

2019

Annual Report



PENSJONSORDNINGEN
FOR APOTEKVIKSOMHET



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About the pension scheme

The Pension Scheme for the Pharmacy Sector manages the pension entitlements of employees in pharmacies in Norway.

The Pension Scheme for the Pharmacy Sector was established in 1953 and is a statutory collective pension scheme. This means that dispensing pharmacists and permanent employees in pharmacies are both entitled to and obliged to become members of the pension scheme.

In addition to the employees at 960 pharmacies, the scheme has members from other businesses that are closely associated with the pharmacy sector, and where employers have applied for membership.

The Pension Scheme for the Pharmacy Sector comprises retirement pensions, contractual pensions (AFP), and disability pensions. Upon the death of a member, dependents may be entitled to dependents' pensions. Members can also apply for housing loans.

Administration

The Act on the Pension Scheme for the Pharmacy Sector stipulates that the scheme shall be managed by the Norwegian Public Service Pension Fund in accordance with regulations issued by the Ministry of Labour and Social Affairs.

The Board of Directors of the Pension Scheme for the Pharmacy Sector is the scheme's decision-making body. The Board is headed by the CEO of the Norwegian Public Service Pension Fund and has four additional members, each with a personal deputy.

The Board is appointed by the Ministry of Labour and Social Affairs with a rolling four-year mandate following nominations from the employers' associations and the employee unions. Two of the appointed members represent employers, while pharmacists and technical staff are each represented by one board member.

Board of Directors 2019

- Finn Melbø (Chairman) – CEO of the Norwegian Public Service Pension Fund
- Kristin Juliussen – Director of Research and Analysis at the Employers' Association Spekter
- Trond A. Teisberg – Chief Negotiator at Virke/Enterprise Federation of Norway
- Kjell Morten Aune – Special Adviser at Parat/Norwegian Association of Pharmacy Technicians
- Greta Torbergsen – Secretary General of the Norwegian Association of Pharmacists

Key figures

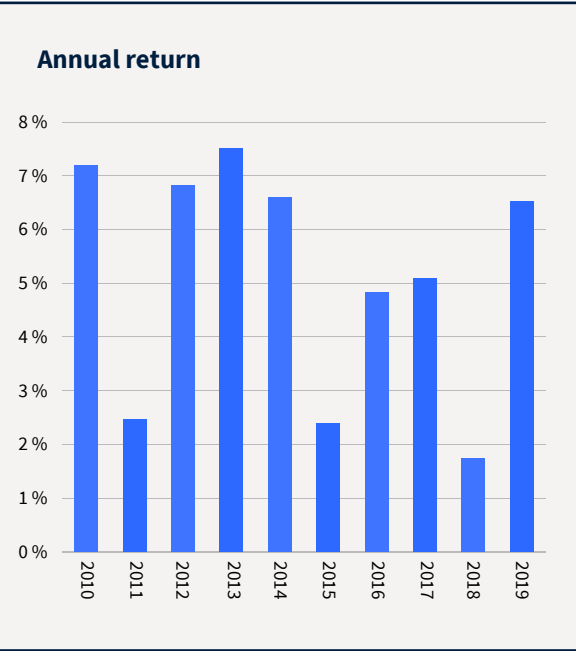
Key figures 2019

		2019	2018	2017
Customers and members:				
Employers in the pension scheme (number of pharmacies)	Number	960	934	899
Members	Number	22,321	21,375	20,967
Actively-employed members*	Number	7,812	7,527	7,704
Pensioners*	Number	5,739	5,517	5,338
Persons with entitlements from previous positions**	Number	8,770	8,331	7,925
Occupational pensions: (in NOK thousand)				
Accrued pension entitlements	NOK thousand	8,087,737	7,656,872	7,275,090
Pension premium	NOK thousand	767,634	693,130	663,758
Pensions paid	NOK thousand	337,619	314,773	301,205
Investment management:				
Funds in the Pharmacy Scheme	Million NOK	10,807	9,800	9,300
Annual return on funds (value-adjusted)	Per cent	6.53	1.8	5

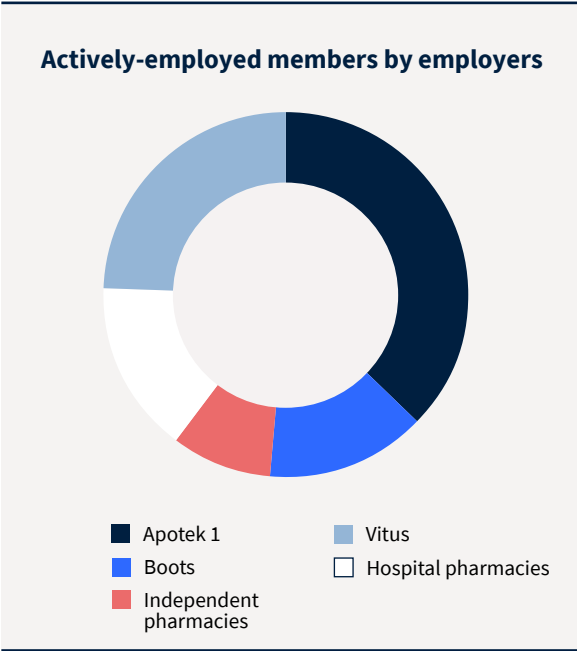
* The number stated is the number of policies. A member may have more than one policy. For example, a member who receives a partial disability pension from the pension scheme and works partly in an active position will have two policies

** No longer work in an organisation linked to the Pension Scheme for the Pharmacy Sector, but have pension entitlements with us

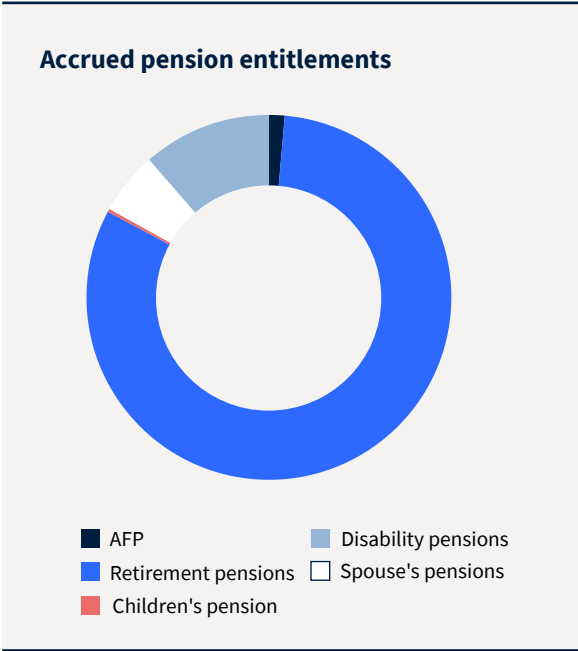
Investment management



Actively-employed members



Pension





Board of Directors' Report

Board of Directors' Report 2019

for the Pension Scheme for the Pharmacy Sector

The Pension Scheme for the Pharmacy Sector achieved a result of NOK 283 million in 2019. The time-weighted return for the whole portfolio was 6.5 per cent. The solvency of the Pension Scheme for the Pharmacy Sector improved during 2019.

Organisation

The Pension Scheme for the Pharmacy Sector is managed by the Norwegian Public Service Pension Fund, Oslo. At the end of 2019, the pension scheme had three permanent employees. All employees are investment managers, and all are men. Ongoing follow-up of the employees is carried out by the Norwegian Public Service Pension Fund.

No discrimination shall occur on the grounds of gender, race, age or ethnic background in the Pension Scheme for the Pharmacy Sector.

The board members are appointed by the Norwegian Ministry of Labour and Social Affairs. The Board of Directors is led by the CEO of the Norwegian Public Service Pension Fund. The other board members represent the Enterprise Federation of Norway (Virke), the Employers' Association Spekter, the Norwegian Association of Pharmacists and the Norwegian Association of Pharmacy Technicians.

As at 31 December 2019 the Board consisted of five members, two women and three men. During the year the Board of the pension scheme held six board meetings and dealt with 41 items of business.

Sustainability/Corporate Social Responsibility

The pension scheme has guidelines for ethically responsible investments. These guidelines have been based on the guidelines for Folketryndet (Government Pension Fund – Norway) throughout 2019. In addition, the pension scheme has also resolved to use KLP's and NBIM's lists of excluded companies as the basis for determining companies in which the pension scheme shall not invest.

