Interim Report

January–June 2018

Message from the CEO

A show of strength

In the first half of 2018, Alecta delivered on several fronts: we were chosen as the default option for the defined contribution parts of the ITP plan for a further five years and assets under management in the defined contribution product Alecta Optimal Pension passed the SEK 100 billion mark.

Looking at our financial key ratios for the first six months of 2018, Alecta reports a return of 1,7 per cent for defined benefit plans and a return of 2,1 per cent for Alecta Optimal Pension. We expect more from ourselves than what we actually achieved during the period.

Alecta has a high proportion of pharmaceutical stocks, which have underperformed other sectors, and our underweight position in oil-related stocks relative to our benchmark index also had a negative impact. Our real estate investments performed well and, despite a challenging interest rate environment, we have kept pace with our benchmark index in fixed income, which is a sign of strength. We have also, once again, achieved an extraordinary level of cost effectiveness.

In view of the very long-term nature of Alecta's business, our KPIs for the past five-year period are the most interesting indicator. On that score, we have performed slightly better than the Swedish and international benchmark indexes against which we measure ourselves. For defined benefit plans, our average annual return over the past five years is 7,8 per cent and the equivalent figure for Alecta Optimal Pension is 10,2 per cent.

In March, Collectum announced that Alecta Optimal Pension had again been selected as the default option for the ITP plan and that Alecta had been entrusted to manage the defined contribution retirement pension plan, i.e. both ITP 1 and ITPK, for private-sector salaried employees for a further five years. Alecta was also chosen as one of the active choices that a pension saver covered by the ITP can make in traditional asset management, i.e. a check-the-box option.

The procurement has enabled Alecta to further reduce its management fee, to 0,09 per cent, for all insureds under the ITP plan and to lower the annual cap on fees from SEK 900 to SEK 600. In addition to reduced fees, Alecta has strengthened its guarantee. Previously, the guarantee gave pension savers the higher of 100 per cent of premiums paid or 70 per cent of their pension capital, i.e. premiums paid and return, on their first disbursement. The guarantee levels will remain, but the criterion for when the payout is increased under the 70 per cent rule has been changed, so that individual pension savers are not disadvantaged by going into retirement at a time when financial markets are experiencing a temporary downturn.

The cushioning rule has also been improved so that a lifelong pension cannot decrease by more than five per cent from one year to the next.

It is easy to proud of what Alecta offers!

At 30 June, Alecta's collective funding ratio for defined benefit plans was 154 per cent.

At the end of the second quarter, Alecta's Board of Directors decided that the collective funding ratio for defined benefit plans should normally be permitted to range from 125 per cent to 175 per cent. The current range (125–155 per cent), which has applied since 2006, has thus been expanded. The aim is to further strengthen our ability to protect the value of the pensions we provide under the plan.

Alecta has also strengthened its position in sustainable investment. At 30 June, we had SEK 29 billion invested in green bonds and we also made our first impact investments during the six-month period. You can read more about this at Alecta.se.

Alecta's most important mission is to help build a sustainable pension system, and to give our customers financial security, today and tomorrow.

Security increases when it is shared.

Magnus Billing, CEO

Comments on the Parent Company and consolidated financial statements

The Chief Executive Officer of Alecta pensionsförsäkring, ömsesidigt, hereby presents the company's interim report for the period 1 January–30 June 2018.

The amounts refer to the Group and figures in parentheses refer to the same period in the previous year for the income statement and the previous year-end date for the balance sheet.

Profit

The consolidated after-tax profit for the six-month period was SEK 11,0 billion (38,5). Comments on Alecta's results and financial position are presented in the following.

Premiums written

Premiums written for the first half of the year were SEK 26,4 billion (19,2). Premiums written consist partly of invoiced premiums, which totalled SEK 18,1 billion (15,8), and partly of guaranteed refunds in the amount of SEK 8,3 billion (3,4).

