

Första AP-fonden's Ownership Policy

Introduction

Första AP-fonden's commitment to ownership issues is based on a conviction that investments in well managed companies will provide higher returns and lower risks in the long term. This is in line with the Fund's overall mission to create high returns with a low level of risk. The Fund's core values with regard to active ownership – including environmental, social and corporate governance (ESG) issues – are based on the principles of dedication, active ownership and constructive change in order to make a difference and thereby contribute to the long-term creation of value in the pension system.

Första AP-fonden's actions in ownership issues are always steered by what is best for the companies and their shareholders over time, and therefore also for those insured in the pension system. In cooperation with shareholders and other stakeholders, the Fund works in the best interests of the companies so that the Fund acts as, and is perceived as, a dedicated, responsible and long-term owner. The ownership policy describes the principles applied by Första AP-fonden.

The ownership policy is made up of eight points for environmental, social and corporate governance (ESG). Each principle is divided into two parts, of which the first contains general principles that apply to all companies where the Fund has holdings, regardless of their nationality, and the second applies particularly to Swedish companies. Första AP-fonden has formulated special rules for Swedish companies because the Fund generally has larger holdings in these, and therefore also greater opportunity to exert an influence. The ownership policy applies to shares that are managed both in-house and by external managers and to both listed and unlisted shares, although the Fund has significantly smaller scope to influence unlisted companies that are owned indirectly. However, it is vital that the requirements for listed companies do not become so onerous that companies avoid listing on a marketplace.

Many markets have adopted codes of corporate governance that are an important means for building confidence in the stock market and the business sector, where the latter is particularly true for smaller companies. However, compliance with a code does not necessarily require a company to comply to all of the rules it contains. In fact, it is both possible and often reasonable to deliberately deviate from certain rules. In such cases, it is imperative that the company provides a satisfactory and company-specific explanation for any deviations. Local codes and stock market contracts can also affect the Fund's position in individual cases.

A growing share of the capital invested in companies via stock exchanges and other marketplaces is invested by institutional investors. It is therefore important that institutional investors take the responsibility attached to their status as a major shareholder and thereby prevent corporate managements and short-term owners from exploiting the vacuum of power that would otherwise arise and is in the interests of neither the companies nor long-term owners. As a long-term and dedicated owner, Första AP-fonden therefore welcomes the

development of stewardship codes that has now been started. The Fund's ambition is to comply with the rules in these codes in the markets where we invest on the condition that they are for the benefit of those insured in the pension system, which is most often the case.

In their work with ESG issues, employees in the Fund have access to insider information. The Fund has strict routines for registration, recording and handling of such information.

The Swedish Public Pension Funds Act (2000:192) states that the ownership policy must take into consideration the funds' objective to maximize long-term return, given a low level of risk, for the benefit of those insured in the retirement pension system. It also states that management of the funds may not be influenced by prevailing government policies, whether industrial or economic, and that the ownership role shall be exercised solely to better utilize the opportunities to achieve a higher return on the managed assets. The Fund may not control more than 10% of the votes in a single listed company and its holdings of Swedish equities may not exceed 2% of the total market value on authorized Swedish marketplaces.

Eight principles for environmental, social and corporate governance

1. Voting rights and right of proposal at general meetings

The general meeting of shareholders is a company's highest decision-making body, and the exercise of voting rights at general meetings is the shareholders' most important tool for exerting their ownership influence on companies. Första AP-fonden therefore works to ensure that this right is unrestricted. This also means that the shareholders must be able to propose items to the agenda of general meetings and to have these items taken up for discussion.

2. Equal treatment

Första AP-fonden's position is that share granting equal financial rights in a company should always be treated equally in a financial respect. Deviations from this principle are permissible only as specifically stated in a company's articles of association. It is important that the interests of minority shareholders are protected.

For Swedish listed companies: In the Swedish market it is common for companies to have classes of shares with differentiated voting rights (class A and B shares) but with equal financial rights to the company's assets or profits. In order to maintain confidence in this system, it is essential that the equal treatment principle is upheld. Första AP-fonden works to ensure that no shareholder is discriminated against financially in connection with (i) payment of dividends – regardless of whether payment is made in cash, shares in subsidiaries or some other manner, (ii) liquidation of a company, or (iii) bids for all shares in a company.

3. Ownership structure

It is not in the best interests of the shareholders for a company to set up any type of obstacles to acquisition of the company. It is therefore Första AP-fonden's policy to vote against implementing, and in favour of eliminating, such obstacles.

