2016, at which date all funds were transferred to an independent foundation with the same purpose as the guarantee reserve. See Note 35.
4) 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.
5) Until the financial year 2015 returns were transferred between the surplus fund and guarantee reserve in the following year subject to a decision by the Council of Administration. The return for 2016 was credited to the guarantee reserve in connection with its elimination on 12 December 2016. See Note 35.

Cash Flow Statement

Parent Company

SEK MILLION	2017	2016
Operating activities		
Profit for the year before tax and appropriations	55 969	14 820
Interest received	5 123	8 705
Interest paid	1 156	–1 576
Dividends received	17 877	20 864
Adjustment for non cash-items [1) 2)]	–43 647	–4 532
Tax paid [2)]	–1 893	–4 302
Cash flow from operating activities before changes in assets and liabilities	**34 585**	**33 979**
Change in investment assets	–32 026	–27 445
Change in other operating assets [2)]	2 171	–3 830
Change in other operating liabilities	–2 139	1 224
Cash flow from operating activities	**2 591**	**3 928**
Investing activities		
Investments in property, plant and equipment	–6	–2
Cash flow from investing activities	**–6**	**–2**
Financing activities		
Pension supplements/Supplementary amounts	–2 273	–2 308
Payment from guarantee reserve	–	–2 069
Payment of indexation funds	–112	–110
Cash flow from financing activities	**–2 385**	**–4 487**
Cash flow for the year	**200**	**–561**
Cash and cash equivalents at beginning of year	2 444	3 005
Cash and cash equivalents at end of year	**2 644**	**2 444**

[1)]		
Depreciation/Amortisation/Impairment, Notes 13, 14	29	28
Foreign exchange gains, Note 5	–	–2 776
Foreign exchange loss, Note 9	5 863	–
Capital gains, Note 5	–9 872	–7 191
Capital losses, Note 9	–	–
Unrealised gains, Note 6	–30 744	–6 608
Unrealised losses, Note 10	3 385	729
Impairment of shares in Group companies, Note 9	4 599	4 737
Interest income, Note 5	–6 172	–8 142
Interest expenses, Note 9	291	808
Dividends, Note 5	–17 947	–20 878
Adjustment of paid-up values, Note 4	–1 487	–3
Premium reductions, Note 4	–4 131	–3 635
Change in provision for life insurance, Note 36	12 026	35 983
Change in provision for claims outstanding, Note 37	514	2 413
Other [2)]	–1	3
	–43 647	**–4 532**

[2)] Adjustments compared with the Annual Report 2016 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 2017. 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 15 March 2018 and will be presented to the Council of Administration for adoption on 18 April 2018.

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 the surplus value 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 2017, 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 changes in the pension capital, which in turn reflects actual outcomes for returns, tax,

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

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 surplus fund. The primary function of the surplus fund is to safeguard Alecta's ability to meet its insurance commitments. Secondarily, 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 surplus fund. An increase in earned 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 revised accounting standards for the financial year 2017:

No new IFRS standards applicable from 1 January 2017 have become effective. Changes in existing IFRS standards have not had any significant impact on Alecta's financial statements.

New and amended standards or interpretations for financial years beginning in 2018 or later:

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

IFRS 9 Financial Instruments

The Financial Instruments standard 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. However, under a temporary exemption, companies whose activities are predominantly connected with insurance are permitted to delay the introduction of IFRS 9 until 1 January 2012 for the purpose of coordinating the application of the standard with the new accounting standard for insurance contracts, IFRS 17, which is expected to become effective on this date. Alecta believes it qualifies for the temporary exemption and intends to delay the transition to IFRS 9 until 1 January 2021.

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 change in the classification and measurement of its financial assets and liabilities. All financial instruments with the exception of a small item consisting of shareholder loans are currently measured in the fair value through profit or loss category. The shareholder loans are measured at amortised cost and account for a small portion of Alecta's investment assets. Alecta's assessment is that the introduction of IFRS 9 will not affect the classification and measurement of the Group's financial assets or liabilities.

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 shareholder loans and rent receivables, is that it will not have a material impact on Alecta's financial statements. The shareholder 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 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers is effective for financial years beginning on or after 1 January 2018 and replaces all previously issued standards and interpretations on revenue. IFRS 15 is an integrated model for recognition of revenue from customer contracts that is not covered by other standards such as IAS 17 Leases, IFRS 4 Insurance Contracts and IFRS 9 Financial Instruments. 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 EU has approved the standard.

Alecta has carried out an analysis of the effects of IFRS 15, and the assessment is that the standard will have a certain impact on revenue from Alecta's wholly owned properties and real estate companies. Based on the analysis of revenue streams from the properties, the assessment is that the passing-on of costs for tenant improvements and the sale of properties and/or companies are covered by IFRS 15. The passing-on of operating costs is considered to be subordinated to the lease and is covered by IAS 17. As regards the sale of properties/companies, revenue should, under IFRS 15, be realised on the completion date, when the buyer obtains control over the property/company, which is consistent with the principle applied by Alecta. The analysis of tenant improvements that were completed in 2017 shows that the effects of the transition to IFRS 15 will have no material impact on the financial statements in either the Parent Company or the Group.

IFRS 16 Leases

In January 2016, the IASB published the new accounting standard for leases, IFRS 16. For the lessee, the standard will mean that essentially all leases should be recognised in the balance sheet. The exceptions are leases with a term of twelve months or less and low-value leases. For lessors, the accounting treatment remains essentially unchanged. The effective date is 1 January 2019 and early application is permitted.

The standard is expected to have a certain impact on Alecta's financial statements. It is primarily leases for computer and office equipment, cars and office premises that may be covered by the standard.

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

IFRS 17 Insurance Contracts (Not adopted by the EU)
On 18 May 2017, the accounting 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 2021 if it is approved by the EU.

On 20 November 2017, the Swedish Financial Supervisory Authority announced at a meeting with representatives of the Swedish insurance industry that IFRS 17 will not be introduced for legal entities, as it conflicts with other legislation. The FSA is also considering removing the requirement for full IFRS in the Group for unlisted insurance companies. What will come instead is not yet clear.

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. 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, 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.

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.

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

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 surplus fund 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 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.

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 is described in the accounting principles in Notes 36 and 37. The sensitivity of the assumptions used as a basis for the valuation of technical provisions is described in Note 3. For information on current assumptions, see Note 36 and Note 37.

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.

Significant estimates and judgements	Note	
Technical provisions	36, 37	Significant estimates and judgements
Financial instruments	22	Significant estimates and judgements
Investment properties	15	Investment and owner-occupied properties
Intangible assets	13	Intangible assets
Income tax	12	Income tax
Deferred tax	12	Income tax

NOTE 3 Risks and risk management

A general description of Alecta's risk management and risk organisation is provided on page 40 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.

In 2017, the independent control function Risk conducted a review of Alecta's insurance risks, which included a review of Alecta's actuarial assumptions and calculations.

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 will increase by approximately 21 (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 at the time of calculating the premiums and benefits. Alecta monitors operating expenses on an ongoing basis to ensure that they do not exceed 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. 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 61. 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 2017, the independent control 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	2017	2016	2017	2016
Shares	345 250	332 862	41,6 %	43,2 %
Debt securities	419 809	383 172	50,6 %	49,7 %
Real estate	64 733	54 409	7,8 %	7,1 %
Total	**829 792**	**770 444**	**100,0 %**	**100,0 %**

The table shows Alecta's asset allocation based on the classification in the total return table, see page 32. A detailed breakdown by asset class is presented in the diagrams on page 34.

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 12,4 per cent (12,1) of total investments at year-end. Without currency hedging, 42,1 per cent (43,8) of Alecta's assets would have been exposed to exchange rate fluctuations.

Currency exposure after hedging

	Share of investment portfolio		Exposure	
	2017	2016	2017	2016
DKK	1,6 %	0 %	13 360	0
EUR	0,0 %	0,2 %	83	1 640
CHF	0,4 %	0,4 %	3 402	3 317
GBP	0,7 %	0,5 %	5 560	3 548
USD	9,2 %	9,2%	75 926	71 033
Other currencies	0,5 %	1,8 %	4 481	13 505
Net exposure	**12,4 %**	**12,1 %**	**102 811**	**93 043**

NOTE 3 Risks and risk management, *cont.*

Credit risk
Credit risk is the risk of financial loss 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 shares and debt securities exposure to the same corporate group. Risk & Performance verifies that these limits are not exceeded on a daily basis.

Debt securities 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 rating agency. 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		Share	
	2017	2016	2017	2016
Rating Aaa/AAA	161 994	138 277	40,5 %	37,1 %
Rating Aa/AA	127 318	117 640	31,8 %	31,6 %
Rating A/A	54 513	54 525	13,6 %	14,6 %
Rating Baa/BBB	33 522	39 133	8,4 %	10,5 %
Rating Ba/BB	3 156	3 375	0,8 %	0,9 %
Unrated	19 472	19 379	4,9 %	5,2 %
of which securities issued by stated-owned issuers	*6 711*	*4 877*	*1,7 %*	*1,3 %*
Total	**399 975**	**372 328**	**100,0 %**	**100,0 %**

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 36 and 37. 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 360 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 be 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 debt securities. Given that the commitments are larger and have a longer average maturity than the debt securities, 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 36 and 37, and Note 25, respectively.

To limit 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 commitments as well as its target return. 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 the 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	2017	2016	2017	2016
Interest rate decrease 1 % point	–11,0 %	–10,1 %	–25 717	–24 318
Share price decrease 10 %	–7,2 %	–7,1 %	–34 525	–33 286
Real estate value decrease 10 %	–1,4 %	–1,2 %	–6 473	–5 441
Exchange rate decrease 10 %	–2,2 %	–2,0 %	–10 344	–9 363

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 market interest rates, regardless of maturity and market. A decrease in market interest rates increases the value of Alecta's commitments by SEK 42 346 million (40 971) and the value of its debt securities by SEK 16 629 million (16 653).

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 section Governance and sustainability on page 102.

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 process 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	2017	2016
Current premiums	31 279	28 093
Single premiums	1 721	1 940
Premium tax [1]	–105	–114
Invoiced premiums	**32 895**	**29 919**
Adjustment of paid-up values	1 487	3
Premium reduction	4 132	3 635
Guaranteed refunds	**5 619**	**3 638**
Total premiums written	**38 514**	**33 557**

[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 be either 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	
	2017	2016	2017	2016
Rental income from land and buildings	1 702	2 569	638	904
Dividends received	12 170	10 354	17 947	20 878
of which Group companies	–	–	*5 867*	*10 920*
Interest income, etc.	6 043	8 018	6 172	8 142
bonds and other debt securities	*5 815*	*7 815*	*5 815*	*7 815*
other interest income	*228*	*203*	*227*	*186*
other interest income, Group companies	–	–	*130*	*141*
Net foreign exchange gains	–	4 245	–	2 776
Net capital gains	13 088	10 283	9 872	7 191
land and buildings	*3 361*	*3 802*	*145*	*710*
shares and participations	*8 175*	*4 801*	*8 175*	*4 801*
bonds and other debt securities	*1 552*	*1 680*	*1 552*	*1 680*
Other	14	13	–	–
Return on capital, income	**33 017**	**35 482**	**34 629**	**39 891**

NOTE 6 Unrealised gains on investment assets

	Group		Parent Company	
	2017	2016	2017	2016
Land and buildings	–	–	611	–
Shares and participations	30 148	4 158	30 124	4 119
Bonds and other debt securities	–	2 352	–	2 352
Other loans	8	137	9	137
Total unrealised gains on investment assets	**30 156**	**6 647**	**30 744**	**6 608**

NOTE 7 Claims paid

Group and Parent Company	2017	2016
Basic amount paid before indexation	–17 513	–17 086
Waiver of premium paid	–2 039	–1 882
Cancellations and repurchases [1]	–568	–392
Operating expenses for claims management	–142	–134
Total claims paid	**–20 262**	**–19 494**

[1] The item includes transferred capital of SEK 550 million (376).

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	
	2017	2016	2017	2016
Administrative expenses	–559	–560	–559	–560
Total operating expenses in the insurance business	**–559**	**–560**	**–559**	**–560**
Claims management [2]	–142	–134	–142	–134
Investment management [2]	–180	–180	–170	–167
Property management [3]	–70	–74	–34	–44
Total operating expenses	**–951**	**–948**	**–905**	**–905**
Specification of total operating expenses				
Personnel costs	–435	–429	–430	–419
Costs for premises	–21	–24	–22	–23
Amortisation/depreciation	–26	–26	–26	–26
IT costs	–216	–217	–215	–215
Property management costs	–70	–74	–34	–44
Selection centre costs	–133	–132	–133	–132
Other costs [4]	–98	–94	–93	–94
Administration fees	48	48	48	48
Total operating expenses	**–951**	**–948**	**–905**	**–905**

1) Recognised in 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.

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 properties has to a large extent been outsourced to external service providers.

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, 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 properties 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 expenses 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.

NOTE 9 Return on capital, expenses

	Group		Parent Company	
	2017	2016	2017	2016
Operating expenses for land and buildings	–527	–990	–225	–324
Investment management expenses [1]	–180	–180	–170	–167
Interest expenses, etc.	–291	–808	–290	–808
bonds and other debt securities	*–259*	*–781*	*–258*	*–781*
other interest expenses	*–32*	*–27*	*–32*	*–27*
other interest expenses, Group companies	–	–	–	–
Custodian expenses	–24	–21	–24	–21
Depreciation/amortisation and impairment	–	–	–4 599	–4 737
shares in Group companies	–	–	*–4 599*	*–4 737*
Net foreign exchange losses	–4 685	–	–5 863	-
Net capital losses	–	–	0	–
land and buildings	–	–	–	–
other loans	–	–	*0*	–
Other	–28	–28	–	–
Return on capital, expenses	**–5 735**	**–2 027**	**–11 171**	**–6 057**

1) In addition to these expenses, external fees of approximately SEK 90 million (78) were paid for investments in unlisted real estate funds. 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 gains on shares and participations in Note 6.

