

Första AP-fonden's Ownership Policy

Introduction

The mission of Första AP-fonden is to manage the Fund's assets so that it achieves a high long-term return. The Fund will also, where possible and without compromising the return objective, promote sustainable development. The assets shall be managed in an exemplary manner through responsible investments and ownership, and in accordance with the values of Första AP-fonden. As part of the Swedish income pension system, the values of Första AP-fonden are based on the values of the Swedish state, where democracy and sustainable development are central elements in accordance with the wording of the Swedish constitution.

To fulfil the assignment, Första AP-fonden has chosen to be a long-term and committed owner. The Fund's actions with regard to ownership issues are based on a business-oriented approach and knowledge about the individual company. The Fund always steered by what is best for the companies and their shareowners over time, and therefore also for those insured in the pension system. In its actions, the Fund shall also seek to benefit the company in question and promote an efficiently functioning capital market. By being business-oriented and transparent, taking a long-term approach and with high integrity in its action, the Fund builds trust in companies, other owners and stakeholders, and among the public. It also gives increased confidence in the public pension system.

The Fund presumes that the businesses it invests in adhere to international conventions, applicable international regulations and the national legislation of the countries where they operate. It is the responsibility of the board to ensure that there are adequate processes and controls to secure this.

Corporate law, traditions and codes of relevance for corporate governance that apply in the market where the company is based are also important and can also affect the Fund's position in individual cases. Första AP-fonden considers it positive if the companies follow national codes of corporate governance, even in cases where they are not obliged to do so. In addition to laws, traditions, corporate law and codes, the Fund's position is based on eight principles for corporate governance and the companies' social and environmental responsibility. 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 only to Swedish companies. Första AP-fonden has formulated special rules for Swedish companies because the Fund generally has larger holdings in these companies, and therefore also greater opportunity to influence them. 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.

When companies, both Swedish and foreign, do not meet the expectations of Första AP-fonden according to this ownership policy, the Fund will take action. In the first instance, the Fund initiates a dialogue with the company in question. For Swedish portfolio companies, the dialogue on corporate governance issues is conducted with the Board of Directors or the Chairman of the Board. For sustainability-related issues, contacts are often made with the sustainability manager, investor relations or with the company's management. In foreign companies, the Fund generally owns a smaller share of the company, and the dialogue often takes place at other levels of the company. Första AP-fonden is happy to cooperate with other owners – Swedish as well as foreign – where appropriate and in accordance with the Fund's ownership policy. The failure of other owners to act is not a reason for the Fund to refrain from taking action.

In the event that dialogue with the company does not yield the results that the Fund expects, the Fund will proceed with further action. Such action may include voting against the Board's proposal at a general meeting, presenting proposals at the company's general meeting, participating in class action against the company or selling the Fund's holdings. The Fund may also choose to communicate its positions externally if other actions have not been successful. The costs of the Fund's actions should be proportionate to the positive outcome we expect.

Eight principles for Corporate Governance

1. Voting rights and right of proposal at general meetings

The general meeting of shareowners is the company's highest decision-making body, and the exercise of voting rights at general meetings is an important tool for shareowners to exert their ownership influence. Första AP-fonden works to ensure that this right is unrestricted. This also means that the shareowners must be able to propose items for the agenda of general meetings, and be entitled to have these matters discussed.

2. Equal treatment

Första AP-fonden's position is that shares granting equal financial rights in a company should always be treated equally in a financial respect. Deviations from this principle are permitted only as specifically stated in a company's articles of association. It is important that the interests of minority shareowners 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 and profits. In order to maintain confidence in this system, it is essential that the equal treatment principle is upheld. For Första AP-fonden it is important that no shareowner 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. Capital structure

Companies should seek a capital structure that is appropriate with regard to the company's operative risks and future opportunities to generate returns for its shareowners. Capital that the company cannot invest with a higher long term return than the capital cost for the company should be distributed to the shareowners. The Fund's position is that the shareowners should have opportunities to vote at general meetings regarding new share issues, dividends and buy-backs of the company's own shares. Directed buy-backs should not be carried out at prices exceeding the current market price at any given time.