New guidelines for sustainable investments as of 2020 entail subjecting the funds managed internally to principles of active ownership and the exclusion of companies. No investments shall be made in companies that violate behavioural or product criteria set by the Board of Directors. The exclusion criteria are mainly based on the criteria for excluding companies from the portfolio of the Government Pension Fund Global (GPF). External management mandates are required to have explicit and transparent ESG processes.

The pension scheme's operations do not affect the external environment.

Members, contributions and benefit payments

At year's end 2019, employees at 960 pharmacies were members of the pension scheme. This is an increase of 26 pharmacies from 2018. The pension scheme also includes members who are not pharmacy employees, but who work in other positions associated with the pharmacy sector. The fund had a total of 7,812 actively contributing

members, as well as 5,739 current pensioners at the end of the year.

Employees at pharmacies have mandatory membership of the pension scheme according to the more detailed provisions provided in the Act on the Pension Scheme for the Pharmacy Sector. Employees in other positions related to the pharmacy sector can apply for membership and can also apply for withdrawal.

In 2019, NOK 723 million was paid in premiums, compared with NOK 709 million in 2018. In addition, NOK 338 million was paid in pensions, compared with NOK 315 million in 2018. Invoiced but not paid premiums constituted a total of NOK 206 million at the turn of the year.

The premium rate was 18.1 per cent in 2019. The premium is divided between employees and employers. Employees paid a premium of 3.4 per cent of the contribution base, while employers paid a premium of 14.7 per cent.

In 2019 the pensions were adjusted based on a factor of 3.07 per cent. In the same way as for the National Insurance Scheme, a fixed factor of 0.75 per cent is deducted from the adjustment of the majority of pensions. This resulted in a minimum increase of the total pension of 2.30 per cent.

Financial risk

The Board has adopted an investment strategy that clearly delineates which risks may be taken and which

investments may be made. The strategy outlines that capital should be invested with a long-term perspective and with a moderate level of risk.

As at 31 December 2019 the proportion of shares, equity funds, hedge funds and speciality funds was 14 per cent of total assets. This is 3 percentage points higher than in 2018. In the opinion of the Board, the scheme's investment strategy and authorisation structure provide a good level of control over the management of the scheme's assets.

The portfolio of investments held to maturity represented 22 per cent of total the assets at year end. This proportion has increased by 3 percentage points compared with the previous year. Current returns from this portfolio are in excess of 4.0 per cent.

Insurance risk

Risk management on the investment side and risk management in relation to the actuarial provisions reserves are viewed together. The actuarial provisions are commitments with a long time frame. The capital is therefore also invested from a long-term perspective.

The technical settlement for 2019 is based on the K2005 life expectancy tariff with a basic interest rate of 3 per cent. A 15 per cent safety margin supplement for mortality related to the K2005 tariff is included. The assumption for rates of disability was based on K1963, boosted by a factor of 2.5.

Result

Profit for the year is NOK 283 million. Net profits related to financial assets stood at NOK 654 million. This includes changes in unrealised gains and losses. All asset classes have made a positive contribution to returns for 2019.

Unrealised capital gains of NOK 335 million have been allocated to the securities adjustment reserve in 2019. This has reduced the result for 2019 correspondingly.

In 2019 a total increase in pension liabilities (the premium reserve) of NOK 431 million was recorded. Growth in the number of total members, as well as salary increases and the regulation of current pensions all contribute to the rise in liabilities.

This year's profit of NOK 283 million will be allocated to other retained earnings.

Financial position

As at 31 December 2019, the Pension Scheme for the Pharmacy Sector had total assets of NOK 11,020 million. Of the total assets, approximately 68 per cent was placed in interest-bearing securities, 14 per cent in shares, equity funds, hedge funds and speciality funds, 12 per cent in property and real estate, 1 per cent in loans and 3 per cent in bank deposits, while other items account for 2 per cent of the total.

Other retained earnings totalled NOK 2,090 million at year

end. This is an increase of NOK 283 million from 2018. The pension scheme calculates the solvency margin requirement based on the rules that apply to private pension funds. As at 31 December 2019, the calculated solvency margin requirement totalled NOK 284 million. The solvency margin requirement must be covered by other retained earnings.

The scheme's free equity consists of other retained earnings in excess of the solvency margin requirement. Free equity totalled NOK 1,806 million at the end of 2019. This is necessary buffer capital to cover random risks that are not covered by the premium. The buffer capital is equivalent to 16.4 per cent of the total assets. By comparison, free equity totalled NOK 1,538 million at the end of 2018. This is equivalent to 15.4 per cent of the total assets.

As at 31 December 2019, NOK 758 million in net unrealised price gains was allocated to the securities adjustment reserve. The securities adjustment reserve operates as a buffer against possible future market price falls.

Buffer capital was strengthened during 2019. Together with the premiums paid, the return on the securities portfolio contributed to this strengthening. The return (time-weighted) of 6.5 per cent in 2019 is better than the comparable reference index, and also better than the assumptions at the beginning of the year.

The pension scheme calculates capital requirements based on the new binding capital requirements from the

Financial Supervisory Authority of Norway – simplified solvency capital requirements – which entered into force for pension funds as of 1 January 2019. The calculations are made under rules similar to those that apply to private pension funds. The solvency capital requirement shall cover the risk of loss of the pension fund's buffer capital and demonstrates the scheme's ability to withstand losses without threatening the scheme's continued operations. For calculation of the simplified solvency capital requirement, pension companies can use a transitional rule for calculation of the fair value for insurance liabilities until 2032.

As at 31 December 2019, the buffer capital satisfies the capital requirement based on the calculation of the simplified solvency capital requirement with use of the transitional rule. The calculations show that the pension scheme also has a satisfactory financial position without use of the transitional rule.

Events after the balance sheet date

Since the end of the financial year, there has been significant market turmoil as a result of the outbreak of COVID-19. There has been a marked fall on the world's stock exchanges and falling interest rates. There is considerable uncertainty about further developments and how long this crisis will last. The unrest in the financial markets has resulted in a fall in the value of the investment portfolio of the Pension Scheme for the Pharmacy Sector in 2020. However, the pension scheme still satisfies the statutory capital requirement, the simplified solvency capital requirement using the transitional rule, at the time of publishing the financial statements for 2019.

Summary

The annual financial statements have been prepared under the going concern assumption. As at 31 December 2019, the pension scheme had set aside technical reserves in accordance with the provisions of Act No. 11 of 26 June

1953 on the Pension Scheme for the Pharmacy Sector.

In the opinion of the Board, the annual financial statements for the Pension Scheme for the Pharmacy Sector provide a satisfactory basis for assessing the results of the pension scheme's operations during 2019 and the scheme's financial position at year end. The Board is of the opinion that the financial position at the end of the year is satisfactory.

The Board of Directors will closely monitor the development of the financial markets in 2020 and will consider implementing measures to reduce risk or increase the buffer capital. Together with the adopted investment strategy, the Board is of the opinion that this provides a satisfactory basis for meeting the challenges facing the industry. The requirements for the going concern assumption have accordingly been satisfied.

Oslo, 2 April 2020

(sign.)

Finn Melbø (Chairman)

(sign.)

Kristin Juliussen

(sign.)

Greta Torbergson

(sign.)

Trond Teisberg

(sign.)

Kjell Morten Aune



Financial statements and notes

Income statement 2019

	Note	2019	2018
TECHNICAL ACCOUNT			
Premium income			
Premium income	16	767,634,268	693,130,488
Net income from investments in the collective portfolio			
Interest income and dividends, etc. from financial assets		243,446,302	209,701,609
Net operating income from real estate fund		47,081,343	46,851,791
Value adjustments on investments		334,376,127	-129,058,848
Realised profit and loss on investments		5,344,240	29,879,409
Total net income from investments in the collective portfolio	20	630,248,013	157,373,961
Insurance benefits			
Pensions paid	17	337,618,525	314,773,221
Recognised changes in insurance liabilities			
Change in premium reserve	12	431,000,000	381,910,000
Change in exceptional liabilities	13	-9,959,894	-9,959,894
Change in securities adjustment reserve		335,084,621	-130,836,776
Total recognised changes in insurance liabilities		756,124,727	241,113,330
Insurance-related operating costs			
Administrative costs	18	27,207,366	24,996,923
Insurance-related administrative costs	19	16,898,978	17,032,609
Total insurance-related operating costs		44,106,344	42,029,532
Technical result		260,032,686	252,588,366