NOTE 10 Unrealised losses on investment assets

	Group		Parent Company	
	2017	2016	2017	2016
Land and buildings	–1 053	–2 573	–	–729
Bonds and other debt securities	–3 385	–	–3 385	–
Total unrealised losses on investment assets	**–4 438**	**–2 573**	**–3 385**	**–729**

NOTE 11 Yield tax

Group and Parent Company	2017	2016
Yield tax [1]	–271	–298
Adjustment of tax attributable to previous years	0	0
Total yield tax	**–271**	**–298**

[1] Yield tax		
Capital base [A]	737 227	693 749
Tax base [B]	3 686	4 024
Yield tax before foreign tax credit [C]	–553	–603
Tax credit for paid coupon tax and income and property tax (foreign properties) in previous year	282	305
Yield tax after tax credits	**–271**	**–298**

Sensitivity analysis	Effect on yield tax before foreign tax credit	
Group	2017	2016
Capital base +/– 10 %	–/+ 55	–/+ 60
Allocation percentage +/– 1 % point	–/+ 6	–/+ 6
Average government borrowing rate +/– 1 % point	–/+ 1 106	–/+ 1 041

A) The calculation of the capital base for yield tax is based on the value of all assets at the beginning of 2017 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 5 790 million (8 291) refers to premiums. The capital base for yield tax, which includes Alecta's pension products and family protection, represents 95,16 per cent (94,90) of the total base. This portion is calculated on the basis of equity and technical provisions attributable to these products.

B) 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 return. Average government borrowing rate: 0,50 per cent (0,58), which represents the floor for the government borrowing rate that was introduced from 2017 for calculating the tax base.

C) 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 item.

NOTE 12 Tax

	Group		Parent Company	
	2017	2016	2017	2016
Current tax				
Tax on profit for the year in Sweden [1]	–24	–2	–	–
Foreign tax on directly and indirectly owned properties	–1 626	–2 447	–1 626	–2 446
Adjustment of tax attributable to previous years	–	–4	–	–
Coupon tax	–591	–575	–591	–575
Total current tax	**–2 241**	**–3 028**	**–2 217**	**–3 021**
Deferred tax				
Change in deferred tax assets/liabilities	1 633	4 136	1 860	4 407
Total deferred tax	**1 633**	**4 136**	**1 860**	**4 407**
Income tax (Group)	**–608**	**1 108**	–357	1 386
Yield tax				
Yield tax [2]			–271	–298
Adjustment of tax attributable to previous years			0	0
Total yield tax			**–271**	**–298**
Tax on profit for the year (Parent Company)			**–628**	**1 088**

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		Parent Company	
	2017	2016	2017	2016
Profit before yield tax and income tax according to income statement	58 134	12 618	55 969	14 820
Less: Profit from operations subject to yield tax, including consolidation adjustments	–50 792	–7 818	–51 462	–13 872
Profit from operations subject to income tax	**7 342**	**4 800**	**4 507**	**948**
Tax at applicable tax rate, 22 %	**–1 615**	**–1 056**	**–991**	**–209**
Difference in tax rate [A]	–53	–183	–	–
Non-deductible expenses	–1	–1	–50	–53
Non-taxable income	386	395	75	129
Taxable income not included in profit	–6	–55	–6	–60
Allocated premium reduction	891	783	891	783
Effect of initial recognition of properties	4	–49	–	–
Other	0	–4	–	–
Adjustment of tax attributable to previous years	–76	0	–32	–3
Creditable foreign tax [B]	638	2 517	1 973	3 820
Foreign income tax	–185	–664	–1 626	–2 446
Coupon tax	–591	–575	–591	–575
Reported income tax	**–608**	**1 108**	**–357**	**1 386**
Effective tax	**–8 %**	**23 %**	**–8 %**	**146 %**

A) Refers to the USA.

B) 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			
	2017		2016		2017		2016	
	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		–1 226		–1 013		–48		–43
Land and buildings outside of Sweden		–155		–1 605		–		–1
Other financial investment assets		–1 337		–1 328		–1 337		–1 328
Accelerated depreciation		–47		–33		–		–
Loss carry-forwards	837		940		837		936	
Creditable foreign tax [1]	6 060		5 535		5 911		3 938	
Deferred tax assets and liabilities	**6 897**	**–2 765**	**6 475**	**–3 979**	**6 748**	**–1 385**	**4 874**	**–1 372**
Netting of assets and liabilities	–1 388	–1 388	–1 378	1 378	–1 385	1 385	–1 372	1 372
Net deferred tax assets and liabilities	**5 509**	**–1 377**	**5 097**	**–2 601**	**5 363**	**0**	**3 502**	**0**
of which expected to be settled after more than 12 months, amount before netting	6 607	–2 765	6 189	–2 374	6 458	–1 385	4 589	–1 371

[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.

Changes in net deferred tax assets and liabilities	Group 2017	Group 2016	Parent Company 2017	Parent Company 2016
Opening balance	2 496	–1 647	3 502	–905
Recognised in profit or loss	1 633	4 136	1 860	4 407
Foreign exchange differences	1	–2	–	–
Change through business combinations/sale	2	9	–	–
Closing balance	**4 132**	**2 496**	**5 362**	**3 502**

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 earnings 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 an 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	
	2017	2016	2017	2016
Cost				
Opening balance	683	683	683	683
Investments during the year	–	–	–	–
Disposals during the year	–	–	–	–
Closing balance	**683**	**683**	**683**	**683**
Accumulated amortisation and impairment				
Opening balance	–284	–259	–284	–259
Amortisation for the year	–26	–25	–26	–25
Disposals during the year	–	–	–	–
Closing balance, amortisation	**–310**	**–284**	**–310**	**–284**
Opening balance	–114	–114	–114	–114
Closing balance, impairment	**–114**	**–114**	**–114**	**–114**
Carrying amount, intangible assets	**259**	**285**	**259**	**285**

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	
	2017	2016	2017	2016
Cost				
Opening balance	51	48	21	19
Purchases during the year	8	3	6	2
Sales/disposals during the year	–4	–	–	–
Translation difference	–	–	–	–
Closing balance	**55**	**51**	**27**	**21**
Accumulated depreciation				
Opening balance	–40	–15	–15	–13
Depreciation for the year	–4	–25	–3	–2
Sales/disposals during the year	3	–	–	–
Translation difference	–	–	–	–
Closing balance	**–41**	**–40**	**–18**	**–15**
Carrying amount, property, plant and equipment	**14**	**11**	**9**	**6**

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, SEK million

Group 2017	Sweden	USA	UK	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**

Group 2016	Sweden	USA	UK	Total
Opening balance	22 136	15 269	5 140	42 545
New builds, extensions and conversions	634	173	15	822
Acquisitions	1 151	–	–	1 151
Sales	–121	–11 401	–3 756	–15 278
Change in value	1 647	262	–695	1 214
Exchange rate fluctuations	–	1 266	–577	689
Reclassified to assets held for sale	–	–5 569	–127	–5 696
Closing balance	**25 447**	**–**	**–**	**25 447**

Parent Company 2017	Sweden	USA	UK	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**

Parent Company 2016	Sweden	USA	UK	Total
Opening balance	9 704	1 778	5 140	16 622
New builds, extensions and conversions	142	–1	15	156
Acquisitions	–	–	–	–
Sales	–121	–1 708	–3 755	–5 584
Change in value	889	–209	–696	–16
Exchange rate fluctuations	–	140	–577	–437
Closing balance	**10 614**	**–**	**127**	**10 741**

Specification of historical costs [1]

Parent Company	Sweden	USA	UK	Total
2017	6 661	–	–	6 661
2016	6 510	–	82	6 592

[1] Historical costs in foreign currency have been translated at the closing rate.

	Group		Parent Company	
Fair value by sector	2017	2016	2017	2016
Industrial	163	295	163	295
Office	18 425	14 852	6 445	6 108
Residential	644	2 470	–	–
Retail	7 731	7 205	3 839	3 713
Other	1 253	625	835	625
Total	**28 216**	**25 447**	**11 282**	**10 741**

	Group	
Lettable floor area by sector, sq.m	2017	2016
Industrial	17 146	30 053
Office	449 292	321 586
Residential	4 212	57 936
Retail	274 473	277 978
Other	24 396	9 425
Total	**769 519**	**696 978**

	Group	
Future lease payments by maturity	2017	2016
Within one year	1 395	1 213
Later than one year but within five years	3 267	2 849
Later than five years	1 966	1 986
Total	**6 628**	**6 048**

Owner-occupied properties

Group	2017	2016
Cost		
Opening balance	994	991
Purchases during the year	43	3
Closing balance	**1 037**	**994**
Accumulated depreciation		
Opening balance	–139	–121
Depreciation for the year	–19	–18
Closing balance	**–158**	**–139**
Carrying amount, owner-occupied properties	**879**	**855**

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 or 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 2 863 million (634) of the total carrying amount of SEK 28 216 million (25 447) in the Group.

Owner-occupied property

Alecta's owner-occupied property is recognised at fair value in the Parent Company in accordance with the Swedish Insurance Companies Annual Accounts Act and is classified as land and buildings in the balance sheet. In the consolidated financial statements, the owner-occupied property is classified in accordance with IAS 40, as a large portion of the property is used for the provision of the company's own goods and services. In the consolidated financial statements, the owner-occupied property is recognised at cost less accumulated depreciation and any accumulated impairment, in accordance with IAS 16. 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 (including reversal of impairment) of owner-occupied properties is recognised as depreciation and impairment of owner-occupied properties in the consolidated income statement.

Assets held for sale

In 2016, Alecta made a strategic decision to sell all its directly owned foreign properties, which consisted of properties in the US and UK. The sale was executed in two stages, with a majority of properties being sold in 2016 and the remaining portfolio in early 2017.

At 31 December 2016, the Alecta Group had SEK 5 696 million in assets held for sale, of which SEK 127 million refers to assets in the Parent Company and SEK 5 569 million to assets in subsidiaries. In the Parent Company, the assets were included in the item investment assets. Accumulated foreign exchange differences that have been recognised in other comprehensive income in the consolidated financial statements and that are attributable to the aforesaid foreign properties totalled SEK 831 million.

At 31 December 2017, the Alecta Group had SEK 0 in assets held for sale.

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	2017	2016
Market rent per square metre	SEK 2 218	SEK 2 227
Long-term vacancy rate	4,40 %	3,55 %
Required rate of return, initial	4,09 %	4,21 %
Required rate of return, exit	4,63 %	4,62 %

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	2017	2016
Market rent	+/– 10 %	+/– 2 675	+/– 2 610
Property costs	+/– SEK 50/sq.m	+/– 716	+/– 686
Long-term vacancy rate	+/– 2 %	+/– 560	+/– 541
Required rate of return, exit	+/– 0,25 %	+/– 1 441	+/– 1 386

NOTE 16 Shares and participations in Group companies [1]

Parent Company	Corporate Identity Number	Registered office	Number of shares	Share of equity	Carrying amount, 2017	Carrying amount, 2016
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 [3]	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	125
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	1000	100 %	–	–
– Alfab Västerås 1 AB	556606-3656	Stockholm	100	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
Alfab Indirekt Holding AB	556931-5459	Stockholm	50 000	100 %	318	30
Kabelverket Holding AB	556587-1075	Stockholm	1 000	100 %	500	501
Alfab Brygghuset 2 AB [4]	556981-3149	Stockholm	–	–	–	–
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 Haninge 515 AB [4]	556764-4462	Stockholm	–	–	–	–
Alfab Haninge 516 AB [4]	556730-4174	Stockholm	–	–	–	–
Alfab Helsingborg 1 AB	559032-2128	Stockholm	1 000	100 %	–	–
Alfab Mangelboden 1 AB [4]	556942-6603	Stockholm	–	–	–	–
Alfab Malmö 1 AB [4]	556655-4266	Stockholm	–	–	–	–
Alfab Stockholm 1 AB	556660-5530	Stockholm	1 000	100 %	–	–
Alfab Vällingby 1 AB	556892-7858	Stockholm	500	100 %	–	–
– Alfab Vällingby 3 KB [4]	969761-3603	Stockholm	–	–	–	–
Alfab Vällingby 2 AB	556892-7882	Stockholm	500	100 %	–	–
– Alfab Vällingby 4 KB [4]	969761-3595	Stockholm	–	–	–	–
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 [3]	916635-9084	Stockholm	–	99,9 %	401	–
Fastighetsbolaget Båthamnen KB [3]	916626-5711	Stockholm	–	99,9 %	50	–
Fastighetsbolaget Ellensvik KB [3]	916625-6991	Stockholm	–	99,9 %	152	–
Fastighetsbolaget Gustafshög KB [3]	916625-6983	Stockholm	–	99,9 %	4	–
Fastighetsbolaget Klaraberg KB [3]	916625-6975	Stockholm	–	99,9 %	242	–
Fastighetsbolaget Mässan KB [3]	916626-5653	Stockholm	–	99,9 %	62	–
Fastighetsbolaget Oljekällaren KB [3]	916626-5638	Stockholm	–	99,9 %	166	–
Fastighetsbolaget Philipin KB [3]	916626-5679	Stockholm	–	99,9 %	295	–
Fastighetsbolaget Saluhallen KB [3]	916626-5695	Stockholm	–	99,9 %	16	–
Kontorshotellet Nacka Strand KB [3]	969646-7225	Stockholm	–	99,9 %	1	–
Alfab Helsingborg 2 KB	969775-2583	Stockholm	–	99,9 %	2	1
Naraden Göteborg 1 KB	969697-7892	Stockholm	–	99,9 %	317	311
Total, Sweden					**2 660**	**977**

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 liquidated in 2017.
3) The company was acquired in 2017.
4) The company was sold in 2017.

