

# 10

Sixth AP Fund  
Annual Report 2010



# 10

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For more information, visit  
[www.apfond6.se/en](http://www.apfond6.se/en)



The Sixth AP Fund has chosen to publish most of its information on its website. The website, at [www.apfond6.se/en](http://www.apfond6.se/en), includes information about the Sixth AP Fund's mission, strategy and targets and about the pension system. It also includes a description of the portfolio, with links to the portfolio companies. The website also contains current press releases and an archive of previous annual reports.

# The Sixth AP Fund in brief

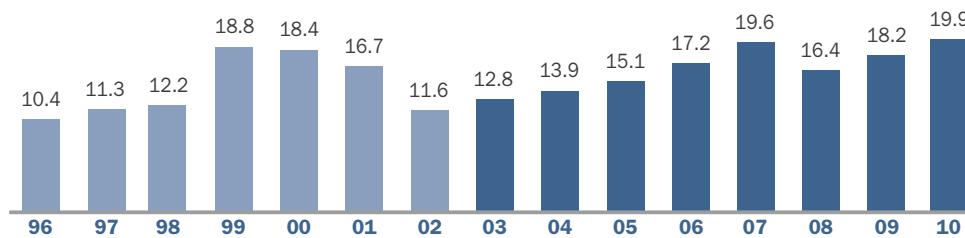
## Unique mission

The Sixth Swedish National Pension Fund (the Sixth AP Fund) manages public pension funds in order to create high long-term returns, taking into consideration the need for satisfactory risk diversification. The task is to invest in small and medium-sized companies, mainly Swedish, thus contributing to the development of Swedish industry.

The mission and business model of the Sixth AP Fund differ from those of the other Swedish National Pension Funds, but also from those of private equity companies. The business model has been refined to satisfy the financial targets in the investment mandate. Investment activities are divided up into company investments and investments in funds and investment companies.

The Sixth AP Fund received its mandate in 1996 and at the end of that year received investment funds of SEK 10.4 billion. By the end of 2010, this had grown by SEK 9.5 billion to SEK 19.9 billion.

## Fund capital growth 1996–2010



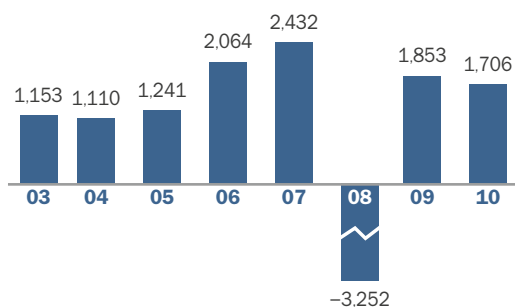
Since inception, the Sixth AP Fund's capital has grown by SEK 9.5 billion, from SEK 10.4 billion to SEK 19.9 billion, which corresponds to a growth in value of around 91 per cent and an average annual growth of 4.7 per cent. Adjusted for inflation, measured as the consumer price index (CPI), which during the same period averaged 1.3 per cent, the Sixth

AP Fund's real return has averaged 3.4 per cent per year.

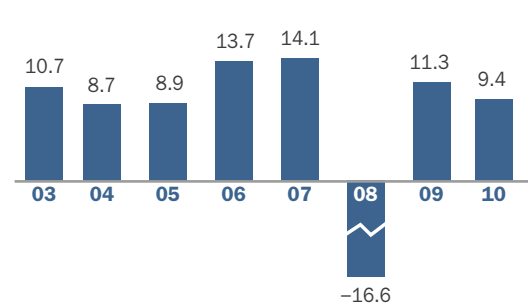
During the eight-year period 2003–2010, annual growth amounted to 7.0 per cent and the CPI averaged 1.5 per cent. The Sixth AP Fund's real return thus averaged 5.5 per cent per year during 2003–2010.

During 1996–2002, the majority of the Sixth AP Fund's fund capital was invested in listed companies. Since 2003, the investment focus is primarily on small and medium-sized companies. For this reason, the period of measurement has been divided into two parts.

## Profit/loss after costs 2003–2010, SEKm



## Return after costs 2003–2010, %



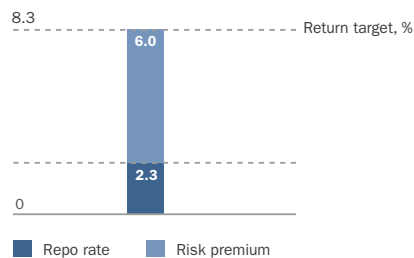
## Profit/loss breakdown 2003–2010

SEKm	2003	2004	2005	2006	2007	2008	2009	2010	Average return, %	Average return target, %
Mature companies	1,127	836	1,590	1,422	1,976	-875	937	1,548	17.7	7.8
Expanding companies	-219	53	-637	-46	468	-874	-121	-683	-7.5	10.0
Listed Small Cap	—	—	—	1,258	79	-1,027	1,127	722	13.0	7.0
	<b>908</b>	<b>889</b>	<b>953</b>	<b>2,634</b>	<b>2,523</b>	<b>-2,776</b>	<b>1,943</b>	<b>1,586</b>	<b>9.2</b>	<b>8.3</b>
Treasury, Risk management and Internal costs	245	221	288	-570	-91	-476	-90	120	—	
<b>Profit/loss</b>	<b>1,153</b>	<b>1,110</b>	<b>1,241</b>	<b>2,064</b>	<b>2,432</b>	<b>-3,252</b>	<b>1,853</b>	<b>1,706</b>	<b>7.0</b>	<b>6.8</b>

Read more about the Sixth AP Fund's annual evaluation at [www.apfond6.se/en](http://www.apfond6.se/en)



## Return target for investment activities 2003–2010

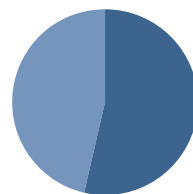


During the period 2003-2010, the Sixth AP Fund's investment activities (the Sixth AP Fund minus the profit/loss from Treasury, risk management and internal costs) generated an average return of 9.2 per cent per year, corresponding to a total of SEK 8,660 million, thereby exceeding the return target of 8.3 per cent.

The business targets are decided by the Sixth AP Fund's Board and consist of a short-term target and a long-term target. The definition of the long-term target is that the annual return on the total amount of capital invested should correspond to the risk-free interest rate plus a risk premium.

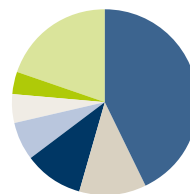
## Capital for investment activities 2010

### Investment activities



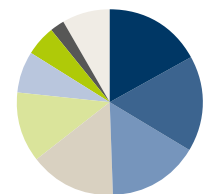
- Company investments
- Fund investments

### Major company investments



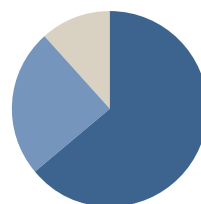
- Norrporten
- Volvofinans Bank
- Fordonsinvest Norden AB
- Lindab International
- Terrestrial Broadcasting Investments AB
- Xelerated
- Others

### Major fund investments by management team



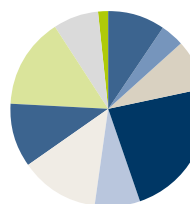
- Lannebo
- EQT
- Nordic Capital
- SLS Invest
- CapMan
- SEB fonder
- Accent Equity
- Creandum
- Others

### Capital invested by segment



- Mature companies
- Expanding companies
- Listed Small Cap

### Capital invested by sector



- IT/Telecom
- Media
- Life Science
- Property
- Finance
- Consumer
- Services
- Industry
- Health care
- Other

# A good performance in a demanding year

We are pleased to be able to report a profit of SEK 1.7 billion for 2010. For the Sixth AP Fund, this proved to be a year in which we were able to capitalise on opportunities that enabled the profitable sale of companies such as Todos and KVD Kvarndammen, but also the divestment or write-down of investments where we have not been able to create a return. During the autumn, we initiated a process to change the control models and organisation of the Sixth AP Fund.



**Adam F Laurén, Acting Managing Director**

The profit for 2010 was SEK 1.7 billion, which corresponds to a return of 9.4 per cent. Since its inception in 1996, the fund capital has grown by SEK 9.5 billion, from SEK 10.4 billion to SEK 19.9 billion. For the period of comparison 2003–2010, the fund capital grew by SEK 8.3 billion, which corresponds to an average return of 7.0 per cent. This can be compared to the target set by the board for the corresponding period, which was 6.8 per cent.

## **Recovery for equity investments**

The private equity market continued its recovery during the year. One example of this has been an increasing number of transactions, albeit from a low level compared to 2009. Several private equity players also started seeking capital during the latter part of the year in order to set up new funds. Here, we have noted a considerable interest among investors in funds that invest in small and medium-sized companies in the Nordic region.

We witnessed a similar level of interest from investors in the autumn, when the Sixth AP Fund divested its holding in KVD Kvarndammen Bilauktioner. At the same time, the interest in investments in companies in the early stages of development has remained low, and we have also seen examples of funds that focus on these stages discontinuing their investment activity. This stems from the low, often negative, growth in value of these investments; in other words, it has quite simply not been possible to achieve the required rate of return. In 2009, the Sixth AP Fund decided to focus on realising the values in this segment. During a five-year period, we will also be evaluating our continued commitment.

## **Mission**

The Sixth AP Fund works with a demanding form of private equity designed to provide a good return for the Swedish pension system. Our goal is to provide a high return on assets, taking into consideration the limitations in investment focus and the demand for a balanced risk dictated by the mission. The Sixth AP Fund has been involved in private equity investment since 1996 and all our investments, whether made directly in companies, or indirectly through funds, are of a long-term nature. Developing a company takes a long time and requires considerable resources. The growth in value is seldom even over the holding period. On the contrary, the entire growth in value often comes at the end of this period. This is why it is extremely important that we evaluate and communicate our long-term return and the importance of not being judged on short-term performance.

## **Changing the Sixth AP Fund's control models**

The Sixth AP Fund has developed a broad investment focus covering all sectors and a portfolio that includes both young and mature companies. While companies obviously need financing to implement their strategies, in our experience, it is just as important to introduce and develop working methods and processes. This is often referred to as the structural capital. Consequently, various control models have been developed based on the level of commitment in the companies concerned.

During the autumn, work began to evaluate our control models for investing directly in companies to see what works well and to establish in what areas our own control models and working methods need to be developed further. This work is ongoing and we can already see that it will result in changes to our models for the active governance of portfolio companies and the Sixth AP Fund's role on the boards of these companies.

Our holdings in company investments currently comprise around 60 companies of varying sizes and strategic focus. We are satisfied with the return on our investments in mature companies, which for the period 2003–2010 was 17 per cent per year, but, as mentioned previously, we are not satisfied with the return on our investments in companies in the early stages of development. Consequently, we are currently evaluating our investment and control models for this type of investment.

One way of achieving further diversification of risk in the portfolio is to invest in funds which in turn invest capital in small and medium-sized companies. Through these indirect investments, we reach more companies and can benefit from the fund managers' skills and experience in various areas. By investing through funds, we are able to spread the risks, allocate more capital and accomplish our mission of investing in small and medium-sized companies. The Sixth AP Fund made its first investment in a buyout fund in 1997 and has since then invested in a number of funds. We have received large paybacks on our investments and enjoyed good returns for many years. During the period 2003–2010, the return on our investments in funds that focus on mature companies was 19 per cent per year. We regard this as a good return, but as with our company investments, we are not satisfied with the returns yielded by funds that invest in companies in the early stages of development.