	Note	2019	2018
NON-TECHNICAL ACCOUNT			
Net income from investments in company portfolio			
Interest income and dividends, etc. from financial assets		9,225,784	9,060,929
Net operating income from real estate fund		1,784,222	2,024,404
Value adjustments on investments		12,671,714	-5,576,462
Realised profit and loss on investments		202,528	1,291,050
Total net income from investments in the company portfolio	20	23,884,249	6,799,921
Other income			
Interest income on bank deposits, operations		124,639	112,917
Administrative costs and other costs linked to the company portfolio			
Administrative costs	18	987,429	1,060,356
Non-technical result		23,021,459	5,852,482
Comprehensive income		283,054,145	258,440,848
Transfers and allocations			
Allocated to/transferred from(-) other retained earnings	14, 21	283,054,145	258,440,848
Total allocations		283,054,145	258,440,848

Balance sheet/assets

	Note	31/12/2019	31/12/2018
ASSETS IN COMPANY PORTFOLIO			
INVESTMENTS			
Financial assets valued at amortised cost			
Investments held to maturity	2	62,978,292	60,572,537
Housing and business loans	3	1,923,185	2,399,087
Total financial assets valued at amortised cost		64,901,478	62,971,624
Financial assets at fair value			
Shares and mutual funds	4, 7	74,764,763	71,368,611
Interest-bearing securities	5, 7	131,231,266	167,614,138
Financial derivatives	6, 7	1,167,373	0
Bank deposits		9,984,744	5,530,523
Total financial assets at fair value		217,148,146	244,513,273
Total investments in company portfolio		282,049,624	307,484,897
Receivables			
Accounts receivable	9	206,360,250	161,533,061
Receivables from brokers		0	0
Total receivables		206,360,250	161,533,061
Other assets			
Bank deposits, operations	8	8,321,596	6,431,645
Prepaid expenses and accrued income			
Accrued non-invoiced premiums		6,500,000	6,000,000
Accrued dividends		3,853,656	3,885,264
Prepaid expenses		57,879	54,322
Total prepaid expenses and accrued income		10,411,535	9,939,586
Total assets in company portfolio		507,143,005	485,389,189

	Note	31/12/2019	31/12/2018
ASSETS IN CLIENT PORTFOLIOS			
INVESTMENTS IN COLLECTIVE PORTFOLIO			
Financial assets valued at amortised cost			
Investments held to maturity	2	2,347,361,430	1,875,291,984
Housing and business loans	3	71,682,010	74,274,400
Total financial assets valued at amortised cost		2,419,043,440	1,949,566,384
Financial assets at fair value			
Shares and mutual funds	4, 7	2,786,673,234	2,209,532,426
Interest-bearing securities	5, 7	4,891,323,665	5,189,240,289
Financial derivatives	6, 7	43,510,970	0
Bank deposits		372,156,837	171,221,905
Total financial assets at fair value		8,093,664,706	7,569,994,621
Total investments in collective portfolio		10,512,708,145	9,519,561,004
Total assets in client portfolios		10,512,708,145	9,519,561,004
Total assets		11,019,851,150	10,004,950,193

Balance sheet/equity and liabilities

	Note	31/12/2019	31/12/2018
Retained earnings			
Other accrued dividends	10, 11, 15	2,089,691,850	1,806,637,705
Total retained earnings	10, 11, 15	2,089,691,850	1,806,637,705
Insurance liabilities			
Premium reserve	12	8,088,000,000	7,657,000,000
Special liability – for regulation of pensions	13	70,890,780	80,850,674
Securities adjustment reserve		757,597,525	422,512,904
Total insurance liabilities		8,916,488,305	8,160,363,578
LIABILITIES IN COMPANY PORTFOLIO			
Financial liabilities measured at fair value			
Financial derivatives	6	0	757,203
Expenses and income accrued			
Accrued expenses		3,525,532	2,935,973
Other current liabilities			
Liabilities to broker		0	1,100,000
LIABILITIES IN CLIENT PORTFOLIOS			
Financial liabilities measured at fair value			
Financial derivatives	6	0	23,442,588
Expenses and income accrued			
Accrued expenses		10,145,462	9,713,146
Total equity and liabilities		11,019,851,150	10,004,950,193

Oslo, 2 April 2020

(sign.)

Finn Melbø (Chairman)

(sign.)

Kristin Juliussen

(sign.)

Greta Torbergesen

(sign.)

Trond Teisberg

(sign.)

Kjell Morten Aune

Cash flow statement

(Figures in whole NOK)

	2019	2018
Cash flow from operations		
Member contributions	722,622,848	721,059,916
Bank interest	867,839	740,731
Interest income on loans	1,645,532	1,813,087
Interest on bonds/certificates	231,476,416	203,541,848
Dividends	18,714,616	12,746,431
Other income	321,015	1,892,423
Total	975,648,265	941,794,436
Financial expenses paid	-926,178	-793,613
Pensions paid	-337,618,525	-314,773,221
Administrative expenses	-44,814,927	-42,404,332
Change in accounts payable	112,951	233,208
Changes in other liabilities	31,217	-84,122,832
Total	-383,215,462	-441,860,790
Total cash flow from operations	592,432,803	499,933,646
Cash flow from investments		
Net realised losses/gains on shares/derivatives/speciality funds	-16,484,456	23,103,297
Net realised losses/gains on bonds/certificates	22,031,225	8,067,162
Net realised returns on real estate fund	48,865,566	48,876,195
Net change in loans	3,122,369	18,427,300
Net losses on loans	0	0
Net change in real estate fund	-74,616,667	-74,377,223
Net change in securities	-358,165,142	-416,986,242
Net change in other receivables	-9,906,594	-5,672,004
Total cash flow from investments	-385,153,700	-398,561,514

(Figures in whole NOK)

	2019	2018
Cash flow from financing activities		
Paid-up subordinated capital	0	-5,497,117
Total cash flow from financing activities	0	-5,497,117
Net cash flow for the period	207,279,103	95,875,015
Cash and cash equivalents 01/01	183,184,073	87,309,059
Cash and cash equivalents 31/12	390,463,177	183,184,073
Net change cash and cash equivalents	207,279,103	95,875,015

Notes

Note 1 | Accounting principles

Wherever possible the annual financial statements have been prepared in accordance with the Regulation of 20 December 2011 on annual financial statements etc. for pension companies and with the Norwegian Accounting Act that entered into force on 1 January 1999.

Pension premiums

Pension premiums are recorded as income as they accrue. Pension premiums are paid quarterly in arrear.

Interest income

Interest is recorded as income as it accrues.

Financial assets valued at amortised cost

Bonds classified as held to maturity are valued at the cost price adjusted for the recognised premium/discount. The premium/discount at the acquisition date is recognised in the income statement over the bond's remaining life.

Housing and business loans are recorded at par value as at 31 December 2019.

Financial assets at fair value

Shares and mutual funds

Investments in shares and mutual funds are booked at fair value as at 31 December 2019. Fair value is equivalent to the market value as at 31 December 2019. Market value is based on the last official trade in 2019.

Shares in the real estate fund are included in shares and mutual funds. Mutual funds are valued at the market value as at 31 December 2019. The market value is based on independent valuations of the properties.

Shares and mutual funds also include units in infrastructure funds and speciality funds. The funds have calculated the

value of the mutual fund units as at 31 December 2019 as per the industry standard.

Bonds

Investments in bonds are booked at fair value as at 31 December 2019. Changes in value are recognised in the income statement. Fair value is equivalent to the market value as at 31 December 2019. Market value is equivalent to the tax assessment value for 2019.

Financial derivatives

Foreign currency forward contracts are booked at fair value as at 31 December 2019. Fair value is equivalent to the market value as at 31 December 2019.

Securities valued at fair value are considered a single portfolio. The total of the market value minus the acquisition cost is the unrealised gain or loss on the portfolio. Any net unrealised gain in the collective portfolio is allocated to the securities adjustment reserve. Any net unrealised loss is recognised as an expense in the income statement.

Foreign currency

Bank deposits together with receivables and liabilities designated in foreign currencies are recorded using exchange rates as at 31 December 2019.

Insurance liabilities

The calculations are based on the assumption that the pension scheme will continue to operate as long as obligations exist towards its members as at 31 December 2019. Accordingly, account has been taken of all potential pension benefits provided for in the Act on the Pension Scheme for the Pharmacy Sector, both current benefits and benefits that may be relevant in the future. Account has also been taken of the contractual pension scheme (AFP) that allows the drawing of a pension

from the age of 62, subject to certain criteria.

The cash value of all scheme members' pensions has been calculated on the basis of membership status as per the balance sheet date (31 December 2019). This calculation has been carried out using standardised actuarial principles, and allowance has been made for discounting and calculation of risk. The calculations are based on a linear accrual of pension benefits from initial employment until retirement, subject to adjustment for any additional periods during which the member may previously have accrued pension entitlements.