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, 2017	Carrying amount, 2016
Foreign companies, USA						
Alecta Real Estate USA, LLC	DE ID 4078782	Delaware	–	100 %	1 249	5 842
Alecta Denver, LLC [2]	DE ID 4382120	San Francisco	–	–	–	–
Alecta Los Angeles, LLC [2]	DE ID 4784460	San Francisco	–	–	–	–
Alecta Real Estate Investment, LLC	DE ID 4223706	Delaware	–	100 %	–	–
– Alecta Real Estate Doral Plaza, LLC [2]	DE ID 3601054	San Francisco	–	–	–	–
– Alecta Real Estate Winsted, LLC	DE ID 3601057	Delaware	–	100 %	–	–
Alecta Timberland, LLC [2]	DE ID 4130208	San Francisco	–	–	–	–
– Springboard – OP CO, LLC [2]	DE ID 4834515	San Francisco	–	–	–	–
– Springboard – Wallace Falls, LLC [2]	DE ID 4830432	San Francisco	–	–	–	–
Alecta Value Add Investments, LLC	DE ID 5469880	Delaware	–	100 %	–	–
Birch Commercial Mortgage, LLC [2]	DE ID 4641524	San Francisco	–	–	–	–
Boylston Street Investors, LLC	DE ID 5405204	Delaware	–	100 %	–	–
Columbia & Eighth, LLC [2]	DE ID 5003417	San Francisco	–	–	–	–
Cupertino – Tantau, LLC	DE ID 4895201	Delaware	–	100 %	–	–
First Hill Northwest, LLC [2]	DE ID 4905415	San Francisco	–	–	–	–
Hillsboro Club, LLC [2]	DE ID 4951762	San Francisco	–	–	–	–
Hillsboro Terrace, LLC [2]	DE ID 4951765	San Francisco	–	–	–	–
Middlefield Circle, LLC [2]	DE ID 5071351	San Francisco	–	–	–	–
Moutain View Circle, LLC [2]	DE ID 5413213	San Francisco	–	–	–	–
SRP Valley, LLC	DE ID 5125176	Delaware	–	100 %	–	–
Townsend East, LLC [2]	DE ID 5225419	San Francisco	–	–	–	–
Walnut & Fifteenth, LLC [2]	DE ID 5235952	San Francisco	–	–	–	–
Total, USA					1 249	5 842
Total shares and participations in Group companies					3 909	6 819

[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 liquidated in 2017.

Parent Company	Carrying amount, 2017	Carrying amount, 2016
Cost		
Opening balance	11 556	11 441
Purchases during the year	1 320	1
Shareholder contributions during the year	289	100
Liquidations during the year	–	–
Share of profit for the year	80	14
Closing balance	**13 245**	**11 556**
Accumulated impairment		
Opening balance	–4 737	0
Impairment for the year	–4 599	–4 737
Liquidations during the year	–	–
Closing balance	**–9 336**	**–4 737**
Total shares and participations in Group companies	**3 909**	**6 819**

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, 2017	Carrying amount, 2016
Cost		
Opening balance	10 380	10 655
Change for the year	–1 108	–275
Total debt securities issued by, and loans to, Group companies	**9 272**	**10 380**

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 2017 Parent Company	Country	Corporate Identity Number	Share of equity	Fair value, shares	Carrying amount, loans	Interest income
Adapta Kongahälla AB	Sweden	556809-6324	50,00 %	77	275	–
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	–	–
Logistikfastigheter Sverige AB	Sweden	559047-9738	50,00 %	254	103	2
Midstar Hotels AB	Sweden	559007-7979	49,90 %	936	–	–
Profi lll 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 Logistik AB	Sweden	556928-2840	50,00 %	431	–	–
ARE-LEI Venture, LLC	USA	DE ID 5473708	95 %	1 022	–	–
Boylston Street Associates LLC	USA	DE ID 4906542	95 %	6	–	–
Total, Group				**15 359**	**1 591**	**165**

[1] During the year, Heimstaden Bostad AB converted debt into equity.

31 Dec 2016 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 %	218	112	8
Ancore Fastigheter AB	Sweden	556817-8858	50,00 %	1 127	–	10
Convea AB	Sweden	556912-4505	50,00 %	156	51	0
Fastighets AB Stenvalvet	Sweden	556803-3111	25,60 %	390	522	45
Heimstaden Bostad AB	Sweden	556864-0873	23,04 %	940	1 828	42
Logistikfastigheter Sverige AB	Sweden	559047-9738	50,00 %	184	–	–
Midstar Hotels AB	Sweden	559007-7979	49,90 %	455	–	–
Profi lll Infracity AB	Sweden	556922-4198	39,30 %	131	269	21
Sollentuna Stinsen JV AB	Sweden	559085-9954	50,00 %	100	584	2
Swedish Airport Infrastructure AB	Sweden	559012-5182	50,00 %	0	–	–
Swedish Airport Infrastructure KB	Sweden	969775-2609	49,90 %	1 124	–	–
Total, Parent Company				**4 825**	**3 366**	**128**
Group company						
Långeberga Logistik AB	Sweden	556928-2840	50,00 %	119	289	16
ARE-LEI Venture, LLC	USA	DE ID 5473708	95 %	1 093	–	–
Boylston Street Associates LLC	USA	DE ID 4906542	95 %	8	–	–
Total, Group				**6 045**	**3 655**	**144**

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 p. 18 and IFRS 9. In the balance sheet, shares and participations are recognised in the investment assets category. Changes in value are accounted for in the income statement as unrealised gains or losses. Dividends are accounted for 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. Note 19 shows that fair value is equal to amortised cost.

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 2017 Financial assets	Financial assets and liabilities measured at fair value through profit or loss on initial recognition	Financial assets and 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**

Group, 31 Dec 2016 Financial assets	Financial assets and liabilities measured at fair value through profit or loss on initial recognition	Financial assets and 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)	6 045	–	–	6 045	6 045
Loans to jointly controlled entities (joint ventures)	–	–	3 655	3 655	3 655
Shares and participations	346 171	–	–	346 171	346 171
Bonds and other debt securities	372 328	–	–	372 328	372 328
Other loans	2 161	–	123	2 284	2 284
Derivatives	–	7 944	–	7 944	7 944
Receivables related to direct insurance operations	–	–	1 599	1 599	1 599
Other receivables	–	–	4 133	4 133	4 133
Cash and bank balances	–	–	2 856	2 856	2 856
Accrued interest and rental income	–	–	7 121	7 121	7 121
Total	**726 705**	**7 944**	**19 487**	**754 136**	**754 136**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	2	2	2
Derivatives	–	8 552	–	8 552	8 552
Other liabilities	–	–	4 372	4 372	4 372
Other accrued expenses and deferred income	–	–	2 194	2 194	2 194
Total	**–**	**8 552**	**6 568**	**15 120**	**15 120**

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

Parent Company, 31 Dec 2017 Financial assets	Financial assets and liabilities measured at fair value through profit or loss on initial recognition	Financial assets and 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**

Parent Company, 31 Dec 2016 Financial assets	Financial assets and liabilities measured at fair value through profit or loss on initial recognition	Financial assets and 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	–	–	10 380	10 380	10 380
Shares and participations in jointly controlled entities (joint ventures)	4 825	–	–	4 825	4 825
Loans to jointly controlled entities (joint ventures)	–	–	3 366	3 366	3 366
Shares and participations	345 710	–	–	345 710	345 710
Bonds and other debt securities	372 328	–	–	372 328	372 328
Other loans	2 161	–	123	2 284	2 284
Derivatives	–	7 944	–	7 944	7 944
Receivables related to direct insurance operations	–	–	1 599	1 599	1 599
Other receivables	–	–	4 970	4 970	4 970
Cash and bank balances	–	–	2 444	2 444	2 444
Accrued interest and rental income	–	–	7 121	7 121	7 121
Total	**725 024**	**7 944**	**30 003**	**762 971**	**762 971**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	2	2	2
Derivatives	–	8 552	–	8 552	8 552
Other liabilities	–	–	5 139	5 139	5 139
Other accrued expenses and deferred income	–	–	2 167	2 167	2 167
Total	**–**	**8 552**	**7 308**	**15 860**	**15 860**

NOTE 20 Net profit by class of financial assets and liabilities

	Group		Parent Company	
	2017	2016	2017	2016
Financial assets at fair value through profit or loss				
shares and participations	35 181	23 383	35 181	23 383
debt securities	2 493	15 590	2 493	15 590
loans	237	119	237	119
Financial assets and liabilities held for trade				
derivatives	10 445	–5 693	10 445	–5 693
Loans and receivables	211	175	342	316
Other liabilities	–29	–23	–29	–23
Total net profit [1]	**48 538**	**33 551**	**48 669**	**33 692**
Land and buildings, net	4 664	4 176	2 340	6 206
Investment management and custodian expenses	–204	–201	–194	–188
Other, net	2	3	2	3
Total return on capital as reported in income statement	**53 000**	**37 529**	**50 817**	**39 713**

[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 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**

Time to maturity Group, 31 Dec 2016	< 3 months	3 months < 1 year	1-5 years	>5 years	Total
Non-liquidated securities transactions	–397	–	–	–	–397
Liability for cash collateral received for derivatives	–2 661	–	–	–	–2 661
Derivatives gross – outflow	–240 842	–11 285	–23 824	–46 668	–322 619
Derivatives gross – inflow	242 289	11 322	25 373	41 243	320 227
Other liabilities	–1 316	–	–	–	–1 316
Other accrued expenses and deferred income	–2 194	–	–	–	–2 194
Total cash flow	**–5 121**	**37**	**1 549**	**–5 425**	**–8 960**

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 the remaining time 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 based on 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.

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.

The main types of financial assets in this level are property-related investments in the form of funds, part-owned property companies (joint ventures) and lending to property-owning companies. Fair values for these assets are obtained from the fund manager 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,

Fair values of financial instruments, 31 Dec 2017

Group	Measurement based on 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 22 Valuation categories for financial instruments measured at fair value, *cont.*

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 2017 or in 2016.

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 2017 no financial instruments were transferred from Level 2 to Level 3 or from Level 3 to Level 2. In 2016, one bond was transferred from Level 3 to Level 2 because observable market inputs became available. No transfers from Level 2 to Level 3 were made.

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.

No financial instruments were transferred from Level 1 to Level 3 or from Level 3 to Level 1 in 2017 or 2016.

Sensitivity analysis for Level 3 financial instruments
Under IFRS 13, a sensitivity analysis must also 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 as underlying asset and, to smaller degree, unlisted venture capital investments.

As we do not have the means to inspect the unobservable inputs used by external price providers, fund managers 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 venture capital investments are primarily affected by equity market risk.

Sensitivity analysis for shares and participations, joint ventures and other loans
The fair value of these Level 3 assets is SEK 32 709 million, of which SEK 28 791 million refers to real estate-related assets and SEK 3 918 million refers to unlisted venture capital investments. A sensitivity analysis based on an assumed change in the required rate of return of 0,5 percentage points or a change in net operating income of 10 per cent for real estate-related investments would increase/decrease the fair value by around SEK 2 879 million and SEK 3 031 respectively, while a change in share prices of 10 per cent for unlisted venture capital investments would increase/decrease the fair value by approximately SEK 392 million.

	Fair values of financial instruments, 31 Dec 2016			
Group	Measurement based on 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 2016
Assets				
Shares and participations	337 401	–	8 770	346 171
Shares and participations in jointly controlled entities (joint ventures)	–	–	6 045	6 045
Bonds and other debt securities	204 770	167 558	–	372 328
Other loans	–	–	2 161	2 161
Derivatives	–	7 944	–	7 944
Total assets	**542 171**	**175 502**	**16 976**	**734 649**
Liabilities				
Derivatives	–	8 552	–	8 552
Total liabilities	**–**	**8 552**	**–**	**8 552**
Parent Company				
Assets				
Shares and participations	337 401	–	8 308	345 709
Shares and participations in jointly controlled entities (joint ventures)	–	–	4 825	4 825
Bonds and other debt securities	204 770	167 558	–	372 328
Loans secured by real estate	–	–	–	–
Other loans	–	–	2 161	2 161
Derivatives	–	7 944	–	7 944
Total assets	**542 171**	**175 502**	**15 294**	**732 967**
Liabilities				
Derivatives	–	8 552	–	8 552
Total liabilities	**–**	**8 552**	**–**	**8 552**

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

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

Group	Fair value at year-end 2016 Shares and participations	Shares and participations in jointly controlled entities (joint ventures)	Bonds and other debt securities	Other loans	Total
Opening balance 2016	7 863	4 058	1 210	1 880	15 011
Purchased	1 387	2 020	–	249	3 656
Sold	–157	–1 025	–	–39	–1 221
Gains and losses					
Realised gains/losses, sold entire holding	*–407*	*–*	*–*	*–*	*–407*
Realised gains/losses, sold portion of holding	*–*	*82*	*–*	*1*	*83*
Unrealised gains/losses	*289*	*900*	*–*	*137*	*1 326*
Unrealised foreign exchange gains/losses	*–205*	*10*	*–*	*–67*	*–262*
Transferred from Level 3	–	–	–1 210	–	–1 210
Transferred to Level 3	–	–	–	–	–
Closing balance 2016	**8 770**	**6 045**	**–**	**2 161**	**16 976**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	–222	992	–	71	841
Gains and losses recognised as return on capital during the period	–323	992	–	71	740

Parent Company	Shares and participations	Shares and participations in jointly controlled entities (joint ventures)	Bonds and other debt securities	Other loans	Total
Opening balance 2016	7 525	2 292	1 210	1 880	12 907
Purchased	1 370	1 671	–	249	3 290
Sold	–157	–	–	–39	–196
Gains and losses					
Realised gains/losses, sold entire holding	*–407*	*–*	*–*	*–*	*–407*
Realised gains/losses, sold portion of holding	*–*	*–*	*–*	*1*	*1*
Unrealised gains/losses	*204*	*862*	*–*	*137*	*1 203*
Unrealised foreign exchange gains/losses	*–227*	*–*	*–*	*–67*	*–294*
Transferred from Level 3	–	–	–1 210	–	–1 210
Transferred to Level 3	–	–	–	–	–
Closing balance 2016	**8 308**	**4 825**	**–**	**2 161**	**15 294**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	–329	862	–	71	604
Gains and losses recognised as return on capital during the period	–430	862	–	71	503

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

NOTE 24 Shares and participations

Group	2017 Fair value	2017 Cost	2016 Fair value	2016 Cost
Swedish listed shares	158 938	99 486	146 898	91 464
Swedish unlisted shares	166	1	486	260
Foreign listed shares	201 141	152 935	190 502	165 506
Foreign unlisted shares	15 145	10 572	8 285	5 738
Total	**375 390**	**262 994**	**346 171**	**262 968**
Parent Company				
Swedish listed shares	158 938	99 486	146 898	91 464
Swedish unlisted shares	166	1	486	260
Foreign listed shares	201 141	152 935	190 502	165 506
Foreign unlisted shares	14 699	10 276	7 824	5 434
Total	**374 944**	**262 698**	**345 710**	**262 664**

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 25 Bonds and other debt securities

Group and Parent Company	2017 Fair value	2017 Amortised cost	2016 Fair value	2016 Amortised cost
Swedish government	60 079	55 712	58 962	53 356
Swedish mortgage institutions	97 679	97 189	74 638	74 119
Other Swedish issuers	55 577	54 309	54 566	53 091
Foreign governments	115 541	106 899	99 084	89 287
Other foreign issuers	71 099	70 157	85 078	83 066
Total	**399 975**	**384 266**	**372 328**	**352 919**

The fair value of debt securities exceeds or is lower than the amount payable on the due date by SEK 24 854 (29 646) million and SEK 428 (460) million, respectively. The items Swedish government and Foreign governments also include state-guaranteed holdings.

