Pensjonsordningen for apotekvirksomhet

Annual report 2010

Contents

Annual report 2010

The uncertainty surrounding the future development of the financial markets continued throughout 2010. The Pension Scheme for the Pharmacy Sector did manage to maintain a satisfactory capital adequacy ratio at the end of the year, however. Still, significant uncertainty factors remain in relation to both capital and commitments, and times are challenging for the Pension Scheme.

The economic parameters continue to pose challenges. Wage inflation in Norway has remained high compared with other countries, and pension commitments have grown correspondingly. At the same time interest rates have been unusually low, thus creating a situation where risk-free returns are low. With such an economic framework it is difficult to maintain a satisfactory capital situation in the Pension Scheme.

An additional challenge is the fact that the number of pensioners in Norway is increasing sharply, and life expectancy is rising. In other words, Norway has more pensioners living longer than before – and fewer employees to help pay for the growing commitments. The pension reform, which was introduced on 1 January 2011, includes measures to counteract this negative development in the country's pension economy. It is still too early to say how the pension reform will affect the Pension Scheme for the Pharmacy Sector, because regulations pertaining to year groups born after 1953 have yet to be established.

Another element of uncertainty is linked to a ruling by the EFTA Court, stipulating equality between widowers and widows. This ruling means that a number of widowers are due retrospective pension payments. Calculation of these retrospective payments will begin in 2011. The accounts of the Pension Scheme for the Pharmacy Sector include provisions for such retrospective payments as well as provisions for future payments totalling NOK 60 million in 2010. The size of this allocation is highly uncertain.

In respect of the annual report, the change in tariff from K1963 to K2005 in 2010 should also be noticed. This change resulted in a one-off cost of NOK 51 million being charged to the insurance accounts. On the other hand, the new tariff adopted provides a more up-to-date and correct basis for calculations.

You will also note that the premium has remained unchanged at 13.6%, that pensions were adjusted by 3.0%, that return on the securities portfolio totalled 7.2%, and that the net loss of NOK 101 million is covered by other retained earnings.

Happy reading!

Board of directors' report

General

The Pension Scheme for the Pharmacy Sector is a statutory public service pension scheme for pharmacists and people employed in pharmacies. The scheme was established pursuant to Act no. 11 of 26 June 1953 concerning the Pension Scheme for the Pharmacy Sector. The Ministry of Government Administration and Reform has previously drawn up administrative regulations for the pension scheme. In 2011 the administrative regulations issued by the Ministry of Government Administration and Reform were superseded by a new set of regulations issued by the Ministry of Labour, which came into force on 1 February 2011. The administrative regulations contain provisions for the administration of the scheme, including limits for fund allocation.

The pension scheme is managed by the Norwegian Public Service Pension Fund (SPK) in Oslo. As at 31.12.2010 the board of directors had five members. During 2010 the board was headed by Finn Melbø, chief executive officer of SPK. The other board members represent the Federation of Norwegian Commercial and Service Enterprises (HSH), the Spekter Employers' Association, the Norwegian Association of Pharmacists and the Norwegian Association of Pharmacy Technicians. During the year the board of the pension scheme held seven board meetings and dealt with 43 items of business.

The annual financial statements have been prepared under the going-concern assumption. As at 31.12.2010 the pension scheme had set aside technical reserves in accordance with the provisions of Act no. 11 of 26 June 1953 concerning the Pension Scheme for the Pharmacy Sector.

Members, contributions and benefit payments

At year-end 2010 employees at 682 pharmacies were members of the pension scheme. This is an increase of 19 pharmacies from 2009. The pension scheme also includes members who are not pharmacy employees but hold other positions associated with the pharmacy sector. The scheme had a total of 6 561 actively contributing members, as well as 3,499 current pensioners. During 2010 the scheme received premium income totalling NOK 312 million, compared with NOK 303 million in 2009. Pension benefits amounting to NOK 195 million were paid out, compared to NOK 183 million in 2009. Accrued premium income totalled NOK 82 million at the end of the year.

Premiums remained unchanged at 13.6% of the contribution base throughout 2010. The premium is split between employees and employers. Employers pay a premium of 2.5% of the contribution base, while employers pay a premium of 11.1%.

Pension benefits were subject to a 3% adjustment in 2010.

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

The pension scheme has resolved to adopt ethical guidelines to ensure the socially responsible management of its investments. With respect to shareholding investments, the scheme has accordingly resolved to use KLP's list of excluded companies as the basis for determining which companies not to invest in. This practice was adhered to during 2010.

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 31.12.2010 the proportion of shares, equity funds and hedge funds was 21% of the total assets. 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 hold-to-maturity bond portfolio remained unchanged in 2010 and makes up 17% of the total assets. Current yield from this portfolio is around 6.6%.

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 horizon. Generally speaking, capital should therefore be invested with a long-term perspective.

The technical settlement for 2010 is based on the K2005 tariff, while previous settlements were based on K1963. Due to the introduction of a new tariff, the technical settlement has incurred a non-recurring cost of NOK 51 million compared to the K1963 tariff.