For Swedish listed companies: A transparent and clear system of voting rights differentiation should not be prohibited by law. The Swedish system of class A and class B shares is more transparent than many other systems. Respect for ownership rights demands that any changes in voting rights be carried out voluntarily. In many cases, however, the disadvantages of having different share classes outweigh the advantages. In such cases, Första AP-fonden will take action to promote a change in the differentiation of voting rights. Fonden will not support the differentiation of voting rights by listed companies.

The existing shareholders should normally have the right to participate in new share issues. Första AP-fonden therefore advocates the use of preferential rights issues. If the board decides to deviate from the shareholders' preferential rights, this should be well motivated.

4. Capital structure

Första AP-fonden encourages companies to actively strive for a well balanced capital structure. Companies should seek a capital structure that is appropriate with regard to the company's future opportunities to generate returns for their shareholders. The Fund's position is that the shareholders should have opportunities to vote at general meetings on new share issues, dividends and buy-backs of the company's own shares. Share buy-backs should not be carried out at prices exceeding the current market price at any given time.

For Swedish listed companies: As the preferred alternative, Första AP-fonden advocates the use of general methods such as preferential rights issues, extra dividends and redemption programs to adjust the capital structure. A buy-back of the company's own shares is one of several available means for achieving this and can therefore be used when no other means are appropriate. The sale of repurchased shares over the stock market shall not be permitted unless undertaken for the purpose of hedging the company's share-related incentive schemes. Share buy-backs should be undertaken only for the least expensive share class at any given time, if the company has more than one class of shares. Share buy-back proposals must be well motivated.

5. The companies' boards of directors

Election of board members

The task of the board of directors is to serve the interests of the shareholders in the conduct of a company's business. The right to nominate and vote for board members at a general meeting is therefore of fundamental importance for the shareholders. Första AP-fonden's position is that selection of the chairman and board members should take place through a clear and open nomination procedure. Första AP-fonden therefore works to prevent restriction of shareholder influence on election of board members and – if possible – to increase it.

For Swedish listed companies: The process of appointing board members has been systematized and, thereby, considerably improved since the general meetings of shareholders started to elect nominating committees. It should be emphasized that the nominating committee is not a corporate body but works on behalf of the general meeting of shareholders. The nominating committee may not evolve into a body whose task is to oversee the work of the board. The members of the nominating committee may either be elected by the general meeting of shareholders or appointed from among the largest shareholders on a later occasion. Första AP-fonden advocates the latter model in the majority of companies, with the reservation that the nominating committee should reflect the voting power of the largest shareholders or owner constellations. This should also be weighed against the value of maintaining continuity in the nominating committee. This means that a member who no longer represents one of the largest shareholders should resign from the committee, but that this member need not be replaced if the largest owner constellations are in agreement on this point. Första AP-fonden actively participates in the nomination of board members and, as a rule, takes part in the nominating committees of the companies where this is warranted by the size of the Fund's shareholding.

The nominating committee has an extensive need for information from the board of directors – primarily, but not solely, via the chairman – about the board's performance and competency requirements. Första AP-fonden's position is that the chairman should be co-opted to the nominating committee, but the chairman can also be a regular member of the committee. In the latter case there is sometimes reason to exclude the chairman from certain deliberations and decisions. The nominating committee should receive information from other board members by meeting with the board either individually or as a group. Members of nominating committees must be prepared to receive and handle insider information. Första AP-fonden's opinion is that no more than one board member (including the chairman) should be a member of the nominating committee, and any exceptions to this rule must be well motivated.

Every year, the board should carry out a systematic evaluation of performance of the board and the contributions of each individual board member in this context. An external evaluation of board performance should be carried out at regular intervals, among other things as a necessary basis for the work of the nominating committee.

Composition of the board

Expertise and integrity are important attributes for a board member. Effective board performance requires diversity in the composition of the board to achieve the necessary breadth in the members' combined experience and knowledge. Första AP-fonden therefore strives to widen the recruitment base for board candidates and thereby achieve a more even gender distribution and an increased share of ethnic minorities.

Första AP-fonden's position is that a company's board chairman and managing director should not be one and the same person. Each board of directors should include members who have an independent status in relation to the company's management and major shareholders. The board's compensation, nomination and audit committees should be fully independent from the company. Första AP-fonden is in favour of yearly election of the board.

For Swedish listed companies: The boards of directors should be made up of members with the requisite competency and experience, high integrity, adequate availability and strong commitment. The board members should devote the amount of time and attention needed to carry out their work in a satisfactory manner, always with the interests of all shareholders in view.