The increase in invoiced premiums was chiefly due to a growing volume for Alecta's defined contribution product, Alecta Optimal Pension. Guaranteed refunds comprise reductions of employers' premiums for disability and premium waiver insurance as well as family pensions and an increase in earned pension entitlements (adjustment of paid-up values). The increase in guaranteed refunds is largely due the upward adjustment of paid-up values by 2,12 per cent that was implemented in January based on the change in the consumer price index between September 2016 and September 2017.

Return on capital

The first half of 2018 was a period of considerable volatility in financial markets. Market data pointed to a quickening in the pace of recovery in the eurozone and the US, with both regions reporting strong labour market data and satisfactory inflation. The US central bank, the Federal Reserve, has raised interest rates twice and flagged further rate hikes this year while the European Central Bank and Sweden's Riksbank still have rates in negative territory. The policy divergence between central banks is thus becoming increasingly pronounced.

The positive signals need to be viewed in the context of an unsettled political situation. The United States' hardline pronouncements and imposition of tariffs on the EU and China have fuelled fears of an outright trade war and an abrupt end to the ongoing recovery. In Europe, the Italian coalition government has made no bones about its intention to challenge the EU by violating the fiscal policy framework and increasing its budget deficit. At same time, both Angela Merkel and Theresa May are fighting for their political lives and the shape of Brexit is becoming increasingly uncertain.

The six-month return on the default portfolio in Alecta's defined contribution insurance product, Alecta Optimal Pension, was 2,1 per cent and the average annual return on a five-year rolling basis was 10,2 per cent, which is 1,6 percentage points higher than the benchmark index, Morningstar's Blandfond SEK, aggressiv. At 30 June, the default portfolio in

Key ratios

Group

January–June

2018

Return Defined contribution insurance, Alecta Optimal Pension	2,1 % (5,8 %)
Return Defined benefit insurance	1,7 % (4,0 %)
Management expense ratio For pension products excl. selection centre costs	0,05 % (0,06 %)
Solvency ratio	172 % (173 %)

Comments on the Parent Company and consolidated financial statements, *cont.*

Alecta Optimal Pension had a market value of SEK 95,2 billion.

The six-month return on Alecta's defined benefit insurance product was 1,7 per cent and the average annual return on a five-year rolling basis was 7,8 per cent. The market value at 30 June was SEK 748,2 billion. The return on capital in the income statement was SEK 14,4 billion (32,8).

Claims incurred

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

Insurance claims paid, which comprise benefits incurred in retirement pensions, disability and life insurance as well as expenses for claims settlement, totalled SEK 10,5 billion (10,1).

The change in the provision for claims outstanding was SEK –0,04 billion (0,2), see the section Technical provisions below.

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 497,5 billion at 30 June 2018. This is an increase of SEK 18,7 billion (2,6) for the first half of 2018 due to:

- the return for the period and deductions for taxes and operating expenses, which resulted in an increase in technical provisions of SEK 6,6 billion (6,5).
- paid-up values were adjusted as at 1 January 2018, resulting in an increase in technical provisions of SEK 6,3 billion (1,5)
- changes in the yield curve that is used in valuing the technical provisions. The average interest rate decreased from 2,25 per cent at year-end 2018 to 2,18 per cent at 30 June 2018. As a result, technical provisions increased by SEK 6,4 billion (–5,0).
- premiums written, insurance claims paid and other changes, which together resulted in a decrease in technical provisions of SEK 0,6 billion (0,4).

Operating expenses

Operating expenses in the insurance business, which are termed operating expenses in the income statement, are on a par with the previous year, totalling SEK 295 million (294).

Management expense ratio

The management expense ratio fell by one basis point to 0,08 per cent compared with the full year 2017 thanks to an increase in average assets under management.

The ratio for pension products excluding selection centre costs also fell by one basis point, to 0,05 per cent.