Group and Parent Company	2017	2016
Fixed-rate term		
0–1 years	136 383	119 239
>1–5 years	135 375	123 140
>5–10 years	72 126	88 760
>10 years	56 091	41 188
Total	**399 975**	**372 327**

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 Other loans

	2017		2016	
Group and Parent Company	Fair value	Cost	Fair value	Cost
Other loans	2 097	1 654	2 284	1 849
Total	**2 097**	**1 654**	**2 284**	**1 849**

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 27 Derivatives

	2017			2016		
	Fair value			Fair value		
Group and Parent Company	Nominal value	Assets	Liabilities	Nominal value	Assets	Liabilities
Equity-related instruments	**–15 189**	**–**	**–**	**–5 512**	**–**	**–**
Futures	*–15 189*	*–*	*–*	*–5 512*	*–*	*–*
Debt securities instruments	**166 606**	**4 396**	**4 960**	**168 603**	**5 217**	**5 485**
Swaps	*148 979*	*4 396*	*4 960*	*173 861*	*5 217*	*5 483*
Futures	*17 627*	*–*	*–*	*–6 599*	*–*	*–*
CDS	*–*	*–*	*–*	*1 341*	*–*	*2*
Currency-related instruments	**206 723**	**1 825**	**3 342**	**204 958**	**2 727**	**3 067**
Futures/swaps	*206 723*	*1 825*	*3 342*	*204 958*	*2 727*	*3 067*
Total	**358 140**	**6 221**	**8 302**	**368 049**	**7 944**	**8 552**

The management of collateral for derivatives is described in Note 28 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 depends on the performance of another, 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 28 Financial instruments subject to enforceable master netting agreements

Group and Parent Company 31 Dec 2017	Financial assets recognised in the balance sheet	*of which amounts which 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)	2 322	–	–2 369	–	0

	Financial liabilities recognised in the balance sheet	*of which amounts which are not netted but 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

Group and Parent Company 31 Dec 2016	Financial assets recognised in the balance sheet	*of which amounts which 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)	10 189	–8 597 5)	–245	–2 661	0 5)
Securities lending 1)	–	–	–	–	–

	Financial liabilities recognised in the balance sheet	*of which amounts which are not netted but 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)	10 667 5)	–8 597 5)	–1 434	–2 225	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 2 390 million (2 245) and accrued interest expenses of SEK 2 473 million (2 115).
5) Adjusted compared with the Annual Report 2016.

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 or 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 8 611 million and derivatives with a negative value of SEK 10 775 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 1 443 million in cash in cases where the sum of all derivatives is positive. Similarly, Alecta has pledged SEK 4 885 million in debt securities in the form of Swedish mortgage bonds and French and US government bonds, and SEK 262 million in cash in cases where the sum of all derivatives is negative.

NOTE 29 Receivables related to direct insurance operations

Group and Parent Company	2017	2016
Receivables from policy holders	1 747	1 599
Total	**1 747**	**1 599**

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 30 Other receivables

Group	2017	2016
Payment receivables from sale of investment assets	1 067	438
Approved dividend	48	58
Value-added tax	42	18
Receivable, PRI Pensionsgaranti	185	178
Collateral pledged for derivatives [1]	262	2 225
Other	134	1 234
Total [3]	**1 738**	**4 151**
Parent Company		
Payment receivables from sale of investment assets	1 067	438
Swedish tax	54	727
Foreign tax	916	831
Deferred tax [2]	5 363	3 502
Approved dividend	48	58
Value-added tax	1	0
Receivable from subsidiary	982	907
Receivable, PRI Pensionsgaranti	185	178
Collateral pledged for derivatives [1]	262	2 225
Other	81	1 164
Total	**8 959**	**10 030**

1) See also Note 28.
2) See also Note 12.
3) Adjustment compared with the Annual Report 2016 through the reclassification of Foreign tax from Other receivables to Current tax.

Accounting principle

Other receivables are recognised at amortised cost.

NOTE 31 Accrued interest and rental income

	Group		Parent Company	
	2017	2016	2017	2016
Accrued interest income	8 173	7 124	8 173	7 124
Total	**8 173**	**7 124**	**8 173**	**7 124**

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 32 Equity excluding guarantee reserve

Group	Translation reserve	Discretionary participation features reserve [1]	Special indexation funds [2]	Retained earnings including net profit for the year	Total
Opening balance 2016	1 653	60 943	10 559	227 612	300 767
Net profit/loss for the year				13 428	13 428
Allocated refunds					
Defined benefit plan	–	*6 758*	–	*–6 758*	–
Defined contribution plan	–	*8 199*	–	*–8 199*	–
Guaranteed refunds					
Pension supplements, defined benefit plan	–	*–2 213*	–	–	*–2 213*
Supplementary amounts, defined contribution plan	–	*–95*	–	–	*–95*
Adjustment of paid-up values, defined benefit plan	–	*–3*	–	–	*–3*
Premium reduction	–	*–3 635*	–	–	*–3 635*
Collective risk premium [4]	–	–	–109	–	–109
Return on guarantee reserve in previous year [3]	–	–	–	–107	–107
Return on guarantee reserve in current year [3]	–	–	–	–95	–95
Other changes					
Fees	–	–	*10*	*–10*	–
Interest	–	*244*	*–22*	*–222*	–
Effect of changes in market interest rates	–	*577*	–	*–577*	–
Exchange rate fluctuations for the period	*1 304*	–	–	–	*1 304*
Accumulated foreign exchange differences reclassified to profit or loss	*–1 470*	–	–	–	*–1 470*
Other [5]	–	80	7	–73	14
Closing balance 2016	1 487	70 855	10 445	224 999	307 786

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 [4]			–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 [5]		–209	1	130	–78
Closing balance 2017	129	89 388	10 298	255 787	355 602

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 89 388 million (70 855) 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) Until the financial year 2015, returns were transferred between the surplus fund and guarantee reserve in the following year subject to a decision by the Council of Administration. The return for 2016 was credited to the guarantee reserve in connection with its elimination on 12 December 2016. See Note 35.

4) 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.

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

NOTE 32 Equity excluding guarantee reserve, *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. The currencies that have been translated are the US dollar, pound sterling and euro.

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 surplus fund. The surplus is guaranteed 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 33 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 2016	**170 419**	**60 943**	**10 560**	**241 922**
Appropriation of profits from previous years	51 074	–	–	51 074
Allocated refunds				
Defined benefit plan	*–6 758*	*6 758*	–	–
Defined contribution plan	*–8 199*	*8 199*	–	–
Guaranteed refunds				
Pension supplements, defined benefit plan	–	*–2 213*	–	*–2 213*
Supplementary amounts, defined contribution plan	–	*–95*	–	*–95*
Adjustment of paid-up values, defined benefit plan	–	*–3*	–	*–3*
Premium reduction	–	*–3 635*	–	*–3 635*
Return on guarantee reserve in previous year [3]	–107	–	–	–107
Return on guarantee reserve in current year [3]	–95	–	–	–95
Fees	–10	–	10	–
Interest	–222	244	–22	–
Collective risk premium [4]	–	–	–109	–109
Effect of changes in market interest rates	–577	577	–	–
Other changes [5]	–72	80	6	14
Closing balance 2016	**205 453**	**70 855**	**10 445**	**286 753**
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*	–	*–4131*
Return on guarantee reserve in previous year [3]	–	–	–	–
Return on guarantee reserve in current year [3]	–	–	–	–
Fees	–15	–	*15*	–
Interest	–200	251	–51	–
Collective risk premium [4]	–	–	–112	–112
Effect of changes in market interest rates	106	–106	–	–
Other changes [5]	130	–209	1	–78
Closing balance 2017	**194 894**	**89 388**	**10 298**	**294 580**

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 89 388 million (70 855) 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) Until the financial year 2015, returns were transferred between the surplus fund and guarantee reserve in the following year subject to a decision by the Council of Administration. The return for 2016 was credited to the guarantee reserve in connection with its elimination on 12 December 2016. See Note 35.
4) 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.
5) 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 reserve 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 34 Proposed appropriation of profits

The Board of Directors and Chief Executive Officer propose to the Council of Administration that the Parent Company's profit for 2017 of SEK 55 340 835 771 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, pages 35–36.

See also Proposed appropriation of profits in the Administration Report on page 36.

NOTE 35 Guarantee reserve

Group and Parent Company	2017	2016
Opening balance	–	1 867
Return for previous year [1]	–	107
Return for current year [1]	–	94
Information funds	–	–105
Collective agreement guarantee	–	–8
Transfer to Guarantee foundation	–	–1 955
Closing balance	**–**	**–**

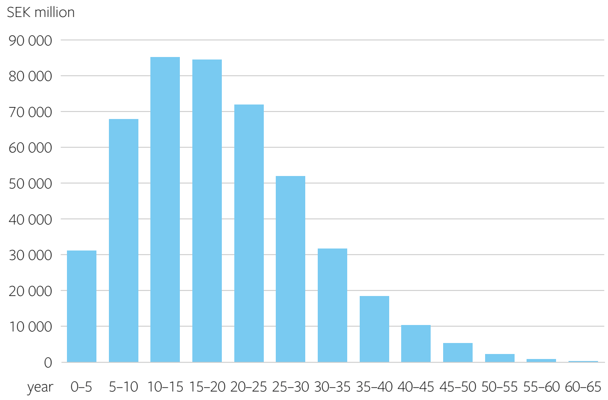
[1] Return after deduction of incurred investment management costs and tax. Until the financial year 2015, returns were transferred between the surplus fund and the guarantee reserve in the following year subject to a decision by the Council of Administration. The return for 2016 was credited to the guarantee reserve in connection with its elimination on 12 December 2016.

The guarantee reserve was eliminated on 12 December 2016. The funds were transferred to an independent foundation, the Guarantee Foundation, with the same purpose as the guarantee reserve.

NOTE 36 Provision for life insurance

Group and Parent Company	2017	2016
Opening balance	**449 546**	**413 563**
Change for the year	28 652	25 504
Premiums	*32 287*	*28 679*
Payments	*–16 652*	*–16 048*
Cumulative returns	*14 064*	*13 563*
Released operating expenses	*–638*	*–681*
Yield tax	*–542*	*–414*
Mortality result	*48*	*–106*
Other changes	*85*	*511*
Change in interest rate assumption	–2 409	20 560
Difference between premium and provisioning assumptions	–13 364	–8 726
Change in operating expenses assumption	722	–
Changed assumption for transfer under right of transfer	–	160
Changed assumption for redistribution	–2 074	2 009
Changed family pension assumptions	499	–3 524
Closing balance	**461 572**	**449 546**

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



The following assumptions have been applied in calculating the provision for life insurance as at 31 December 2017:

- Interest rate assumption: The average rate of interest was 2,27 per cent (2,24) as at 31 December 2017. The method of determining this rate is described in Note 3.
- Mortality assumption: Generational mortality is applied. It is assumed that a 65-year-old male and 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 interest rates were to fall by 1 percentage point, the average interest rate would fall by 0,6 percentage points and the provision for life insurance would increase by SEK 47,5 billion.

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	2017	2016
Opening balance	**16 727**	**14 314**
Change for the year	608	2 150
Provision for new claims	*5 899*	*5 865*
Discontinuation income	*–2 608*	*–1 198*
Payments	*–2 865*	*–2 752*
Cumulative returns	*186*	*154*
Released operating expenses	*–57*	*–72*
Other changes	*53*	*153*
Change in interest rate assumption	–93	368
Change in operating expenses assumption	–	–105
Closing balance	**17 242**	**16 727**

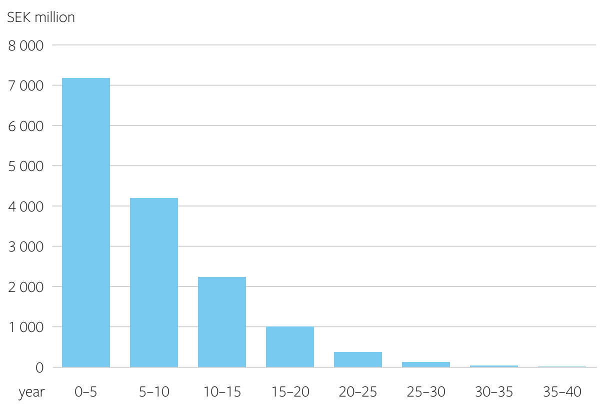
The following assumptions have been used in calculating, as at 31 December 2017, the provision for claims outstanding in respect of disability pension and waiver of premium, which comprise the dominant portion of the provision:

- Interest rate assumption: The average rate of interest was 1,09 per cent (1,00) as at 31 December 2017. 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 interest rates fall by 1 percentage point the provision increases by SEK 0,7 billion.

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 the 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	
	2017	2016	2017	2016
Provision for pensions	4	9	4	8
	4	**9**	**4**	**8**

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 Note 1 and Note 48.

Accounting principle

All pension plans in the Group are accounted for 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 assumption that the benefit will be earned on a straight-line basis up to the age of 62 and that 60 (60) per cent of the employees will exercise the option.

NOTE 39 Other provisions

	Group		Parent Company	
	2017	2016	2017	2016
Indexation of pensions for former employees	18	15	18	15
Provision for real estate	11	7	5	7
	29	**22**	**23**	**22**

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, it is probable that an outflow of resources will be required to settle the obligation and 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	2017	2016
Liabilities to policy holders	6	2
Preliminary tax, pensions	689	670
Other	11	11
Total	**706**	**683**

Accounting principle

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

NOTE 41 Other liabilities

Group	2017	2016
Payment liability on purchase of investment assets	72	398
Collateral received for derivatives [1]	1 443	2 661
Accounts payable	248	188
Property tax	91	95
Value-added tax	12	8
Other	37	1 125
Total	**1 903**	**4 475**

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

Parent Company	2017	2016
Liabilities to subsidiaries	1 550	849
Payment liability on purchase of investment assets	72	398
Collateral received for derivatives [1]	1 443	2 661
Accounts payable	162	113
Property tax	45	46
Value-added tax	12	8
Other	27	1 118
Total	**3 311**	**5 193**

[1] See also Note 28.