The composition of the board should be continuously adapted to the respective company's business operations, external conditions, market and phase of development. The board of directors should consist of members with diverse competencies, backgrounds and perspectives. Första AP-fonden strives for an even gender distribution on the boards. The boards should also have a balanced mix of individuals with different backgrounds and perspectives, e.g. age, nationality and ethnic origin.

Work of the board of directors

Responsibility for representing the shareholders and continuously safeguarding the interests of all shareholders rests with each individual board member, regardless of whether a board member is regarded as dependent or independent in relation to the shareholders and management. Första AP-fonden's policy is to vote against re-election of board members who are deemed to have neglected their duties in this regard.

For Swedish listed companies: Effective and well organized board work is of the utmost importance for the creation of shareholder value. The board should structure its internal activities with respect to the company's operations and the composition of the board. If committees or similar are formed within the board, it is crucial that this does not reduce the personal responsibility of each board member for the overall work of the board.

A clear division of responsibility between the board and executive management is highly important. This is facilitated by a well defined separation between the board of directors and the executive management, although the company's managing director may be a member of the board.

Compensation to board members

Compensation to the chairman and other members of the board should be market-based and should reflect the demands placed upon them. Första AP-fonden is in favour of board members owning shares in the company, but does not feel that this need be a mandatory requirement.

For Swedish listed companies: Första AP-fonden's position is that directors' fees should be determined in a fixed amount. However, this does not prevent board members from using part of the fee to acquire actual or synthetic shares. In cases where the number of shares acquired is not determined solely by the individual board member, this must be specially motivated. Första AP-fonden also advocates systems that are designed so that the shares are not freely transferable until after an extended period of time (lock-up period).

6. Compensation to senior executives and incentive schemes

Första AP-fonden's position is that management compensation should be structured in such a way that it benefits the company and its shareholders. This means that the compensation given should encourage the employees to act in a way that increases the company's long-term profits at the same time that a suitable level of risk is maintained in operations. The compensation system may not serve as an incentive for illegal or otherwise inappropriate actions. Första AP-fonden promotes compensation that is reasonable, market-based and consistent with best practice in the local market, and should be moderate enough that it can be clearly and openly motivated to the company's stakeholders. The compensation system should not undermine the confidence of the company's stakeholders. Information about the structure of compensatory programs should be detailed and accurate, regardless of whether these are resolved on by the general meeting or not.

For Swedish listed companies: Responsibility for determining the level of compensation to the managing director lies with the company's entire board. The board is also responsible for ensuring that the amount of compensation to both the managing director and other senior executives is within the guidelines resolved on by the general meeting of shareholders. The total amount of compensation should be reasonable and market-based. The compensation system and process for determining the amount of compensation to the managing director and senior executives should be characterized by openness and should not undermine the confidence of the companies' stakeholders.

Variable compensation

Any variable portion of compensation should be performance-related, evaluable and in most cases linked to the company's profitability. Första AP-fonden's position is that a large share of the performance targets should be set in relation to the company's competitors. It is important that the variable compensation does not serve as an incentive to seek short-term gains or take undesirable risks.

Long-term share-based incentive schemes

Aside from fixed and variable compensation, there are long-term share-related incentive schemes where the goal is to ensure that the interests of senior executive are aligned with those of the shareholders. Such schemes also provide the opportunity to offer a market-based total compensation comparable to that offered in many other countries.

Whether or not a long-term incentive scheme is market-based must be judged in relation to the other parts of total compensation package. It is important that the scheme is thoroughly reviewed and approved by the shareholders before a decision is made at the general meeting.

In order for a long-term share-based incentive scheme to have the intended effect, the following criteria must be met:

- The incentive scheme shall be part of a communicated long-term compensation strategy.
- The achievement of pre-determined, clear and measurable targets shall be required in order to qualify for allocation in share-related incentive schemes. As a rule, the

performance targets should be linked to the entire company's long-term value creation. Första AP-fonden's position is that a large share of the performance targets should be set in relation to the company's competitors. The targets should be set in a way that does not encourage unwanted risk-taking and other undesirable behaviour.