Financial position

The collective funding ratio for defined benefit insurance products was 154 per cent (156) at the end of the period. The collective funding ratio increased on the back of a positive return but decreased due to an increase in technical provisions.

The defined normal range for the collective funding ratio is 125–175 per cent. The permitted range for the collective funding ratio was changed on 30 June (see Significant events during the period). Decisions on refunds are made by Alecta's Board of Directors. Refunds are paid primarily in the form of pension supplements for pensions in payment but can also be distributed in the form an increase in the earned pension entitlement (adjustment of paid-up values) or a reduction in the premiums paid by the policyholders.

Alecta's defined contribution product, Alecta Optimal Pension, had a collective funding ratio of 100 per cent, which is the normal level, as any surplus or deficit is allocated to the insureds on an ongoing basis. Alecta's solvency ratio was 172 per cent (173).

Parent Company

In all essential respects, the above comments also refer to the Parent Company, in which the insurance activities are conducted.

Significant events during the period

Alecta retains status as default option for ITP

In March, Collectum announced the results of the procurement of service providers for the ITP occupational pension plan. 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. Alecta was also chosen as one of the active choices that a pension saver under the ITP can make in traditional asset management, i.e. a check-the-box option.

In connection with the procurement, Alecta Optimal Pension became even better. The already low fee was reduced further, to 0,09 per cent, and the annual cap on fees was reduced from SEK 900 to SEK 600. We have also introduced a better cushioning rule, stronger guarantee and changed guarantee for transfers. The option of changing the investment focus has been removed, as this was a requirement in the procurement.

Adjustment of paid-up values

In the first half of 2017, Alecta implemented an increase in

Comments on the Parent Company and consolidated financial statements, *cont.*

earned pension entitlements (adjustment of paid-up values) by SEK 6,3 billion following a decision by the Board to increase pensions in payment as well as earned pension entitlements for defined benefit insurance products by 2,12 per cent. The increase reflects the change in CPI for the period September 2016–September 2017.

Changed funding policy for ITP 2

Alecta's Board of Directors has resolved to change the company's funding policy for defined benefit policies with effect from 30 June. The collective funding ratio will now be permitted to range between 125 and 175 per cent, which is a broadening of the current 125–155 per cent range that has applied since 2006. The aim is to further strengthen our ability to protect the value of the pensions we provide under the plan and further clarify what collective funding ratios are required for refunds to be paid to our insureds and corporate customers.

Organisational changes

In March, Hans Sterte took up the post of Head of Investment Management at Alecta. Before joining Alecta, Hans Sterte worked in a similar role at Skandia.

Significant risks and uncertainties

Alecta's significant risks are aggregated to form an overall risk assessment. There are primarily two developments that pose risks to Alecta's financial position: instability in financial markets, which probably has at its root the problems faced by heavily indebted governments or banks with weak balance sheets, and persistently low interest rates. Each day, Alecta simulates the consequences of instability in financial markets using an internal stress test and the traffic light test developed by the Swedish Financial Supervisory Authority (FSA). At 30 June, Alecta had comfortable margins in both tests and is therefore deemed capable of sustaining even significant financial instability. Most recently, the consequences of persistently low interest rates were simulated in Alecta's long-term risk and solvency assessment (ORSA), which was conducted in late 2017. Alecta thus has sufficient margins to sustain a low-rate environment for a long time, at least 15 years.

Changes to the rules for calculating the discount rate and new capital adequacy requirements also have a significant impact on Alecta's financial position. EIOPA, the European regulator, has presented a proposed new method for calculating the assumed ultimate forward rate (UFR) under the regulations that would result in a gradual lowering of this rate by just over half a percentage point over a four-year period. However, the discount rate for occupational pension funds is governed by the regulations of the Swedish Financial Supervisory Authority (FSA), which cannot be changed until the new regulation for occupational pension funds comes into force.