The actuarial assumptions of mortality in the case of longevity risk and mortality for mortality risk are based on the basis elements in K2005. Mortality in the case of longevity risk was also strengthened with a 15% safety margin for both genders.

The assumption for rates of disability was based on K1963, boosted by a factor of 2.5.

Retained earnings

Retained earnings consist of other retained earnings. Other retained earnings comprise the pension scheme's excess capital in relation to the pension scheme's commitments. As a minimum the equity must cover the estimated solvency margin requirement. The solvency margin requirement is described in more detail in Note 15. Other retained earnings in excess of the solvency margin requirement/minimum capital requirement are defined as free equity. There are no guidelines limiting the application of free equity in the Pension Scheme for the Pharmacy Sector.

Tax status

In a statement from 1998, the former Oslo Tax Office concluded that the Pension Scheme for the Pharmacy Sector is a tax-free institution. The pension scheme's financial statements thus do not include any tax charge.

Note 2 | Investments held to maturity

Bonds classified as held to maturity

Figures in NOK thousands

Issuer	Par value	Cost price	Book value	Market value	Difference between book and par value
Banking/finance	575,000	574,808	574,877	579,738	123
Municipality/county	25,000	23,835	24,174	24,970	826
Industry	1,361,310	1,362,703	1,362,154	1,392,602	-844
Energy	265,000	267,238	266,161	278,123	-1,161
Bonds held to maturity:	2,226,310	2,228,584	2,227,366	2,275,432	-1,056
Interest earned			42,350	42,350	
Total book value	2,226,310	2,228,584	2,269,716	2,317,782	-1,056

Proportion of above in the collective portfolio 2,210,412

Proportion of above in the company portfolio 59,304

Book value 1/1/2019:	1,935,865
Additions 2019:	505,000
Disposals 2019:	-169,480
Accrued premium/discount for the year:	-9,398
Change in interest earned 2019:	7,731
Book value 31/12/2019:	2,269,716

Loans and receivables

Figures in NOK thousands

Issuer	Par value	Cost price	Book value	Market value	Difference between book and par value
Industry	140,000	140,000	140,000	140,000	0
Bonds held to maturity:	140,000	140,000	140,000	140,000	0
Interest earned			623	623	
Total book value	140,000	140,000	140,623	140,623	0

Proportion of above in the collective portfolio 136,949

Proportion of above in the company portfolio 3,674

Book value 1/1/2019:	0
Additions 2019:	140,000
Disposals 2019:	0
Accrued premium/discount for the year:	0
Change in interest earned 2019:	623
Book value 31/12/2019:	140,623

Total investments held to maturity

Proportion of above in the collective portfolio	2,347,361
Proportion of above in the company portfolio	62,978

Bonds held to maturity are traded on regulated marketplaces. All bonds are issued in NOK. The weighted average yield on bonds classified as held to maturity is 4.0%. The effective yield is calculated on the basis of the effective interest rate on each bond. The average yield is weighted in relation to the relevant security's par value and totalled. The difference between book and par value is recognised in the income statement over the remaining life of the bond.

Bonds included in loans and receivables are not traded regularly on regulated marketplaces. All bonds are issued in NOK. The effective interest rate on bonds classified as held to maturity is 4.3%. The effective yield is calculated on the basis of the effective interest rate on each bond. The effective interest rate is weighted in relation to the individual security's par value and totalled. The difference between book and par value is recognised in the income statement over the remaining life of the bond.

Note 3 | Housing and business loans

The pension scheme provides loans to its members. Housing and business loans are recorded at par value as at 31 December 2019. Past lending losses have been extremely small. Hence, no allowances are made for possible loan losses.

Borrowers with housing loans are partially covered by credit insurance, for which the pension scheme has self-insurance arrangements. No provisions have been made for potential claims as at 31 December 2019, since the number of claims and the sums relating to them have been low in recent years.

Specification of the loan portfolio:

	Housing loans	Government-guaranteed debt instrument loans	Total
Number	122	2	124
Amount	73,267,529	176,435	73,443,964
Interest earned			161,231
Total			73,605,195
Proportion of above in the collective portfolio:			71,682,010
Proportion of above in the company portfolio:			1,923,185

The interest rate on mortgages increased from 2.10 per cent to 2.20 per cent from 1 July 2019, and further increased to 2.50 per cent from 1 November 2019. For government-guaranteed debt instrument loans, the interest rate increased to 2.70 per cent and 3.00 per cent, respectively, from the same dates.

Losses etc. on loans	2019	2018	2017	2016	2015
Principal written off	0	0	0	0	0
Principal written off, credit insurance	0	0	0	0	0
Interest written off	0	0	0	0	0
Interest written off, credit insurance	0	0	0	0	0
Payments previously written off	0	0	0	0	0
Total	0	0	0	0	0

Note 4 | Shares/mutual fund units

Shares listed on Oslo Børs/VINX

Company	Cost price	Book value
AF Gruppen Ord	8,460,832	17,600,000
Aker	15,766,988	13,859,250
Borregaard Asa	12,454,867	22,800,000
Elkem Asa	15,576,820	12,380,000
Equinor Asa (Formerly Statoil Asa)	16,492,887	14,391,000
Europris Asa	21,569,629	22,080,000
Fjordkraft Holding	14,204,674	24,940,000
Golden Energy Offshore Services As	5,686,134	3,233,270
Hexagon Composites	16,374,052	23,807,578
Norsk Hydro Asa	14,283,254	14,688,000
Norske Skog Asa	7,493,061	8,101,980
Pioneer Property Group Asa	12,500,000	12,625,000
Ringerike Sparebank	10,514,172	14,407,890
Self Storage Group Asa	9,644,250	14,150,000
Softox As	6,980,000	8,262,000
Sparebank 1 Bv	7,330,413	8,870,400
Sparebanken Telemark	8,121,475	9,100,000
Tgs Nopec Geophysical Co	16,162,750	17,441,630
Yara International	13,803,315	13,512,400
Total Norwegian shares	233,419,573	276,250,398
Autoliv Inc	12,587,897	13,199,813
Dometic Group Ab	11,634,470	15,032,250
Investor Ab B-Shares	19,580,574	26,358,750
Novo Nordisk As-B	22,856,829	28,024,005
Sampo Oyj-A	15,743,789	16,091,175
Sandvik Ab	16,237,947	22,174,852
Subsea 7 S.A (formerly Acergy S.A.)	27,091,017	25,712,750
Valmet Oyj	13,431,159	16,762,342
Vestas Wind Systems As	16,425,636	23,509,288
Volvo Ab-B	18,824,931	20,593,125
Total foreign shares	174,414,248	207,458,349
Total individual shares listed on Oslo Børs/VINX	407,833,821	483,708,747

Equity funds

Fund	Cost price	Book value
BlackRock World Index Fund	240,337,679	668,415,354
iShares Emerging Markets Index Fund (IE)	67,398,256	81,215,488
Total foreign equity funds	307,735,934	749,630,842

Hedge/Speciality funds

Fund	Cost price	Book value
Archmore Infrastructure Debt Platform SCA-SICA V-SIF	67,570,716	74,199,471
Cheyne Real Estate Credit Fund IV	82,529,625	90,840,428
Cheyne Real Estate Credit Fund V	84,442,875	91,450,581
QVT A-1769	1,325,660	1,773,420
Sector Healthcare Fund Class A	20,402,707	45,102,528
Total foreign hedge/speciality funds	256,271,583	303,366,428

Real estate funds

Fund	Cost price	Book value
Aberdeen Real Estate Fund Norge I AS	3,175,833	3,577,010
Aberdeen Real Estate Fund Norge I IS	306,296,790	354,132,875
Pareto Eiendomsfelleskap AS/IS	427,763,408	566,214,219
Union Core Real Estate Fund AS	3,746,167	4,003,420
Union Core Real Estate Fund IS	370,870,501	396,804,456
Total real estate funds	1,111,852,698	1,324,731,981

Total shares and mutual funds	2,083,694,037	2,861,437,998
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Proportion of above in the collective portfolio	2,029,250,470	2,786,673,234
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Proportion of above in the company portfolio	54,443,567	74,764,763
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The portfolio of individual shares consists of shares listed on Oslo Børs, as well as shares listed on the stock exchanges in Copenhagen, Stockholm or Helsinki and included in the VINX benchmark index. Limits have been imposed on the proportion of total assets that can be invested in shares in a single company, as well as for the overall maximum risk for the management of individual shares.