## **Good growth in value for mature companies in company investments**

During the year, the focus has been on developing existing companies in the portfolio. Some of the holdings have performed extremely well and the recovery has been good following the weak growth noted during the financial crisis. One such company is MECA, one of the major players in the Scandinavian market for automotive spare parts, tools and equipment for car repair shops. The company has approximately 500 affiliated workshops in Sweden and Norway. The property company Norrporten also continued to perform well during the past year and, together with the investment in Volvofinans Bank, is an important part of our direct yield portfolio. Another company with good growth in value and a strong market position is the much smaller business Unfors, which produces medical technology equipment. Our view is that Unfors has very good scope for expansion in the coming years.

## **Mixed results from divested holdings**

At the beginning of the year, we divested our holding in Todos, a provider of security solutions, such as those used to make electronic payments. The buyer was the French company Gemalto.

During the autumn, we sold our holding in KVD Kvarndammen Bilauktioner to Ratos. These divestments have contributed just over SEK 370 million to the profit/loss for the year. We are delighted that both these companies will now have further opportunities to continue their expansion in their respective fields.

However, other companies in the portfolio have not recovered as well, with growth much lower than expected. This prompted us to conduct an in-depth analysis of the portfolio with company investments in the autumn. One consequence of this analysis has been the divestment of some companies, such as Admeta and Repairshop, as they are no longer expected to generate the required rate of return. One investment that has had profitability problems for some time and which operated in a highly competitive sector is Sportex. We failed to create a return on our investment in Sportex, so in order to give the company the opportunity to grow as part of a larger entity, it was sold to Team Sportia at the beginning of the autumn. These three divestments had a negative impact on the profit/loss for the year of around SEK 180 million.

### **Write-down of values in early stages**

The portfolio of companies in the expanding stage presents major challenges. Several of these companies have not developed according to our plans and expectations. An example of this has been some of the technology companies, for whom progressing from a developed technology to market expansion has proved difficult. As a result of our uncertainty regarding the anticipated growth of some of these companies, there has been a significant write-down in some of the holdings. This does not, however, mean that our focus is being shifted from

these companies. On the contrary, there is a need for even more attention and focused efforts while we evaluate our continued commitment in the companies.

### **Changing the Sixth AP Fund's control model**

As of 1 January 2011, the current business area organisation will no longer exist. Until further notice, the portfolio will be divided into Company investments and Fund investments. The purpose of this reorganisation is above all to promote better cooperation and knowledge transfer between the investment managers responsible for our company investments and also to make the Sixth AP Fund's business model clearer. There is considerable public interest in – and consequently a greater need for transparency surrounding – the Sixth AP Fund's investments. Our hope is that we in future will be able to communicate the different aspects of our work – strategy, focus, holdings, sales, etc. – more clearly and efficiently.

We believe that we have several exciting companies in the portfolio which have good scope for expansion. However, the development and value creation of portfolio companies is heavily influenced by fluctuations in the business cycle. There are some causes for concern, relating above all to how the European economy will develop and how this will influence the current strong economic upturn in Sweden. However, we believe that 2011 can be a good year, although it will be an exciting challenge to try and match the profitable years of the mid-2000s.

Gothenburg, 28 February 2011  
Adam F Laurén, Acting Managing Director



# Fund management report

According to the Swedish Code of Corporate Governance, Swedish listed companies are required to submit a Corporate Governance Report. The Swedish code can be regarded as a boiler plate for determining standard practice for other companies, organisations, public authorities, etc. and this fund management report has therefore taken inspiration from the Swedish Code of Corporate Governance while taking into consideration the particular characteristics of the Sixth AP Fund.

Like the other Swedish National Pension Funds, the Sixth AP Fund is a government agency. However, the Swedish National Pension Funds differ considerably from other government agencies. The main difference is that the Swedish National Pension Funds adopt a highly independent position in relation to the government since their activities are regulated by law and the government therefore has no regulatory authority over the funds.

## Composition of the Board

The Board has five members and is appointed by the government, which also appoints the Chairman and Deputy Chairman. The government has decided upon a one-year term of office for board members, which means that the current appointments apply until such time as the government has adopted the Sixth AP Fund's balance sheet and income statement for 2010. During the year, Lars Lundqvist resigned from his position and Jan Kvarnström was elected as a new board member and Deputy Chairman. All other board members were re-elected.

## Board responsibilities

The Board has full responsibility for the business and in those areas where the Board's responsibilities are not regulated in the Sixth Swedish National Pension Fund Act (2000:193), they are regulated in the Rules of Procedure which are set by the Board on an annual basis.

In 2010, the Board held six ordinary board meetings and 17 extra board meetings. Besides the board members, board meetings are also attended by the Sixth AP Fund's Managing Director and employees who have special expertise or who are reporting on a case. The most important tasks of the Sixth AP Fund's Board include setting the return target for the business, deciding on the allocation of capital, appointing and evaluating the Managing Director and ensuring that the business has reliable procedures for internal control and monitoring. In

addition, the Board annually evaluates the day-to-day running of the business, focusing on the long-term perspective.

## Topical issues in 2010

During the year, the Sixth AP Fund's strategy has come under discussion. The starting point for these discussions was the analysis initiated in 2009 to review the return on investments in companies in the early stages of development. The background to this initiative is that investments in this segment have historically not generated anticipated returns, and also that they require a considerably longer investment horizon compared to more mature growth companies. This can lead to problems when evaluating companies at the early stages of development, since the creation of value is not reflected in the valuation on a continuing basis and cannot therefore be realised in the profit/loss. In view of the Sixth AP Fund's mission with regard to the return target, the view of the Board is that consideration should be given as to whether the Sixth AP Fund can continue to invest in this segment in the long term. In 2009, the Board therefore decided to focus on realising the values in the existing portfolio to enable it to gradually, within a five-year period, conduct an evaluation of its continued commitment in this segment. In this context, it should also be mentioned that a considerable number of companies and funds in the Sixth AP Fund's portfolio for this segment are relatively young, which makes it difficult to draw any hard and fast conclusions regarding their returns in the longer term.

## New Managing Director

In early autumn, the Sixth AP Fund's Managing Director, Erling Gustafsson, resigned from his position and Adam F Laurén was appointed as Acting Managing Director. In spring 2011, Marianne Dicander Alexandersson will take up the position as new Managing Director.

## Fees, salaries and incentive schemes

Fees and other remuneration to the members of the Board are decided by the government. The annual remuneration amounts to SEK 100,000 for the Chairman, SEK 75,000 for the Deputy Chairman and SEK 50,000 for other board members.

The Board decides the Managing Director's remuneration and the scope for salary revisions for other staff. The Board also decides whether to adopt an incentive scheme. The per-

formance-based programme, which is limited to the equivalent of two month's salary for the employee, is related to the overall financial performance in relation to the return target set. The Sixth AP Fund's financial performance for 2010 exceeded the return target set by the Board and remuneration from the incentive scheme will therefore be paid out in 2011.

In 2009, the government issued new guidelines regarding the terms of employment for senior executives in the AP Funds. These guidelines cover areas such as the removal of variable remuneration, limitations regarding retirement benefits and the regulation of retirement age.

The Sixth AP Fund's Board decided in 2009, in accordance with the guidelines issued by the government, to gradually implement new regulations regarding remuneration and benefits during 2009 and 2010 and also to renegotiate existing employment contracts. No variable remuneration was paid to the Managing Director or any other senior executives in 2009, nor will any be paid in respect of 2010. For more information, see Note 8.

### Internal control

The Board is ultimately responsible for the Sixth AP Fund's internal control. Internal control is a collective term for the internal activities and internal audits carried out in the business to ensure compliance with legislation, rules and regulations, policies and instructions that apply to and are defined for the business of the Sixth AP Fund. The Sixth AP Fund's work with internal control is largely a reflection of the activities defined by COSO, the world's most well-known framework for describing a company's internal control. For more information about COSO, see under Definitions.

The Sixth AP Fund has elected to set up a function to assume responsibility for co-ordinating the work with internal control. This function is organised independently from those parts of the organisation responsible for taking active business decisions. The function's responsibilities include responsibility for providing information and training in matters relating to policies, instructions, external rules and regulations, etc., for co-ordinating the processes to implement identification and map risks in the business and for planning internal audits with a third party. The Board has decided not to set up an internal audit function to carry out audits of existing internal controls, opting rather to hire external consultants for this work as and when the need arises.

The efficiency of internal control depends partly on having open and transparent risk reporting and on the implementation of clear values in the Sixth AP Fund's operations and affiliated networks.

Reports on internal control activities are made to the Board once a year. Exception reports are also given at every scheduled board meeting as part of incident reporting. Daily reports

are made to the Sixth AP Fund's executive management team, covering earnings trends, capital allocation and the monitoring of investment guidelines.

### Audit

The auditors used by the Sixth AP Fund are appointed by the government. Björn Grundvall of Ernst & Young and Anna Peyron of Ernst & Young were appointed as auditors and their appointment is for one year.

The auditors' work includes examining the Fund's operating activities, administration, annual accounts and accounting records. They express an opinion on the accounting records and the administration based on their audit. Their mandate also includes verifying that the Sixth AP Fund follows generally accepted accounting and valuation principles and that the accounting records give a true and fair view of the operating activities. There has also been an audit of the Sixth AP Fund's IT environment, with a focus on processes relating to the entire IT architecture as well as the business system. During the year, there was also a review, commissioned by the Sixth AP Fund, of the regulations regarding related-party dealings and conflicts of interest, as well as the monitoring and governance of portfolio companies.

The auditors publish a report based on their audit and also report directly to the Board with a verbal report at least once a year. They also submit written reports on their audit of the annual accounts and administration. In addition, the auditors provide the Ministry of Finance with a verbal report once a year.

### Board evaluation

The Board of the Sixth AP Fund is required by law (the Sixth Swedish National Pension Fund Act, 2000:193) to carry out an annual evaluation of its administration of funds, in other words, a performance review. This evaluation is submitted to the government in connection with the presentation of the annual accounts and audit report. The evaluation is prepared in a separate report that is published on the Sixth AP Fund's website.

### The government's evaluation

In addition to the Board's own evaluation, the Ministry of Finance carries out an annual evaluation of the Sixth AP Fund's operations on behalf of the government. This evaluation is performed for all the AP funds with the assistance of external consultants. The evaluation is presented in a written communication to the Swedish Parliament and made public when the government adopts the income statement and balance sheet for the 2010 financial year.

For more information, visit the Sixth AP Fund's website: [www.apfond6.se/en](http://www.apfond6.se/en) and the government's website, [www.regeringen.se](http://www.regeringen.se).



# Directors' report

The Board of Directors and Managing Director of the Sixth Swedish National Pension Fund (the Sixth AP Fund) herewith present their annual report of the Sixth AP Fund's operations for the 2010 financial year. The income statement, balance sheet, specifications and notes to the accounts following this report constitute an integral part of the annual report.

## **Strong recovery after the financial crisis...**

The capital market in Sweden has recovered well following the financial crisis. The market for listed equities has performed very well, rising by around 25 per cent in 2010 (Six 30 Return). Swedish companies have in general experienced a strong upturn in the economy and demand for products and services rose during the year despite continued financial concern in Europe. The transaction market for unlisted companies started to recover at the beginning of 2010 and during the autumn, there was a significant increase in interest, coupled with a rising number of transactions.