As a rule, new share issues should be resolved on by the general meeting of shareowners and should be carried out as cash issues with pre-emptive rights for the company's existing shareowners. In some cases it is justifiable to deviate from the pre-emptive rights of existing shareowners (preferential issues). The discount in preferential issues should be market-based. Authorization for the board to carry out issues may be suitable but should not exceed 10% of the company's share capital and should not extend longer than until the next annual general meeting. In the event of non-cash issues, a thorough and detailed evaluation should be published to enable the shareowners to assess the terms of the issue in relation to the acquired assets.

All deviations from the normal case, a pre-emptive rights issue resolved on by the general meeting, must be motivated in detail by the company's board of directors. Första AP-fonden will then make a restrictive assessment of the board's motives.

It is not in the best interests of the shareowners for a company to set up any type of obstacle to acquisition of the company. Första AP-fonden is against the implementation of such obstacles and is in favour of eliminating them.

For Swedish listed companies: The Swedish system of class A and class B shares is transparent and clear and have served well. Respect for ownership rights demands that any changes in voting rights be carried out voluntarily. The system of differentiated voting rights places high demands on the owners of class A-shares. In certain 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.

As the preferred alternative, Första AP-fonden advocates the use of general methods such as pre-emptive rights issues, extra dividends, redemption or buy-back of own shares programmes to adjust the capital structure. In the case of private placements, the board must clearly justify the reasons why a directed issue is proposed. The First AP Fund will make a restrictive assessment of the Board's motives. This applies regardless of whether the meeting has given the board a mandate to decide on a private placement or not. It may be cost-effective to use a share buy-back as part of a hedge of the company's share-based incentive

schemes. Shares that are repurchased for other reasons should be cancelled and the sale of such shares should not be permitted. Proposals for a buy-back of the company's own shares must be well motivated.

4. The companies' boards of directors

Election of board members

The right to nominate and vote for board members at a general meeting is of fundamental importance for the shareowners. Första AP-fonden's position is that nomination of the chairman and board members should take place through a clear and open nomination procedure. Första AP-fonden works to prevent restriction of shareowner influence on election of board members should be maintained or in some cases increased.

When Första AP-fonden finds that the board, or any director, has mismanaged the assignment to work for the company's best interests, the fund will vote against to the re-election of all or some of the directors.

For Swedish listed companies: Första AP-fonden actively participates in the nomination of board members and, as a rule, takes part in the nomination committees of the companies where this is warranted by the size of the Fund's shareholding. Otherwise, the Fund cooperates with the sitting nomination committee in cases where the Fund feels that a change in the composition of the board would benefit the company and its shareowners.

The nomination committee has an extensive need for information from the board of directors – primarily, but not solely, via the chairperson – about the board's performance and competency requirements.

Första AP-fonden's position is that the chairperson should not be a member of the nomination committee. He or she should instead be co-opted to the nomination committee. The nomination committee should receive information from other board members by meeting them individually. Members of nomination committees must be prepared, in exceptional circumstances, to receive and handle inside information. The nomination committee should appoint a secretary among themselves or use an external independent secretary.

Composition of the board

Competence, integrity, and good judgment are important qualities for board members. Effective and successful board work requires diversity in the composition of the board. Research shows that groups with great cognitive diversity make better decisions than homogeneous groups. Första AP-fonden therefore strives to ensure that the recruitment base for boards is broad and thereby achieve an even gender distribution and a large element of diversity on the boards.

Första AP-fonden's position is that a company's board chairperson 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 shareowners. The board's remuneration, nomination and audit committees should be independent of the company. Första AP-fonden is in favour of electing the board for one year at a time.

For Swedish listed companies: The boards of directors should be made up of members with the requisite competence and experience, high integrity, good 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 shareowners 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 distribution between men and women on the boards. The boards should also have a balanced mix of individuals with different backgrounds and perspectives which provides a great cognitive diversity. There should be enough Directors in the Board that are independent of large owners in order to make the Board able to take decisions in the case of a take-over bid for the company. The company's managing director should not be a member of the board. If the Nomination Committee proposes that the company's CEO should be elected to the board of a company where the CEO is currently not a director, this should be explained in detail.

