alecta

INTERIM REPORT

January–June 2012

Financial information for January–June 2012

- The total return amounted to 4.6 percent for the first half of 2012. For the most recent five-year period, the total return was an average of 3.1 percent per year. For Alecta's defined contribution product, Alecta Optimal Pension, the total return for the first half of the year amounted to 7.4 percent.
- At the end of the period, the collective funding ratio for defined benefit insurance was 125 percent. The determined funding interval is 125-155 percent. The level of solvency was 139 percent.
- Alecta's management expense ratio has continued to decline and amounted to 0.14 at mid-year. For pension products excluding selection centre costs, the corresponding key ratio is 0.09.
- A new method for the calculation of life insurance provisions for defined benefit retirement and family pension was introduced during the first half of 2012. In conjunction with the change of the method, the methodology and assumptions for tax on returns and operating costs were also amended. In total, the changes implied that the life insurance provisions decreased by SEK 13 billion. The decrease in life insurance provisions meant that the level of solvency was strengthened by nearly 5 percentage points.

Comments on the Parent Company and Group's financial statements

Events during the period

Despite continued problems within the Eurozone, as well as increased concerns for global growth, Alecta's investment portfolio developed positively during the first half of the year. The total return was 4.6 percent, whilst Alecta Optimal Pension had a return of 7.4 percent.

A new method for the calculation of life insurance provisions for defined benefit retirement and family pension was introduced. For further information, please refer to the section Technical provisions.

Starting from 1 December 2012, Alecta will increase the current premiums for new benefits in defined benefit insurance. The measure adjusts the current premiums to the prevailing levels for long-term market interest rates. The premium interest rate is lowered from 3 percent to 2 percent. The decrease corresponds to approximately SEK 150 million in increased premium withdrawals annually. The change in premium relates to new employees, employees' salary increases, as well as newly added companies. The premium interest rate for single payment insurance was already lowered from 3 percent to 2 percent during autumn 2011.

In May, the Board determined a new level for the interest charged to Alecta Optimal Pension for capital contributions from the defined benefit plan, in order to finance the deficit in operating expenses attributable to the start-up period. The interest rate relates to the remaining time of the current contractual period. Further information is available on alecta.se.

In April, the management of Alecta Optimal Pension was integrated into the main insurance system which had been put into operation for defined benefit pensions during 2008. This creates opportunities for further streamlining of the administration.

In June, the Financial Supervisory Authority (FSA), resolved to temporarily, until June 2013, allow life insurance companies to apply a floor rate, based on market rates on 31 May 2012. The aim of the resolution is to break the downward spiral which the falling Swedish interest rates, combined with the current regulations for life insurance companies, may give rise to. Alecta does not intend to use the new opportunity, unless the market rate falls under extreme pressure; however, Alecta still considers it to be a positive measure, as it decreases the risk of a total collapse of the interest rate.

During the year, Alecta has continued to work with the formation of opinion regarding collectively agreed occupational pensions. A follow-up on the previous year's report "Over-exploitation of pension savers" has been conducted through the report "Occupational Pensions – the investment management forgets" that was launched in conjunction with a seminar in May.

In May, a new key ratio, the Norman amount, was launched by Morningstar to make it easier for investors to compare different savings products. The key ratio is a forecast of the cost of making monthly savings of SEK 1,000 for ten years. Alecta reports the Norman

Comments on the Parent Company and the Group's financial statements (cont.)

Amount, for ten and thirty years respectively, for Alecta Optimal Pension at alecta.se.

The newsletter, Pensions & Benefits Annual Review, shows that Alecta's fees for asset management are the lowest in the industry. Alecta's asset management fee amounts to 0.03 percent.

Result

The period's result after tax for the Group amounted to SEK 42.1 (-17.6) billion for the first six months. The result has primarily been affected by a positive return on capital, as well as changes in technical provisions as a result of higher long-term market interest rates and changes in the calculation methodology for defined benefit retirement and family pensions.

Premium income

Premium income for the first six months amounted to SEK 10.7 (12.6) billion. As a result of the deterioration of the financial position during the autumn of 2011, the Board decided that no indexation of earned pension rights (adjustment of paid-up values) would take place in 2012. The premium income for the first half of 2011 included such an adjustment of paid-up values in an amount of SEK 2.3 billion.

Return on capital

Alecta's investment assets provided a return of 4.6 percent in the first half of 2012, and the market value of investments amounted to SEK 509 billion at the end of the period. Shares are the asset class that had the best return, with 9.4 percent. Real estate and interest-bearing investments provided returns of 4.2 percent and 2.6 percent, respectively. On a rolling five-year basis, the annual total return in June was 3.1 percent. For Alecta's defined contribution product, Alecta Optimal Pension, which has a higher proportion of shares than Alecta's total portfolio, the total return for the first half of the year amounted to 7.4 percent.