The Sixth AP Fund's portfolio of unlisted holdings has generally recovered well following the economic downturn. Several portfolio companies have made adjustments to their operations by cutting costs, improving efficiency through rationalisation and focusing more clearly on profitability. The portfolio also includes a number of companies which have technology products that are fully developed, but for whom market expansion has proved difficult. These companies, among others, have been more thoroughly analysed during the autumn, with the result that some portfolio companies have been subjected to a downward revaluation. However, it is important to point out that some of the investments in the portfolio of unlisted companies are still relatively young, which means that it will take a few more years before the long-term growth in value is noticeable in the income statement.

Investments in private equity funds with a focus on mature companies have generated very good returns in historical terms, and this was also the case in 2010. The view is that these investments will continue to show a healthy growth in value in the years to come too, although it may prove difficult to reach the levels of return witnessed in the mid-2000s.

The Sixth AP Fund's investments in listed small and medium-sized companies have continued to perform very well and have had a positive effect on the income statement. Some of the holdings in the listed portfolio were sold off during the year.

## **...but continued slow growth in value for companies in the early stages of development**

Investments in funds and companies focused on early stages have generally yielded a low return. As a result of this, the Board of the Sixth AP Fund decided in 2009 to focus on realising the values in the existing portfolio to enable it to gradually, within a five-year period, conduct an evaluation of its continued commitment in early stages.

## **Fund capital**

The Sixth AP Fund's current business model and investment strategy were adopted in 2003 and during the period 2003-2010, the fund capital has grown from SEK 11.6 billion to SEK 19.9 billion, which corresponds to an average annual growth of 7.0 per cent. The Sixth AP Fund started at the end of 1996 with a fund capital of SEK 10.4 billion, which by the end of 2010 had grown by SEK 9.5 billion to SEK 19.9 billion. This corresponds to an overall growth in value of around 91 per cent since the Sixth AP Fund's inception and an annual average growth of 4.7 per cent.

The Sixth AP Fund is an evergreen buffer fund, which means that it is not required to make payments or receive funds on an annual basis to balance the cash flows of the public pension system. This means that profits can be reinvested and that any losses must be covered by the fund capital.

At the end of 2010, capital committed, but not yet paid out, by the Sixth AP Fund to investments in funds and directly owned companies, amounted to SEK 2.6 billion (3.9bn).

## **Profit/loss**

For 2010, the Sixth AP Fund reported a net profit/loss of SEK 1,706 million (1,853m), which corresponds to a return of 9.4 per cent (11.3%). This can be compared to the return target set by the Board for 2010, which was 6.5 per cent. The profit/loss for the period 2003-2010 was SEK 8,307 million, which corresponds to a return of 7.0 per cent, which can be compared to the return target set by the Board for the corresponding period, which was 6.8 per cent.

The Sixth AP Fund's profit/loss is the sum of realised and unrealised changes in the value of the Sixth AP Fund's assets plus returns in the form of interest and dividends. The realised profit/loss consists of the difference between sales proceeds and book value at the exit of holdings and of any write-downs of acquisition value, where applicable. The costs comprise external

and internal management costs attributable to investment activities and the Sixth AP Fund's shared costs.

### Management costs

The Sixth AP Fund's costs are divided into external management costs, internal management costs and shared costs.

External management costs consist primarily of management fees paid to fund managers of the Sixth AP Fund's listed holdings.

Internal management costs include the Sixth AP Fund's personnel costs related to investments in funds, directly owned companies and the Treasury's holdings, as well as costs directly attributable to investment activities.

Shared costs include personnel costs for the Managing Director and shared specialist functions, as well as the cost of premises, consultants, IT and general office expenses. As the Sixth AP Fund's operations are not subject to VAT, input VAT cannot be deducted. This is routinely written off as an expense and taken up under the Sixth AP Fund's costs.

The management fees paid to funds which invest in unlisted companies are reported as part of the acquisition cost for each of the respective funds. Capitalised management fees are subject to lower valuation if necessary when assessing the market value of the investment at the year-end. At the end of 2010, all capitalised management fees were revised downwards to zero kronor.

The Sixth AP Fund's total management costs for 2010 amounted to SEK 167 million (146m), of which SEK 83 million (76m) were attributable to investment activities and the Treasury and SEK 84 million (70m) to shared costs.

### Investment activities

The Sixth AP Fund's business operations are divided into investment activities and the Treasury. Investment activities

consist of investments made directly in companies and indirect investments made through funds and investment companies.

The Sixth AP Fund applies a risk premium model for all its investments, which is the basis for the return targets set at the time of making the investment and against which the investment is monitored during the holding period and when the portfolio company is divested. The return targets for investments differ depending on the companies' stage of development, sector and industry. Generally, the earlier the stage of development, the higher the return target. The return target is also higher for fast-growing, research-intensive sectors such as technology and biotechnology, compared to mature investment sectors such as property and industry. The risk premium model is used for investments made both directly in companies and through funds and investment companies.

### Company investments

The Sixth AP Fund invests directly in small and medium-sized companies, unlisted and listed and mainly Swedish, through direct investments or through joint investments with business partners.

### The investment process

Each year, the Sixth AP Fund analyses numerous companies – businesses of varying sizes, in different regions and at different stages of development. The proposals for investments come largely from the Sixth AP Fund's own network, but may also sometimes result from a study of a particular industry or region.

Investments are made regardless of industry in small and medium-sized companies. Each investment is preceded by an extensive analysis of the company, which, in addition to the financial and technical aspects, looks at the company's legal, sectoral and commercial standing. The result of the due diligence is then used as a basis for the investment decision of the

## The Sixth AP Fund's performance 1997–2010

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Return trend (%)</b>	8.1	8.4	55.8	-1.3	-8.0	-30.9	10.7	8.7	8.9	13.7	14.1	-16.6	11.3	9.4
Benchmark index for each year														
1999–2002 SIX Return Index			67.4	-11.9	-14.2	-35.7	7.4	6.4	6.1	7.2	9.0	7.4	7.5	6.5
2003–2010 Absolute return target	—	—												
<b>Fund capital (SEK bn)</b>	11.3	12.2	18.8	18.4	16.7	11.6	12.8	13.9	15.1	17.2	19.6	16.4	18.2	19.9
<b>Profit/loss summary (SEK m)</b>														
Profit/loss before costs	851	923	6,752	-302	-1,522	-4,953	1,320	1,262	1,373	2,215	2,610	-3,108	1,999	1,874
External management costs	0	0	-2	-4	-10	-4	-14	-31	-7	-20	-33	-17	-16	-22
Internal management costs and shared costs	-35	-63	-78	-122	-148	-150	-153	-121	-125	-131	-145	-127	-130	-146
<b>Profit/loss for the year</b>	<b>816</b>	<b>860</b>	<b>6,672</b>	<b>-428</b>	<b>-1,680</b>	<b>-5,107</b>	<b>1,153</b>	<b>1,110</b>	<b>1,241</b>	<b>2,064</b>	<b>2,432</b>	<b>-3,252</b>	<b>1,853</b>	<b>1,706</b>

Sixth AP Fund's Board. The ownership interests in companies can vary, depending on the overall ownership structure, capital requirement, stage of development, level of risk, etc.

#### *Exercising active ownership*

The Sixth AP Fund has drafted a methodology for improving the performance of holdings during the period of ownership. This methodology rests on two pillars: the owner directive and the business plan.

When a new investment is made, the Sixth AP Fund, together with the other owners, drafts an owner directive that clarifies the common goals for the investment shared by the Sixth AP Fund and the other owners. The owner directive includes an analysis of critical success factors for the selected strategy, type of buyer considered and expected value, as well as an exit strategy and date. The directive should also specify those resources which the Sixth AP Fund is required to provide in terms of know-how and human resources. This could involve boosting the resources and level of expertise of the marketing and accounting function, the company's executive management or the board.

The owner directive provides the platform for the mission assigned by the owners to the company's board. The board, together with company management, is then responsible for drafting a strategic plan that is formulated in such a way that the Sixth AP Fund's targets for the company can be met. During this process, it is important that the board focuses on strategic issues and pursues these actively in its work, as this is a prerequisite for being able to decide upon measures to drive the value of the shares in the portfolio companies. The most important effect of the work with owner directives is that the focus is shifted from short-term profit growth to long-term value creation.

#### *Risk analysis*

Risks must be analysed continuously, partly by checking the status against the owner directive, business plan, market analyses and environmental analyses, partly by putting into place reliable procedures for financial monitoring. Market intelligence and the practice of monitoring how changes in the market affect a company's position represent an important part of the work carried out by a portfolio company's management and board. These activities also provide an important platform for the continuous revisions of the owner directive which should reflect current conditions and the owners' demands regarding the further development of the company.

There has been an increasing focus on sustainable business in recent years. This essentially means that a company in its operations should actively promote and take into consideration the need for ethical standards, equal opportunities and diversity, human rights and environmental concern. Major companies

are required to give an account of their work in this field in a sustainability report and to submit transparent information in documents such as the annual report. It is also important that smaller companies address sustainable business issues, since shortcomings can have a significant negative impact on a company's financial situation and reputation, which could in turn eventually lead to the company losing market share or disappearing altogether. It is important to make it clear that these issues must be addressed continuously.

#### *Investments in funds and investment companies*

The Sixth AP Fund invests in funds and investment companies with experienced management teams who invest in Swedish and Nordic small and medium-sized companies in the venture, buy-out and listed small cap segments.

#### *Long-term investor*

The Sixth AP Fund develops long-term relations with experienced management teams who are judged to be capable of generating sustainable high returns. The Sixth AP Fund is selective when picking management teams and aims for a focused portfolio. There is also the possibility of making co-investments with the funds.

The Sixth AP Fund has been an active fund investor on the Nordic market since 1997. Investments in funds entail long-term commitments which generally have a ten-year horizon. Capital that is committed to funds will be invested in companies over the following three to five years. The funds usually own the companies for five to seven years and then the companies are divested and the capital is paid back to the investors.

The success of a fund depends on the ability of the management teams to create value in the portfolio companies, but investments are also affected by fluctuations in the business cycle. As an investor in funds, it is therefore important to choose the right management teams, but also to commit capital continuously to maintain a constant rate of investment through different business cycles.

#### *The investment process*

The Sixth AP Fund has developed models for evaluation of investments in funds and investment companies. The most important components of the evaluation process are the assessment of investment strategy, management teams, historical returns and fund terms.

Prior to a possible investment, an evaluation of the fund's investment focus is carried out, looking at factors such as sector, the maturity of companies and geographical concentration. Fur-

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ther, the fund's position on the market is benchmarked against that of its competitors. An important aspect of the evaluation is to assess how the fund would fit in to the Sixth AP Fund's overall fund portfolio. The Sixth AP Fund aims to have a focused portfolio in terms of the number of management teams and for a balanced risk by aiming for a diversification of the sector, stage of development and size of companies.

The composition of the management team is evaluated by taking into account the required skills that support the chosen investment strategy. The evaluation includes an assessment of the management team's ability to create qualitative deal flows, the ability to create value during the ownership phase and the knowledge and experience of relevant exit markets. To further assess the capacity of the management team, the returns generated by the management team's previous funds are analysed thoroughly.

A separate part of the Sixth AP Fund's evaluation model concerns fund terms. Terms for the type of funds that the Sixth AP Fund invests in are not standardised in the same way as terms for listed products. Instead, the terms are formulated in connection with the establishment of the fund and are agreed after negotiations between the investors and the management team. The terms can therefore vary from fund to fund. The purpose of the fund terms is to ensure an alignment of interests for the management team and investors in respect of the activities of the fund.