On 5 July 2018, the FSA submitted a consultation document containing a proposed new regulation for occupational pension funds. The regulation will implement the EU's second occupational pensions directive (IORP II). It is proposed that the new rules will become effective on 1 May 2019. Under the new rules, a 98 per cent confidence level must be used in calculating the capital requirement for each of the risks included in the risk-sensitive capital requirement. If a higher than 98 per cent confidence level were to be prescribed and if, at the same time, the UFR were to be lowered in accordance with EIOPA's proposal, this would have a significant impact on Alecta's financial position.

For more information on Alecta's risks and risk management, see Alecta's annual report for 2017, pages 40 and pages 60–62.

Financial position and key ratios

Group

FINANCIAL POSITION, SEK MILLION	30 June 2018	30 June 2017	31 Dec 2017
Collective funding capital	260 517	256 721	255 779
Capital base [1]	350 522	335 552	349 663
Required solvency margin [2]	20 875	19 661	20 097
KEY PERFORMANCE INDICATORS			
Total return, per cent [3]	1,8	4,2	6,7
Direct return, per cent	1,6	1,7	2,4
Management expense ratio [4]	0,08	0,09	0,09
of which pension products, excluding selection centre costs [4, 5]	0,05	0,06	0,06
Investment management expense ratio	0,02	0,02	0,02
Collective funding ratio, defined benefit insurance, per cent	154	156	154
Collective funding ratio, defined contribution insurance, per cent [6]	100	100	100
Solvency ratio, per cent	172	173	174

1) Refers to the Parent Company.
2) Refers to the Parent Company and Group.
3) Refers to the Group, defined benefit and defined contribution retirement pensions and risk insurance. Calculated in accordance with the recommendations of Insurance Sweden.
4) Excludes costs for investment management. The key ratio has been calculated on the basis of a rolling 12-month outcome.
5) Pension products comprise defined benefit and defined contribution retirement pensions and family pensions.
6) Any surplus/deficit is allocated to the insureds on a monthly basis. The collective funding ratio is therefore always 100 per cent.

Total return table for investments, defined contribution insurance (Alecta Optimal Pension)

DEFINED CONTRIBUTION INSURANCE (Alecta Optimal Pension)	Market value 2018-06-30 MSEK	%	Market value 2017-12-31 MSEK	%	Total return, per cent: 6 months Jan–June 2018	12 months July 2017–June 2018	5-year average July 2013–June 2018
Shares	58 501	61,4	52 592	60,5	2,8	6,8	13,1
Debt securities	28 236	29,6	27 414	31,6	0,7	1,3	3,4
Real estate	8 511	8,9	6 862	7,9	3,3	9,8	12,4
Total investments	**95 247**	**100,0**	**86 867**	**100,0**	**2,1**	**5,4**	**10,2**

The table above refers to the portfolio that constitutes Alecta's default option, which has a 60 per cent allocation to shares. The market value of the total Alecta Optimal Pension portfolio, i.e. including all asset classes, is SEK 101,6 billion (92,5).

Total return table for investments, defined benefit insurance

DEFINED BENEFIT INSURANCE	Market value 2018-06-30 MSEK	%	Market value 2017-12-31 MSEK	%	Total return, per cent: 6 months Jan–June 2018	12 months July 2017–June 2018	5-year average July 2013–June 2018
Shares	298 885	39,9	290 232	39,4	2,8	6,8	13,1
Debt securities	383 366	51,2	389 627	52,8	0,7	1,3	3,3
Real estate	65 941	8,8	57 425	7,8	3,3	9,8	12,4
Total investments	**748 191**	**100,0**	**737 284**	**100,0**	**1,7**	**4,2**	**7,8**

Due to rounding, the sum of the figures shown in the tables may differ from the totals.
The total return tables have been prepared in accordance with the recommendations of Insurance Sweden. The reporting and valuation of the investments in the total return tables do not agree with the accounting principles applied in the financial statements. These differences are only reported in the annual report. See Note 47 Reconciliation of total return table to financial statements in the Annual Report and Sustainability Report 2017.