Result

The result for the year shows a net loss of NOK 101 million. Net profits related to financial assets stood at NOK 349 million, including changes in unrealised gains and losses. The net profit from financial assets is in particular related to positive returns on investments in shares, together with current yield on securities in the available-for-sale and hold-to-maturity portfolios. Real estate investments have also made a positive contribution in 2010.

Of the profits relating to financial assets, net unrealised price gains of NOK 118 million have been allocated to the securities adjustment reserve. This has reduced the profit for 2010 accordingly.

In 2010 a total increase in pension liabilities (the premium reserve) was recorded of NOK 355 million.

A ruling by the EFTA Court requires widowers with membership in the Pension Scheme for the Pharmacy Sector and public sector pension schemes dating from before 1 October 1976 to be given equal status to women. A provision of 60 million NOK has been made in the 2010 accounts in respect of retrospective payments to these widowers and allocations for future payments of this increased benefit. There is a great deal of uncertainty surrounding the size of this provision. Calculations must be carried out for each widower and could vary significantly from person to person.

This year's net loss of NOK 101 million will be covered by other retained earnings.

Financial position

As at 31.12.2010 the pension scheme's assets under management totalled NOK 5,199 million, of which approximately 62% were placed in bonds, 21% in shares, equity funds and hedge funds, 8% in property and real estate, 3% in loans and 4% in bank deposits. Other items account for 2% of the total.

As at 31.12.2010 other retained earnings totalled NOK 480 million. This is a reduction of NOK 101 million compared to 2009. The Pension Scheme for the Pharmacy Sector is not subject to any statutory requirements concerning equity. However, the pension scheme has calculated capital adequacy requirements using rules similar to those applicable to private pension funds. As at 31.12.2010 the capital adequacy requirement was calculated at NOK 207 million. This calculation was carried out in accordance with the requirements applicable to private sector pension funds, and the calculated amount will be covered by other retained earnings.

Accordingly, the scheme's free equity, which consists of other retained earnings in excess of the capital adequacy requirement, totalled NOK 273 million at the end of the year. This is buffer capital necessary to cover random risks that are not covered by the premium. The buffer capital is equivalent to 5.3% of total equity.

As at 31.12.2010 NOK 125 million in net unrealised price gains was allocated to the securities adjustment reserve. The securities adjustment reserve operates as a buffer against possible future falls in market prices.

Calculations show that the increase in insurance commitments in the coming years will be higher than the premium income and the income from investments. Reasons for this include increased life expectancy and low interest rates. In such situations the buffer capital will be reduced. However, a certain level of buffer capital is required in order to generate satisfactory returns on investments. Consequently, in 2011 the board of directors will consider introducing measures to maintain satisfactory buffer capital.

Summary

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 2010 and the scheme's financial position at year-end.

The board believes that the scheme's finances as at 31.12.2010 are satisfactory, based on the assumptions applied to the 2010 financial statements. However, low interest rates together with the increase in pension commitments may pose a challenge in terms of satisfactorily securing the pension scheme's financial position in 2011 and further ahead.

The board of directors is of the opinion that the financial position at the end of the year, along with the adopted investment strategy and the measures being considered by the board in 2011, provide a satisfactory basis for securing the financial position of the pension scheme. The requirements for the going-concern assumption are accordingly satisfied.

Oslo, 24 March 2011

Finn Melbø (chairman)

Bjørn Myhre

Edvin Alten Aarnes

Kim Nordlie

Kjell Hundven

About the pension scheme

The Pension Scheme for the Pharmacy Sector manages the pension entitlements of 16 153 members throughout the pharmacy sector.

The Pension Scheme for the Pharmacy Sector was established in 1953.

Dispensing pharmacists and permanent employees in pharmacies who work an average of at least 15 hours a week are both entitled to and obliged to become members of the pension scheme.

Members from the entire pharmacy sector
In addition to pharmacy employees, the bodies of staff of the Norwegian Pharmacy Association, the Norwegian Association of Pharmacists and the Norwegian Association of Pharmacy Technicians, as well as employees in certain other pharmacy-related positions, are included in the pension scheme.

The pension scheme has 6 561 members actively employed in qualifying positions. The pension scheme also has 3,499 pensioners and 6 093 members with accrued pension entitlements who are not currently employed in a qualifying position.

As the table below demonstrates, our members are employed in a range of positions.

Position	Men	Women	Total
Dispensing Pharmacist	47	87	134
Pharmacy Manager	163	578	741
Pharmacist	22	161	183
Dispensing Technician	92	1 098	1 190
Laboratory Assistant	2	3	5
Pharmacy Technician	88	3 476	3 564
Office Employee	82	106	188
Messenger, Driver	9	2	11
Cleaner	1	56	57
Manager	8	37	45
Operating Concession Holder	149	266	415
Miscellaneous	13	15	28
Total	**676**	**5 885**	**6 561**

Members by position, according to position category (as at 31.12.2010)

Managed by the Norwegian Public Service Pension Fund
The Pension Scheme for the Pharmacy Sector is managed by the Norwegian Public Service Pension Fund.