In the income statement, return on capital amounted to SEK 22.0 billion.

Technical provisions

The technical provisions amounted to SEK 367 billion on 30 June 2012. This is a decrease of SEK 19.3 billion for the first half of 2012, and can be explained by:

- The change in the market-based discount rate, which has increased from 2.58 percent at year-end 2011 to 2.77 percent at the end of the second quarter of 2012. The change implied that the technical provisions decreased by SEK 8.5 billion.
- Changes in methodology and assumptions for the calculation of life insurance provisions for defined benefit retirement and family pensions. The new method is linked to the main alternative stated in the Insurance Business Act. The provision now takes into account the capital value of earned pension rights, as well as capital value of the contracted, expected future premiums and the pension payments that the future premiums are expected to give rise to. In conjunction with the change of method, the methodology and assumptions for tax on returns and operating costs was also amended, as a result of the fact that the assumed costs significantly exceeded the actual costs. Together, the change in the methodology and assumptions entail that a decrease of technical provisions by SEK 13.3 billion has been reported in the accounts. See also Note 1, the section Calculation method for life insurance provisions. For further information please visit www.alecta.se/nyberakningsmetod.
- A change in the assumption for calculating disability pension provisions, which has been implemented during the first half of 2012. This has resulted in a decrease in the technical provisions by SEK 0.8 billion.
- Other changes in the portfolio, such as expected return on technical provisions, premium payments and the payment of insurance claims, have led to an increase in technical provisions of SEK 3.3 billion.

Operating expenses

Operating expenses for the insurance business amounted to SEK 291 (319) million for the first half of 2012. The decrease is partly explained by lower costs for marketing activities, as well as lower personnel costs due to reduced staffing achieved through ongoing efficiency improvements. Moreover, 2011 was characterised by non-recurring costs. Meanwhile, IT costs increased, partly due to a continued focus on digital channels. As a result of the reduced costs and higher average assets under management, the management expense ratio decreased to 0.14 (0.17). For pension products exclud-

Comments on the Parent Company and the Group's financial statements (cont.)

ing selection centre costs, the corresponding key figure amounted to 0.09 (0.11). This is the lowest amongst the Swedish life insurance companies, making Alecta one of the world's most efficient pension companies in the comparisons that Alecta has made.

Financial position

At the end of the period, the collective funding ratio for defined benefit insurance was 125 percent. The determined funding interval is 125-155 percent. Thus, the collective funding ratio has increased compared to the end of the year, at which point it amounted to 113 percent.

Alecta Optimal Pension has a collective funding ratio of approximately 100 percent, since the profits and losses, respectively, are allocated to the insured on a monthly basis.

Alecta's level of solvency amounted to 139 percent.

Parent Company

The comments above also refer, in all material aspects, to the Parent Company, in which the insurance operations are conducted.

Significant risks and uncertainty factors

For information regarding Alecta's risks and risk management, please refer to Alecta's annual report for the year 2011, pages 20 and 44.

Solvency II and the Occupational Pension Directive

The Solvency II Committee's proposal of October 2011, gave pension companies the opportunity to become subject to the Solvency II Directive, or to a special operating regulation for occupational pension companies, which is based on the Occupational Pensions Directive, that is, for Alecta's part, this would be a continuation of the current regulation.

In April 2012, however, the Treasury Department's memorandum, "The relationship between the Solvency II Directive and the Occupational Pensions Directive" was published, which completely dismisses the option of the specific prudential regulation of pension companies. Alecta has submitted a consultation response to the memorandum and questions the Treasury Department's interpretation. In its response, Alecta recommends the Solvency II Committee's proposals.

If the Department's assessment is upheld, it will, for Alecta, imply a continued focus on the implementation of priority activities within the Solvency II project. We can, however, state that Alecta is well prepared for the demands of Solvency II, partly owing to Alecta's system of governance, which has been recently implemented, as well as the procedures and processes in place from the completed QIS computation exercises [1)].

In July, the final requirements for Solvency II reporting were also published and an internal analysis, which will form the basis for future Solvency II work, is in progress.

[1)] Quantitative Impact Study, preliminary studies in the Solvency II process issued by CEIOPS (The EU's Committee of European Insurance and Occupational Pensions Supervisors).