Condensed Consolidated Income Statement

SEK million	Jan–June 2018	Jan–June 2017
Premiums written	26 417	19 219
Net return on capital	14 429	32 789
Claims paid	–10 475	–10 059
Change in provisions for claims outstanding	36	–167
Change in other technical provisions	–18 711	–2 400
Operating expenses	–295	–294
Depreciation and impairment of owner-occupied properties	–10	–9
Yield tax	–159	–133
Total operating profit	**11 232**	**38 946**
Profit before tax	**11 232**	**38 946**
Income tax	–210	–481
Profit for the period	**11 022**	**38 465**

Consolidated Statement of Comprehensive Income

SEK million	Jan–June 2018	Jan–June 2017
Profit for the period	**11 022**	**38 465**
Items that can subsequently be reclassified to net income		
Foreign exchange differences	144	–132
Accumulated foreign exchange differences reclassified to profit or loss	–	–824
Other comprehensive income	**144**	**–956**
Comprehensive income for the period	**11 166**	**37 509**

Condensed Consolidated Balance Sheet

SEK million	Note	30 June 2018	30 June 2017	31 Dec 2017
Intangible assets		245	272	259
Property, plant and equipment		16	12	14
Deferred tax		6 014	5 296	5 509
Investment assets	3, 4, 5	857 675	810 272	829 727
Receivables	3	4 124	5 394	4 455
Cash and bank balances	3	2 806	3 503	2 731
Prepaid expenses and accrued income	3	7 456	6 012	8 234
Total assets		**878 336**	**830 761**	**850 929**
Equity		356 932	340 585	355 602
Provision for life insurance		480 284	451 945	461 572
Claims outstanding		17 205	16 894	17 242
Pensions and similar commitments		3	6	4
Other provisions		28	20	29
Current tax		5	2	35
Deferred tax		1 615	1 344	1 377
Liabilities related to direct insurance operations	3	730	696	706
Derivatives	3, 4	14 257	6 519	8 302
Other liabilities	3	2 506	9 683	1 903
Other accrued expenses and deferred income	3	4 771	3 067	4 157
Total equity and liabilities		**878 336**	**830 761**	**850 929**

Condensed Consolidated Cash Flow Statement

SEK million	Jan–June 2018	Jan–June 2017
Cash flow from operating activities	1 420	1 889
Cash flow from investing activities	–5	–4
Cash flow from financing activities	–1 348	–1 209
Cash flow for the period	**67**	**676**
Cash and cash equivalents, opening balance	2 731	2 856
Foreign exchange differences in cash and cash equivalents	8	–29
Cash and cash equivalents, closing balance	**2 806**	**3 503**

Consolidated Statement of Changes in Equity

SEK million	Jan–June 2018	Jan–June 2017
Opening equity	**355 602**	**307 786**
Profit for the period	11 022	38 465
Other comprehensive income	144	–956
Total comprehensive income for the period	**11 166**	**37 509**
Guaranteed refunds		
Pension supplements, defined benefit plan	*–1 216*	*–1 098*
Supplementary amounts, defined contribution plan	*–73*	*–55*
Adjustment of paid-up values	*–6 294*	*–1 482*
Premium reduction	*–2 059*	*–1 975*
Change in indexation funds		
Collective risk premium [1)]	*–58*	*–56*
Other changes	–136	–44
Closing equity	**356 932**	**340 585**

[1)] 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.