The Pension Scheme for the Pharmacy Sector has its own board of directors, which is its 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 with a four-year mandate following nominations from the employers' associations and the employee unions. Two of the nominated members shall represent employers, while pharmacists and technical staff are each represented by one board member.

During 2010 the board comprised

- Finn Melbø (chairman) – CEO of the Norwegian Public Service Pension Fund
- Kim Nordlie – director of HSH
- Bjørn Myhre – director of Spekter
- Edvin Alten Aarnes – secretary general of the Norwegian Association of Pharmacists
- Kjell Hundven – special adviser to the Norwegian Association of Pharmacy Technicians

The following have served as deputy board members during 2010

- Rune Huse Kristoffersen, personal deputy for Finn Melbø
- Per Helge Engeland, personal deputy for Kim Nordlie
- Stein Gjerding, personal deputy for Bjørn Myhre
- Anne Markestad, personal deputy for Edvin Alten Aarnes
- Berit Regland, personal deputy for Kjell Hundven

Overview of the various pensions

The Pension Scheme for the Pharmacy Sector manages several types of pensions: retirement pensions, contractual pensions (AFP) and dependents' pensions.

Retirement pension
The Pension Scheme for the Pharmacy Sector provides retirement pensions to employees who have retired upon reaching retirement age. The pension scheme has set an upper age limit for retirement at 70 years.

The contribution base is generally equivalent to the employee's regular salary at the time of retirement, subject to a limit of 10G (G = the Norwegian National Insurance Scheme's basic amount). For part-time employees, the contribution base and subsequently the pension benefits will be reduced correspondingly by calculating an average percentage of position.

If membership in the pension scheme has been less than the full qualifying period of 30 years or 360 months, the pension is reduced accordingly.

The pension scheme operates a so-called gross guarantee, which means that the pension benefits will normally make up at least 66% of the contribution base after the full 30 years qualifying period.

Contractual pension
Upon reaching the age of 62, members of the pension scheme may be entitled to retire on a contractual pension (AFP). AFP is designed to allow older employees to retire before reaching the age limit.

National Insurance regulations shall always apply to members aged between 62 and 65. Generally speaking, the pension benefits payable from age 62 will be the same as the benefits the member would have received from the National Insurance Scheme at age 67, plus a contractual pension supplement of NOK 1 700 per month.

From age 65 the level of contractual pension benefits is calculated either according to National Insurance Scheme rules or according to the method used by the Pension Scheme for the Pharmacy Sector for calculating retirement pensions. From the age of 65 the pension scheme compares these two methods of calculation and pays out the higher benefit.

The contractual pension scheme does not apply to dispensing pharmacists who are pharmacy owners.

Disability pension
Disability pensions may be granted to members who are forced by illness or injury to stop work before the normal retirement age. Pension benefits may be paid on a temporary or permanent basis, and may be paid in respect of all or a percentage of the position of employment.

A full disability pension is equivalent to 66 % of the member's contribution base. Where a member is on a disability pension, credits are also granted for the pension entitlement the member would have accrued if he or she had remained in the qualifying position until retirement.

Disability pensions also differ from retirement pensions in that the size of the pension is set by reference to the percentage of the position held at the time of disablement.

Dependents' pensions
If a member dies, his or her dependents may be entitled to a spouse pension, subject to the fulfilment of certain conditions. A dependents' pension guarantees a member's surviving spouse, registered partner and/or children a certain level of income.

Up to and including the year 2000, pension benefits paid to surviving spouses and registered partners (spouse pension) comprised 60% of the pension the deceased member would have received on reaching retirement age. Children's pensions were calculated as a percentage of the spouse pension. The precise percentage depended on various factors, including the number of surviving children under the age of 18.

With effect from 1 January 2001, new rules were introduced. These rules provide higher predictability when calculating dependents' pensions. Instead of the gross basis used for other types of pensions provided by the Pension Scheme for the Pharmacy Sector, the new rules provide for dependents' pensions to be paid on a net basis. Under the new rules, all dependents' pensions (both spouse and children's pensions) are calculated as a fixed percentage of the deceased member's contribution base. Dependents' pensions calculated according to the new rules are neither means-tested nor co-ordinated with the National Insurance Scheme.

However, the 2001 rules for net pension benefits do not apply to everyone. Accordingly transitional arrangements will exist for a considerable period, and the old rules (payment of benefits on a gross basis), will continue to be applied in many cases.

As of 01.02.2010 widows and widowers are given equal status even in instances where the deceased joined the scheme before 01.10.1976. This applies only to widowers where the widow's pension started on 01.01.1994 or after, and where the member would still have been in the qualifying period after 31.12.1993. The previous regulations continue to apply to qualifying periods before 1994.