Financial position and key ratios, Group

Financial position, MSEK	30 June 2012	30 June 2011	31 Dec 2011
Collective funding capital	94,628	128,491	54,082
Capital base [1]	139,627	175,711	99,323
Required solvency margin [2]	15,199	13,625	15,995
Key ratios			
Management expense ratio percentage [3]	0.14	0.17	0.15
of which pension products, excluding selection centre costs [3, 4]	*0.09*	*0.11*	*0.10*
Investment management expense ratio	0.03	0.03	0.03
Collective funding ratio, defined benefit insurance, percent	125	137	113
Collective funding ratio, defined contribution insurance, percent [5]	100	100	100
Solvency level, percent	139	154	126

1) Relates to the Parent Company.
2) Relates to the Parent Company and the Group.
3) Does not include costs for investment management. Key ratios are calculated on a rolling 12-month basis.
4) Pension products consist of defined benefit and defined premium retirement pension and family pension.
5) Since surplus/deficit is divided monthly among the insured, the collective funding is normally always 100 percent

Total return table for investments, the Group

	Market value 2012-06-30		Market value 2011-12-31		Total return as in percentage		
	MSEK	%	MSEK	%	6 months Jan–June 2012	12 months July 2011 –June 2012	5-year average July 2007 –June 2012
Shares	161,557	31.7	139,392	28.6	9.4	–4.8	–0.7
Interest-bearing investments	310,131	60.9	312,334	64.1	2.6	7.5	6.6
Real estate	37,595	7.4	35,444	7.3	4.2	11.5	3.2
Total investments	**509,283**	**100.0**	**487,170**	**100.0**	**4.6**	**1.2**	**3.1**

Total return table for investments, Alecta Optimal Pension

	Market value 2012-06-30		Market value 2011-12-31		Total return as in percentage		
	MSEK	%	MSEK	%	6 months Jan–June 2012	12 months July 2011 –June 2012	5-year average July 2007 –June 2012 [1]
Shares	11,537	67.0	8,996	63.6	9.4	–4.8	-
Interest-bearing investments	4,383	25.5	4,101	29.0	2.7	7.8	-
Real estate	1,299	7.5	1,053	7.4	4.2	11.5	-
Total investments	**17,219**	**100.0**	**14,150**	**100.0**	**7.4**	**–0.3**	**-**

1) Alecta Optimal Pension was introduced on 31 August 2007; consequently, no five-year average values are reported. Alecta Optimal Pension has a higher proportion of shares than other products

Due to rounding up/down, the figures in the tables above may deviate slightly from the total amounts. The total return table is prepared in accordance with the recommendations of the trade association, "Insurance Sweden". The accounts and the valuation of the investments do not correspond to the accounting principles applied in the financial reports. These differences are only reported in the financial reports.

Summary Income Statement, the Group

MSEK	Jan–June 2012	Jan–June 2011
Premiums written	10,661	12,613
Return on capital, net	22,049	9,588
Claims incurred	–8,062	–7,245
Changes in provisions for claims outstanding	813	864
Change in other technical provisions	18,532	–31,981
Operating expenses	–291	–319
Depreciation and impairment of owner-occupied properties	–9	–9
Tax on returns	–606	–692
Total operating profit	**43,087**	**–17,181**
Profit before tax	**43,087**	**–17,181**
Income tax	–991	–457
Profit for the period	**42,096**	**–17,638**

Statement of Comprehensive Income, the Group

MSEK	Jan–June 2012	Jan–June 2011
Profit for the period	**42,096**	**–17,638**
Exchange rate differences	*68*	*309*
Total other comprehensive income	**68**	**309**
Comprehensive income for the period	**42,164**	**–17,329**

Summary Balance Sheet, the Group

MSEK	30 June 2012	31 Dec 2011
Intangible assets	406	423
Property, plant and equipment	22	22
Deferred tax	-	692
Investment assets	507,955	484,992
Receivables	4,450	4,861
Cash and bank equivalents	1,404	3,004
Prepayments and accrued income	4,981	6,065
Total assets	**519,218**	**500,059**
Equity	142,032	101,530
Provisions for life insurance	356,762	375,294
Claims outstanding	10,029	10,842
Pensions and similar commitments	41	53
Other provisions	21	33
Current tax	27	6
Deferred tax	1,058	1,400
Liabilities for direct insurance operations	611	599
Derivatives	3,581	3,864
Other liabilities	3,533	5,235
Other accruals and deferred income	1,523	1,203
Total equity and liabilities	**519,218**	**500,059**

Summary Cash Flow Statement, the Group

MSEK	Jan–June 2012	Jan–June 2011
Cash flow from operating activities	58	1,363 [1)]
Cash flow from investing activities	–2	6,
Cash flow from financing activities	–1,657	–1,508 [1)]
Cash flow for the period	**–1,601**	**–139**
Cash and cash equivalents, opening balance	3,004	864
Exchange rate differences in cash and cash equivalents	1	–34
Cash and cash equivalents, closing balance	**1,404**	**691**

[1)] Reclassifications between items compared to the interim report January-June 2011 have been made on the basis of incorrect classifications.