#### *Exercising active ownership and portfolio analysis*

The Sixth AP Fund acts as an active investor when evaluating and monitoring the funds and considers each fund on its own merits when specifying requirements and determining participation in decisions. The basic premise, however, is that the management team always bears full responsibility for management of the fund.

The Sixth AP Fund has developed methods and tools to monitor the funds' development. The portfolio is analysed from a number of different perspectives, such as industry, stage of development, financial risk and technology risk. The purpose of this is to understand the underlying risks in the portfolio.

The analysis is based on the regular written reports received from the funds. As the Sixth AP Fund's investment managers also have regular meetings with the funds' management teams, they are able to obtain a good picture of the progress of the funds and portfolio companies.

For the Sixth AP Fund, it is important to be actively involved in developing the sector. The Sixth AP Fund is therefore a member of several organisations such as the Institutional Limited Partners Association (ILPA), the European Private Equity and Venture Capital Association (EVCA) and the Swedish Venture Capital Association (SVCA).

### **Organisation and employees**

At the end of 2010, the investment organisation of the Sixth AP Fund comprised seven business areas. The Treasury manages the liquidity reserve maintained to carry out new investments and follow-on investments in each business area. The investment activities and Treasury are supported by administrative functions such as Legal Affairs, Finance & Accounting, Business Control, Personnel Administration and IT.

At the end of the year, the Sixth AP Fund had 34 employees (34). For more detailed information about personnel, see Note 8. For more information about the Sixth AP Fund's organisation and employees, please refer to the website. As of 2011, the current business area organisation will cease to exist and investment activities will, until further notice, be divided into company investments and fund investments. This change will help promote greater co-operation and exchange of experience in our company investments.

### **AP Direct Investments**

The business area's market-valued capital amounted to SEK 7.7 billion (6.6bn) at the end of 2010 and the profit/loss for the year before internal costs was SEK 1,306 million (767m). The business area's portfolio companies performed very well during the year and the full effect of measures taken in response to the crisis on financial markets, among other things, were felt in 2010. The companies included in this business area are mature companies, a segment which, over time, has generated positive returns for the Sixth AP Fund. MECA, a company which has experienced some financial problems in the past, performed extremely well in 2009 and 2010 and is now showing signs of healthy profitability and growth. The business area also made a successful exit during the year with the divestment of Polarica. This company reported good growth during the holding period. The Sixth AP Fund also sold Sportex during the year, although the profit/loss for the year was adversely affected by SEK -71 million as a result. In this case, the Sixth AP Fund failed to restructure the business in the manner required to reach the anticipated returns in this highly competitive sector. The rise in Lindab's share price contributed just over SEK 121 million to the business area's profit. The holdings in Norrporten and Volvofinans Bank continue to provide a solid platform, generating immediate returns and balancing the Sixth AP Fund's overall risk exposure.

### **AP Partner Investments**

The business area's market-valued capital amounted to SEK 2.5 billion (3.0bn) at the end of 2010 and the profit/loss for the year before internal costs was SEK -442 million (-251m). The holdings in Todos and KVD Kvarndammen Bilauktioner were

divested during the year, resulting in gains of around SEK 132 million and SEK 238 million respectively. The majority of the portfolio's investments are in the development stage and the view is that there is good potential for growth among the portfolio companies. However, several companies were affected by the recession and the rate of growth slowed to a lower level than anticipated and the recovery since then has been sluggish. During the autumn, two companies were divested – Admeta and Repairshop – as it was felt that they would not be able to generate the return required by the Sixth AP Fund. These divestments had a negative impact on the profit/loss for the year, of SEK –61 million and SEK –53 million respectively. As some of the companies in the portfolio are not progressing according to plan, a significant downward revaluation of the investments was made in connection with the annual accounts. This applies in particular to some of the companies that have developed their technology, but for whom market expansion is proving more difficult than anticipated, but is it also true of companies in the service and consumption sectors. The continuing fall in the share price of Q-Cells, listed on the Frankfurt stock exchange, has adversely affected the profit/loss for the year by around SEK –186 million. The shares in Q-Cells were received as partial payment at the sale of Solibro AB.

#### AP Convertible Bond

The AP Convertible Bond business area manages those investments made by the Sixth AP Fund using a bond known as AP-konvertibeln. The purpose of this convertible bond is to make it possible for potential owners to create a more long-term form of financing and amortisation and in doing so to facilitate changes in a company's ownership structure. In connection with the handover to a new generation of owners, for example, the bond could be a complement to bank financing. Activities

in the business area during the year focused on working with existing portfolio holdings.

The business area also includes a number of investments in industrial businesses, Arvika Gjuteri, the Gnosjö Group and Water Jet Sweden. For these companies, the year signified recovery, but also bore the scars of recession and financial crisis.

The business area's market-valued capital amounted to SEK 217 million (257m) and the profit/loss for the year before internal costs was SEK –12 million (10m).

#### AP Network Investments

This business area offers growth capital and skills support to companies which have taken the first steps towards development and which are at a mature enough stage to launch their products or services on the market. Investments are made regardless of industry in companies with a strong entrepreneurial spirit and a business case with potential. The Sixth AP Fund participates as an active owner and investments are evaluated by and made together with local business partners. No new investments were made during the year, as the focus has been on developing the existing portfolio. The business area's market-valued capital amounted to SEK 178 million (130m) at the end of 2010 and the profit/loss for the year before internal costs was SEK –51 million (4m).

#### AP Regional Investments

This business area makes investments in areas where specialist knowledge of regional conditions is particularly important. Examples of investment targets include regional investment companies which invest in companies in the early stage and

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### The Sixth AP Fund's profit/loss and fund capital by business area

SEKm	Profit/loss before internal costs						Return before costs (%)		Market-valued capital, 31 Dec 2010
	2006	2007	2008	2009	2010	Total	2006–2010		
AP Direct Investments	514	1,156	–653	767	1,306	3,090	11.1	7,712	
AP Partner Investments	104	196	0	–251	–442	–393	–5.2	2,476	
AP Convertible Bond	1	5	19	10	–12	23	4.2	217	
AP Network Investments	—	—	–7	4	–51	–54	–18.0	178	
AP Regional Investments	–2	—	–1	–43	–4	–50	–24.8	157	
AP Life Science	153	148	–639	14	–160	–484	–6.0	1,671	
AP Fund Investments	1,851	1,026	–1,485	1,449	955	3,796	11.3	7,659	
Treasury & Risk Management	–426	46	–359	33	260	–446	—	–142	
Internal management costs	–63	–79	–56	–60	–64	–322	—	—	
Shared costs	–68	–66	–71	–70	–82	–357	—	—	
<b>Total</b>	<b>2,064</b>	<b>2,432</b>	<b>–3,252</b>	<b>1,853</b>	<b>1,706</b>	<b>4,803</b>	<b>5.7</b>	<b>19,928</b>	

growth stage as well as in regional companies which are influenced by regional development initiatives. The inflow of new investments comes solely from the Sixth AP Fund's activities with Local Networks. The business area's market-valued capital amounted to SEK 157 million (147m) at the end of 2010 and the profit/loss for the year before internal costs was SEK -4 million (-43m).

### AP Life Science

This business area makes long-term investments directly in companies and private equity funds in pharmaceuticals, biotechnology and medical technology. Although the level of market activity in the Swedish life science market has been high in recent years, many of the Swedish funds' portfolio companies are still not mature enough for an exit.

As the funds are limited in time and close to a contractual exit, and in view of the fact that it has taken longer to develop companies in the segment, the funds in SLS Venture have been restructured and converted to an investment company, SLS Invest AB. This will make it possible to take a more long-term approach compared to the investment period that a fund structure offers.

The business area's market-valued capital amounted to SEK 1.7 billion (1.7bn) at the end of 2010 and the profit/loss for the year before internal costs was SEK -160 million (14m).

### AP Fund Investments

AP Fund Investments invests in funds and investment companies with a focus on unlisted companies in the expansion and mature stages, as well as small and medium-sized listed companies. The business area comprises three sub-portfolios: Venture Capital, Buyout and Listed Small Cap. The total market-valued capital managed by the business area amounted to SEK 7.7 billion (6.9bn) and the profit/loss for the year before internal costs was SEK 955 million (1,449m). The financial performance was driven primarily by the positive impact of the increase in the value of listed holdings, but also by an appreciation in the value of investments in the Buyout portfolio. The profit/loss was, however, adversely affected by exchange rate movements.

The Nordic venture market has matured and the management teams are becoming more experienced. Despite this, it still takes a long time to realise the values of portfolios in the venture segment, and this also holds true for Europe as a whole. There has also been a decline in the number of active market players in the sector. One example of this came from CapMan, with the announcement in November that they did not intend to make any new expansion investments in the technology sec-

tor. The Venture Capital portfolio's market-valued capital amounted to SEK 759 million (698m) at the end of 2010 and the profit/loss for the year before internal costs was SEK -62 million (45m). The profit/loss for the year was adversely affected by, above all, exchange rate movements, but also by a downward revaluation of some of the Sixth AP Fund's early investments, which performed below expectations during the year. However, in the portfolio's active funds, the majority of the underlying portfolio companies have enjoyed positive growth during the year.

In terms of new investments and exits, the level of activity in the Buyout portfolio during the year was higher than the previous year. The businesses in the portfolio's underlying companies have generally performed very well, in many cases demonstrating clear growth and improved profits. The Buyout portfolio's market-valued capital amounted to SEK 4,636 million (4,126m) at the end of 2010 and the profit/loss for the year before internal costs was SEK 296 million (277m). The positive growth in the funds' portfolio companies have contributed to appreciation in the portfolio, but this is not fully reflected in the income statement due to negative exchange rate movements.

The Listed Small Cap portfolio invests in small and medium-sized listed companies through external fund managers. The listed market performed well during 2010 and the positive trend that began in 2009 continued throughout the past year. Compared to many other markets in Europe, the Nordic region has shown signs of both stability and recovery, and this has had a positive impact on the equities market. Listed Small Cap performed very well during the year. The Listed Small Cap portfolio's market-valued capital amounted to SEK 2,263 million (2,109m) at the end of 2010 and the profit/loss for the year before internal costs was SEK 722 million (1,127m). Some of the holdings in the portfolio were divested during the year.

### Treasury & Risk Management

The Treasury manages the liquidity reserve maintained to carry out new investments and follow-on investments in each business area and to cover other capital requirements in existing companies. Investments may be made in shares or interest-bearing assets. The Treasury also has the task of managing any financial risks that arise in the business and, if necessary, of borrowing capital. The capital managed by the Treasury amounted to approximately SEK -142 million (-489m) at the end of 2010. This figure includes a short-term credit facility of SEK 222 million (648m) as well as SEK 0 million (122m) in assets in a blocked account with OMX.



### Evaluation of business targets

The Board of the Sixth AP Fund is required by law (the Sixth Swedish National Pension Fund Act, 2000:193) to carry out an annual evaluation of its administration of funds, in other words, a performance review. This evaluation is submitted to the government in connection with the presentation of the annual accounts and audit report. The evaluation is prepared in a separate report that is published (in Swedish) on the Sixth AP Fund's website.

### The government's evaluation

On behalf of the government, the Ministry of Finance carries out an annual evaluation of the Sixth AP Fund's operations. This evaluation is performed for all the AP funds with the assistance of external consultants. The evaluation is presented in a written communication to the Swedish Parliament and made public when the government adopts the income statement and balance sheet for the year, which normally occurs in May of the following year.