Condensed Parent Company Income Statement

SEK million	Jan–June 2018	Jan–June 2017
TECHNICAL ACCOUNT		
Premiums written	26 417	19 219
Return on capital, income	20 516	23 884
Unrealised gains on investment assets	15	20 646
Claims paid	–10 475	–10 059
Change in provisions for claims outstanding	36	–167
Change in other technical provisions	–18 711	–2 400
Operating expenses	–295	–294
Capital return, expenses	–856	–9 388
Unrealised losses on investment assets	–5 791	–3 080
Life insurance, balance on the technical account	**10 856**	**38 361**
NON-TECHNICAL ACCOUNT		
Profit before appropriations and tax	**10 856**	**38 361**
Tax	–174	–488
Profit for the period	**10 682**	**37 873**

Parent Company Statement of Comprehensive Income

SEK million	Jan–June 2018	Jan–June 2017
Profit for the period	**10 682**	**37 873**
Items that can subsequently be reclassified to profit or loss		
Foreign exchange differences	–	–
Other comprehensive income	**–**	**–**
Comprehensive income for the period	**10 682**	**37 873**

Condensed Parent Company Balance Sheet

SEK million	30 June 2018	30 June 2017	31 Dec 2017
Intangible assets	246	272	259
Investment assets	850 151	804 148	823 191
Receivables	9 811	10 387	10 706
Other assets	2 746	3 411	2 653
Prepaid expenses and accrued income	7 452	6 001	8 209
Total assets	**870 406**	**824 219**	**845 018**
Equity	350 767	335 823	349 921
Technical provisions	497 489	468 840	478 814
Other provisions	25	39	62
Liabilities	17 610	16 687	12 319
Accrued expenses and deferred income	4 515	2 830	3 902
Total equity, provisions and liabilities	**870 406**	**824 219**	**845 018**

Notes

NOTE 1 Group and Parent Company accounting principles

The interim report refers to Alecta pensionsförsäkring, ömsesidigt, registration number 502014-6865, and covers the period 1 January–30 June 2018, including the Group.

The interim report comprises pages 1–15. The interim information on pages 1–6 thus constitutes and integrated part of this financial report.

The amounts indicated in the notes refer to millions of Swedish kronor unless otherwise stated.

Group

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and IFRIC statements, 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.

The rules set forth in the IAS 34 Interim Financial Reporting standard have been followed in preparing this interim report.

Two new IFRS standards became effective from 1 January 2018, IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers. For Alecta, the introduction of IFRS 9 will be delayed until 1 January 2021 to allow coordination with the planned introduction of IFRS 17 Insurance Contracts. The deferral is based on a temporary exemption for companies whose activities are predominantly connected with insurance. The introduction of IFRS 15 has not had any material impact on Alecta's financial statements. Changes to existing standards have also had no material impact on the financial statements.

The accounting principles and calculation methods applied are the same as in the last annual report.

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. As the Group applies the IAS/IFRS standards, as adopted by the EU, the accounting principles differ in some respects from those applied in the Parent Company. The significant differences are the same as in the preparation of the last annual report.

Notes 3, 4 and 5 on financial assets and liabilities are only presented for the Group. There is no significant difference between the Parent Company and the Group.

NOTE 2 Related parties

Alecta regards the following legal entities and natural persons as related parties, as defined in IAS 24:

- 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 AB and Fora AB (the main owner of Collectum being PTK and the Confederation of Swedish Enterprise, which also owns half of Fora)
- AMF and AFA are half-owned by the Confederation of Swedish Enterprise.

A description of related-party transactions is given in Alecta's annual report for 2017, Note 51.

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

NOTE 3 Classification of financial assets and liabilities

Group, 30 June 2018 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	Total fair value
Shares and participations in jointly controlled entities (joint ventures)	22 711	–	–	22 711	22 711
Loans to jointly controlled entities (joint ventures)	–	–	1 866	1 866	1 866
Shares and participations	388 316	–	–	388 316	388 316
Bonds and other debt securities	405 169	–	–	405 169	105 169
Loans secured by real estate	–	–	2 776	2 776	2 776
Other loans	1 949	–	–	1 949	1 949
Derivatives	–	4 462	–	4 462	4 462
Receivables related to direct insurance operations	–	–	1 709	1 709	1 709
Other receivables	–	–	1 191	1 191	1 191
Cash and bank balances	–	–	2 806	2 806	2 806
Accrued interest and rental income	–	–	7 323	7 323	7 323
Total	**818 145**	**4 462**	**17 671**	**840 278**	**840 278**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	7	7	7
Derivatives	–	14 257	–	14 257	14 257
Other liabilities	–	–	2 270	2 270	2 270
Other accrued expenses and deferred income	–	–	4 136	4 136	4 136
Total	**–**	**14 257**	**6 413**	**20 670**	**20 670**