The Board's assignment

The Board of Directors is appointed by the owners and shall, with integrity, business acumen and wisdom, decide on the company's strategy, appoint and dismiss the CEO, monitor both the implementation of the strategy and the level of risk in the company in general, and report back to the owners on the progress of the company's work, primarily through the financial reporting. The purpose of this mission is to create long-term value for the owners.

This means that in most cases the company cannot be content with following laws and regulations to its letter, but should act more responsibly in order to increase the long-term value of the company. It is the Board's responsibility to ensure that the company's operations are conducted in a financially, environmentally and socially responsible manner and that the company is transparent in its communication. The company's purpose of making profits are not in opposition to long-term profitable investments in sustainability.

In cases where Första AP-fonden finds that the company does not act in a way that benefits the company and its owners in the long term, this will be discussed to the board. Första AP-fonden may vote against re-election of all or some of the directors if the company continues to act in an irresponsible manner. The fund may also sell its holdings.

In Swedish listed companies, Första AP-fonden acts in these matters primarily through dialogue with the Board of Directors or its Chairman. In the second instance, the Fund acts in cooperation with the Nomination Committee and other owners.

Remuneration to board members

Remuneration to the chairperson 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, and not in incentive programs. However, this does not prevent payment of part of the fixed fee in the form of actual or synthetic shares. Första AP-fonden considers that the allotment of warrants should only in exceptional cases be allotted to board members as part of their fee. The time to maturity of the warrants should be long. 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).

The fact that third parties, for example one of the owners of the listed company, issue non-standardized warrants or options to board directors is in most cases inappropriate because it introduces conflicts of interest and loyalty. This is especially true in cases where the procedure is subsidized. Even if the options are transferred at an estimated market value, the procedure may lead to a loss of public and market confidence in the company.

The companies should be restrictive in providing remuneration in addition to the board fees to Directors for services that are outside the board assignment, for example consultancy assignments. If this still is considered necessary, the reporting should be transparent. It is appropriate for the AGM to decide in advance on a maximum amount for such services.

5. Remuneration to senior executives and incentive schemes

Första AP-fonden's position is that management remuneration should be structured in such a way that it benefits the company and its shareowners. Such remuneration encourages the employee 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 remuneration system may not serve as an incentive for illegal or otherwise inappropriate actions. Första AP-fonden promotes remuneration 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 remuneration system should not undermine the confidence of the company's stakeholders. Information about the structure of compensatory programmes should be detailed and accurate, regardless of whether these are resolved on by the general meeting or not.

For Swedish listed companies:

Första AP-fonden works to ensure that the remuneration of senior executives in Swedish listed companies is fair, market-based and in line with "good practice" in the Swedish market, including among other things the Swedish Corporate Governance Board's "Rules on remuneration to senior executives and on incentive programs".

The Board of Directors is responsible for the design of the company's remuneration system, even if certain parts of the remuneration are decided by the general meeting. The Board shall design the remuneration, both in structure and level, so as to maximize the sustainable value creation of the company in the long term. The Board shall be able to describe how the program contributes to the company's business model, strategic direction and sustainable value creation. Incentive programs shall inspire participants to achieve both financial and non-financial objectives, the achievement of which contributes to the long-term value creation of the company.

The remuneration system and process for determining the amount of remuneration to the managing director and senior executives should be characterized by openness and should not undermine the confidence of the companies' stakeholders. In the event that remuneration to senior executives leads to share ownership, the company should promote ownership of the shares for an extended period of time, in most cases even for some time after employment has ended.

Fixed remuneration

A certain proportion of the fixed remuneration may be paid in the form of shares in the executive's own company. The principles for remuneration to senior executives should contain information about how this proportion is determined.

Variable cash remuneration

Any variable cash portion of remuneration should be performance-related, evaluable and in most cases linked to the company's profitability. Första AP-fonden's position is that a large proportion of the performance targets should be set in relation to the company's competitors. It is important that the variable remuneration does not serve as an incentive for short-term actions or undesirable risk taking.