Co-ordination with the National Insurance Scheme

All types of pensions, with the exception of spouse pensions regulated by the net rules, are co-ordinated with benefits from other public sector pension and social security schemes, primarily the National Insurance Scheme. Changes in rates of National Insurance are therefore very important for determining the level of deductions.

Pension transfer agreement

The Pension Scheme for the Pharmacy Sector, along with most public sector pension schemes in Norway, is party to a pensions transfer agreement. This means that if a person has accrued pension entitlements in more than one pension scheme during his or her working life, the accrued entitlement is transferred to the scheme that he or she belongs to on retirement (i.e. the scheme that will provide the pension benefits).

From 01.02.2003 the pension transfer agreement ceased to apply in respect of new members and members who had left the scheme before that date with a qualifying period shorter than six months. Pension entitlements accrued by these members in different schemes will remain with the individual schemes. In other words, the entitlements will not be transferred to the scheme applicable on retirement.

Members covered by the pension transfer agreement as at 01.02.2003 will retain their rights under this agreement.

Deferred pensions

Members who leave a qualifying position without retiring are entitled to a deferred pension. Deferred pension benefits are paid when the member reaches the qualifying position's retirement age or upon receipt of a retirement or disability pension from the National Insurance Scheme. A member must have been employed in qualifying positions for a total period of at least three years to be entitled to a deferred pension,

Everyone is affected by the pension reform

The pension reform will affect all current and future old-age pensioners but in different ways. These are the adjustments being made to the Pension Scheme for the Pharmacy Sector from 2011.

The pension reform is based on the National Insurance Scheme, which includes everyone who resides in Norway. Because National Insurance and occupational pensions are linked, changes to the Pension Scheme for the Pharmacy Sector (POA) were required starting 2011:

- Retirement pensions from POA will be adjusted for age in the same way as National Insurance. POA members are thereby guaranteed 66% of their final salary before age adjustment provided they are in fully qualifying service and in a position that entitles them to membership when they start drawing their pension.
- Employees born in 1958 or earlier are guaranteed 66% of their contribution base after the completed qualifying period when drawing occupational pensions and National Insurance from the age of 67. Should age adjustment make pensions fall short of this level, pensions will be increased to 66% provided the criteria are met. If the qualifying period is shorter, the guarantee will be curtailed correspondingly.

Contractual pensions, disability pensions and dependents' pensions will largely be retained as they are. These pensions will not be adjusted for age and any regulations are based on decisions by the board of directors. A pensioner cannot draw contractual pensions under the pharmacy scheme if he or she is simultaneously receiving retirement pensions from the National Insurance Scheme or from private sector contractual pensions.

Pension adjustments

Prior to the pension reform, pensions were adjusted on the basis of the National Insurance basic amount (G). Starting 2011, pensions under accrual will generally be adjusted in line with the average wage inflation in society. When pension is due for payment, 0.75% shall be deducted. This applies both to retirement pensions and private contractual pensions, while disability pensions, rehabilitation payments and dependents' pensions are adjusted according to wage inflation.

The board of directors determines which types of adjustment should apply to the Pension Scheme for the Pharmacy Sector. The following three factors shall form the basis for the decision:

- Expected wage inflation in the pharmacy sector
- Adjustment of National Insurance pensions
- The current capital situation of the scheme

Thus, pension adjustments under the pharmacy scheme may deviate from the main principle applied by the National Insurance Scheme and public sector occupational pensions, under which pensions have been adjusted in line with the increase in the National Insurance basic amount. From 1 May 2010 pensions under the scheme were increased by 3.0%. This increase corresponds to expected wage inflation in the pharmacy sector.

The housing loan scheme

All members of the Pension Scheme for the Pharmacy Sector are eligible to benefit from our housing loan scheme. The maximum loan is currently NOK 1,200,000.

All loans must be secured by a mortgage or similar arrangement. Loans may be granted for home purchases or home improvements/extensions as well as for refinancing an existing mortgage.

As at 31.12.2010 the interest rate for housing loans was 3.00 %.

At year-end 2010 there were 322 outstanding loans. This is a reduction of 0.6% from 2009.

The loan portfolio comprises the following loans:

	Number of loans	Amount in NOK
Housing loans	307	124 794 875
Government-guaranteed loans against promissory notes	11	6 410 828
Loans for pharmacy premises	4	2 904 900
Total	**322**	**134 110 603**

What is age adjustment?

Age adjustment, which was introduced in 2011, is a key aspect in reducing the cost increase arising from pension payments. Everyone born in 1943 or later will see their pension adjusted for age. This applies to National Insurance pensions and public sector occupational pensions as well as to members in the Pension Scheme for the Pharmacy Sector.

The key principle is that pension payments should be calculated in relation to the number of years a person is expected to live. The longer a person is expected to live, the higher the number of years to divide the total sum between, and the lower the annual pay-out. In other words, age adjustment affects the size of the annual pension payment, which is determined when a person retires, but not how long the pension payments will continue. Thus, as long as life expectancy increases, everyone born in a particular year must work longer than people born in the previous year in order to get the same amount of pension.