NOTE 42 Other accrued expenses and deferred income

	Group		Parent Company	
	2017	2016	2017	2016
Accrued interest expenses	3 562	2 115	3 562	2 115
Accrued property costs	72	107	44	43
Accrued personnel costs	136	198	131	136
Prepaid rental income	370	277	157	139
Other	17	79	8	52
Total	**4 157**	**2 776**	**3 902**	**2 485**

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.

NOTE 43 Assets and comparable collateral pledged for own liabilities and for obligations reported as provisions

Group and Parent Company	2017	2016
Assets registered on behalf of policy holders	811 221	754 457
in addition to required pledge	*332 408*	*288 184*
	811 221	**754 457**
Land and buildings	20 947	22 834
Shares and participations in jointly controlled entities (joint ventures)	13 900	4 825
Loans to jointly controlled entities (joint ventures)	1 594	3 380
Shares and participations	374 944	345 710
Bonds and other debt securities	397 257	373 454
Other loans	2 098	2 288
Derivatives	–2 163	–478
Cash and bank balances	2 644	2 444
Total	**811 221**	**754 457**

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	2017	2016
Collateral pledged to clearing houses for derivatives trading		
Bonds and other debt securities	2 734	2 192
Cash and bank balances	168	155
Collateral pledged for derivatives trading in accordance with CSA contracts		
Bonds and other debt securities	4 483	1 145
Cash and bank balances	262	2 225
Total	**7 647**	**5 717**

Collateral pledged for derivatives trading in accordance with CSA contracts is described in Note 28 Financial instruments subject to enforceable master netting agreements.

NOTE 45 Transfers of financial assets

Group and Parent Company	2017	2016
Loaned debt securities	2 322	–
Collateral received for loaned securities	2 369	–

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 consists of Swedish government bonds and mortgage bonds and is not recognised in the balance sheet. Compensation received in 2017 for the loan of debt securities has been recognised as interest income in the item Return on capital, income. See Note 5. At the end of 2016, no debt securities were on loan.

NOTE 46 Contingent liabilities

Group	2017	2016
Remaining balance to be invested in investment assets	9 328	1 057
Guarantee commitments	825	752
Total	**10 153**	**1 809**
Parent Company		
Remaining balance to be invested in investment assets	9 237	906
Liabilities in limited partnerships	103	12
Total	**9 340**	**918**

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 venture capital 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	2017	2016
Market value according to total return table [1]	829 792	770 444
Assets not classified as investments	7 259	8 486
Items from the liabilities side of the balance sheet which have been deducted in the total return table	14 039	14 371
Valuation differences	–159	–95
Other	–2	–
Total assets according to balance sheet	**850 929**	**793 206**

Group	2017	2016
Total return according to total return table	51 980	38 136
Items from the income statement (Notes 5, 6, 9, 10) which are not included in the total return table	830	930
Foreign exchange effects in foreign subsidiaries, recognised in equity in the financial statements	238	–1 271
Valuation differences, closing balance	–159	–95
Valuation differences, opening balance	95	36
Other	16	–207
Total return according to income statement [2]	**53 000**	**37 529**

1) See page 32.
2) Notes 5, 6, 9 and 10 in the income statement.

NOTE 48 Average number of employees, salaries and remuneration

	2017			2016		
Average number of employees [1]	Number of employees	Of whom women	Of whom men	Number of employees	Of whom women	Of whom men
Parent Company						
Sweden	343	202	141	352	208	144
United Kingdom [2]	0	0	0	2	1	1
Total, Parent Company	**343**	**202**	**141**	**354**	**209**	**145**
Subsidiaries						
Sweden	25	17	8	26	18	8
USA [2]	3	2	1	10	7	3
Total, subsidiaries	**28**	**19**	**9**	**36**	**25**	**11**
Total, Group	**371**	**221**	**150**	**390**	**234**	**156**

	2017		2016	
Gender distribution in senior positions	Women	Men	Women	Men
Parent Company				
Board of Directors	4	11	4	11
CEO	–	1	–	1
Other senior executives	3	5	2	5
Total, Parent Company	**7**	**17**	**6**	**17**
Subsidiaries				
Board of Directors	–	6	–	6
Other senior executives	1	1	1	1
Total, subsidiaries	**1**	**7**	**1**	**7**
Total, Group	**8**	**24**	**7**	**24**

Salaries, remuneration and fees paid to the CEO, senior executives, Directors and other employees [3]

	2017				2016			
kSEK	Salaries, fees and other remuneration	Social security contributions	Pension costs	Total	Salaries, fees and other remuneration	Social security contributions	Pension costs	Total
Parent Company								
CEO and senior executives [4]	28 008	10 591	7 380	45 979	23 389	8 609	6 813	38 811
Directors [5]	3 003	759	–	3 762	2 747	647	–	3 394
Other employees	238 737	66 873	52 038	357 648	239 178	73 393	46 994	359 565
Total, Parent Company	**269 748**	**78 223**	**59 418**	**407 389**	**265 314**	**82 649**	**53 807**	**401 770**
Subsidiaries								
Sweden								
Other employees	10 660	3 302	872	14 834	10 113	3 039	807	13 959
USA								
Senior executives [6]	5 107	66	748	5 921	42 167	875	1 268	44 310
Other employees [6]	4 303	184	647	5 134	33 785	1 354	1 409	36 548
Total, subsidiaries	**20 070**	**3 552**	**2 267**	**25 889**	**86 065**	**5 268**	**3 484**	**94 817**
Total, Group	**289 818**	**81 775**	**61 685**	**433 278**	**351 379**	**87 917**	**57 291**	**496 587**

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 2017. For the current composition of senior management, see pages 120–121.
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 nominating committee work.
6) The change compared with the previous year is due to the closure of the US business following the sale of all directly owned properties.

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 (excl. CEO)						
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 (excl. CEO) 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. The amount of severance pay will be reduced by benefits received from any other employment.

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. For the current composition of senior management, see pages 120–121. 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, mortgage interest benefits, 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 Accounts of Insurance Companies (FFFS 2015:12) will be published on alecta.se in April 2018.

NOTE 48 Average number of employees, salaries and remuneration, *cont.*

Salaries, remuneration, fees and benefits paid to senior executives and Directors

	2016					
kSEK	Salaries, fees and other remuneration [1]	Variable remuneration [1, 5]	Benefits [4]	Total remuneration	Social security contributions	Pension costs
Parent Company						
CEO						
Staffan Grefbäck, to 17 April 2016	1 950	–	19	1 969	777	651
Magnus Billing, from 18 April 2016	4 047	–	10	4 057	1 608	1 372
Deputy CEO						
Per Frennberg	3 288	1 251	18	4 557	1 382	1 414
Katarina Thorslund	2 193	–	17	2 210	809	474
Senior executives						
Senior executives [3]	10 461	–	135	10 596	4 033	2 902
Total, CEO and senior executives	**21 939**	**1 251**	**199**	**23 389**	**8 609**	**6 813**
Chairman of the Board						
Erik Åsbrink	579	–	–	579	59	–
Other members of the Board (excl. CEO)						
Hanna Brandt Gonzalez	92	–	–	92	29	–
Cecilia Fahlberg	214	–	–	214	67	–
Anna-Karin Hatt	92	–	–	92	29	–
Per Hedelin	181	–	–	181	57	–
Peter Jeppsson	92	–	–	92	29	–
Martin Linder	92	–	–	92	29	–
Jonas Milton	209	–	–	209	65	–
Richard Malmborg	181	–	–	181	57	–
Lars Wedenborn	181	–	–	181	57	–
Kaj Thorén	261	–	–	261	27	–
Magnus von Koch	181	–	–	181	57	–
Christer Ågren	214	–	–	214	67	–
Other members of the Board (excl. CEO) that have left						
Gunilla Dahmm	89	–	–	89	9	–
Karl Olof Stenqvist	*89*	–	–	*89*	*9*	–
Total, Board	**2 747**	**–**	**–**	**2 747**	**647**	**–**
Total, Parent Company	**24 686**	**1 251**	**199**	**26 136**	**9 256**	**6 813**

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) Other senior executives refers to five positions (eight), which together with the CEO and deputy CEOs comprised Alecta's senior management from September 2016. During the period January to August 2016, the other senior executives category consisted of eight individuals. 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, mortgage interest benefits, 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 Accounts of Insurance Companies (FFFS 2015:12) was published on alecta.se in April 2017.

NOTE 48 Average number of employees, salaries and remuneration, *cont.*

Remuneration of Directors, the CEO and other 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 2017 comprised basic salary and other benefits, such as a company car, mortgage interest benefits, healthcare insurance, household services, pension costs and social security contributions. Per Frennberg, Deputy CEO until 31 May 2017, has received variable remuneration under the Investment Management incentive scheme. Tony Persson, Acting Head of Investment Management as of 1 June 2017, has also 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 pages 120–121.

In accordance with the Swedish Financial Supervisory Authority's Regulations and General Guidelines on Annual Accounts of Insurance Companies (FFFS 2015:12), supplementary disclosures on remuneration will be presented on Alecta's website, alecta.se, in April 2018.

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 the CEO 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 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. Two executives are covered by FTP2 and the remaining executives by FTP1. 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 2017, investment personnel in the Investment Management department 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 Internal Audit, Risk and Compliance units, and those employees at the Investment Management department who are already covered by the special incentive scheme for investment personnel. The outcome for the general incentive scheme is contingent on achievement of targets linked to the business plan for 2017, with a maximum payout of kSEK 12 per employee in the form of increased occupational pension premiums. In 2017, all three targets were fully achieved. The outcome per employee was kSEK 12 (10), representing a total cost for Alecta of approximately SEK 4 million (4), including social security contributions.

The Investment Management incentive scheme for investment personnel 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 shares, debt securities and real estate. The outcome for each individual also depends on the extent to which individually defined targets have been achieved. For 2017, a provision of SEK 15,9 million, excluding social security contributions, has been made for variable remuneration of investment personnel. For 2016, the vested variable remuneration was SEK 15,2 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 2017. For 2016, there was no outcome.

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 4,7 per cent of the gross salary on portions of salary up to 7,5 times the income basic amount and 30,3 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 accounted for 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 21,3 million in 2017 and is expected to reach SEK 28,0 million in 2018. The premium represents approximately 0,09 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 154 per cent (149). 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. Alecta's funding policy for its defined benefit plans is to maintain a collective funding ratio of 125 to 155 per cent under normal

NOTE 48 Average number of employees, salaries and remuneration, *cont.*

conditions, with a target ratio of 140 per cent. If Alecta's collective funding ratio falls below 125 per cent or exceeds 155 per cent measures must be taken to create conditions that will allow the collective funding ratio to return to the normal range within three years, provided that such measures are not expected to impede Alecta's ability to fulfil its insurance commitments or ensure the indexation of pensions in payment. In case of a low funding ratio, one measure that can be taken is to raise the agreed price for new policies and expansion of existing benefits. If the funding ratio is high, premiums can be reduced.

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 provision is recognised in the item Provision for pensions and similar obligations, see Note 38.

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.

NOTE 49 Disclosure of auditors' fees

	Group		Parent Company	
	2017	2016	2017	2016
EY				
Statutory audit	3,4	3,1	3,4	3,1
Audit activities not included in statutory audit	0,6	–	0,6	–
Tax advisory services	1,2	2,9	–	0,2
Other services	0,1	2,2	0,1	0,3
Total, EY	**5,3**	**8,2**	**4,1**	**3,6**

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 2017 are indicated below.

	Group		Parent Company	
Expiration	2017	2016	2017	2016
Within one year	6,1	4,8	3,1	4,8
Later than one year but within five years	13,5	2,1	8,1	2,1
Later than five years	–	–	–	–
Total	**19,6**	**6,9**	**11,2**	**6,9**
Total lease payments during period	**7,4**	**9,6**	**4,5**	**6,8**
of which minimum lease payments	7,4	9,6	4,5	6,8

Rental contracts outside Sweden are sublet. The lease income was SEK 1,5 million in 2017, and is estimated at SEK 2,6 million within one year and SEK 4,6 million in total after more than one year but within five years.

NOTE 50 Leasing, *cont.*

Accounting principle

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 of Directors 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 2017.

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 2017.

In previous years, information funds for ITP and TGL have been paid from the guarantee reserve; see Note 35. In 2016, the Confederation of Swedish Enterprise and some of its member organisations transferred insurance portfolios from another insurance provider to Alecta. The transferred portfolios had a total value of SEK 500 million 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.

			Payments received		Payments made	
	Related parties	**Transactions**	**2017**	**2016**	**2017**	**2016**
Information on transactions between the Parent Company, Alecta Pensionsförsäkring, ömsesidigt, and related parties:	Swedish Group companies	Interest income	118	141	–	–
		Share of profit	80	14	–	–
		Management fee	9	6	–	–
	Foreign Group companies	Dividends	5 788	10 906	–	–
		Shareholder contributions provided	–	–	289	100
	Confederation of Swedish Enterprise and PTK	Information funds for ITP and TGL	–	–	–	105
	Selection centres (Collectum and Fora)	Premium payments	29 386	27 148	–	–
		Agency fees	–	–	133	132
	Joint ventures	Interest income	165	144	–	–
			35 546	**38 359**	**422**	**337**

			Receivables		Liabilities	
	Related parties	**Balances**	**2017**	**2016**	**2017**	**2016**
Information on the Parent Company, Alecta Pensionsförsäkring, ömsesidigt's, outstanding receivables from and liabilities to related parties at 31 December	Swedish Group companies	Non-current receivables	9 272	10 380	–	–
		Receivables from/liabilities to Group companies	–	–	568	57
		Accrued interest expenses	–	–	0	0
	Selection centres (Collectum and Fora)	Receivables	1 744	1 589	–	–
	Joint ventures	Loans receivable	1 591	3 655	–	–
		Accrued interest income	3	14	–	–
			12 610	**15 638**	**568**	**57**

NOTE 52 Significant events after the balance sheet date

Alecta retains status as default option for ITP1

In mid-November 2017, Alecta submitted its bid in the procurement of a service provider for the management of the ITP 1 occupational pension scheme, and in early March 2018 Collectum announced the results of the procurement. In competition with other pension funds, Alecta was chosen to remain the default option for another five years, covering the period 1 October 2018–30 September 2023.