Första AP-fonden is of the view that it is, in many cases, an advantage if short-term variable remuneration is small in relation to long-term variable remuneration.

Long-term share-based incentive schemes

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

Whether a long-term incentive scheme is market-based or not must be judged in relation to the other parts of the remuneration package. It is important to analyse thoroughly the scheme and gain the support of the shareowners before a decision is made at the general meeting. The incentive scheme should be part of a communicated long-term remuneration strategy.

Schemes with own investment

A market-based payment in order to participate in an incentive scheme is equated with a performance requirement. Första AP-fonden therefore approves incentive schemes that require a market-based price for participation. Första AP-fonden considers it favourable if employees own shares in the company. To encourage this, the company may, under certain conditions and at reasonable costs, give the participants a small subsidy.

Schemes without own market-based investment

In order for a long-term share-based incentive scheme to have the intended effect, Första AP-fonden's position is that the following criteria must be met:

- 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 company's long-term value creation. Incentive schemes should not reward the participants for the event of a general stock market rally. The performance requirements should to a large extent be set in relation to the company's national and international competitors. The targets should be set in a way that does not encourage unwanted risk-taking or other undesirable behaviour.
- 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 a decision.
- There should be an upper limit in the value of the scheme, particularly if it is not relative.
- The costs for and effects of previously implemented schemes should be regularly evaluated as a basis for decisions on future schemes. The evaluation should be carried out from a shareowner perspective and should be presented to the shareowners before a decision is made on new or continued incentive schemes. If a satisfactory evaluation is not presented prior to the proposal of an incentive scheme, Första AP-fonden may vote against the scheme.

Pensions

Pension provisions for senior executives are part of the total remuneration package and must therefore be judged in relation to other types of remuneration. 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.

6. Audit and internal control

It is in the interests of the shareowners that a company's external audit and internal control are of adequate quality. Very strict requirements should 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 shareowners 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. The auditors should provide as detailed information as possible to the shareowners, both in the audit report and at the 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. Första AP-fonden places high demands on the completeness and accuracy of a company's description of internal control in the corporate governance report.

7. Environmental and social issues

Första AP-fonden expects all businesses in which the Fund invests to live up to the ten principles of responsible business conduct, with regard to human rights, working conditions, the environment and corruption, as defined by the UN Global Compact and to include sustainability issues in their business operations. The Fund also expects companies to comply with established internationally agreed guidelines and principles for business. An example of such principles that companies are expected to follow is the UN Guiding Principles on Business and Human Rights (UNGP).

Första AP-fonden collaborates with the Second, Third and Fourth AP Funds within the AP Funds' Council on Ethics in the field of sustainability in order to strengthen the AP Funds as exemplary managers and responsible owners, with a strong trust and reputation. For companies associated with violations of international conventions ratified by Sweden, the Council on Ethics initiates a dialogue with the aim of achieving a positive impact on the companies and their value chains. If the Council on Ethics' dialogue does not lead to the desired result within a reasonable time, the Council on Ethics may recommend that the funds exclude the company from the investment universe. Although the Council on Ethics strives for recommendations to be decided in consensus, it is Första AP-fonden that decides whether the recommendations should be followed or not. Such a decision means that the Fund's holdings of all securities issued by the company –whether they are managed internally or externally – shall be liquidated as soon as practicable. The Fund is also free to take action against companies even if the Council on Ethics has chosen not to act.

8. Information disclosure

Companies should seek an open and continuous dialogue with the shareowners. The companies' information should be accurate, clear, objective and trustworthy. The information provided by the companies should enable qualified assessment of the company's future development and the factors that create value for the shareowners. The companies should strive for clarity with regard to their established goals and the financial and strategic consequences of these goals.

The companies should publish an ethics policy or code of conduct and an anti-corruption policy. The companies should also be transparent in matters related to tax, for example by publishing a tax policy. Climate reporting should also be made in a transparent and relevant way. In addition, the companies should transparently describe how the policies and guidelines are implemented, monitored and evaluated.