When a year group nears the end of their 61st year Statistics Norway will calculate their life expectancy. Life expectancy is identical for both men and women and regardless of profession.

Investment management

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 too great fluctuations in the premium. As at 31.12.2010 the funds totalled NOK 5.12 billion. This is an increase of NOK 427 million on the previous year. Investment management activities produced a strong result in a year marked by uncertainties surrounding future financial development.

The aim of the investment activities of the Pension Scheme for the Pharmacy Sector (POA) is to seek to achieve the highest possible return within the scheme's available risk capacity. Available risk capacity is determined on the basis of probability of maintaining continued ordinary operations. The chosen investment strategy shall at all times be subject to a maximum risk that makes the probability of not meeting regulatory equity requirements lower than 1%. The allocation of the pension scheme's investments currently reflects the goal of achieving a satisfactory long-term return on capital in combination with a high level of diversification – in other words, spreading risk by investing in a range of different assets.

Responsible and ethical management at POA

The funds held by the Pension Scheme for the Pharmacy Sector are managed by a dedicated investment management unit. The investment management unit must observe the relevant laws and regulations concerning pension businesses, including the regulation on investment management [Kapitalforvaltningsforskriften]. As stipulated by the legislation, the unit is organised with the aim of ensuring a satisfactory control environment, and the settlement and control functions both are distinctly separate from the executive function.

POA emphasises the importance of both the execution of the investment management and all investments made being ethically responsible. A separate set of ethical guidelines has therefore been drawn up for staff working with investment management. The rules clearly stipulate the requirements for independence, honesty and personal integrity on the part of these employees.

The investment management unit has so far used KLP's list of permitted instruments as a basis for making an ethical judgment on direct investments. In connection with the new administrative regulations for POA, issued by the Ministry of Labour and coming into effect on 1 February 2011, this will change. In the future the investment management unit will base its assessment of whether an investment is ethically responsible on the guidelines applicable to Folketrygdfondet (the Government Pension Fund Norway). Instead of a static list of instruments, these guidelines provide a number of specific assessment criteria in relation to companies in which investments can be made. The companies are required to operate in accordance with internationally acknowledged norms such as the UN's Global Compact and the OECD's Guidelines for Multinational Enterprises. Additional considerations include companies' handling of issues relating to human rights, child labour, corruption and the environment. Individual investments and companies that do not meet the requirements will be excluded or removed from the portfolio following a case-to-case evaluation if the issues are not resolved.

In some asset classes investments are not made directly but via external investment managers. In such cases the choice of investment manager will be key. One of the criteria for choosing a fund manager is therefore that the fund, as a minimum, invests according to a minimum ethical standard – so-called SRI (socially responsible investments) criteria.

Results and markets

Throughout 2010 the financial markets were surrounded by uncertainty regarding future economic development. However, for the year as a whole the market trend on the stock markets has remained positive – particularly on the Oslo Stock Exchange. Interest rates, on the other hand, have remained low throughout the year.

The overall return on the pension scheme's funds in 2010 was 7.19%, which is higher than both the budget and the comparable reference index. All asset classes made a positive contribution to the rate of return. Share investments made a strong contribution to the overall yield for the year, and POA's property investments generated very healthy returns. With regards to interest rates, the hold-to-maturity bond portfolio is paying a substantial yield , while credit exposure in the available-for-sale portfolio is also paying off. The table below shows returns and reference weighting for investments in the different asset classes:

Asset class	Ref. weighting	Rate of return
Interest-bearing investments (available-for-sale)	47.6 %	4.67 %
Interest-bearing investments (hold-to-maturity)	19.0 %	6.56 %
Norwegian shares	5.0 %	21.73 %
Foreign shares (local currency)*	10.0 %	9.39 %
Real estate	6.4 %	9.41 %
Hedge funds (local currency)*	5.0 %	5.00 %
Loans to members	3.0 %	2.65 %
Bank deposits	4.0 %	1.50 %

** All foreign exchange exposure was hedged throughout the year. Returns from hedging activities are included in the overall yield.*

The figure below shows the rate of return on the pension scheme's funds over the last 10 years. As the diagram demonstrates, yields vary considerably from one year to the next. These fluctuations coincide with general cycles in the economy and the financial markets. The pension fund's equity must be sufficient to cover any such fluctuations.