The evaluation focuses primarily on the return target set by the Board and looks at how well investment activities have reached the targets set. The evaluation also includes analyses to assess the efficiency of the AP fund system from a general perspective.

The latest document is available on the websites of the government and the Sixth AP Fund.

### Significant events after the financial year-end

There are no events of material significance to report since the turn of the year.

### Sustainable business

Sustainable business is an important platform and a prerequisite for being able to generate high long-term returns on the pension capital the Sixth AP Fund has been entrusted to manage. The greatest benefit is created by integrating the work with sustainability issues as a natural part of investment decisions and by actively supporting the Sixth AP Fund's portfolio companies.

This work includes training and information as well as practical guidance. All companies in which the Sixth AP Fund has invested have been offered a review of operations, partly to identify risks and problems, but also to highlight environmental activities as a competitive edge. The work in this field has been carried out by an environmental consultant, whose services have been engaged by the Sixth AP Fund.

As part of the process to identify problems and opportunities, two surveys have been carried out, aimed at the Sixth AP Fund's portfolio companies. The results reflect the diversity and

variety in the Sixth AP Fund's portfolio. Mature companies with higher sales and more employees have made greater progress in their environmental work than companies with fewer employees and lower sales. The results from these two surveys also illustrate a difference in the environmental initiatives seen in different sectors. This latter difference can probably be ascribed to the fact that industry, for example, has a richer and longer tradition of recognised measurable goals regarding emissions and energy consumption, compared to, say, the services sector.

All in all, the Sixth AP Fund has identified numerous environmental issues, which, depending on the type of investment, more or less require a tailor-made activity plan to ensure the success of environmental initiatives.

In 2011, the Sixth AP Fund will gradually start to adopt a more general and, if possible, more comprehensive approach. This applies to both environmental issues and ethical standards and morals – a code of conduct. At present, there are many well known, successful models available for addressing such matters, and these would apply equally to the Sixth AP Fund's own organisation. The aim is to create a system for these issues that is as homogenous as possible. The aim should be to ensure that sustainability issues – whether environmental, ethical or moral – should be easy to measure and compare with those elsewhere, both within the Sixth AP Fund's own organisation and for its investments.

### Co-operation between the AP funds

In order to enhance the existing co-operation between the AP funds, a decision was taken in 2010 to set up a dedicated forum for co-operation, with the aim of reducing the costs of existing organisations through greater transparency and co-operation. The project brings together the First AP Fund, the Fourth AP Fund, the Sixth AP Fund and the Seventh AP Fund. The co-operation will also involve joint working groups for all business support functions. Initially, those areas where co-operation has been discussed, in addition to the funds' work on environmental issues and ethical standards within the joint Ethics Council, are: IT issues of strategic importance, tax matters, accounting and valuation issues, systems support for unlisted assets, systems for file management and portfolio systems. Existing contacts already enable the regular sharing of experiences and pooling of skills, above all between the funds' legal and administrative functions.

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# Income statement

SEKm	Note	2010	2009
Net profit/loss, listed shares and participating interests	2	713	1,275
Net profit/loss, unlisted shares and participating interests	3	584	267
Dividend		99	150
Net interest income/expenses	4	190	208
Other financial income and expenses	5	287	99
Management costs	6, 8	-83	-76
Shared costs	7, 8	-84	-70
<b>Profit/loss for the year</b>		<b>1,706</b>	<b>1,853</b>

# Balance sheet

SEKm	Note	2010-12-31	2009-12-31
<b>ASSETS</b>			
<b>Investment assets</b>			
Shares and participating interests in listed companies and funds	9	3,115	3,022
Shares and participating interests in unlisted companies and funds	10	16,769	15,599
Other interest-bearing securities	11	262	109
<b>Total investment assets</b>		<b>20,146</b>	<b>18,730</b>
<b>Receivables and other assets</b>			
Other current receivables		6	29
Liquid assets		1	7
Prepaid expenses and accrued income	12	57	72
<b>Total receivables and other assets</b>		<b>64</b>	<b>108</b>
<b>Total assets</b>		<b>20,210</b>	<b>18,838</b>
<b>FUND CAPITAL AND LIABILITIES</b>			
<b>Fund capital</b>			
Initial capital		10,366	10,366
Profit brought forward		7,856	6,004
Profit/loss for the year		1,706	1,853
<b>Total fund capital</b>		<b>19,928</b>	<b>18,223</b>
<b>Current liabilities</b>			
Liabilities to credit institutions	13	222	526
Accrued expenses		50	25
Other current liabilities	14	10	64
<b>Total current liabilities</b>		<b>282</b>	<b>615</b>
<b>Total fund capital and liabilities</b>		<b>20,210</b>	<b>18,838</b>
<b>Memorandum items</b>			
Contingent liabilities		2	2
Commitments – committed capital, not yet paid out		2,594	3,868

# Notes

All figures are given in SEK million unless otherwise stated.

## Note 1 Accounting principles

The Sixth Swedish National Pension Fund (the Sixth AP Fund) adheres to the regulations set forth in the Sixth Swedish National Pension Fund Act (Lagen (2000:193) om Sjätte AP-fonden). This Act came into force on 1 January 2001. The annual report has been prepared in accordance with generally accepted accounting principles. As a result of the legislation which regulates the Sixth AP Fund, all investments are valued according to their fair value in the Sixth AP Fund's accounts.

### *Reporting according to IFRS*

IFRS is an internationally accepted set of standards and the Sixth AP Fund is therefore continuously evaluating the changes taking place in this field. However, it must be stressed that the Sixth AP Fund cannot adopt IFRS to their full extent as the Act states that the Sixth AP Fund shall not prepare consolidated accounts. This means that it will never be possible to apply certain key parts of IFRS, such as IFRS 3, Business combinations, in the Sixth AP Fund's accounts. Consequently, the Sixth AP Fund must for each individual standard determine what is applicable and then judge which information should be presented to ensure that external readers are given a true and fair picture that is presented clearly in the annual report. The view is that the Sixth AP Fund's results conform to IFRS.

The Sixth AP Fund is a public authority and therefore not a legal entity and can therefore not be considered a parent company.

### **Reporting and valuation of unlisted securities**

The Sixth AP Fund values all holdings according to their fair value and applies IPEV guidelines (International Private Equity and Venture Capital Valuation Board, [www.privateequityvaluation.com](http://www.privateequityvaluation.com)) as the basis for its valuation. This essentially means that its holdings are reported at fair value. It should be noted that there is no formal requirement to conform to these regulations, but as they are internationally accepted and conform to the manner in which the other AP funds value their unlisted holdings, the Sixth AP Fund has elected to adhere to these principles. In connection with the annual accounts, the Sixth AP Fund conducts a valuation of all the companies in each of its portfolios. However, the emphasis is on those companies which have material worth in relation to the overall portfolio. The valuation of unlisted holdings largely involves attempting to estimate the anticipated growth of the underlying business. In each individual case, the Sixth AP Fund attempts to determine which valuation method is best suited to illustrating the fair value of the investment. The following valuation methods are used:

### *Price according to the latest round of investment*

Most of the Sixth AP Fund's investments involve third-party transactions. If these transactions have taken place during the financial year, they are used as the basis for valuation in the annual accounts. In all cases, events occurring between the time of the transaction and the time of reporting it are taken into consideration.

### *Discounted cash flow*

With this method, the valuation of the company is based on discounted future cash flows. This is followed by a deduction of the rele-

vant net interest-bearing liability. The present value of future flows is calculated using a risk-adjusted interest rate. One of the tools used by the Sixth AP Fund to determine this interest rate, and accordingly the return target, is a risk premium model. The return targets calculated using this model should correspond to the average expected market return for a portfolio with the corresponding level of risk and investment horizon. The valuation model most commonly used by the Sixth AP Fund is discounted cash flow, as it provides a good basis for judging and discussing the company's future growth. In those cases where an investment at the time of valuation has not yet shown a positive cash flow, and where there is no alternative valuation which would provide a fairer indication of value, a more cautious estimate of the company's value is made. In such cases, the market value of the investment often corresponds to its acquisition cost or less.

### *Net asset value*

This method is suitable for use with companies whose value is most accurately reflected by a valuation of the company's net assets rather than the earnings capacity of the underlying business. The Sixth AP Fund uses this method for the valuation of Volvofinans Bank AB and the property company Fastighetsaktiebolaget Norrporten. In both cases, a valuation of the net assets produces a fairer value than any of the alternative valuation methods.

### *Valuation using multiples*

This valuation method is based on the assumption that suitable multiples can be identified for the company to be valued. The multiples most commonly used by the Sixth AP Fund are EV/EBIT and EV/Sales. As most of the companies are in the early stage of development, the method is primarily used to estimate the multiples at the time of a future exit and thus assess whether the company's future growth can be regarded as reasonable. For most of the companies owned by the Sixth AP Fund, it is difficult to find suitable points of reference for valuation using multiples. For this reason, no valuations are based solely on this method – it is always used in combination with one of the other valuation methods.

### *Industrial benchmarks*

Relevant industrial benchmarks may be used, above all in order to validate previous valuations. Examples of these are income per subscriber, viewer, etc. In some cases, the Sixth AP Fund has analysed benchmarks used in transactions by companies similar to those due to undergo valuation. These have then been used as a reference point to support the valuations.

Part of the Sixth AP Fund's valuation process involves subjecting certain selected investments to stress testing in different scenarios. If the investment demonstrates signs of considerable volatility, the Sixth AP Fund will adopt a more restrictive approach when estimating its value. Since most of the Sixth AP Fund's holdings are in the early stage of development, it can be difficult to identify a single suitable valuation model. The valuation is therefore based primarily on an analysis of the company's performance, which is considered in relation to the owner directive agreed at the time of the initial investment. Revaluations of unlisted holdings are reported under

## Cont. Note 1

the item Net profit/loss, unlisted shares and participation interests in the income statement and are also specified in Note 3. However, where there is a permanent and substantial reduction in value (e.g. bankruptcy), this will lead to a write-down, which often corresponds to the entire amount invested. This write-down is reported in the income statement under Net profit/loss, unlisted shares and participation interests and is also specified in Note 3.

Valuations of holdings in funds which invest in unlisted companies are based primarily on valuations received at 31 December 2010 from the respective funds. For holdings in respect of which the Sixth AP Fund has not yet received valuations that take into account performance during the fourth quarter of 2010, an adjustment has been made to reflect the change in market conditions.

Purchases and sales of financial instruments are reported on the trade date.

Convertible loans are stated under the item Shares and participating interests in unlisted companies and funds and reported at amortised cost.

Premiums paid in respect of positions in unlisted derivative instruments have been recognised in the balance sheet. These premiums are reported together with the underlying value of the asset.

The acquisition value of a fund refers to all outgoing payments made, excluding external management costs (which are subject to downward revaluation), for remaining portfolio companies.

Changes in values of unlisted securities, realised and unrealised, are reported in the income statement and included in the profit/loss for the year. The realised profit consists of the difference between sales proceeds and book value at the disposal of holdings, plus any previous write-downs of book value, where applicable. As a rule, write-downs are preceded by a depreciation that is defined as the unrealised profit/loss. This means that there will be a transfer of the depreciation between unrealised and realised profits. This transfer has no impact on the total profit/loss.

The Sixth AP Fund manages some investments through dedicated holding companies. To give a fair view of the business, any investment divested by the holding company is reported as realised by the Sixth AP Fund. The sales amount minus the acquisition value of the investment gives the realised profit/loss. The holding company is then valued at its net worth, with the value gradually decreasing in line with the dividends relating to the sales proceeds. To ensure that the profit from an exit is not reported twice, these dividends are only reported in the balance sheet.