- In accordance with the Swedish Securities Council's statement AMN 2010:40, the criteria for the performance targets must be communicated to the shareholders prior to decision by the general meeting, although it is acceptable not to provide information about the level of goal attainment. However, information about the level of goal attainment required for a certain grant or award must be provided when the term of the scheme has ended.
- An essentially market-based payment in order to participate in an incentive scheme is equated with a performance requirement.
- Long-term share-related incentive schemes expose the company to a risk for movements in the price of its own shares. Information about how the company intends to manage this risk, and the related costs, shall be put before the general meeting prior to decision.
- The incentive schemes should not reward the participants for a general upturn in the stock market. Consequently, the schemes should preferably be relative, i.e. price development for the company's shares should be related to the general market trend, the share price trend for the industry or the share price trend for selected competitors.
- There should be an upper limit in the value of the scheme, particularly if it is not relative.
- The costs and effects of previously implemented schemes should be regularly evaluated as a basis for decision on future schemes. The evaluation should be carried out from a shareholder perspective and should be presented to the shareholders. The board is responsible for performing the evaluation and for ensuring that the shareholders are provided with clear and straightforward information about the results. If a satisfactory evaluation is not presented prior to the proposal of an incentive scheme, Första AP-fonden will vote against the scheme.

Första AP-fonden considers it favourable for all employees to own shares in the company. To encourage this, the company can subsidize programs aimed at increasing share ownership under certain conditions and at a reasonable cost.

Pensions

Pension provisions for senior executives are part of the total compensation package and must therefore be judged in relation to other types of compensation. Pension benefits and the companies' current and anticipated future pension expenses must be reported in detail. Första AP-fonden's position is that the pension plans of senior executives should be of the defined contribution type. However, existing contracts should be renegotiated only when motivated from a cost perspective.

7. Audit and internal control

It is in the interests of the shareholders that a company's external audit and internal control are of adequate quality. Very strict requirements can be made regarding the independence of external auditors from the company and its management.

For Swedish listed companies: Auditors are appointed by the company's shareholders and have the role of independent examiners. Första AP-fonden stresses the importance of having competent auditors with sufficient resources to conduct an audit of high quality. Första AP-fonden's position is that consulting services of a non-auditing nature should not be performed by the company's principal auditor. If this should nonetheless occur, an explanation of the reasons must be provided at a general meeting and in the annual report. The auditors should provide detailed information about company audits to the shareholders, preferably in connection with a general meeting.

The effectiveness of a company's internal control is of the utmost importance in building confidence in the company and the stock market in general. As a result, Första AP-fonden places high demands on the completeness and accuracy of a company's description of internal control in the corporate governance report. Any explanations about the corporate governance code's rules on internal control are studied carefully.

8. Environmental and social issues

This principal applies equally to both Swedish and foreign companies.

The companies' operations should be conducted in a financially, environmentally and socially responsible manner. Första AP-fonden's view is that the companies themselves are responsible for compliance with international conventions, regardless of whether these are directed to national governments, to individuals or to companies and organizations. Moreover, this responsibility also applies regardless of whether the countries in which these companies operate have signed the conventions or have weaker human rights legislation.

Första AP-fonden's basic principles

As part of the Swedish pension system, Första AP-fonden bases its principles for dedication, active ownership and constructive change on the core values that are applied by the Swedish government and in which democracy, the equal value of all people, the freedom and dignity of individuals and sustainable development are central components in accordance with the rights and freedoms defined in the Instrument of Government.

The Swedish government's core values are also manifested in several different ways. Firstly, they are expressed through the international conventions that Sweden has signed, including conventions relating to the environment, human rights, labour rights, corruption and inhumane weapons. They are also expressed through Sweden's support of initiatives such as UN's Global Compact and the OECD's guidelines for multinational corporations, and thirdly through Sweden's official stance in matters related to public law.

Together with the Swedish government's core values, the international conventions serve as important instruments for Första AP-fonden in its efforts to ensure that the necessary

consideration to environmental aspects and ethical dimensions is taken in the Fund's operations.

Första AP-fonden's position is that all of the conventions that have been ratified by Sweden are of equal importance and should therefore be adhered to. This position is also supported by the UN Declaration of Human Rights, which points out that human rights are universal and indivisible, related and cannot be ranked internally. Första AP-fonden refrains from making any such ranking.

By tying Första AP-fonden's requirements to international conventions and by cooperating with others towards the same purpose, the Fund can contribute to international efforts to ensure that action is taken against infringement of conventions in the global financial market. This will also serve to give the conventions greater weight.

In cases where Sweden declares its support of or signs a new convention or modification of an existing convention that has not yet been formally ratified, the Fund will act as if such ratification has already taken place. The Fund will regularly monitor how the ratification process for the new or modified convention is progressing. In the event that Sweden has not ratified the convention within a period of three years from the date on which Sweden has declared its support for the same, the Fund may review the basis for its guidelines regarding the issues covered by the new or modified convention.