Annual return

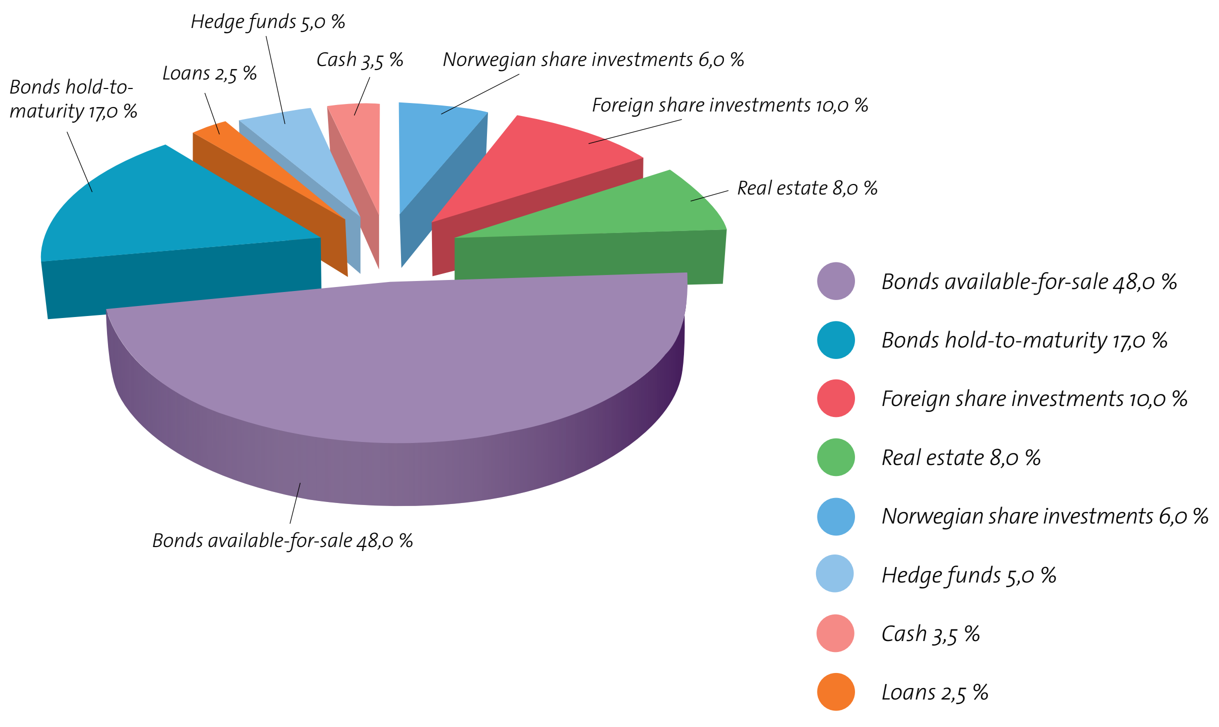
Norwegian interest rates have remained low following the financial crisis. While interest rates are affected by international circumstances to a significant extent, wage levels in Norway are more affected by domestic issues. Wage inflation has therefore been high compared with other countries and unusually high when compared with the interest rate levels. This poses a challenge for the pension funds.

Risk-free returns will remain low in the current situation, and a satisfactory rate of return can only be achieved by taking some degree of risk. At the same time the pension funds' commitments are growing at a rapid pace as a result of wage inflation, which means that equity, and subsequently risk capacity, decreases.

If such a situation prevails over several years, the returns from investment management will not be able to maintain a satisfactory financial balance in the long term without sponsors and members having to contribute to the financing of the growing commitments.

Investment allocation in 2011

The pension scheme has to a large extent chosen to continue the 2010 allocation strategy in 2011. The strategy is based on the expectation of continued, healthy global economic growth in the coming year. The figure below shows strategic allocations in the various asset classes at the beginning of 2011.



Financial statements

Income statement 2010

	Note	2010	2009
Technical accounts			
Premium income			
Premium income	16	313 911 768	301 591 015
Net income from investments in the collective portfolio			
Interest income and dividends etc. on financial assets		180 955 691	153 643 675
Net operating income from real estate		15 409 916	9 620 028
Changes in the fair value of investments		132 866 588	107 138 991
Realised gains and losses on investments		-6 170 363	129 389 249
Total net income from investments in the collective portfolio	19	323 061 831	399 791 943
Insurance benefits			
Pension benefits paid	17	195 093 004	183 367 232
Changes in pension liabilities recognised in the income statement			
Change in premium reserve	11	355 270 281	345 639 390
Change in extraordinary commitments	12	60 000 000	0
Change in securities adjustment reserve		118 184 117	7 321 227
Total changes in pension liabilities recognised in the income statement	20	533 454 398	352 960 617
Insurance-related operating costs			
Management costs		12 344 283	12 711 890
Insurance-related administrative costs	18	23 219 984	20 575 241
Total insurance-related operating costs		35 564 267	33 287 131
Net result of technical accounts		**-127 138 071**	**131 767 978**
Non-technical accounts			
Net income from investments in the company portfolio			
Interest income and dividends etc. from financial assets		14 741 901	22 271 906
Net operating income from real estate		1 255 398	1 394 502
Changes in the fair value of investments		10 824 230	15 530 672
Realised gains and losses on investments		-502 680	18 756 029
Total net income from investments in the company portfolio	19	26 318 849	57 953 110
Other income			
Interest income from bank deposits, operations		403 301	717 222
Management costs and other costs associated with the company portfolio			
Management costs		1 005 651	1 842 692
Result of non-technical accounts		**25 716 499**	**56 827 640**
Overall result		**-101 421 571**	**188 595 617**
Transfers and allocations			
Allocated to/transferred from(-) other retained earnings	13, 14, 20	-101 421 571	188 595 617
Total allocations		**-101 421 571**	**188 595 617**