In connection with the procurement, Alecta is further improving its Alecta Optimal Pension product by cutting the already low fee, to 0,09 per cent, and lowering the annual cap on fees from SEK 900 to SEK 600.

Board of Directors' 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, 15 March 2018

Erik Åsbrink
Chairman

Cecilia Fahlberg Pihlgren
First Vice Chairman

Christer Ågren
Second Vice Chairman

Hanna Brandt-González
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 2018.

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 2017. The company's annual accounts and consolidated financial statements are presented on pages 30–97 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 2017 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 2017 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 shareholders' meeting adopt the Parent Company and consolidated income statements and balance sheets.

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 investment assets

At 31 December 2017, the Group had investment assets of SEK 830 billion, accounting for 98 per cent of total assets. Investment assets in the Parent Company were SEK 823 billion, accounting for 97 per cent of the Parent Company's total assets. Of the investment assets, SEK 827 billion is measured at fair value in the Group and SEK 808 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 instruments 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 2017, there were investment assets of SEK 603 million which are measured at fair value at Level 1, SEK 163 million measured at Level 2 and SEK 61 million measured at Level 3. For the Parent Company, there were investment assets of SEK 603 million which are measured at fair value at Level 1, SEK 163 million measured at Level 2 and SEK 42 million 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 and Notes 24–28. 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. 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 management'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.

Valuation of provisions for life insurance

At 31 December 2017, the Group had provisions for life insurance of SEK 461 572 million, accounting for 93 per cent of total liabilities. In the Parent Company, provisions for life insurance were SEK 461 572 million, 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. 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.

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 1–29 and 101–124. 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 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, also 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.

The auditor's responsibility

Our objective is to obtain reasonable assurance that the annual accounts and consolidated financial statements as a whole are free 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.

Audit Report, *cont.*

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 or when, in extremely rare cases, we consider that a matter should not be communicated in the audit report because the negative consequences of doing so may reasonably be expected to outweigh the public interest of this communication.

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 2017 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 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 and the Articles of Association.

Reasonable assurance is a high degree of assurance but does not 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 10 April 2014 and have been the company's auditors since 1 January 2014

Stockholm, 19 March 2018
Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Auditor's opinion on the statutory sustainability report

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

Engagement and division of responsibility

Responsibility for the sustainability report for 2017 and for ensuring that it has been prepared in compliance with the Swedish Annual Accounts Act rests with the Board of Directors. The scope of the sustainability report is defined on page 3.

Scope and focus of review

Our review has been conducted in accordance with Recommendation RevR 12 The Auditor's Opinion on the Statutory Sustainability Report issued by FAR, the Swedish professional institute for accountants. Our review of the sustainability report has a different focus and a significantly narrower scope than a full audit conducted in accordance with the International Standards on Auditing and generally accepted auditing standards in Sweden. We believe this review gives us a sufficient basis for our opinion.

Opinion

A sustainability report has been prepared.

Stockholm, 19 March 2018
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 2017.

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 2018

Niklas Hjert Lars Jansson

Governance

The governance section describes Alecta's key governance functions and processes. This section and the sustainability notes thereafter are intended to complement the report describing Alecta's key sustainability issues on pages 12–29.

Governance and organisation

Good governance is fundamental to our activities. Alecta is a mutual pension provider, which means that we are owned by our customers – the insureds and their employers. Alecta's highest decision-making body is the Council of Administration, which consists of representatives of our customers. The Council of Administration, which is described in greater detail on page 119, appoints Alecta's Board of Directors, which has overall responsibility for the governance of Alecta, including the company's sustainability work.

The Board of Directors determines Alecta's strategic direction and the company's long-term operational goals. It is responsible for ensuring that Alecta has appropriate corporate governance, risk management and internal control systems, and adopts general governing documents for the company's activities, including a sustainability policy.

The Board has appointed various committees from among its members to prepare and decide on specific matters. More detailed information on the duties and practices of the Board and on the three committees – the Presidium, Finance Committee and Audit Committee – which the Board has appointed from among its members is provided on page 118.

The responsibilities of the CEO and management

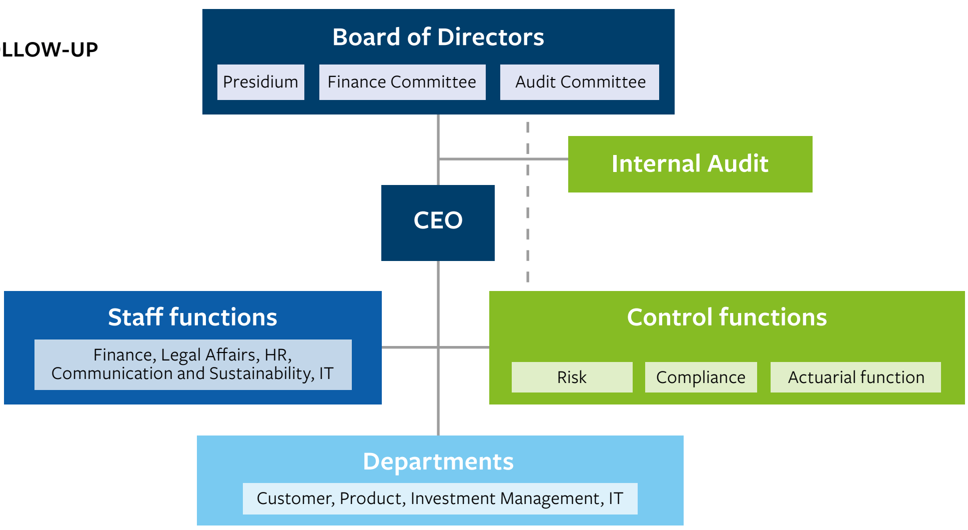
The Board appoints Alecta's CEO and defines the framework for his or her activities. The CEO is responsible for the day-to-day management of the company in accordance with the guidelines and directions of the Board and for ensuring that the operations are organised so that the company complies with applicable 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.

Monitoring and internal rules

Everyone who works at Alecta has a responsibility to help ensure good internal control and is required to follow Alecta's internal rules. The internal rules are defined by the Board of Directors or the CEO and are revised when required or at least annually. All employees are informed of changes to the internal rules by their managers but are also required to keep themselves up to date on those internal rules 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. The Controller continuously monitors operational outcomes and target achievement in relation to the adopted business and operational plans.

RESPONSIBILITIES IN GOVERNANCE AND FOLLOW-UP



A model with three lines of defence

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, and are tasked with 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 – independent control functions

The control functions Compliance, Risk and the Actuarial function (second line of defence) as well as the Internal Audit function (third line of defence) 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 controls 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 40.

Compliance regularly reviews and assesses whether Alecta's operations, the measures taken and the procedures adopted comply with the applicable regulations, and ensures that the employees and Board of Directors receive information and training on the rules. Compliance also monitors coming regulations affecting activities requiring a licence, which are subject to supervision by the Swedish Financial Supervisory Authority. The Actuarial function coordinates and assures the quality of Alecta's actuarial calculations and assists the Board and CEO on matters relating to actuarial methods, calculations and assessments.

In addition to the above functions, Alecta has appointed a Data Protection Officer, who ensures that the company complies with all applicable data protection laws and serves as Alecta's point of contact with the Swedish Data Protection Authority. The Data Protection Officer is appointed by and reports to the CEO, and is assisted by two Data Protection Coordinators.

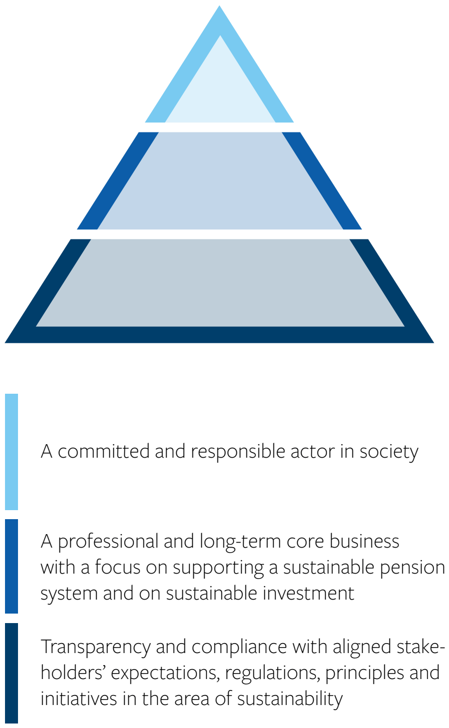
Sustainability notes

The sustainability notes section mainly contains descriptions of processes linked to the framework for sustainability reporting, GRI. The section also includes data which supplements the information provided on pages 12–29, and in some respects data which covers the Group as a whole.

Alecta's sustainability work

Our sustainability work comprises three parts:

- fundamental legitimacy issues and risk minimisation
- an effective and value-creating core business
- the ambition to have a positive impact on society.



In 2017, we clarified which areas are relevant for our business, and we are currently assessing how we can take a more systematic approach and follow up relevant KPIs and other indicators.

In addition to the areas identified previously in our materiality analysis, which are described mainly on pages 12–29, some additional information is provided, for example on Alecta's direct environmental impact and purchases, which several stakeholders have identified as a key hygiene factor in the area of sustainability.

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

Alecta has appointed a Sustainability Officer, who reports to the Head of Communication and Sustainability in the management team. In the Investment Management department, Alecta has appointed a Responsible Investment Officer, who works full-time on sustainability issues. These three form part of Alecta's working group on sustainability along with further representatives from Communication, HR, Finance, Compliance and Investment Management. The Sustainability Officer works to establish greater clarity on Alecta's priorities and coordinates the company's sustainability work through common goals, tools and reporting.

In the Investment Management department, Alecta has appointed a Governance Council consisting of the CEO, Head of Corporate Governance, Head of Investment Management, Head of Equities and Head of External Communication. Alecta's Head of Corporate Governance drives the company's active ownership work, with a particular emphasis on Alecta's involvement in nomination committees, shareholders' meetings and dialogues with boards of directors. Another focus area is to develop good corporate governance practices. The Governance Council holds regular meetings and serves as a forum for monitoring Alecta's sustainability work in the company's investment management activities.

All operations-related purchases are managed by HR, with the exception of purchases in the Investment Management and IT departments, which procure services directly. Sustainability and environmental work always form part of the tender process when Alecta purchases goods and services.

Governing documents for sustainability at Alecta

In late 2017, the Board of Directors adopted a sustainability policy for Alecta which outlines the focus areas for the organisation's sustainability commitments. The sustainability policy and Alecta's active ownership policy are available at alecta.se. The other governing documents described on the following page are internal.

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. The policy provides a broad framework for those areas where we want to make a contribution and have an impact, with a focus on our core business. The policy also describes our support for the UN Global Compact and its ten principles in the areas of the environment, human rights, labour and anti-corruption. The sustainability policy is an umbrella document for other, more concrete governing documents, including environmental and sustainability guidelines for Alecta's properties and the Code of Conduct.

Code of Conduct

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

Ethics policy

Describes how we should take an ethical approach to our work, business relations and investments. The ethics policy also regulates the whistleblower function and confidentiality.

Management of conflicts of interest

Identifies the risk of conflicts of interest and describes how we should handle 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

Describes the actions that we need to take to meet the requirements of the Swedish Personal Data Act, and safeguard the privacy of our customers and employees.

Examples of other governing documents for sustainability:

Active ownership policy

Describes Alecta's active shareholder involvement and influence in Swedish listed companies. The active ownership policy describes Alecta's position on sustainability issues, which is based on the principle that the companies in which Alecta invests must follow the international conventions and agreements that the Swedish State has entered into.

Investment guidelines

Describe the focus and guidelines for risk-taking in the Investment Management department.

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 what Alecta needs to do to protect itself from being exploited for such purposes.

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 account of the suppliers' sustainability work.

Diversity policy

Describes Alecta's responsibility for giving all employees the same opportunities to develop and have a say, with zero tolerance for abusive behaviour and discrimination.

Health and safety

Describes Alecta's general view on health and safety and the division of responsibilities on health and safety issues.

Gifts and other benefits

Provides guidance on how employees should act with regard to gifts and other benefits. 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 Alecta's real estate business.

Sustainability notes, *cont.*

Stakeholders and ongoing engagement

Alecta's most important stakeholders are our customers, who are also our owners. Dialogue is an important tool for ensuring that our customers feel secure and satisfied. With so many individuals as our customers, and because of the nature of our mission, we have a strong foundation in society. Over the last few years, Alecta has given priority to ensuring that we communicate more clearly and engage in an active dialogue with society in order to gather impressions, to share our experiences and our active investment model with others, and to influence the debate where relevant.

Focused stakeholder engagement

In late 2017, Alecta initiated targeted stakeholder dialogues with a select group of stakeholders that have a good insight into sustainability issues. This group consists of important stakeholders for Alecta, including corporate customers, unions and employers, and other organisations in the industry.

The dialogues are aimed at ensuring that the areas covered by our reports are consistent with our stakeholders' expectations, and at garnering ideas for how to develop Alecta's sustainability work.

The dialogues have shown that our stakeholders attach most importance to sustainable and responsible investment, and Alecta's role as a stable company in Sweden's welfare system.

What also emerges clearly is that the environment and relations with suppliers are areas of key concern, even though the stakeholders' impression is these are of relatively limited impact. Alecta is expected to have well-functioning procedures for avoiding reputational risks that are linked to the environment and purchases.

CUSTOMERS – retail and corporate customers

Key concerns:
A secure pension, low costs, efficient asset management, ethical behaviour
Dialogue channels:
Customer service, surveys, e-mail contacts, company visits
Alecta's activities:
Clear targets for efficiency and investment performance, increased transparency, membership of Global Compact

PRINCIPALS – unions and employers

Key concerns:
Responsible investment, sustainability policy, fees, investment performance
Dialogue channels:
The Board of Directors, committees, seminars, procurements
Alecta's activities:
Certification work in Investment Management, increased transparency

EMPLOYEES

Key concerns:
Training and career progression, equality, work environment, environmental impact, ethical behaviour and responsible investment
Dialogue channels:
Employee surveys, the intranet, internal seminars, meetings with the CEO, breakfast, lounge and other 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
Key concerns:
Procurements, environment and sustainability
Dialogue channels:
Negotiations and agreements, forums for cooperation
Alecta's activities:
Review of sustainability issues in agreements and procurement processes

SOCIAL STAKEHOLDERS

Key concerns:
Knowledge about occupational pensions, stable management of pensions, climate issues, sustainable financial market, active ownership
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" personal finance network, involvement in the EU High-Level Expert Group on Sustainable Finance

Materiality analysis

In 2017, Alecta reviewed its sustainability activities in order to establish a clearer structure for the activities and for monitoring. The review was based on previous materiality analyses and dialogues with stakeholders. Other ideas have been garnered from business intelligence activities, exchanges of experience with other industry players and from enquiries in external surveys. The previous materiality analysis has therefore been supplemented with environment and purchasing as an area outside the materiality analysis but with expectations of a high level of transparency.