Statement of Changes in Equity, the Group

MSEK	Jan–June 2012	Jan–June 2011
Opening equity	**101,530**	**199,695**
Profit for the period	42,096	–17,638
Other comprehensive income	68	309
Total comprehensive income for the period	**42,164**	**–17,329**
Rebates		
Pension supplements	*–1,431*	*–1,300*
Adjustment of paid-up values	*–6*	*–2,303*
Premium reduction	*–11*	*–532*
Change in indexation funds		
Collective risk premium [2)]	*–120*	*–150*
Change in guarantee reserve		
Information funds	*–56*	*–49*
Collective agreement guarantee	*–50*	*–9*
Other changes	12	–775
Closing equity	**142,032**	**177,248**

[2)] Premium for waiver of premium insurance and collective final payment is reduced because employers are expected to incur a higher cost due to the new rules for coordination and calculation of pensionable salary introduced by the parties in ITP 2 in 2008.

Summary Income Statement, Parent Company

MSEK	Jan–June 2012	Jan–June 2011
Technical account		
Premiums written	10,661	12,613
Return on capital, income	15,410	16,200
Unrealised gains on investments	7,100	324
Claims paid	–8,062	–7,245
Change in provisions for claims outstanding	813	864
Change in other technical provisions	18,532	–31,981
Operating expenses	–291	–319
Return on capital, expenses	–895	–2,111
Unrealised losses on investments	-	–5,592
Balance on the technical account, life insurance business	**43,268**	**–17,247**
NON-TECHNICAL ACCOUNT		
Profit before appropriations and tax	**43,268**	**–17,247**
Appropriations	–382	–213
Tax	–1,319	–1,043
Profit for the period	**41,567**	**–18,503**

Statement of Comprehensive Income, Parent Company

MSEK	Jan–June 2012	Jan–June 2011
Profit for the period	**41,567**	**–18,503**
Exchange rate differences	-	-
Total other comprehensive income	**-**	**-**
Comprehensive income for the period	**41,567**	**–18,503**

Summary Balance Sheet, Parent Company

MSEK	30 June 2012	31 Dec 2011
Intangible assets	406	423
Investment assets	505,559	483,246
Receivables	4,380	4,788
Other assets	1,229	2,753
Prepayments and accrued income	5,039	6,191
Total assets	**516,613**	**497,401**
Equity	137,889	97,984
Untaxed reserves	2,145	1,762
Technical provisions	366,791	386,136
Other provisions	306	202
Liabilities	8,167	10,390
Accruals and deferred income	1,315	927
Total equity, provisions and liabilities	**516,613**	**497,401**

Notes

NOTE 1 Accounting principles in the Group and Parent Company

The Group

The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations, as adopted by the EU. The financial statements have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Insurance Companies and the Swedish Financial Supervisory Authority's instructions and general advice regarding the annual accounts of insurance companies, FFFS 2008:26, with mandatory additions in FFFS 2009:12 and FFFS 2011:28, as well as the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups.

The regulations in IAS 34 "Interim Financial Reporting" have been followed in the preparation of this interim report. The same accounting principles and calculation methods have been applied as in the most recent annual report, other than the exceptions stated below under the heading Calculation method for life insurance provisions.

Parent Company

The Parent Company applies so-called legally restricted IFRS. This means that international accounting standards are applied to the extent this it is possible according to Swedish accounting legislation. The financial statements for the Parent Company comply with the Annual Accounts Act for Credit Institutions and Insurance Companies and the Swedish Financial Supervisory Authority's instructions and general advice regarding the annual accounts of insurance companies, FFFS 2008:26, with mandatory additions in FFFS 2009:12 and FFFS 2011:28, as well as the Swedish Financial Reporting Board's recommendation RFR 2 Accounting for Legal Entities. Since the Group applies full IFRS, its accounting principles differ, in certain respects, from those applied in the Parent Company. The significant differences remain the same as those identified in the most recent annual report. The same accounting principles and calculation methods have been applied as in the most recent annual report, other than the exceptions stated below under the heading Calculation method for life insurance provisions.