The BlackRock World Index Subfund mirrors the index of stocks in developed markets. iShares Emerging Markets Index Fund duplicates shares in the emerging markets index – MSCI Emerging Markets Index. Combined, the two funds have almost the same risk profile as the global benchmark index MSCI All Country World Index.

Investments in speciality funds at year end consisted of 5 different funds – 2 hedge funds, 2 funds that invest in real estate loans and one fund that invests in a fund that invests in infrastructure. The benchmark index for hedge fund investments for 2019 has previously been the Global Hedge Fund Index.

Real estate investments consist of units in Aberdeen Eiendomsfond Norge I IS/AS, Pareto Eiendomsfelleskap AS/IS and Union Core Real Estate Fund IS/AS. These investments are recorded at market value as at 31 December 2019. The market value of the units is calculated based on independent valuations of the properties.

Book value of real estate investments as at 31 December 2019 (NOK thousand):

	2019	2018	2017	2016	2015
Opening balance	1,203,684	1,101,755	826,565	937,384	858,515
Additions during the year at acquisition cost	74,616	74,377	225,623	0	62,019
Disposals during the year at acquisition cost	0	0	-26,059	-138,140	0
Value adjustments in the fiscal year	46,432	27,552	75,626	27,321	16,850
Closing balance	1,324,732	1,203,684	1,101,755	826,565	937,384
Proportion of above in the collective portfolio	1,290,119	1,166,021	1,060,044	806,118	904,522
Proportion of above in the company portfolio	34,613	37,663	41,711	20,447	32,862

Pareto Eiendomsfelleskap AS/IS is structured as two companies – Pareto Eiendomsfelleskap IS and Pareto Eiendomsfelleskap AS – in which the AS is the principal for the IS. The investment in Pareto Eiendomsfelleskap AS/IS is viewed as a direct investment in real estate. Investments have only been made in properties in Norway. Of the total investments in Pareto Eiendomsfelleskap, 82% comprise real estate in Greater Oslo, 11% comprise real estate in other parts of eastern Norway while 7% comprise real estate in Vestfold. 86% of the total investments is in buildings related to warehousing/logistics, while the remaining 14% is in buildings related to terminals/logistics. The average weighted time remaining on lease agreements for properties in the portfolio declined somewhat throughout 2019 from 10 to 9 years. Total gross rent for 2019 was NOK 214 million.

Aberdeen Eiendomsfond Norge I IS/AS is structured as two companies – Aberdeen Eiendomsfond Norge I IS and Aberdeen Eiendomsfond Norge I AS – in which the AS is the principal for the IS. The investment in Aberdeen Eiendomsfond Norge I IS/AS is viewed as a direct investment in real estate. Investments have only been made in properties in Norway. Of the total

investments in Aberdeen Eiendomsfond Norge I IS/AS, 76% is in real estate in Greater Oslo, 11% in Trondheim, 8% in Bergen, 1% in Stavanger and 3% in other municipalities. The portfolio consists of 32 properties. The average weighted time remaining on lease agreements for properties in the portfolio at the end of 2019 is 5.8 years, a slight increase compared with the end of 2018. Total gross rental income amounted to NOK 542.5 million in 2019.

The company structure in the Union Core Real Estate Fund IS/AS consists of two companies – Union Core Real Estate Fund IS and Union Core Real Estate Fund AS, in which the AS is the principal for the IS. The investment in Union Core Real Estate Fund IS/AS is viewed as a direct investment in real estate.

Investments have only been made in properties in Norway. Union Core Real Estate has so far invested in eight properties: 5 properties in Greater Oslo, 1 property in Bergen, 1 in Trondheim and 1 in Stavanger.

Total rental income for the fund is NOK 59.3 million, and the average time remaining on lease agreements is 10 years. 29% of rental income comes from the public sector, 45% from private enterprises and 26% from foundations/associations.

None of the premises are occupied by the Pension Scheme for the Pharmacy Sector.

Note 5 | Bonds

Issuer	Cost price	Market value
Banking and finance	1,709,154,327	1,712,971,994
Municipality/county	1,459,449,080	1,455,163,960
Government-guaranteed	453,211,000	452,388,250
Industry	801,493,002	764,017,914
Energy	136,630,750	138,127,233
Subordinated loans	467,272,400	474,095,842
Total interest-bearing securities classified as financial current assets	5,027,210,559	4,996,765,193
Interest earned		25,789,738
Total	5,027,210,559	5,022,554,931
Proportion of above in the collective portfolio		4,891,323,665
Proportion of above in the company portfolio		131,231,266

The interest-bearing securities portfolio is classified as a financial current asset and consists of interest-bearing securities listed on Oslo Børs, Oslo ABM and Nordic Nasdaq (Stockholm), as well as unlisted securities. All interest-bearing securities classified as financial current

assets are denominated in NOK, with the exception of six securities denominated in USD, four securities denominated in EUR and five securities denominated in SEK. The current effective interest rate is approximately 2.2% for securities with floating interest rates and approximately 2.3% for fixed interest securities. The average effective interest rate is calculated on the basis of the individual securities' effective interest rate weighted in relation to the market value.

Note 6 | Financial derivatives

The purpose of employing derivatives is to increase the effectiveness of the management of fund assets, including the potential to hedge investments. In principle, the pension scheme can only invest in listed (standardised) derivatives. The underlying securities must be securities in which the scheme can invest in accordance with applicable guidelines. Non-standardised (OTC) derivatives may only be employed for foreign currency forward contracts, as well as Forward Rate Agreements (FRA) and interest rate swaps to a limited extent.

As at 31 December 2019, investments were made in the following derivatives:

Currency purchased	Currency sold	Nominal amount in NOK	Fair value in NOK
NOK	EUR	-373,668,206	12,637,169
NOK	USD	-516,829,645	20,518,737
NOK	GBP	-177,822,000	3,075,898
NOK	SEK	-212,986,518	6,633,326
NOK	DKK	-52,637,184	1,813,213
Total foreign currency forward contracts		-1,333,943,553	44,678,343
Proportion of above in the collective portfolio			43,510,970
Proportion of above in the company portfolio			1,167,373

In 2019, derivatives have not been traded except for foreign currency forward contracts.

Note 7 | Financial instruments valued at fair value

In accordance with the Act relating to annual accounts for pension companies, financial instruments valued at fair value must be classified with regard to how fair value is measured. Such classification gives an indication of the relative uncertainty related to measurement of the different levels.

The Act defines three calculation levels for how fair value is measured:

1. Fair value is measured using listed prices in active markets for identical financial instruments. No adjustment is carried out on these prices.
2. Fair value is measured using an observable input other than the listed prices used in level 1, either directly (prices) or indirectly (derived from prices).
3. Fair value is measured using input which is not based on observable market data (not observable input).

Fair value hierarchy of financial instruments measured at fair value:

	31/12/2019	Level 1	Level 2	Level 3
Shares and mutual funds	2,861,437,998	483,708,747	749,630,842	1,628,098,409
Bonds	5,022,554,931		5,022,554,931	
Financial derivatives	44,678,343		44,678,343	
Total	7,928,671,272	483,708,747	5,816,864,116	1,628,098,409

Note 8 | Bank deposits

Of bank deposits related to operations of NOK 8,321,596 as at 31 December 2019, NOK 292,087 are restricted tax deduction funds.

As security for various derivative positions, the pension scheme is obliged to provide collateral in the form of locked-in bank deposits held in margin accounts. As at 31 December 2019 there are no such locked-in bank deposits.

Note 9 | Accounts receivable – losses on accounts receivable

Accounts receivable had a book value of NOK 206,360,250 and consisted of:

	31/12/2019	31/12/2018
Accounts receivable related to premium income:	206,038,001	161,248,873
Accounts receivable related to loans:	582,890	611,781
Provision for potential loss:	-260,641	-327,593
Total accounts receivable:	206,360,250	161,533,061

Accounts receivable are recorded at par value as at 31 December 2019. Provision has been made for possible losses on accounts receivable as at 31 December 2019. Recorded losses on receivables were as follows:

	2019	2018
Realised loss on receivables:	0	0
Change in provision for potential loss:	-66,952	66,952
Recorded loss on receivables:	-66,952	66,952

Note 10 | Other retained earnings

As at 31 December 2019, other retained earnings totalled NOK 2,089,691,850. Other retained earnings with the addition of the securities adjustment reserve of NOK 757,597,525 together make up the overfunding of the scheme.