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 complex solutions, are cost-aware and make use of economies of scale to ensure that we 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	14–15
Economic value for many	• Regulations that are detrimental to 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 therefore have a strong focus on our general business goals – secure and satisfied customers, a high level of cost-effectiveness, and a good return and 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	16–20, 110
Responsible investment	• 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 active ownership 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 assets subject to screening (GRI FS11)	22–26
Training	• Increased staff turnover • Reduced competitiveness • 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. We use mandatory skills development plans, knowledge seminars, introduction courses for new employees and regular assessments of our employees' ITP expertise.	• Hours of training (GRI 404-1) • Performance and career development reviews (GRI 404-3)	28–29

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

Sustainability notes, *cont.*

MATERIAL TOPIC

	RISK	BOUNDARY*	ACTIVITIES	KPIs	Page reference
Strong compliance	• Alecta loses the 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 rules and good practices so that our customers feel secure.	• Fines or sanctions (GRI 419-1)	16–20, 102-105, 110
Customer privacy	• Violations of privacy • 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)	17, 110

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 integrates environmental and sustainability issues in all procurements, and reviews measures aimed at reducing the direct environmental impact of its activities. In 2018, Alecta is planning to further develop its processes in this area.	• Decisions on any KPIs will be made in 2018. Governing documents and procedures are described in Alecta's reports.	111

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

Partnerships and memberships

In addition to the sustainability-related memberships described previously in the report, Alecta is participating in the following initiatives or organisations with a connection to sustainability:

CDP (previously Carbon Disclosure Project)

By supporting the work of the CDP investors seek to encourage businesses to increase transparency, improve their environmental reporting and work actively to reduce their impact on the environment.

Hållbart värdeskapande (Sustainable Value Creation)

A partnership among Sweden's largest institutional investors that is aimed at highlighting the importance of taking a structured approach to 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. The members are institutional shareholders and Alecta's Head of Corporate Governance has a seat on the Board.

The Montreal Pledge

An initiative in which investors pledge to measure and report the carbon footprint of their investments.

SNS

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

Insurance Sweden

Alecta is participating in various reference groups set up by Insurance Sweden, the industry association for the Swedish insurance companies, including the Sustainability and Green Bond reference groups. In these groups, Alecta submits opinions on proposals for consultation and engages in dialogue with the Swedish Financial Supervisory Authority, 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 that are working to promote or are engaged in sustainable investment activities in Sweden, and want to spread and increase knowledge about sustainable investment. Alecta is an active member of the Board and of the Seminar Committee through its Responsible Investment Officer.

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.

Research partnerships

Alecta is involved in and contributes to various academic research projects, including a study on sick leave that is being conducted by the Karolinska Institute. Alecta also supports the research activities of the Stockholm School of Economics.

Gilla Din Ekonomi

Gilla Din Ekonomi [Like Your Personal Finances] 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

The MinPension [My Pension] pension portal is a result of a partnership among different players in the pension sector that is driven and funded in equal shares by the Swedish government and Sweden's pension funds. In the portal, users can log in and view their pension, as several pension funds provide information to the portal.

Sustainability notes, *cont.*

Other disclosures and KPIs

For certain indicators, only selected data is presented in the first part of the report, pages 12–29. More detailed information and comparisons over time are presented in the following section.

GRI Employment information (102-8)

FORMS OF EMPLOYMENT	2017		2016		2015	
Group	Women	Men	Women	Men	Women	Men
Number of employees at 31 December	219	145	232	157	236	156
of whom in Sweden	219	145	*224*	*153*	*226*	*152*
of whom abroad	*0*	*0*	*8*	*4*	*10*	*4*
Permanent employees	217	145	230	157	234	156
of whom full-time	185	134	*194*	*146*	*190*	*143*
of whom part-time	*32*	*11*	*36*	*11*	*44*	*13*
Temporary employees	2	0	2	0	2	0
Number of consultants	9	27	9	21	11	26

Other employee statistics

EMPLOYEE STATISTICS Group	2017	2016	2015
Number of employees at 31 December	364	389	392
Average age of all employees	47	48	48
Staff turnover [1]	7.3 %	6.0 %	5.6 %
Sick leave [1]	3.4 %	3.7 %	3.2 %
Percentage covered by collective bargaining agreements [1, 2]	100 %	100 %	100 %
Percentage of female employees	60 %	60 %	60 %
Percentage of female managers	50 %	44 %	46 %
Percentage of women in management	33 %	25 %	36 %
Percentage of women on the Board	31 %	23 %	17 %

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

GRI Generated and distributed value (201-1)

SOCIO-ECONOMIC VALUE, Group (SEK million)	2017	2016	2015
Economic value, generated			
Return on capital, before operating expenses [1) 2)]	53 252	37 783	39 252
	53 252	37 783	39 252
Economic value, distributed			
Claims incurred [3)]	–20 353	–19 786	–19 235
Waiver of premium, corporate customers	–2 039	–1 882	–1 765
Refunds in the form of adjustments to earned pension entitlement and premium reductions [4)]	–5 618	–3 638	–2 796
Salaries and remuneration	–352	–409	–385
Suppliers and partners	–518	–451	–496
Yield tax and income tax in Sweden and abroad, and social security contributions for employees	–2 594	–3 414	–1 790
	–31 474	**–29 581**	**–26 467**

1) Includes unrealised gains/losses of SEK 25 719 million (2016: 4 074, 2015: 1 441).
2) In the income statement, investment management expenses and property management expenses totalling SEK 250 million (2016: 254, 2015: 287) have been offset against capital returns. See also Note 8 Operating expenses.
3) Claims incurred also include refunds in the form of pension supplements and supplementary amounts, which are taken from the surplus fund, see Note 32 Equity.
4) Refunds are taken from the surplus fund, see Note 32 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 generated during the year will be distributed over many years to come and the value that is distributed during the same year has accrued over previous years. The value that is generated and distributed therefore cannot be assessed on a year by year basis.

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

During the year, Alecta received one complaint concerning the loss of customer data. No complaints about breaches of privacy were registered.

GRI Fines or sanctions (419-1)

No fines or sanctions were imposed on Alecta in 2017.

Alecta's environmental activities and relations with suppliers

As a service provider with a centrally located office, Alecta's efforts to reduce its direct environmental impact are strongly connected to its relations with various suppliers. Over the years, we have 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, and from business travel, paper consumption and food waste.

In 2017, we worked on two major procurements in which sustainability was a key dimension. During the ongoing renovation of our head office, we made specific environmental requirements for suppliers in the procurement of furniture, both in terms of chemicals use and based on our ambition to restore and reuse existing office furniture as far as possible. In the procurement of a new service provider to run our staff canteen, the choice fell on a company which takes a systematic approach to environmental and sustainability management, and which also wants to assist us in our own efforts in this area. At the end of 2017, we decided to purchase a new composting machine for food waste, and we are planning campaigns aimed at reducing food waste and increasing the well-being of our employees.

With the help of our new travel agency, we will in 2018 start to measure the carbon footprint of our business trips to ensure that we are able to make more informed decisions on the choice of travel in connection with customer visits or investment management activities. We will also be systematically measuring our paper consumption, and will be looking at making greater use of digital tools and work methods. A key supplier with regard to our internal environmental work is our cleaning firm. We use a company that is committed to improving its environmental performance and selects products with the Good Environmental Choice ecolabel, and whose employees are covered by collective bargaining agreements.

All directly owned properties in Alecta's investment portfolio are managed principally by one external partner under an agreement which specifies that each property must have an environmental plan. Our partner is also required, where possible, to select subcontractors with collective bargaining agreements. At the end of 2017, new environmental and sustainability guidelines were introduced for our properties.

In addition to the aforementioned suppliers, Alecta uses external partners mainly for training, licences and software, maintenance of equipment, office products and research services for our investment management activities. In 2017, Alecta concluded transactions with 636 suppliers, of which 568 reside in Sweden, 49 in the rest of the EU and 19 outside the EU. Four suppliers accounted for 63 per cent of the total transaction volume.

GRI table

About the sustainability report

Alecta's sustainability report for 2017 has been prepared in accordance with the Global Reporting Initiative's GRI Standards, Core option. The content of the sustainability report is presented mainly on pages 12–29 and in the form of this supplementary in-depth information on pages 102–113. The sustainability report covers the year 2017 and forms part of Alecta's annual report. The annual report and sustainability report are published annually in March. The previous annual report was published on 31 March 2017.

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

Scope and boundaries

The sustainability report covers the Parent Company, Alecta Pensionsförsäkring, ömsesidigt, and Alecta's subsidiaries with the exceptions indicated 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 data in the employee section on pages 28–29 covers all employees of the Parent Company while consolidated data that includes the subsidiary company WTC is presented on page 110. Other exceptions to the scope are indicated in the report.

Alecta manages collectively agreed occupational pension plans in Sweden. Alecta's investment management activities comprise investments in shares, debt securities and real estate. Alecta's real estate portfolio is concentrated to Sweden. In early 2017, Alecta sold its last directly owned properties outside Sweden, most of which were located in the US and the UK. No other significant changes to the size, structure or ownership of the organisation or to its suppliers took place 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 refer to an event which constitutes a serious breach of the privacy of an individual customer or which has prompted criticism from the regulators.

GRI Disclosure 419-1: Serious shortcomings refer to an event that constitutes a serious failure in relation to external regulations that has prompted criticism from the regulators.

Contact

The contact person for Alecta's sustainability report is Carina Silberg, Sustainability Officer.
E-mail: carina.silberg@alecta.se

GRI STANDARDS INDEX 2017, CORE		REFERENCE	COMMENT
ORGANISATIONAL PROFILE			
102-1	Name	*30*	
102-2	Activities, brands, products and services	*30–31, 112*	
102-3	Location of headquarters	*30*	
102-4	Location of operations	*112*	
102-5	Ownership and legal form	*30*	
102-6	Markets served	*4, 30–31, 112*	
102-7	Scale of the organisation	*4, 31–33*	
102-8	Information on employees and other workers	*110, 112*	
102-9	Supply chain	*104, 105, 111*	
102-10	Significant changes to the organisation and its supply chain	*112*	
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	*109*	
102-13	Membership of associations	*109*	

GRI STANDARDS INDEX 2017, CORE		REFERENCE	COMMENT
STRATEGY			
102-14	Statement from senior decision-maker	*6–8*	
ETHICS AND INTEGRITY			
102-16	Values, principles, standards and norms of behaviour	*5, 105*	
GOVERNANCE			
102-18	Governance structure	*102–105, 118, 119*	
STAKEHOLDER ENGAGEMENT			
102-40	List of stakeholder groups	*106*	
102-41	Collective bargaining agreements	*110*	
102-42	Identifying and selecting stakeholders	*106*	
102-43	Approach to stakeholder engagement	*106*	
102-44	Key topics and concerns raised	*106*	
REPORTING PRACTICE			
102-45	Entities included in the consolidated financial statements	*69*	Note 16
102-46	Defining report content and topic boundaries	*106–108, 112*	
102-47	List of material topics	*107–108*	
102-48	Restatements of information	*see comment*	No material adjustments
102-49	Changes in reporting	*see comment*	No material adjustments
102-50	Reporting period	*112*	
102-51	Date of most recent report	*112*	
102-52	Reporting cycle	*112*	
102-53	Contact point for questions regarding the report	*112*	
102-54	Claims of reporting in accordance with GRI Standards	*112*	
102-55	GRI content index	*112–113*	
102-56	External assurance	*3, 112*	
MANAGEMENT APPROACH			
103-1	Explanation of the material topic and its boundaries	*107–108*	
103-2	The management approach and its components	*102–105*	
103-3	Evaluation of the management approach	*102–103*	

GRI STANDARDS INDEX 2017, CORE		REFERENCE	COMMENT
ECONOMIC PERFORMANCE			
201-1	Direct economic value generated and distributed	*17, 110*	
SOCIAL TOPICS – EMPLOYMENT			
404-1	Average hours of training per employee by gender and employee category	*28, 112*	See Scope and boundaries, and Calculation methods and definitions
404-3	Percentage of employees receiving regular performance and career development reviews	*28, 112*	See Scope and boundaries
SOCIAL TOPICS – CUSTOMER PRIVACY AND PRODUCT RESPONSIBILITY			
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	*110*	
419-1	Significant fines and non-monetary sanctions for non-compliance with laws and/or regulations in the social and economic area	*110*	
FS10	Percentage and number of companies held in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues	*23*	
FS11	Percentage of assets subject to positive and negative environmental or social screening	*22–23*	

Auditor's review report on the sustainability report of Alecta Pensionsförsäkring, ömsesidigt

To the Council of Administration of Alecta Pensionsförsäkring, ömsesidigt

Introduction

We have been engaged by the Board of Directors of Alecta Pensionsförsäkring, ömsesidigt to review the company's sustainability report for 2017. The company has defined the scope of the sustainability report on pages 112–113 of this document.

The Board of Directors' and management's responsibility for the sustainability report

Responsibility for preparing the sustainability report in accordance with the applicable criteria, which are set forth on page 111 of the sustainability report and comprise those sections of the sustainability reporting framework issued by the Global Reporting Initiative (GRI) that are applicable to the sustainability report, and the reporting and calculation principles defined by the company itself, rests with the Board of Directors and management. This responsibility also includes such internal control as is deemed necessary for preparing 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 on the sustainability report based on our review.

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. A review has a different focus and significantly narrower scope than a full audit conducted in accordance with IASB's standards and generally accepted auditing standards.

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 in accordance with Swedish GAAS and have otherwise fulfilled our ethical responsibilities under these standards.