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	Total fair value
Shares and participations in jointly controlled entities (joint ventures)	15 359	–	–	15 359	15 359
Loans to jointly controlled entities (joint ventures)	–	–	1 591	1 591	1 591
Shares and participations	375 390	–	–	375 390	375 390
Bonds and other debt securities	399 975	–	–	399 975	399 975
Other loans	2 039	–	58	2 097	2 097
Derivatives	–	6 221	–	6 221	6 221
Receivables related to direct insurance operations	–	–	1 747	1 747	1 747
Other receivables	–	–	1 696	1 696	1 696
Cash and bank balances	–	–	2 731	2 731	2 731
Accrued interest and rental income	–	–	8 170	8 170	8 170
Total	**792 763**	**6 221**	**15 993**	**814 977**	**814 977**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	7	7	7
Derivatives	–	8 302	–	8 302	8 302
Other liabilities	–	–	1 800	1 800	1 800
Other accrued expenses and deferred income	–	–	3 579	3 579	3 579
Total	**–**	**8 302**	**5 386**	**13 688**	**13 688**

NOTE 4 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 or financial liabilities can be sold or 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 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.

Financial assets classified to this level mainly comprise financial instruments with real estate and debt securities as underlying asset and, to smaller degree, unlisted shares and venture capital investments. Fair values for these assets are obtained from fund managers, counterparties or property-owning companies following an external valuation of the underlying properties.

Principles for reclassification between levels

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

Principle for reclassification between Level 1 and Level 2

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

In the first half of 2018 as well as in 2017, no financial instrument was transferred from Level 1 to Level 2 or from Level 2 to Level 1.

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 the first half of 2018 as well as in 2017, no financial instrument was transferred from Level 2 to Level 3 or from Level 3 to Level 2.

Principle for reclassification between Level 1 and Level 3

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

In the first half of 2018, one shareholding was transferred from Level 3 to Level 1 after the shares were listed on an active market and one shareholding was transferred from Level 1 to Level 3 after the shares were delisted. In 2017, no financial instruments were transferred from Level 1 to Level 3 or from Level 3 to Level 1.

Sensitivity analysis for Level 3 financial instruments

Under IFRS 13, a sensitivity analysis must 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 and debt securities as underlying asset and, to smaller degree, unlisted shares and venture capital investments.

As we do not have the means to inspect the unobservable inputs used by external price providers, fund managers, counterparties 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 investments in debt securities are mainly subject to interest rate and credit risk, and unlisted shares and venture capital investments are subject to by equity market risk.

The fair value of all Level 3 assets is SEK 44 831 million, of which SEK 37 146 million refers to real estate-related assets, SEK 3 001 million to instruments with debt securities as underlying asset and SEK 3 884 to unlisted shares and 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 3 715 million and SEK 3 910 million respectively, while a doubling of the credit spread would increase/decrease the fair value of investments with debt securities as underlying asset by SEK 264 million. For unlisted shares and venture capital investments, a change in share prices of 10 per cent would increase/decrease the fair value by approximately SEK 388 million.