Balance sheet as at 31.12.2010: Assets

	Note	31-12-10	31-12-09
Assets in the company portfolio			
Investments			
Financial assets valued at amortised cost			
Bonds classified as hold-to-maturity	2	66 551 603	111 304 150
Housing and business loans	3	10 102 553	15 508 112
Total financial assets valued at amortised cost		76 654 156	126 812 263
Financial assets at fair value			
Shares and mutual funds	4	113 134 688	152 598 511
Bonds	5	177 128 411	311 591 997
Financial derivatives	6	1 628 100	0
Bank deposits	7	15 358 914	15 946 276
Total financial assets at fair value		307 250 113	480 136 784
Total investments in the company portfolio		**383 904 269**	**606 949 046**
Receivables			
Accounts receivable	8	82 249 724	81 172 021
Receivable from brokers		0	9
Total receivables		82 249 724	81 172 030
Other assets			
Bank deposits operations		15 133 955	11 233 664
Prepaid expenses and accrued income not received			
Accrued non-invoiced premium		1 393 682	593 696
Accrued dividend		3 359 656	2 827 662
Prepaid expenses		72 720	371 682
Total prepaid expenses and accrued income not received		4 826 058	3 793 040
Total assets in the company portfolio		**486 114 006**	**703 147 780**
Assets in the customer portfolios			
Investments in the collective portfolio			
Financial assets valued at amortised cost			
Bonds classified as hold-to-maturity	2	816 915 765	767 836 323
Housing and business loans	3	124 008 050	106 983 359
Total financial assets valued at amortised cost		940 923 815	874 819 681
Financial assets at fair value			
Shares and mutual funds	4	1 388 719 527	1 052 707 194
Bonds	5	2 174 237 508	2 149 530 383
Financial derivatives	6	19 984 796	0
Bank deposits	7	188 529 483	110 006 046
Total financial assets at fair value		3 771 471 314	3 312 243 623
Total investments in the collective portfolio		**4 712 395 129**	**4 187 063 305**
Total assets in the customer portfolios		**4 712 395 129**	**4 187 063 305**
Total assets		**5 198 509 135**	**4 890 211 084**

Balance sheet as at 31.12.2010: Equity and liabilities

	Note	31-12-10	31-12-09
Retained earnings			
Risk equalisation fund	9	6 138 569	6 138 569
Other retained earnings	10, 15	480 273 703	581 695 274
Total retained earnings	14	486 412 272	587 833 843
Insurance liabilities			
Premium reserve	11	4 520 751 215	4 165 480 934
Allocation for extraordinary commitments	12	60 000 000	0
Securities adjustment reserve		125 505 345	7 321 227
Total insurance liabilities		4 706 256 560	4 172 802 161
Liabilities in the company portfolio			
Financial liabilities at fair value			
Financial derivatives	6	0	1 177 434
Accrued expenses and deferred income			
Accrued expenses		5 840 303	120 275 072
Liabilities in the customer portfolio			
Financial liabilities at fair value			
Financial derivatives	6	0	8 122 574
Total equity and liabilities		**5 198 509 135**	**4 890 211 084**

Oslo, 24. mars 2011

Finn Melbø (leder)

Bjørn Myhre

Edvin Alten Aarnes

Kim Nordlie

Kjell Hundven

Notes

Notes to the annual financial statements 2010

NOTE 1 ACCOUNTING PRINCIPLES

Wherever possible the annual financial statements have been prepared in accordance with the Regulation of 16 December 1998 on annual financial statements etc. for insurance companies and with the Norwegian Accounting Act that came into force on 1 January 1999.

Pension premiums

Pension premiums are recorded as income as they accrue. Pension premiums are paid in each quarter in arrears.

Interest income

Interest is recorded as income as it accrues.

Buildings and other real estate

Investments in real estate are valued at the market value as at 31.12.2010. The market value is based on independent valuations of the properties.

Financial assets valued at amortised cost

Bonds classified as hold-to-maturity are valued at cost price, adjusted for recognised premium/discount. The premium/discount at the acquisition date is recognised in the income statement equally divided over the bond's remaining life. Housing and business loans are recorded at par value as at 31.12.2010.

Financial assets at fair value

Shares and mutual funds

Investments in shares and mutual funds are booked at fair value as at 31.12.2010. Changes in value are recognised in the income statement. Fair value is equivalent to the market value as at 31.12.2010, which is based on the last official trade in 2010.

Bonds

Investments in bonds are booked at fair value as at 31.12.2010. Changes in value are recognised in the income statement. Fair value is equivalent to the market value as at 31.12.2010, which is equivalent to the tax assessment value for 2010.