The change in retained earnings in 2019 may be specified as follows:

Retained earnings as at 31/12/2018	1,806,637,705
+ Net profit for the year allocated to other retained earnings	283,054,145
= Retained earnings as at 31/12/2019	2,089,691,850

Note 11 | Solvency margin requirement

The pension scheme has calculated the solvency margin requirement using rules similar to those applicable to private pension funds in accordance with the administrative regulations from the Ministry of Labour and Social Affairs with effect from 2011. As at 31 December 2019, the solvency margin requirement is estimated to amount to NOK 283,606,627. The basis for calculation of the solvency margin requirement is as follows:

	Calculation basis	Calculation factor	Calculated solvency margin requirement
Premium reserve for retirement pensions	6,702,025,755	4.00%	268,081,030
Mortality risk (uncovered risk, gross)	206,134,830	0.30%	618,405
Disability pension and premium exemptions (gross risk premium)	82,817,735	18.00%	14,907,192
Total solvency margin requirement as at 31/12/2019			283,606,627

The solvency margin requirement must be covered by other retained earnings. Other retained earnings less the solvency margin requirement, but with the addition of the securities adjustment reserve, total NOK 2,563,682,748. This constitutes the scheme's buffer capital.

Note 12 | Premium reserve

The Pension Scheme for the Pharmacy Sector is only obliged to perform a technical calculation of future insurance liabilities every five years. The Board has nonetheless decided to perform such technical calculations annually. The results of these calculations are also used for accounting purposes.

The premium reserve is calculated as the present value of accrued pension entitlements as at 31 December 2019. The premium reserve must cover future pension entitlements accrued at the balance sheet date by the scheme's members. For the pension recipients, the premium reserve is the current value of remaining pension payments. Wherever possible the amount of provision has been calculated in accordance with the guidelines applicable to private sector pension funds.

The basis for the calculation is the industry tariff K2005 with a basic interest rate of 3%. Mortality in the case of longevity risk is also strengthened with a 15% safety margin for both genders.

The assumption for rates of disability was based on K1963, boosted by a factor of 2.5.

The administration reserve allows for expected future costs associated with the payment of pensions. The administration reserve is not calculated individually, but forms part of the premium reserve.

The Pension Scheme for the Pharmacy Sector has opted to make provision for these future costs in the order of 4% of calculated pension liabilities. Provision has been made in respect of current pensioners, actively contributing members and former employees with deferred pensions (i.e. employees who have left member-qualifying positions and have earned pension entitlements).

Note 13 | Special liability – for regulation of pensions

A one-off settlement was performed for the calculated costs of future regulation of pensions for companies that withdrew from the pension scheme with effect from 1 January 2017 and 1 January 2018. The one-off settlement in 2017 amounted to NOK 87,883,720, while the one-off settlement in 2018 amounted to NOK 11,715,220. The one-off settlements were allocated as a special liability in the balance sheet.

The actual cost for the regulation of pensions each year is reflected in the premium reserve. The special allocation for the calculated regulation cost is, therefore, reduced annually by 1/10 of the original amount. Remainder of special liability as at 31 December 2019 totalled NOK 70,890,780.

Note 14 | Allocation of profit for the year

This year's profit of NOK 283,054,145 will be allocated to other retained earnings. Other retained earnings totalled NOK 2,089,691,850 as at 31 December 2019. Other retained earnings and the securities adjustment reserve together constitute the scheme's overfunding.

Note 15 | Simplified solvency capital requirement

A new binding capital requirement – simplified solvency capital requirement – entered into force for pension funds from 1 January 2019. The requirement is a simplified version of the Solvency II regulations that apply to insurance companies and is based on the Financial Supervisory Authority of Norway's stress test, with some adjustments.

The simplified solvency capital requirement as at 31 December 2019 totals NOK 1,448 million. The buffer capital exceeds the simplified solvency capital requirement by NOK 1,291 million. This provides a solvency capital ratio of 189%. In the calculation of buffer capital, consideration has been made of the transitional rule from the Financial Supervisory Authority of Norway for adjusting upward the premium reserve at fair value. The transitional rule means that the effect of the upward adjustment at fair value is distributed over 16 years. In the calculation, it is assumed that the remaining upward adjustment is 13/16 parts.

Without the use of the transitional rule, the buffer capital is estimated to exceed the simplified solvency capital requirement by NOK 825 million. This provides a solvency capital ratio of 157%.

Note 16 | Premium contributions

Members contributed premium income totalling NOK 722,622,848 in 2019. By comparison, the book value of premium income was NOK 767,634,268. In 2018 members contributed NOK 709,344,696 in premiums, while the book value of premium income was NOK 693,130,488. The differential between premium income and premium contributions is attributable to the change in invoiced but unpaid premiums and the application of accrual accounting to premium income.

Note 17 | Pensions

Of the pension costs in the income statement, NOK 651,803 represents write-offs of pension benefit overpayments. The corresponding figure for 2018 was NOK 563,665.

Note 18 | Administrative costs

Total administrative costs amounted to NOK 28,194,795. The pension scheme has had three employees throughout 2019. Pay and social expenses for these three investment managers totalled NOK 9,953,866 in 2019 and are included in administrative costs.

Note 19 | Insurance-related administrative costs

The pension scheme is managed by the Norwegian Public Service Pension Fund. In 2019, NOK 16,202 186 was charged against income in respect of the purchase of administrative services for the pension scheme, including costs related to bookkeeping, actuarial services and pensions management (NOK 15,777,216 in 2018). Furthermore, NOK 315,011 was charged against income for audit services, including value added tax (NOK 327,956 in 2018). The entire amount was related to standard audit services. NOK 349,902 was charged against income for remuneration to board members (NOK 339,482 in 2018). Various other costs and cost reimbursements amounted to a net amount of NOK 31 879 (NOK 587,955 in 2018). The total insurance-related administrative costs were NOK 16,898,978 (NOK 17,032,609 in 2018).

In 2019, the following remuneration was paid to the board members of the scheme:

Finn Melbø (Chair)	70,700
Trond Teisberg	70,700
Greta Torbergsen	68,902
Kristin Juliussen (new)	37,147
Kjell Morten Aune (new)	38,944
Stein Gjerding (resigned)	33,552
Renate Messel Hegre (resigned)	29,957
Total	349,902

Note 20 | Return on capital

The estimated yield for the portfolio as a whole is as follows:

Year:	2019	2018	2017	2016	2015
Return stated as % (value-adjusted):	6.52	1.75	5.12	4.83	2.37
Return stated as % (recorded):	3.12	3.08	2.63	6.48	1.38 *

* Corrected in connection with the 2015 annual financial statements

The return on capital shown above has been calculated in respect of the whole portfolio: i.e. both the collective and the company portfolios. From 2009, private sector pension funds are required to calculate the return on capital for the collective portfolio as a whole.

Note 21 | Analysis of result

Amounts in NOK million

	2019	2018
Changes in pension plan:	0.00	0.00
Yield result ¹⁾	435.26	-53.64
Risk result ²⁾	10.51	6.25
Other result ³⁾	172.50	169.62
Administration result	0.00	0.00
Insurance result	618.27	122.23

1) The interest result is the difference between the actual return and the calculation rate in the premium reserve.

2) The risk result is a comparison of risk income less risk expenses. Risk income comprises received and technically estimated risk premiums for mortality and disability, as well as mortality cross-subsidy. Risk expenses are supplemented by provisions for risk events.

3) Recognised difference between invoiced and actual calculated premium. A negative other result indicates the receipt of insufficient premium income.

Note 22 | Events after the balance sheet date

After the end of the financial year, there has been considerable market turmoil as a result of the outbreak of COVID-19. There has been a marked fall on the world's stock exchanges and falling interest rates. There is considerable uncertainty about the further developments and how long this crisis will last. The problems in financial markets have resulted in a fall in the value of the investment portfolio of the Pension Scheme for the Pharmacy Sector in 2020. However, the pension scheme still satisfies the statutory capital requirements, simplified solvency capital requirements using the transitional rule at the time of publishing the the financial statements for 2019.



Auditor's report

Auditor's report



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Pensjonsordningen for apotekvirksomhet

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Pensjonsordningen for apotekvirksomhet, which comprise the balance sheet as at 31 December 2019, the income statement and statements of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Pension fund as at 31 December 2019 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Pension fund's annual report other than the financial statements and our auditor's report thereon. The Board of Directors is responsible for the other information. Our opinion on the audit of the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Pension fund or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if,

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individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension fund's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Pension fund to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Pension fund's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 3 April 2020
ERNST & YOUNG AS

Johan-Herman Stene
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Independent auditor's report - Pensjonsordningen for apotekvirksomhet

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Insight

Pension liabilities

Ivi in 2019. As at 31 December 2019, the premium reserve was estimated to be NOK 8,088 million.