The review procedures performed in a review do not enable us to obtain a degree of certainty that would make us aware of all important circumstances that would have been identified if an audit had been performed. The conclusion based on a review therefore does not have the same certainty as a conclusion based on an audit.

Our review is based on the criteria selected by the Board of Directors and management, which are defined above. We consider these criteria to be appropriate for the preparation of the sustainability report, and we believe the evidence we have obtained in the course of our review is sufficient and appropriate for the purpose of establishing a basis for issuing the following opinion.

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.

Stockholm, 19 March 2018
Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Outi Alestalo
Specialist member of FAR

Board of Directors

Erik Åsbrink [1, 2]
Born 1947. Chairman, Member of the Board since 2000. *Other directorships:* Svensk Hypotekspension AB (Chairman), Stiftelsen Cancercentrum Karolinska. *Other posts:* Economic Council of the Swedish Trade Federation (Chairman), the Board of Trustees of the Centre for Business and Policy Studies (SNS), Danske Hypotek.

Hanna Brandt-González [3]
Born 1969. Senior Advisor, Unionen. Member of the Board since 2016. *Other directorships:* Medlemsförsäkring AB (Chairman), TCO Development AB.

Petra Hedengran [2]
Born 1964. General Counsel, Head of Corporate Governance and responsible for investments in EQT funds at Investor AB. Member of the Board since 2017. *Other directorships:* Electrolux, the Swedish Association for Generally Accepted Principles in the Securities Market.

Martin Linder [2]
Born 1973. President of Unionen. Member of the Board since 2016. *Other directorships:* PTK (Chairman), TCO.

Per Hedelin [3]
Born 1965. CEO of Ledarna. Member of the Board since 2008. *Other directorships:* Försäkringsbolaget PRI Pensionsgaranti, Bliwa Livförsäkring, Mgruppen Svenska managementgruppen AB (Chairman), Intermezzon AB (Chairman), Djurönäset Hotell och Konferenser (Chairman).

[1] Member of the Board Presidium, which also acts as remuneration committee
[2] Member of the Finance Committee
[3] Member of the Audit Committee

Board of Directors

Magnus von Koch [2]
Born 1962. Investment Management at Unionen. Member of the Board since 2010.
Other directorships: Klara Norra Fastigheter AB (Chairman).

Birgitta Pernkrans
Born 1969. Insurance Officer, Employment Representative for FTF.
Member of the Board since 2015.

Mikael Persson
Born 1962. Insurance Officer, Employment Representative for SACO.
Member of the Board since 2008.

Christer Ågren [1]
Born 1954. Second Vice Chairman. Member of the Board since 2009.

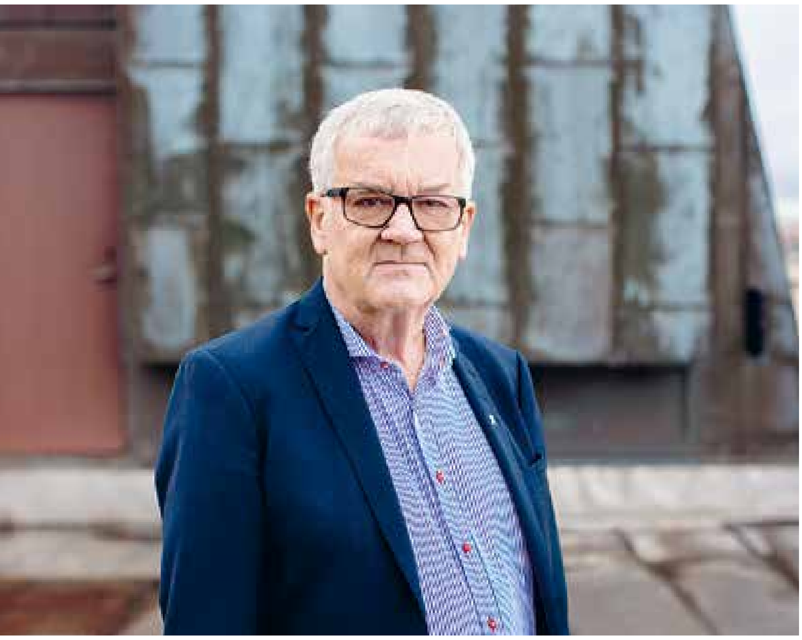
Richard Malmborg [3]
Born 1961. Director of the Swedish Association of Graduate Engineers. Member of the Board since 2003. *Other directorships:* PTK (Vice Chairman), SACO (First Vice Chairman), Akademikertjänst AB (Chairman).

[1] Member of the Board Presidium, which also acts as remuneration committee
[2] Member of the Finance Committee
[3] Member of the Audit Committee

Peter Jeppsson [3]
Born 1957. Executive Vice President at the Confederation of Swedish Enterprise. Member of the Board since 2016. *Other directorships:* Trygghetsrådet TRR (Chairman), Trygghetsfonden TSL (Chairman), Fora AB.

Cecilia Fahlberg Pihlgren [1]
Born 1960. First Vice Chairman. Member of the Board since 2007. *Other posts:* The Committee of Inquiry into the Labour Market (Arbetsmarknadsutredningen).

Anders Weihe [3]
Born 1961. Chief Negotiator and Chief Legal Officer at the Association of Swedish Engineering Industries. Member of the Board since 2017. *Other directorships:* Trygghetsrådet TRR, Trygghetsfonden TSL, Ratio Institute. *Other posts:* TEKO (CEO), Teknikarbetsgivarna, Tekniktjänstearbetsgivarna.



Kaj Thorén [2]
Born 1944. Member of the Board since 2005.

Anna-Karin Hatt [2]
Born 1972. CEO of Almega AB. Member of the Board since 2016. *Other directorships*: Almega AB, Almega Tjänsteförbunden, Castellum AB, Trygghetsfonden TSL, Trygghetsrådet TRR. *Other posts:* Almega Tjänsteförbunden (Director of Association), Swedish Higher Education Authority.

The Duties and Practices of the Board of Directors

The Board of Directors is responsible for the organisation and administration of Alecta. The Board defines Alecta's strategies and long-term targets, and is responsible for ensuring adequate risk control.

The Board is also responsible for ensuring that there is adequate control of the organisation in respect of accounting and financial management and for ensuring that Alecta is managed efficiently, that adequate internal controls are in place, and that there is adequate control of compliance with those laws and regulations that apply to Alecta's operations. The Board is thereby responsible for ensuring that the necessary internal regulations for Alecta's operations are in place, and adopts the Company's investment guidelines, actuarial guidelines and guidelines for managing conflicts of interest.

Each year, the Board of Directors adopts rules of procedure for its activities and terms of reference for the Chief Executive Officer. The work of the Board of Directors is normally evaluated once a year. An evaluation was made in autumn 2017 and the result was presented to the Preparatory Committee of the Council of Administration in preparation for the meeting of the Preparatory Committee in March 2018, at which the Chairman and Vice Chairmen of the Board also participated. The work of the CEO is evaluated continuously and a formal evaluation is made once a year.

The Board held eight meetings in 2017, one of which was held in conjunction with a two-day Board seminar at which matters of strategic importance for Alecta were discussed.

In addition to the activities of the Board itself, the Board operates through three committees: the Board Presidium, the Finance Committee and the Audit Committee.

The Board Presidium has three members: the Chairman of the Board and the two Vice Chairmen. The CEO also participates in meetings of the Presidium. The main duties of the Presidium are to administer and adopt decisions on those matters which the Board delegates to the Presidium and otherwise advise the CEO in the day-to-day management of the Company, and to prepare the agenda and decisions on matters of particular importance in preparation for Board meetings. The Presidium also acts as a remuneration committee and convenes at the initiative of the Chairman of the Board. The Presidium held six meetings in 2017.

The Finance Committee consists of six members. The committee adopts detailed guidelines for Alecta's day-to-day investment activities, monitors the investment activities, prepares matters related to these activities that will be addressed by the Board, and makes decisions on investment-related matters which fall outside the remit of the CEO. The Finance Committee convened on five occasions in 2017.

The Audit Committee consists of four members. The committee continuously evaluates and communicates to the Board its view of Alecta's risk exposure and management's risk management. The committee also supports the Board in monitoring and evaluating internal and external auditing processes, and prepares matters related to the Board's work on assuring the quality of Alecta's financial reporting. The Audit Committee held five meetings in 2017.

In addition to the regular agenda items, the Board and committees addressed the following matters during the year:

- Alecta's 100-year anniversary
- The ITP procurement
- Alecta's funding policy
- Alecta's communication platform
- Alecta's sustainability policy
- Information security
- The Swedish Financial Supervisory Authority's work on solvency capital requirements for occupational pension providers.

Council of Administration and auditors

The Council of Administration

The Council of Administration is Alecta's highest decision-making body, corresponding to the General Meeting of Shareholders in the Swedish Insurance Companies Act. The Council's duties include electing the members of the Board of Directors and 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 the income statements and balance sheets for the Parent Company and Group, and deciding on the appropriation of the profit or loss for the year.

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

Members and Deputy Members

The 19 members and four deputy members of the Council of Administration elected by the Confederation of Swedish Enterprise for the period 2017–2019.

Members

Björn Alvengrip, Mölle
Kenneth Bengtsson, Stockholm, Chairman
Jan Bosaeus, Solna
Mattias Dahl, Stockholm
Eva Dunér, Göteborg
Inga-Kari Fryklund, Stockholm
Nils Åke Hallström, Nälden
Per Hidesten, Stockholm
Göran Holm, Bromma
Karin Johansson, Stockholm
Ulf Larsson, Sundsvall
Staffan Lindquist, Helsingborg
Martin Lindqvist, Stockholm
Jan Moström, Luleå
Ola Månsson, Alunda
Kerstin Renard, Hälleviksstrand
Jan Siezing, Tumba
Ulrik Wehtje, Malmö
Klas Wåhlberg, Västerås

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), Göteborg
Helena Hedlund (Ledarna), Märsta
Peter Hellberg (Unionen), Bandhagen, Vice Chairman
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 (Swedish Association of Graduate Engineers), Enskede
Hans Lindau (Unionen), Sandared
Leif Nicklagård (Unionen), Sundbyberg
Annica Pettersson (PTK), Enskede Gård
Kristina Rådkvist (PTK), Enköping
Therese Sysimetsä (Unionen), Stockholm
Anders Tihkan (Swedish Association of Graduate Engineers), Värmdö
Marina Åman (Unionen), Strängnäs

Deputy Members

Thomas Eriksson (Ledarna), Örebro
Nils-Harald Forssell (Unionen), Olofstorp, also a representative of Alecta's retirees
Mikael Hansson (Unionen), Billdal
Stefan Jansson (Swedish Association of Graduate Engineers), 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

Senior management

Magnus Billing
Born 1968. CEO. *Education:* LL.M. Employed since: 2016.
Directorships: Insurance Sweden, Employers' Organisation for the Swedish Insurance Industry (FAO). *Other posts:* The Board of Trustees of the Centre for Business and Policy Studies (SNS), the European Commission's High-Level Expert Group on Sustainable Finance, Delegation Bostad 2030. *Previous experience:* CEO of Nasdaq Stockholm and CEO of Nasdaq Nordics.

Tony Persson
Born 1965. Acting Head of Investment Management. *Education:* M.Sc. in Financial Economics. *Employed since:* 1998. *Previous experience:* SEB and the Swedish National Institute of Economic Research (NIER).

Katarina Thorslund
Born 1962. Deputy CEO. Head of Customer Relations. *Education:* B.Sc. in Mathematics. Employed since: 2003. *Previous experience:* Chief Financial Officer and Chief Actuary at Alecta. Previously Chief Actuary at Folksam Gruppförsäkring.

Ulf Larsson
Born 1968. Head of IT. *Education*: B.A. in Business Administration.
Employed since: 1998. *Previous experience:* Head of IT Architecture and Group Head of Infrastructure at Alecta. Previously, consultant at WM-data.

Maria Wahl Burvall
Born 1964. Director of Human Resources, Purchasing and Service. *Education*: M.Sc. in Business and Economics, majoring in Economics and Statistics. *Employed since*: 2014. *Previous experience:* Economist, HR specialist and Head of HR at the Riksbank.

Fredrik Palm
Born 1976. Head of Products. *Education:* M.Sc. in Mathematical Statistics. *Employed since:* 2013. *Previous experience:* Chief Actuary at Alecta. Previously, self-employed actuarial consultant, consultant and partner of consulting firm.

Martin Hedensiö
Born 1964. Head of Communication and Sustainability. *Education:* M.Sc. in Accounting and Auditing. *Employed since:* 2016. *Previous experience:* Director of Communications at Svenska Spel, Vice President Corporate Communications Europe, Middle East and Africa at Nasdaq, Executive Partner, Head of Corporate and Financial Communications at Hallvarsson & Halvarsson, Deputy CEO of Springtime, Investor Relations Director Electrolux.

Magnus Landare
Born 1957. Head of Legal Affairs. *Education:* LL.M. *Employed since:* 1995. *Previous experience:* Lagerlöf & Leman law firm. Prior to that, Law Clerk at the Stockholm District Court.

Camilla Wirth
Born 1970. Chief Financial Officer. *Education:* M.Sc. in Business and Economics. *Employed since:* 2017. *Previous experience:* CFO Nordax Bank AB (publ), CFO Aberdeen Property Investors IIM AB, Auditor and Consultant at KPMG Financial Services.

Hans Sterte
Born 1961. Head of Investment Management, will take up post in March 2018. *Education:* M.Sc. in Business Administration and Economics, Stockholm University. *Employed since:* 2018. *Previous experience:* Most recently, Head of Asset Management at Skandia. Previously, Director of Finance at Länsförsäkringar AB.

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 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 plan 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.

Insured
The person covered by the insurance contract.

Insurance contracts
A contract between an insurance provider and a policy holder containing a significant insurance risk.

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 his or her 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.

Östertälje Tryckeri AB • Nordic Ecolabel Printed Matter • Licens 3041 0342

Alecta pensionsförsäkring, ömsesidigt
Telephone +46 20 78 22 80
SE-103 73 Stockholm | alecta.se

8055 2018.03 Photos: Evelina Carborn, Elena Kraskowski, Ulf Huett Nilsson/Johnér bildbyrå, Alecta.
Illustrations: Emily Ryan Production: Alecta Originals: Griller Grafisk Form
Prepress: Bildrepro Printed by: Kampanjmakarna/Östertälje tryckeri