NOTE 4 Valuation categories for financial instruments measured at fair value, *cont.*

Group	Fair values of financial instruments, 30 June 2018 Measurement using prices quoted in an active market Level 1	Measurement based on observable inputs Level 2	Measurement based on unobservable inputs Level 3	Carrying amount
Assets				
Shares and participations	368 945	–	19 371	388 316
Shares and participations in jointly controlled entities (joint ventures)	–	–	22 711	22 711
Bonds and other debt securities	219 576	185 593	–	405 169
Other loans	–	–	1 949	1 949
Derivatives	–	4 462	–	4 462
Total assets	**588 521**	**190 055**	**44 031**	**822 607**
Liabilities				
Derivatives	–	14 257	–	14 257
Total liabilities	–	**14 257**	–	**14 257**

Group	Fair values of financial instruments, 31 Dec 2017 Measurement using prices quoted in an active market Level 1	Measurement based on observable inputs Level 2	Measurement based on unobservable inputs Level 3	Carrying amount
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**

NOTE 5 Disclosures on financial instruments measured at fair value based on Level 3[1)]

Group	Fair value, 30 June 2018 Shares and participations	Shares and participations in jointly controlled entities (joint ventures)	Bonds and other debt securities	Other loans	Total
Opening balance 2018	15 310	15 359	–	2 039	32 708
Purchased	4 394	6 705	–	–	11 099
Sold	–48	–	–	–109	–157
Gains and losses					
Realised gains/losses, sold entire holding	–	–	–	–	–
Realised gains/losses, sold portion of holding	–41	–	–	–	–41
Unrealised gains/losses	634	577	–	–76	1 135
Unrealised foreign exchange gains/losses	978	70	–	95	1 143
Transferred from Level 3	–1 856	–	–	–	–1 856
Transferred to Level 3	0	–	–	–	0
Closing balance, 30 June 2018	**19 371**	**22 711**	**–**	**1 949**	**44 031**
Total realised and unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	1 571	647	–	19	2 237
Gains and losses recognised as return on capital during the period	1 571	647	–	19	2 237

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

[1)] The definition of Level 3 is found in Note 4 Valuation categories for financial instruments measured at fair value.

Stockholm, 18 July 2018

Magnus Billing
CEO

This interim report has not been examined by the company's auditors.

Glossary

Adjustment of paid-up values
Assigned refunds through an increase of the pension entitlement earned prior to retirement age. The adjustment is made primarily to compensate for inflation.

Assets under management
Calculated as equity, provision for life insurance and claims outstanding, according to the balance sheet.

Capital base
The insurance company is required to maintain a capital base of sufficient size to be able to cover any unforeseen future losses. The capital base consists of the difference between the market value of the company's assets, less intangible assets and financial liabilities, and technical provisions.

Capital value
The estimated present value of future payment flows.

Collective funding capital
The difference between distributable assets, valued at market value, and insurance commitments (guaranteed commitments as well as allocated refunds) to policyholders and the insureds.

Collective funding ratio
Distributable assets in relation to insurance commitments to policyholders and insureds (guaranteed commitments as well as allocated refunds).

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 insurance 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.

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.

Discount rate
The interest rate used to calculate the present value of future incoming or outgoing payments.

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.

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 for the past twelve-month period, in relation to average assets under management during the same period. 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.

Pension supplement
Refunds allocated to the insureds in addition to the guaranteed pension. Under the applicable actuarial guidelines, the rebate may not exceed the increase in the consumer price index for the year, calculated from the date on which the insured's first pension payment was made. The pension supplement is determined by the Board each year.

Policyholder
The party that has entered into an insurance contract with an insurance company.

Premium reduction
Distribution of surplus funds through a reduction of premiums. Premium reduction is applied for risk insurance policies.

Refund
A surplus that is guaranteed or allocated to
- the policyholders, in the form of a reduction of the premium
- 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.

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.

When trust is shared, it grows

Alecta manages pensions for 2,4 million private customers and 34 000 corporate customers. We are one of the largest investors on the Stockholm Stock Exchange. Alecta is thus an important social actor. We engage in the public debate and in various initiatives at the national and European level with the aim of strengthening the pension industry's ability to help build a more sustainable society and pension system.

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