### Reporting and valuation of listed securities

Those assets in which capital has been invested are reported according to their fair value in the annual report.

The fair value is based on the closing prices listed on the last trade date of the year. Transactions concerning calls, warrants, forwards and swaps are reported in the accounts on the day when the material risks and rights are transferred between parties, i.e. the day the deal is completed. This principle applies to transactions on the money and bond markets and on the equity market.

The acquisition value of shares and other securities includes commissions and other direct costs incurred in relation to the purchase.

When calculating capital gains and losses, the average value method has been applied.

Valuation is primarily made according to the final price paid on the last trading day of the year.

If, in certain conditions on a certain market, it is considered that the final rate (price paid) is not representative, then a different rate may be used for calculating the fair value.

Positions in derivative instruments are valued at their fair value and reported under the same balance sheet item as each of the respective instrument's underlying class of asset.

Changes in values, realised and unrealised, are reported in the income statement and included in the profit/loss for the year.

The capital gain/loss refers to the difference between sales proceeds and acquisition cost. The capital gain/loss is the result that arises when investment assets are sold.

### Management costs

The Sixth AP Fund's management costs are divided into external and internal management costs and shared costs. External management costs relating to management fees for listed holdings are reported as continuous expenses in the income statement. External management costs relating to management fees for unlisted holdings in funds are capitalised against the investment made. The management fees are later subjected to downward revaluation in connection with the valuation at fair value. In company investments, management costs are capitalised, but are only subjected to downward revaluation if they cannot be recognised at fair value.

Internal management costs, which primarily refer to costs for the Sixth AP Fund's own personnel working in investment activities, are written off as an expense together with shared costs, which primarily refer to personnel costs for the Managing Director and shared specialist functions as well as the costs of premises, IT and general office expenses.

Internal and external management costs are reported in a separate note.

Performance-based remuneration is not included in external management costs. It does, however, reduce the capital gain/loss in respect of the asset managed.

### Other accounting principles

No consolidated accounts have been prepared, since shares and participating interests in subsidiaries are valued at their fair value.

The Sixth AP Fund is a public authority and therefore not a legal entity and therefore not a parent company.

Receivables are taken up in the accounts at the amount at which they are expected to be received. Liabilities are valued at amortised cost. Purchases of new equipment are written off as an expense.

Realised and unrealised profit/loss is reported as a net amount in the income statement. Gross values are reported in a separate note.

The Sixth AP Fund is exempt from income tax and its operations are not subject to VAT. For this reason, input VAT cannot be deducted, but is a cost to the business.

The fund capital consists of initial capital and retained earnings. The initial capital comprises a transfer from the former 1st–3rd

Cont. **Note 1**

Boards and SEK 366 million remaining from the Winding-up Board for Fund 92–94. The Sixth AP Fund is not under any obligations regarding payments to or from the Swedish Social Insurance Agency.

**Memorandum items**

When investing in a private equity fund, a contractual commitment is made to invest a certain amount of capital. The capital is invested over time and payment made in line with the investments. The difference between committed capital and capital paid out, with the addition of possible reinvestment sums, is reported as a commitment under Memorandum items.

**Note 2** Net profit/loss, listed shares and participating interests

	2010	2009
<b>Listed holdings</b>		
Shares and participating interests	726	1,462
Bonds and other securities	—	37
Derivatives	-13	-224
<b>Total</b>	<b>713</b>	<b>1,275</b>

**Note 3** Net profit/loss, unlisted shares and participating interests

	2010	2009
<b>Realised</b>		
Income from divestments	1,616	438
Capital invested	-1,447	-440
Reversal of changes in value booked previously regarding divested holdings	257	118
Write-downs for the year	-193	-158
Reversal of changes in value booked previously regarding holdings written down	98	154
<b>Total realised profit/loss</b>	<b>331</b>	<b>112</b>
<b>Unrealised</b>		
Changes in the value of unrealised holdings	608	427
Reversal of changes in value booked previously		
– regarding divested holdings	-257	-118
– regarding holdings written down	-98	-154
<b>Total unrealised profit/loss</b>	<b>253</b>	<b>155</b>
<b>Total</b>	<b>584</b>	<b>267</b>

**Note 4** Net interest income/expenses

	2010	2009
<b>Interest income</b>		
Convertible loans	169	190
Other interest income	23	20
	<b>192</b>	<b>210</b>
<b>Interest expenses</b>		
Other interest expenses	-2	-2
	<b>-2</b>	<b>-2</b>
<b>Net interest income/expenses</b>	<b>190</b>	<b>208</b>

**Note 5** Other financial income and expenses

	2010	2009
Share in profits from limited partnerships	54	15
Exchange rate differences	233	84
<b>Total</b>	<b>287</b>	<b>99</b>

**Note 6** Management costs

	2010	2009
<b>External management costs</b>		
– Listed holdings	22	16
<b>Internal management costs</b>		
– Personnel costs	37	39
– Other costs	24	21
<b>Total</b>	<b>83</b>	<b>76</b>

External management costs do not include performance-based costs. Performance-based costs for the year amounted to SEK 0.9 million (1.1m). Input VAT of SEK 3.7 million (3.5m) is reported under Other costs.

External management costs relating to holdings in unlisted funds amounted to SEK 205 million (166m) and are capitalised as part of the acquisition cost for each of the respective funds. At the end of the year, all capitalised management costs were revised downwards to zero kronor. The write-down is included in unrealised profit/loss.

**Note 7** Shared costs

	2010	2009
Personnel costs	45	31
Property-related costs	5	5
IT costs	6	5
Services bought	16	17
Other costs	12	12
<b>Total</b>	<b>84</b>	<b>70</b>

Shared personnel costs include the costs related to the Managing Director and the business support organisation. Input VAT of SEK 6.1 million (6.2m) is reported under Other costs.

Services bought include remuneration to audit firms, as follows:

	2010	2009
<b>Audit assignments</b>		
Ernst & Young	1.0	1.0
<b>Total</b>	<b>1.0</b>	<b>1.0</b>
<b>Other assignments</b>		
Ernst & Young	0.5	0.1
<b>Total</b>	<b>0.5</b>	<b>0.1</b>
<b>Total</b>	<b>1.5</b>	<b>1.1</b>

**Note 8** Personnel**Events in 2010**

In September 2010, the Managing Director resigned and has a period of notice of six months. After six months, severance pay is payable during 18 months, although this will be reduced by any other remuneration received during the period of severance pay. During the period of notice and subsequent period of severance pay, retirement benefits corresponding to 30 per cent of the pensionable salary are payable. In the annual accounts ending 31 December 2010, a reservation has been made corresponding to the entire cost of the remaining period of notice, severance pay and retirement benefits.

The Sixth AP Fund appointed an acting Managing Director with effect from September 2010. The acting Managing Director receives a retirement benefit on 30 per cent of the pensionable salary, which is in line with standard employment contracts.

**New guidelines from the government in 2009**

In 2009, the government issued new guidelines regarding the terms of employment for senior executives in the AP funds. These guidelines covered areas such as the removal of variable remuneration, limitations regarding retirement benefits and the regulation of retirement age. The Sixth AP Fund's Board decided to gradually implement the new regulations regarding remuneration and benefits during 2009 and 2010.

The Board decides the total annual salary revisions as well as any variable remuneration. The Board assesses whether the remuneration and benefits paid to the Sixth AP Fund's senior executives are reasonable, moderate and well balanced in relation to comparable institutions.

The Board has decided to report remuneration and benefits for senior executives as a total amount, complemented by information about the number of senior executives. This is in accordance with generally accepted accounting principles for public companies and the Swedish Financial Supervisory Authority's proposal for general guidelines governing remuneration policies in companies in the financial sector.

**Regulations adopted for remuneration and benefits in 2010***Pensions*

Members of the senior management team, including the Managing Director, shall be entitled to a pension at the age of 65 and annual premium payments have been made corresponding to 30 per cent of pensionable income.

The Sixth AP Fund has no undertakings regarding future pensions or pension conditions. Remuneration from incentive schemes does not count as pensionable income.

*Severance pay*

Should the Sixth AP Fund serve notice to terminate employment, the Managing Director shall be entitled to severance pay corresponding to 18 months' salary in addition to salary during a six-month period of notice. Deductions are made for any other remuneration received by the Managing Director. For other employees in the senior management team, the average period of notice is 12 months without severance pay. This deviates from, but overall represents a lower cost than, the government guidelines which recommend a maximum period of notice of six months and severance pay corresponding to a maximum of 18 months' salary.

Cont. **Note 8***Incentive scheme*

In line with the government's guidelines, the incentive scheme does not apply to the Managing Director or other senior executives.

For other employees, the Board has decided to retain the earlier incentive scheme.

Payments under the incentive scheme, which are limited to the equivalent of two months' salary, are subject to the return target for the entire Sixth AP Fund being exceeded. No payments are made in the event of a loss. The net return for 2010 was 9.4 per cent, which means that the absolute return target of 6.5 per cent was exceeded. This means that remuneration from the incentive scheme in respect of 2010 will be paid out in 2011 and the income statement for 2010 has therefore been charged with the corresponding amount. Remuneration from incentive schemes does not count as pensionable income.

*Decisions regarding fees and remuneration*

Board fees are set by the government. The annual remuneration amounts to SEK 100,000 for the Chairman, SEK 75,000 for the Deputy Chairman and SEK 50,000 for other board members.

With the exception of the board fee, no further remuneration has been paid to the Board of the Sixth AP Fund.

The Board sets the Managing Director's salary each year and also decides the general development of staff salary levels and any incentive schemes.

*Absence due to illness*

Absence due to illness totalled 39 days for the year (18), which corresponds to around 0.5 per cent of hours worked (0.2). To protect the integrity of individuals, these statistics have not been broken down according to age or gender.

		2010	2009
Average number of employees	Men	16	16.3
	Women	14.5	15.3
		<b>30.5</b>	<b>31.6</b>
Number of employees as at 31 Dec 2010	Men	17	17
	Women	17	17
		<b>34</b>	<b>34</b>
Board	Men	3	3
	Women	2	2
		<b>5</b>	<b>5</b>
Senior management team	Men	6	6
	Women	1	1
		<b>7</b>	<b>7</b>

**Salaries and fees**

Chairman of the Board	0.1	0.1
Board, excluding Chairman	0.2	0.2
Managing Director (Jan–Dec)	2.9	2.9
Managing Director, reservation	5.3	—
Acting Managing Director (Sep–Dec)	0.9	—
Senior management team, excluding Managing Director	11.3	11.0
Other employees	23.1	21.3
	<b>43.8</b>	<b>35.5</b>

**Incentive scheme**

Managing Director	—	—
Senior management team, excluding Managing Director	—	—
Other employees	2.8	3.0
	<b>2.8</b>	<b>3.0</b>

**Other benefits**

Managing Director	0.2	0.1
Senior management team, excluding Managing Director	0.7	0.7
Other employees	1.4	1.5
	<b>2.3</b>	<b>2.3</b>

**Pension costs**

Chairman of the Board	—	—
Board, excluding Chairman	—	—
Managing Director (Jan–Dec)	1.4	1.4
Managing Director, reservation	1.6	—
Acting Managing Director (Sep–Dec)	0.3	—
Senior management team, excluding Managing Director	3.3	4.0
Other employees	6.7	5.9
	<b>13.3</b>	<b>11.3</b>

**Social security expenses, excluding pension costs**

	<b>18.5</b>	<b>15.8</b>
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**Personnel costs – Total**

	<b>80.7</b>	<b>67.9</b>
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## Note 9 Shares and participating interests in listed companies and funds

Share	Number of participating interests	Share of equity, %	Voting rights, %	Market value, SEKm
Aerocrine	1,199,167	1.2	1.2	7
Biolnvent International	1,268,718	2.1	2.1	38
CellaVision	644,416	2.7	2.7	7
Probi	191,837	2.0	2.0	9
Lindab	8,023,810	10.2	10.2	708
Swedish Orphan Biovitrum	866,821	0.4	0.4	35
Q-Cells	2,073,505			48
Lannebo Micro Cap	632,215			955
Lannebo Småbolag	16,890,777			634
SEB Micro Cap	4,000,000			674
<b>Total</b>				<b>3,115</b>

Commission paid in 2010 amounted to around SEK 0.7 million (2.9m).