Calculation method for life insurance provisions

Life insurance provisions for defined benefit retirement and family pension were calculated, until 30 June 2012, as the capital value of accrued pension rights and the capital value of the expected future premiums as a result of prior reclassifications paid for through Alecta's surplus funds rather than by employers. As of 30 June 2012, life insurance provisions for defined benefit retirement and family pension are calculated as the capital value of accrued pension rights and the capital value of contractual expected future premiums and pension payments that future premiums are expected to give rise to. The change in life insurance provisions that occurred in conjunction with the change of method is recognised in income.

NOTE 2 Related parties

Alecta considers the following legal entities and physical persons to be related parties, as defined in IAS 24:

- All companies in the Alecta Group
- Management and members of the Board
- Close family members of members of the Board and senior management
- The Confederation of Swedish Enterprise and PTK
- Associated companies and joint ventures
- The Collectum AB and Fora AB selection centres (of which the principal owners of Collectum are the Confederation of Swedish Enterprise and PTK, while the Confederation of Swedish Enterprise owns half of Fora).

A description of transactions with related parties can be found in Alecta's annual report for 2011, page 55.

No significant changes in the agreements and relations between Alecta and related parties have taken place during the period.

This interim report has not been subject to review by the Company's auditors.
Stockholm, 20 August 2012.

Staffan Grefbäck
CEO

Glossary

Adjustment of paid-up values
Bonus allocation which increases pension entitlement earned prior to retirement age. This adjustment is primarily made to compensate for inflation.

Assets under management
Total assets minus financial liabilities (other provisions, liabilities and accruals and prepaid income) as specified in the balance sheet.

Bonus
Surplus assigned or allocated to
• policy holders, in the form of premium reductions
• the insured, in the form of increased insurance benefits.
• cost coverage for measures within the ITP Plan. The parties to the collective agreement have been granted the right to direct the use of these funds. A decision on final use is made by the Board of Alecta, provided they unanimously agree that the directed use is in accordance with Alecta's interests as an insurance company.

Reversionary bonus is formally guaranteed. Allocated bonus is not formally guaranteed.

Capital base
The difference between the market-value of the company's assets, less intangible assets and financial liabilities, and technical provisions.

Collective funding capital
The difference between distributable assets, assessed at market value, and insurance commitments (both guaranteed commitments and allocated rebates) to policy holders and insured.

Collective funding ratio
Distributable assets in relation to insurance commitments to policy holders and insured (both guaranteed commitments and allocated rebates).

Defined benefit insurance (ITP 2)
The amount of pension is determined in advance as a specified amount or a specified level of final salary. The size of the premiums varies depending on the benefit decided and how well the manager manages the pension capital.

Defined contribution insurance (ITP 1)
The amount of pension is dependent on, among other things, returns and fees charged by the manager of the pension capital. The size of the premiums is determined as a specified percentage of salary or a specified amount.

Distributable assets
Total market value of assets less deduction for financial liabilities, special indexation funds and guarantee reserves.

Investment assets
Assets having the character of a capital investment, that is, interest-bearing securities, shares and real estate.

Investment management expense ratio
Operating expenses for investment management in relation to average assets under management.

Investments
The investment assets, cash and bank balances and other assets and liabilities that are related to investment assets (such as accrued interest and rental income) assessed at market value in the balance sheet.

Management expense ratio
Operating expenses in the insurance business (acquisition costs and administrative expenses) and claims management costs in relation to average managed capital. This key ratio is calculated as a total amount and for pension products.

Pension supplement
Bonus allocated to the insured in addition to guaranteed pension. Under actuarial guidelines, such a bonus may not exceed the increase in the Consumer Price Index for the year in question, calculated from the date on which the insured's pension payments are first paid out. The pension supplement is determined by the Board each year.

Premium reduction
Distribution of surplus funds through the reduction of premiums. Premium reduction is applied to risk insurance.

Required solvency margin
Minimum requirement for the size of the capital base. Put somewhat simply, the solvency margin is determined as a certain percentage of both technical provisions and the company's insurance risks.

Solvency level
Total assets assessed at market value, less intangible assets and financial liabilities, in relation to guaranteed commitments.

Technical provisions
The capital value of the insurance company's guaranteed commitments, which consist of provisions for life insurance and a provision for claims outstanding.

Facts about Alecta

Alecta has been managing occupational pensions since 1917. We put our customers' best interests first and have one single focus – to provide security during, and after, their working lives. We do this through maintaining good returns and low costs.

We manage approximately SEK 510 billion on behalf of our owners, of whom 2 are million private customers and 33,700 are corporate clients.