Första AP-fonden's assessment and measures

Första AP-fonden's assessment of the companies shall be based on an official examination in each individual case. The Fund's assessment shall consider the seriousness of the offence and how it has been judged by the relevant authority. In this respect, deliberate or repeated infringements will be judged more severely. Any action that the company has taken or intends to take with immediate effect in order to correct the problem will be taken into account. Första AP-fonden works to ensure that the companies have viable policies, explicit goals, resources and action plans for improvement measures as well as open reporting of their environmental and social responsibility efforts.

If a company in which Första AP-fonden has invested can be associated with infringement of any of the conventions that Sweden has ratified or recently declared its support of, the Fund will attempt to influence the company to change its actions in order to avoid future infringements and ensure that measures are taken. When possible, the companies should also provide compensation for damages to the affected individuals and correct any negative impact on the environment.

If it becomes obvious in the course of this process that the company has no interest in making changes or if the implementation of changes does not take place with the desired speed, Första AP-fonden will exclude the company from its investment universe. A decision of this type means that all of the Fund's holdings of securities issued by the company – regardless of whether they are managed internally or externally – will be divested as soon as feasibly possible. If the Fund terminates its ownership, the problems in question will not disappear and the unacceptable conditions will continue. For that reason, exclusion of the company from the Fund's investment universe is a last resort, to be taken only when the opportunities to make a difference are without hope of success.

Första AP-fonden's tools in ownership issues

Första AP-fonden's actions with regard to corporate governance are based on a business-oriented approach and knowledge about the individual company. Corporate laws, traditions and codes with relevance for corporate governance that apply in the market where the company is based are also important.

In addressing ownership issues, the Fund also seeks to benefit the company in question and promote an efficiently functioning capital market. The fund achieves these goals mainly by:

- active participation prior to and at general shareholder meetings,
- action to influence the composition of company boards,
- direct contact with representatives for the companies,
- cooperation with other shareholders in the companies,
- action to influencing legislation and self-regulation in ownership issues – both in Sweden and internationally
- the exercise of ownership influence through active and open information about the Fund's position on specific ownership issues

In Swedish companies, Första AP-fonden participates in the nomination process if given opportunity to do so. In other case, the Fund cooperates with the sitting nominating committee when the Fund has an interest in influencing the composition of the board.

If contact between Första AP-fonden and the company is appropriate ahead of general meetings, such contact normally takes place via the company's chairman and with consideration to the relevant corporate information regulations.

Cooperation with other shareholders

Greater results can be achieved through the joint action of several shareholders. Första AP-fonden therefore seeks to cooperate with other shareholders – both Swedish and foreign – when appropriate and in accordance with the Fund's ownership policy. The failure of other shareholders to act does not constitute reason for the Fund to refrain from taking measures on its own.

The First, Second, Third and Fourth AP funds (AP1, AP2, AP3 and AP4) work through a joint Ethical Council to monitor environmental and ethical compliance in the foreign companies where the funds have holdings. The Ethical Council is made up of one representative from each of the AP funds. Chairmanship of the Ethical Council is alternated between the funds. This collaboration includes (i) screening of the funds' investment portfolios to identify infringements of international conventions, (ii) analysis of incidents and (iii) dialogue with the companies. Decisions to exclude companies from the investment portfolio will also be made by the individual funds.

The First, Second, Third and Fourth AP funds also cooperate in the process of analysis prior to votes at foreign general shareholder meetings. Each fund then decides independently how the fund will vote in each individual case.

Laws and self-regulation

In connection with changes in Swedish or foreign laws, Första AP-fonden can take action to ensure that such legislation is in the best interests of those insured in the pension system. In addition, the Fund can on its own – or in cooperation with others – take the initiative in changing existing legislation. In both cases, the Fund’s role as a pension manager on behalf of the Swedish Government is taken into account.

Sweden has a long tradition of self-regulation in which parties in the Swedish business sector, shareholders, corporate boards, managements and other stakeholders decide which rules to apply. In certain areas, self-regulation offers major advantages compared to legislation. There are also disadvantages to self-regulation, since the interests of the public are not always served in the process – and in such cases legislation is a better alternative. Första AP-fonden supports Swedish self-regulation and actively promotes its further development. The Fund also takes part in international cooperation in areas related to environmental, social and corporate governance.

Decision-making procedure

This ownership policy applies as of 17 February 2011 and replaces the earlier policy. The Board of Directors has adopted Första AP-fonden’s ownership policy. Ownership issues are addressed by Första AP-fonden’s Managing Director directly or according to his delegation to another executive in each individual case. In ownership issues of greater importance, the Board Chairman should be consulted and the matter should then be reported to the Board. Ownership issues of particular importance should be referred to the Board by the Chairman. Furthermore, ownership issues which are found to be of a significant nature at the time of reporting should be subject to treatment by the Board.