## Note 10 Shares and participating interests in unlisted companies and funds

Company	Org. no.	Registered office	Number of participating interests	Voting rights, %	Share of equity, %
123 Servicecenters Fastighets AB	556660-4327	Gothenburg	1,000	100.0	100.0
AEP 2003 KB	969694-5196	Stockholm			15.8
Amplico Kapital AB	556703-3161	Gothenburg	4,500,000	90.0	90.0
Amplico I KB	969656-4088	Gothenburg			93.8
AP Industriinvest AB	556780-7184	Gothenburg	1,000	100.0	100.0
AP Konvertibeln AB	556703-1124	Gothenburg	1,000	100.0	100.0
AP Konvertibeln KB	969715-4061	Gothenburg			99.0
AP Partnerinvest AD AB	556740-3414	Gothenburg	97,000	97.0	100.0
AP Partnerinvest Auktion AB	556751-9607	Gothenburg	920	92.0	100.0
AP Partnerinvest Biljett AB	556751-9615	Gothenburg	920	92.0	100.0
AP Partnerinvest Fashion AB	556742-8882	Gothenburg	1,000	100.0	100.0
AP Partnerinvest Miljö AB	556751-9599	Gothenburg	920	92.0	100.0
AP Partnerinvest MIT AB	556754-4431	Gothenburg	960	96.0	100.0
AP Partnerinvest Network AB	556754-4399	Gothenburg	1,000	100.0	100.0
AP Partnerinvest Positionering AB	556739-6857	Gothenburg	930	93.0	100.0
AP Partnerinvest Röd AB	556736-6322	Gothenburg	94,000	94.0	100.0
AP Partnerinvest Sec AB	556754-2583	Gothenburg	90,010	90.0	100.0
AP Partnerinvest Sport AB	556736-6934	Gothenburg	90,001	90.0	100.0
AP Partnerinvest TDS AB	556752-1363	Gothenburg	909	90.9	90.9
AP Partnerinvest XLR 2 AB	556749-6079	Gothenburg	901	90.1	100.0
AP Partnerinvest XLR AB	556746-6510	Gothenburg	901	90.1	100.0
AP Riskkapital AB	556711-0407	Gothenburg	1,000	100.0	100.0
Aumar AB	556631-5932	Gothenburg	700	70.0	70.0
Auvimo AB	556587-9565	Gothenburg	1,000	100.0	100.0
Auvimo KB	969621-7729	Gothenburg			100.0
Chalmers Innovation Seed Fund AB	556759-5003	Stockholm	206,060	23.7	23.7
Creandum Advisor AB	556644-0300	Stockholm	37,740	34.0	34.0
EkoNord Invest AB	556769-8625	Krokomb	7,143	14.3	14.3
Electric Generation AB	556764-3282	Gothenburg	290,000	29.0	29.0
Energy Potential AB	556614-9000	Uppsala	432,781	3.6	15.0

## Cont. Note 10

Company	Org. no.	Registered office	Number of participating interests	Voting rights, %	Share of equity, %
Fordonsinvest Norden AB	556601-9757	Gothenburg	175,275	100.0	100.0
Fornminnet AB	556696-0794	Gothenburg	1,000	100.0	100.0
Fornminnet KB	969712-0468	Gothenburg			99.0
Fyrfond AB	556591-7027	Gothenburg	1,000	100.0	100.0
Fyrfond KB	969661-3109	Gothenburg			100.0
Gar Förvaltnings AB	556312-2968	Gothenburg	10,000	100.0	100.0
Globe Forum Sverige AB	556628-3346	Stockholm	400	21.6	21.6
Grönsta Lager AB	556660-5431	Gothenburg	1,000	100.0	100.0
Grönsta Lager KB	969704-9576	Gothenburg			99.0
Gyros AB	556672-5429	Uppsala	63,452	0.3	0.3
Healthcare Göteborg AB	556572-2088	Gothenburg	1,000	100.0	100.0
Industrial Equity (I.E.) AB	556599-9702	Gothenburg	1,000	100.0	100.0
Innoventus AB	556602-2728	Uppsala	4,662	33.3	33.3
Innoventus Project AB	556616-8356	Uppsala	176,483	49.0	49.0
IQQU Styrelseutveckling AB	556743-8105	Gothenburg	1,000	100.0	100.0
Iqube Holding AB	556676-0764	Stockholm	226,889	13.2	13.2
Johanneberg Campusbo AB	556658-6730	Gothenburg	800	80.0	80.0
Johanneberg Campusbo KB	969704-9451	Gothenburg			79.2
Jönköping Business Development AB	556693-2561	Jönköping	180,000	32.0	32.0
KA Intressenter AB	556771-4455	Stockholm	30,380	30.4	30.4
Krigskassa Blekinge AB	556709-7992	Ronneby	30,000	50.0	50.0
Logipi Holding AB	556781-6417	Stockholm	545	35.3	35.3
Mittkapital i Jämtland och Västernorrland AB	556784-9426	Krokom	1,000	100.0	100.0
NetSys Technology Group Holding AB	556550-2191	Möndal	100,000	100.0	100.0
Nordia Innovation AB	556228-6855	Stockholm	1,323,006	39.8	39.8
Norstel AB	556672-5346	Norrköping	21,447	1.9	1.9
NS Holding AB	556594-3999	Sundsvall	1,819,884	50.0	50.0
Orsa Grönklitt AB	556098-7462	Orsa	476,622	13.6	13.6
Prosilient Technologies AB	556639-2022	Stockholm	205,848	60.2	60.2
Scandinavian Life Science Ventures AB	556587-9771	Gothenburg	1,000	100.0	100.0
Seabased AB	556617-6557	Uppsala	193,478	0.8	3.5
Slottsbacken Fund II 2003 AB	556648-9729	Stockholm	545	49.5	49.5
SLS Invest AB	556730-2038	Stockholm	500	100.0	100.0
SLS Venture Two GP AB	556628-4674	Stockholm	5,434	53.5	53.5
STT Condigi Holding AB	556540-2889	Malmö	308,046	60.0	60.0
Syncron International AB	556573-8894	Stockholm	3,828,998	24.0	24.0
Terrestrial Broadcasting Investments AB	556702-6173	Stockholm	173,962	77.3	77.3
Unfors Holding AB	556701-5747	Gothenburg	74,844	58.1	58.1
United Intressenter AB	556727-5135	Stockholm	224	13.3	13.3
UnitedLog Group AB	556680-6914	Stockholm	27,385	52.0	52.0
Vega Ronneby AB	556762-7798	Ronneby	2,017,365	25.0	25.0
Vertical Wind AB	556632-1070	Uppsala	368,257	1.1	6.5
Volvofinans Bank AB	556069-0967	Gothenburg	400,000	40.0	40.0

The total acquisition value of shares and participating interests amounted to SEK 9,468 million (9,679m).

Cont. **Note 10**

<b>Funds</b>	Org. no.	Registered office	Share of equity, %	Acquisition value
Accent Equity 2003 KB	969694-7739	Stockholm	63.1	179
AE Intressenter KB	969724-7873	Järfälla	100.0	200
BrainHeart Capital ANX KB	969703-4685	Stockholm	59.4	46
BrainHeart Capital KB	969674-4102	Stockholm	43.4	100
CapMan Buyout IX Fund A L.P.		—	8.5	72
CapMan Buyout VIII Fund B KB	969705-5342	Stockholm	100.0	501
CapMan Equity Sweden KB	969683-1321	Stockholm	96.5	333
CapMan Technology Fund 2007 B KB	969720-4288	Stockholm	100.0	128
Creandum I Annex Fund AB	556759-5623	Stockholm	49.3	27
Creandum II KB	969708-0274	Stockholm	98.5	132
Creandum KB	969690-4771	Stockholm	49.3	51
EQT IV L.P.		—	2.0	398
EQT V L.P.		—	2.4	657
EQT Expansion Capital II L.P.		—	4.2	58
EQT Opportunity L.P.		—	10.8	131
Femfond KB	969687-5062	Stockholm	100.0	330
Fysikten KB	969712-1029	Stockholm	100.0	541
H & BIIS Sweden KB	969664-6570	Stockholm	50.0	32
HealthCap 1999 KB	969656-1647	Stockholm	10.5	101
HealthCap Annex Fund I-II KB	969690-2049	Stockholm	38.9	121
HealthCap III Sidefund KB	969699-4830	Stockholm	22.7	49
InnKap 2 Partners KB	969661-4735	Gothenburg	5.9	11
InnovationsKapital Fond I AB	556541-0056	Gothenburg	31.3	0
Innoventus Life Science I KB	969677-8530	Uppsala	32.7	42
Intera Fund I KY		—	12.0	63
IT Provider Century Annex Fund KB	969728-8109	Stockholm	98.5	6
IT Provider Century Fund KB	969673-0853	Stockholm	98.5	32
IT Provider Fund IV KB	969687-5468	Stockholm	59.1	168
Medicon Valley Capital Two KB	969680-3056	Gothenburg	98.5	115
Nordic Capital III		—	9.4	3
Nordic Capital VII Beta L.P.		—	2.8	241
Northern Europe Private Equity KB	969670-3405	Stockholm	69.1	212
Norvestor V, L.P.		—	8.5	64
Scandinavian Life Science Venture Two KB	969680-5291	Gothenburg	70.4	293
SG Partners II KB	969724-7337	Stockholm	100.0	134
Slottsbacken Fund Two KB	969660-9875	Stockholm	54.5	21
Sustainable Technologies Fund I KB	969734-9620	Stockholm	100.0	46
Swedestart Life Science KB	969675-2337	Stockholm	16.3	32
Swedestart Tech KB	969674-7725	Stockholm	20.6	46
Valedo Partners Fund I AB	556709-5434	Stockholm	25.0	113
<b>Total, funds</b>				<b>5,829</b>
<b>Total acquisition value</b>				<b>15,297</b>
<b>TOTAL MARKET VALUE</b>				<b>16,799</b>

**Note 11** Other interest-bearing securities

	2010	2009
FX forwards	80	25
Loans to unlisted companies	182	84
<b>Total</b>	<b>262</b>	<b>109</b>

**Note 12** Prepaid expenses and accrued income

	2010	2009
Accrued interest income	32	25
Prepaid management fee	8	32
Other prepaid expenses and accrued income	17	15
<b>Total</b>	<b>57</b>	<b>72</b>

**Note 13** Liabilities to credit institutions

	2010	2009
Approved credit limit	3,000	3,000
Unutilised part	-2,778	-2,352
<b>Utilised amount</b>	<b>222</b>	<b>648</b>
Blocked account with OMX	—	-122
<b>Total</b>	<b>222</b>	<b>526</b>

The utilised credit amount is regarded as short-term and temporary financing with an estimated maturity of no more than one year.