The premium reserve is defined as the present value of accrued pension entitlements at the balance sheet date. The present value is found by discounting the expected future pension payments using a calculation rate of 3 per cent.

The following factors are also considered

- (i) probabilities of survival and receiving a retirement pension,
- (ii) probability of becoming incapacitated for work and receiving a disability pension, and
- (iii) probability of dying and leaving family behind members who are entitled to a spouse's or children's pension.

In 2019, no changes have been made to the actuarial requirements. This means that the calculations have been carried out using the mortality tariff K2005, strengthened with a 15 per cent safety margin for both genders, and the K1963 disability tariff strengthened by 250 per cent.

The calculation rate, one year's earnings for active members and regulation of the pension basis or pension benefits, help to build up the premium reserve. On the other hand, pension payments reduce the premium reserve.

Insurance result – NOK 618 million

The insurance result is positive and can be split into three different results: interest result, risk result and other result.

Interest result – NOK 435 million

Interest income is positive, which means that the return (6.5 per cent) on the pension assets has been higher than the calculation rate (3.0 per cent) in the premium reserve. The size of the pension funds is currently also approximately NOK 2.8 billion higher than the premium reserve.

Risk result – NOK 10 million

The risk result is positive to the tune of NOK 10 million. This means that the risk premium calculated according to the applicable tariffs this year proved to be greater than the increase in the net premium reserve as a result of actual risk events throughout the year.

Other result – NOK 173 million

The other result is positive. This is the difference between the premiums charged throughout the year and the premium calculated in the Norwegian Public Service Pension Fund insurance system. The invoiced premium is calculated on the basis of a fixed percentage (18.1 per cent) of the pension basis. Actuarially calculated premiums are updated continuously throughout the year as a result of changes to members' pension entitlements.

Assessment of the pension scheme's financial position

In a pension scheme such as the Pension Scheme for the Pharmacy Sector, where the liabilities as a whole are to be secured through the accumulation of funds, the value of the funds allocated to pensions (assets) should at least correspond to the size of the insurance provisions in order to ensure a reasonable level of coverage in the scheme. This is in line with the requirements of similar private schemes that are covered by the Insurance Activities Act.

The overfunding in the scheme continues to increase, and at year-end 2019 it was NOK 2.8 billion. This represents an increase of NOK 618 million last year, which is the total of the three results above.

It is primarily premium income and several years of good returns that have contributed to this significant overfunding. Income from premiums is considered to be a reliable income, while the returns are more uncertain. The premium rate of 18.1 per cent will help the pension fund to continue building the necessary buffer.

A new solvency requirement was introduced for pension funds as of 1 January 2019. The solvency requirement set out by the Ministry of Finance in regulations is a simplified

version of the Solvency II requirement. There are essentially two goals with a new capital requirement. It is to ensure that there is sufficient buffer capital, so that the pension fund will cope in a stressful situation, and that the premium reserve is calculated with a risk-free volatility-adjusted market rate, so that one can meet the long-term pension promises with a high degree of certainty.

The new solvency requirement is based on stress test I, which the pension funds and the Financial Supervisory Authority of Norway have used in recent years. The Board of the pension fund has been presented with the amount of the solvency capital requirement for each quarter in 2019.

The Pension Scheme for the Pharmacy Sector does not report to the Financial Supervisory Authority of Norway, but pension funds that do so must account for implemented, planned and evaluated measures in the stress test reporting if the buffer capital utilisation exceeds 200 per cent.

The Pension Scheme for the Pharmacy Sector has had a buffer capital utilisation of 64-70 per cent throughout 2019. The financial situation in the pension fund is considered to be good given the current overfunding, premium rate and solvency requirements.

Investment management

2019 was a good year for investment management, with a total return of 6.53 per cent. Assets under management were NOK 10.8 billion at year end.

The investment management activities of the Pension Scheme for the Pharmacy Sector are intended to help the scheme meet its long-term commitments without incurring excessive fluctuations in the premium. The aim is to achieve the highest possible return within the scheme's available risk capacity.

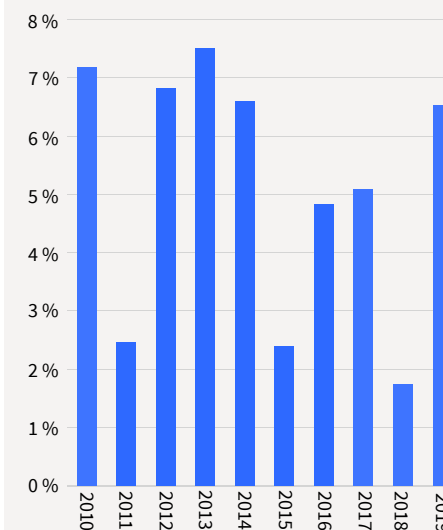
The Pension Scheme for the Pharmacy Sector's investment strategy has been adopted by the Board of Directors. The risk level of the investment portfolio must be such that the scheme has at least a 99 per cent probability of satisfying the legally required capital requirements.

Results

The Pension Scheme for the Pharmacy Sector has maintained a moderate level of risk in the investment portfolio throughout 2019. The value-adjusted return for 2019 was equivalent to the time-weighted return of 6.53 per cent.

Equity investments returned 29.5 per cent in the past year, while real estate investments achieved a return of 7.7 per cent. These two asset classes became the largest contributors to the strong 2019 result. However the fixed income portfolios,

Annual return



The figure shows the annual returns for the Pension Scheme for the Pharmacy Sector for the last 10 years.

as well as all other asset classes, have also made positive contributions to the result for the past year.

Fluctuations in results are completely normal for a medium-risk portfolio such as the Pension Scheme for the Pharmacy Sector. The figure shows the annual time-weighted returns over the past 10 years. The scheme has not experienced any years of negative returns during this period. The average return for the 10-year period is 5.1 per cent.

Asset allocation

At the end of the year, the pension scheme managed funds totalling NOK 10.8 billion. The portfolio increased by NOK 992 million throughout 2019. In addition to a solid yield on investments, ongoing excess liquidity in the scheme has also contributed to the growth of the funds.

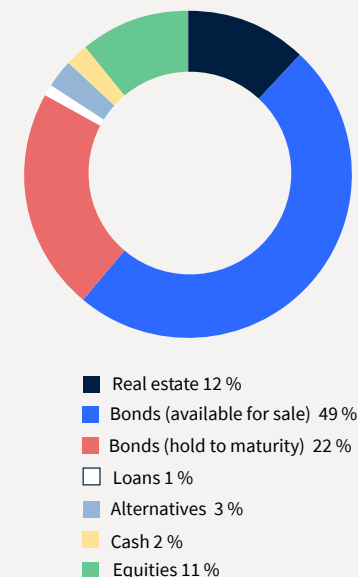
Management has a continuous focus on identifying those investment opportunities that offer optimum utilisation of the risk capacity of the Pension Scheme for the Pharmacy Sector. At the start of 2019, the Pension Scheme for the Pharmacy Sector included a share of investments in emerging markets in the equity portfolio, as well as two

new speciality funds that invest in real estate loans. Investments in bonds held to maturity have also continued to increase throughout 2019.

In the 2020 investment plan, the Board, in accordance with management's recommendation, decided to continue the risk level from 2019 into 2020. In the first few months of 2020, the financial markets have been extremely turbulent, and the investment portfolio of the Pension Scheme for the Pharmacy Sector has seen a significant decrease in the value of investments.

However, good investment results in recent years have helped build a solid buffer. Combined with a moderate level of risk in the investment portfolio at the beginning of 2020, this means that the Pension Scheme for the Pharmacy Sector is well equipped to withstand this turmoil. At the end of the first quarter of 2020, the scheme still has a healthy capital surplus in excess of the statutory capital requirements.

Asset allocation



The figure above shows strategic allocations in the various asset classes at the beginning of 2020.