The approved credit limit for the group account is SEK 3 billion. The blocked account with OMX for trading with derivatives is included as part of the group account and is reported as a net item.

**Note 14** Other current liabilities

	2010	2009
Transactions not settled on the closing day	3	53
Other	7	11
<b>Total</b>	<b>10</b>	<b>64</b>

Gothenburg, 28 February 2011

Lennart Jeansson  
Chairman of the Board

Jan E Kvarnström  
Deputy Chairman

Gunilla Almgren

Olle Larkö

Katarina G Bonde

Adam F Laurén  
Acting Managing Director

# Audit report

## **Org. no. 855104-0721**

We have audited the annual accounts, the accounting records and the administration of the Board of Directors of the Sixth Swedish National Pension Fund for 2010. The Sixth AP Fund's annual accounts are presented in the printed version of this document on pages 9–26. These accounts and the administration of the Sixth AP Fund and the application of the Sixth Swedish National Pension Fund Act (2000:193) when preparing the annual accounts are the responsibility of the Board of Directors. Our responsibility is to express an opinion on the annual accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the Board of

Directors and significant estimates made by the Board of Directors when preparing the annual accounts as well as evaluating the overall presentation of information in the annual accounts. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Sixth Swedish National Pension Fund Act (2000:193) and give a true and fair picture of the Fund's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts.

The audit has given no reason to qualify our opinion on the annual accounts, nor on the income statement and balance sheet contained therein, the accounting records or inventory of the Sixth AP Fund's assets or any other aspects of its administration.

We recommend that the income statement and balance sheet be adopted.

Gothenburg, 28 February 2011

Björn Grundvall  
*Authorised public accountant*  
*Appointed by the Swedish Government*

Anna Peyron  
*Authorised public accountant*  
*Appointed by the Swedish Government*

# Board of Directors



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**Lennart Jeansson**

*Chairman of the Board*  
b. 1941  
Elected in 2004

*Other assignments:*

*Chairman of Stena AB, Volvo Pensionsstiftelse, BIL Sweden and Haléns Holding AB and Handel & Industri AB.  
Member of the Board of Volvo Lastvagnar AB, Volvo Construction Equipment AB and Stena Metall AB.*



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**Jan E Kvarnström**

*Deputy Chairman*  
b. 1948  
Elected in 2010

*Other assignments:*

*Managing Director of own companies von Deska GmbH and Kvarnström och Kvarnstöm Gbr.  
Chairman of Collector AB and Castellum AB. Senior advisor to Investcorp.*



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**Gunilla Almgren**

b. 1955  
Elected in 2001

*Other assignments:*

*Chair of Företagsakuten i Göteborg, Företagarna Göteborg.  
Member of the Board of the European Association of Craft, Small and Medium-sized Enterprises (UEAPME), Swedbank in Gothenburg, Almi Företagspartner Väst AB, Företagarna Region Stockholm, Brew House Inkubator AB, Nyföretagarcentrum AB and InProdicon Digital Media AB.*



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**Olle Larkö**

b. 1952  
Elected in 2006

*Other assignments:*

*Dean and Professor at the Sahlgrenska Academy at the University of Gothenburg.  
Member of the Board of the European Dermatology Forum, Chalmers Invest and Sahlgrenska Science Park.  
Scientific Council, Medical Products Agency in Sweden.*



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**Katarina G Bonde**

b. 1958  
Elected in 2008

*Other assignments:*

*Chair of DIBS Payment Services and Propellerhead Software.  
Member of the Board of MicronicMydata AB, eBuilder AB, the Royal Swedish Opera and the Sweden-America Foundation.*

# Management



**Adam F Laurén**  
Acting Managing Director

b. 1967  
Joined the Sixth AP Fund  
in 2006.  
Business Administration  
graduate.

*Board assignments:* —  
No holdings in unlisted companies.



**Ulf Lindqvist**  
Communications  
Manager

b. 1963  
Joined the Sixth AP Fund  
in 2008.  
Degree in Journalism.

*Board assignments:* —  
No holdings in unlisted companies.



**Alexandra Nilsson**  
Business Area Manager  
AP Fund Investments

b. 1973  
Joined the Sixth AP Fund  
in 1998.  
Law degree, Diploma  
programme for financial  
analysts from the Stock-  
holm School of Economics.

*Board assignments:* —  
No holdings in unlisted companies.



**Mats Augurell**  
Business Area Manager  
AP Partner Investments

b. 1958  
Joined the Sixth AP Fund  
in 2000.  
B Sc Business Adminis-  
tration and Economics.

*Board assignments:*  
Chairman of Aumar AB.  
Member of the Board of Alektum Inkasso AB.  
No holdings in unlisted companies.



**Urmas Kruusval**  
Business Area Manager  
AP Direct Investments

b. 1951  
Joined the Sixth AP Fund  
in 2000.  
Business Administration  
graduate.

*Board assignments:*  
Chairman of AB Volvofinans, MECA Scandinavia AB,  
Fordonsinvest Norden AB and DAWA Däck AB.  
Member of the Board of Borås Bil Förvaltning AB.  
No holdings in unlisted companies.



**Lars Ingelmark**  
Business Area Manager  
AP Life Science

b. 1949  
Joined the Sixth AP Fund  
in 1998.  
Medicine graduate, IFL  
diploma in marketing.

*Board assignments:*  
Chairman of SLS Invest AB, Gyttorp AB, MoMail AB  
and Svensk Våtmarksfond.  
Member of the Board of BioInvent International AB,  
Innoventus AB, Innoventus Project AB, KA Int-  
ressenter and Svenska Jägareförbundet.  
No holdings in unlisted companies.

# Definitions

## **Buffer fund**

Consists of the First to Fourth AP Funds and the Sixth AP Fund. The role of the buffer funds is partly to even out temporary variations between pension contributions and pension disbursements, partly to assist in the long-term financing of the pension system.

## **Business area return**

Profit/loss before costs divided by average capital invested.

## **Buyout**

Investment in a company's equity, for example by a leveraged buyout (LBO) or by the acquisition of parts of a company together with the company's management.

## **Committed capital**

The capital committed by the Sixth AP Fund as equity investments in various funds and companies over a set period of time.

## **Compliance**

Adherence to rules and guidelines.

## **Corporate Governance**

A term to describe issues relating to the control mechanisms used to manage companies. The relationship between the different company organs (AGM, Board and MD) is at the heart of corporate governance.

## **COSO**

Abbreviation for the Committee of Sponsoring Organizations of the Treadway Commission. COSO is a framework for evaluating a company's internal control over its financial reporting.

## **EV/EBIT**

The enterprise value divided by the operating profit (before net financial items and tax).

## **EV/Sales**

The enterprise value divided by sales.

## **EVCA**

European Private Equity and Venture Capital Association.

## **Equity investments**

A collective term for investments in a company's equity that applies to both listed and unlisted companies. It is occasionally confused with the concept of private equity, which is the term given to investments in companies that are not listed.

## **Fair value**

Fair value is defined as the amount at which an asset could be transferred or a liability written off, between parties who are independent of one another yet share an interest that the transaction be completed. This normally means that listed assets are valued at their purchase price (market value) and that the fair value of unlisted assets is estimated with the assistance of generally accepted valuation models.

## **Fund capital**

The initial capital that was allocated to the Sixth AP Fund at the beginning together with the cumulative gain or loss.



**Investment activities**

A collective term for the capital managed by the Sixth AP Fund's business areas.

**ILPA**

Institutional Limited Partners Association.

**IPEV**

International Private Equity and Venture Capital Valuation Board.

**IRR (Internal rate of Return)**

Describes the return on an investment in the form of an interest rate.

**Life science**

Collective term for the pharmaceuticals, biotechnology and medical technology sectors.

**Management fee**

Fees paid for the management of a fund.

**Market-valued capital**

Listed securities valued at market value at the year-end and unlisted securities valued according to IPEV principles. For more information, see Note 1.

**Operative share %**

Specifies the participating interest in a private equity fund regardless of its legal structure. Legal ownership is reported in a separate note.

**Private Equity**

A collective term for equities that are not listed on an official or public market. The ownership commitment in a private equity investment is often active and limited in time.

**Private equity fund**

A fund which has as its core operations investment in unlisted companies and the realisation of their growth in value.

**Profit/loss**

The total change in value – both realised and unrealised – of assets, returns in the form of interests and dividends, minus external management fees and internal costs.

**Repo rate**

One of the Riksbank's key interest rates governing the short-term market rate.

**Risk premium**

The compensation that an investor requires from an investment in, for example, shares, rather than investing in risk-free assets.

**Structural capital**

The shared knowledge capital of a company or organisation, compiled and documented in the systems of the company/organisation.

**Sustainability report**

A report describing how a company addresses financial, environmental and social issues.

**SVCA**

Swedish Venture Capital Association

**Total return for the Sixth AP Fund for one year**

Calculated as the profit/loss for the year in relation to the fund capital at the beginning of the year.

**Total return for the Sixth AP Fund for a period longer than one year**

Calculated as the average return per year.

**Venture Capital**

Investments made at an early stage in a company's development. The capital injected is often used for product or market development.

## COSO – a framework for internal control

The Sixth AP Fund's structure for internal control is a reflection of the activities defined by COSO, the world's most well-known framework for describing a company's internal control. The framework provides advice and guidance on how companies can organise effective internal controls and has been developed for use in a wide range of organisations, regardless of size.

According to COSO, the key components of internal control are: *control environment*, *risk assessment*, *control activities*, *information and communication* and *monitoring*.

*Control environment* is a collective term used to describe the factors which “set the tone” for the attitudes towards internal control in the organisation and embraces that environment, in the form of steering documents, legislation, culture, values, leadership styles and assignment of responsibilities, which surrounds the business. The control

environment lays the foundations for the other four components by establishing discipline and structure, what might otherwise be described as good administrative order.

*Risk assessment* refers to the work to identify risks in advance so that these can be assessed and avoided or controlled in an efficient and business-like manner by implementing the appropriate measures. The identification of risk is about identifying events, both internal and external, which could have an impact on the target fulfilment of the business.

*Control activities* are about preventing, discovering and correcting error and may include, for example, IT controls, policy documents, authorisation procedures, reconciliation or breakdown of administrative, controlling and executive functions – also known as the segregation of duties.

*Information and communication* should support the dissemination and availability of internal policy documents, guidelines and assignment of responsibilities that underpin the control activities that are to be implemented. Information is also about ensuring that the people concerned receive adequate and relevant information about legislation, rules and regulations, etc. which could have a bearing on their daily work and which support them in their work with control activities.

*Monitoring* is about monitoring all control activities that have been deemed necessary to ensure that they work in practice. The concept of monitoring also includes ensuring that reports are submitted to the Board regarding internal control activities or any incidents that occur.

For more information, visit  
[www.coso.org](http://www.coso.org)





The Sixth Swedish National Pension Fund (the Sixth AP Fund) manages public pension funds in order to create high long-term returns, taking into consideration the need for satisfactory risk diversification. The task is to invest in small and medium-sized companies, mainly Swedish, thus contributing to the development of Swedish industry.

The Sixth AP Fund is an independent owner that invests in small and medium-sized companies and in a selection of private equity funds, equity funds and investment companies.

[www.apfond6.se/en](http://www.apfond6.se/en)



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