Statistics

Members

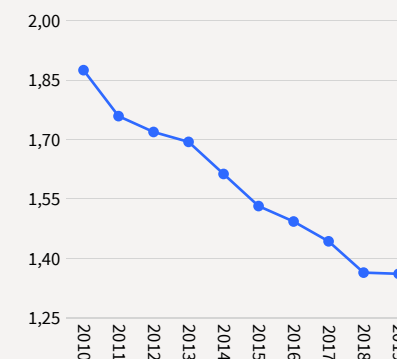
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Actively employed	6,561	6,689	7,125	7,274	7,422	7,585	7,645	7,704	7,527	7,812
Deferred*	6,093	6,245	6,386	6,564	6,767	7,175	7,522	7,925	8,331	8,770
Pensioners	3,499	3,803	4,144	4,295	4,600	4,951	5,121	5,338	5,517	5,739
AFP (contractual pension)	267	282	295	312	310	293	269	264	288	273
Retirement pensions	1668	1825	2088	2202	2513	2955	3165	3368	3484	3693
Disability pensions	1217	1367	1401	1422	1415	1335	1309	1329	1354	1366
Spouse's pensions	323	306	336	338	343	342	352	348	360	374
Children's pensions	24	23	24	21	19	26	26	29	31	33
Ratio actively employed/pensioners	1.875	1.759	1.719	1.694	1.613	1.532	1.493	1.443	1.364	1.361
Ratio actively employed/pensioners and deferred	0.684	0.666	0.677	0.670	0.653	0.626	0.605	0.581	0.544	0.538

* If you have previously been employed by an employer with an occupational pension in the Pension Scheme for the Pharmacy Sector, you may have accrued pension entitlements for a future pension. We call this a deferred pension. In the private sector, the term "paid-up policy" is used. The figures given are the number of policies and not members.

All the figures given are the number of policies. A person can have more than one policy. For example, a person can receive a partial disability pension and work partly in an active position. The person will then have two policies corresponding to these circumstances. The same person may therefore be counted several times.

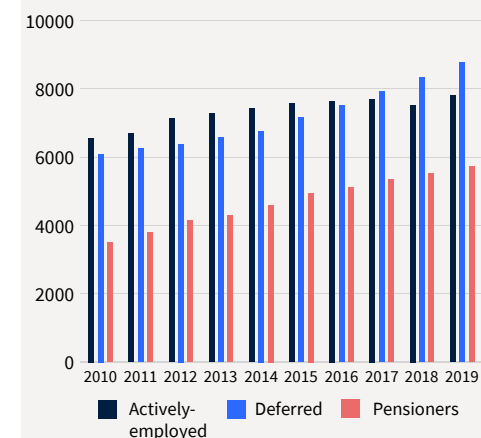
The graph at the top right shows the development of the ratio of active members (who are working) per pensioner in the pension scheme from 2010 to 2019. In 2010, there were almost 1.9 active members per pensioner in the scheme, while at the end of 2019 there were 1.36 active members per pensioner. This is a declining trend as also evidenced in the National Insurance Scheme. Life expectancy is increasing and there are fewer active members to finance future pension costs. For the pension scheme, a trend where the number of pensioners is increasing at a rate greater than the number of actively-employed members, means increasing future costs to finance the coming pensioners.

Ratio actively-employed/pensioners



The graph shows the development of the ratio of active members to pensioners in the scheme over the last decade.

Development in number of members



Actively-employed members

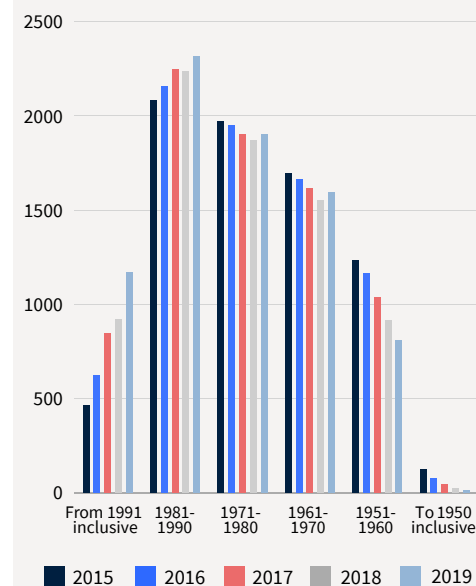
Position title	2019	Change from 2018
Pharmacy manager	960	61
Pharmacist (Master)	1,351	47
Pharmacist (Bachelor)	1,590	109
Pharmacy technician	3,739	55
Office/Driver/Cleaning	172	14
Total	7,812	286

The table shows the distribution of actively-employed members by position title.

Actively-employed members by year of birth

Actively employed	2015	2016	2017	2018	2019		Change	
					Women	Men	Total	(2018-2019)
From 1991 inclusive	467	626	848	921	1,032	139	1,171	250
1981-1990	2,083	2,159	2,249	2,240	1,933	387	2,320	80
1971-1980	1,975	1,949	1,906	1,871	1,658	245	1,903	32
1961-1970	1,696	1,667	1,616	1,553	1,486	111	1,597	44
1951-1960	1,237	1,167	1,040	918	745	64	809	-109
To 1950 inclusive	127	77	45	23	9	3	12	-11
Total	7,585	7,645	7,704	7,526	6,863	949	7,812	286

Active members by year of birth



The table shows the development in the number of actively-employed members by year of birth from 2010 until today. The older age groups are moving out of the scheme, while the younger ones are entering.

Pensioners

Type of pension	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
AFP (contractual pension)	267	282	295	312	310	293	269	264	288	273
Retirement pensions	1668	1825	2088	2202	2513	2955	3165	3368	3484	3693
Disability pensions	1217	1367	1401	1422	1415	1335	1309	1329	1354	1366
Spouse's pensions	323	306	336	338	343	342	352	348	360	374
Children's pensions	24	23	24	21	19	26	26	29	31	33
Total	3,499	3,803	4,144	4,295	4,600	4,951	5,121	5,338	5,517	5,739

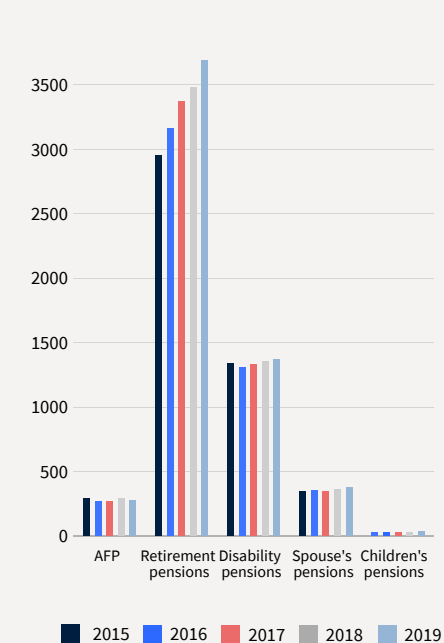
The table shows the development in the number of pensioners from 2010 until today.

Pensions paid 2019

Type of pension		Gross paid	%	Coordination deduction	%	Net paid	%
Retirement and AFP pension	Men	89,573,304	12.44%	54,610,154	14.27%	34,963,150	10.36%
	Women	531,649,044	73.81%	309,949,636	80.99%	221,699,408	65.67%
	Total	621,222,348	86.24%	364,559,791	95.26%	256,662,557	76.02%
Disability pensions	Men	3,498,276	0.49%	130,632	0.03%	3,367,644	1.00%
	Women	58,025,172	8.06%	727,545	0.19%	57,297,627	16.97%
	Total	61,523,448	8.54%	858,177	0.22%	60,665,271	17.97%
Spouse's pension	Men	17,576,844	2.44%	8,875,543	2.32%	8,701,301	2.58%
	Women	18,387,912	2.55%	8,330,311	2.18%	10,057,601	2.98%
	Total	35,964,756	4.99%	17,205,853	4.50%	18,758,903	5.56%
Children's pensions	Men	855,960	0.12%	-17,228	0.00%	873,188	0.26%
	Women	733,476	0.10%	74,870	0.02%	658,606	0.20%
	Total	1,589,436	0.22%	57,642	0.02%	1,531,794	0.45%
All pensions	Men	111,504,384	15.48%	63,599,101	16.62%	47,905,283	14.19%
	Women	608,795,604	84.52%	319,082,362	83.38%	289,713,242	85.81%
	Total	720,299,988	100.00%	382,681,463	100.00%	337,618,525	100.00%

The table shows the amount of pension benefit payments made in 2019, grouped by type of pension and specified by gender. The amounts are in NOK. The gross amount shows the total amount paid by the National Insurance Scheme and the Pension Scheme for the Pharmacy Sector. The net amount shows the Pension Scheme for the Pharmacy Sector's share.

Pensions



The table shows the development in the number of pensioners over the past five years, by type of pension. The number of pensioners is increasing. It is the old-age pensioners who are responsible for the growth, while the other pension types are relatively stable.



Pension Scheme for the Pharmacy Sector

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