Financial derivatives

Foreign currency forward contracts are booked at fair value as at 31.12.2010. Fair value is equivalent to the market value as at 31.12.2010. The recorded value of forward rate agreements (FRAs) is equivalent to accrued unrealised gains/losses based on the market value as at 31.12.2010.

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

Foreign currency

Bank deposits, receivables and liabilities in foreign currencies are recorded using exchange rates as at 31.12.2010.

Insurance liabilities

The calculations are based on the assumption that the pension scheme will continue to operate as long as any obligations exist towards its members as at 31.12.2010. Accordingly, account has been taken of all potential pension benefits provided for in the Act concerning 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 at the balance sheet date (31.12.2010). This calculation has been carried out using standard actuarial methods for discounting cash flows 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 and the dependent probability are based on K2005, while disability probability is based on K1963 and boosted 100%. The technical reserves include reserves for members who are entitled to retire early either on a contractual pension (AFP) or under the 85-year rule during 2011. The 85-year rule provides that a member who retires no more than three years before retirement age is entitled to a retirement pension if the sum of the member's pension-qualifying service period and his/her age is at least 85 years.

Retained earnings

Retained earnings consist of the risk equalisation fund and other retained earnings.

The risk equalisation fund serves as a buffer against unanticipated changes in the level of risk for insurance liabilities.

Other retained earnings comprise the pension scheme's excess capital in relation to the pension scheme's commitments. At a mimimum, the equity must cover the estimated capital adequacy requirement. This requirement is described in more detail in note 15. Retained earnings in excess of the capital adequacy requirement are defined as free equity. There are no guidelines limiting the application of free equity in the Pension Scheme for the Pharmacy Sector.

NOTE 2 BONDS CLASSIFIED AS HOLD-TO-MATURITY

Issuer	Face value	Cost price	Book value	Market value	Difference between book and face value
Government-guaranteed	40 000	39 615	39 961	40 760	39
Bank/financial institution	699 000	677 294	687 862	729 794	11 138
Municipality/county	50 000	50 125	50 036	52 245	-36
Industry	82 000	82 000	82 000	89 817	0
Total bonds classified as held to maturity	871 000	849 033	859 859	912 615	11 141
Accrued interest			23 608		
Total book value	**871 000**	**849 033**	**883 467**	**912 615**	**11 141**

Proportion of above in the collective portfolio			816 916
Proportion of above in the company portfolio			66 552

Book value as at 1 January 2010	879 140
Purchases 2010	0
Disposals 2010	0
Amortisation adjusment	4 327
Change in accrued interest 2010	0
Book value as at 31 December 2010	**883 467**

NOK 1.000

All bonds classified as hold-to-maturity are listed either on the Oslo Stock Exchange or the Oslo Alternative Bond Market (Oslo ABM), with the exception of two bonds with a total par value of NOK 100 million. All bonds are issued in NOK. The average effective yield on bonds classified as hold-to-maturity is 6.6%. The average yield is calculated on the basis of cost price. This is weighted in relation to the relevant security's cost price and added up. 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 31.12.2010. No allowances are made for possible loan losses, since past lending losses have been extremely small. There were no known uncertain debts in the loan portfolio as at 31.12.2010.

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 31.12.2010, since the number and amount of claims have been low in recent years.

The loan portfolio consists of the following:

	Housing loan	Government-guaranteed loans against promissory notes	Loans for pharmacy premises	Total
Number	306	11	4	321
Amount	124 794 875	6 410 828	2 904 900	**134 110 603**
Proportion of above in the collective portfolio:	124 008 050			
Proportion of above in the company portfolio:	10 102 553			

Interest rates as at 31.12.2010 were 3.00% for housing loans and 3.50% for government-guaranteed loans against promissory notes and loans for pharmacy premises.

Losses etc. on loans	2010	2009	2008	2007	2006
Principal written off	0	0	0	0	0
Principal written off, credit insurance	0	705 340	0	0	202 500
Interest written off	274	0	0	50	15
Interest written off, credit insurance	0	3 153	0	0	3 252
Previous payments written off	0	0	0	0	0
Total	**274**	**708 493**	**0**	**50**	**205 767**

As at 31 December 2010 there was one non-performing loan with NOK 3,146 outstanding.

NOTE 4 SHARES / FUND SHARES

Shares listed on the Oslo Stock Exchange

Company	Cost price	Book value
AKER SOLUTIONS	3 184 921	7 731 079
ALGETA ASA	875 683	1 604 800
ATEA ASA (TIDL EMENTOR)	1 942 317	2 330 000
AUSTEVOLL SEAFOOD	829 656	1 488 000
CERMAQ ASA	1 443 057	2 142 000
CLAVIS PHARMA ASA	742 833	603 000
DATA RESPONS	1 846 322	1 729 325
DET NORSKE OLJESELSKAP ASA	155 514	108 891
DNB NOR ASA	19 968 877	32 825 520
DNO INTERNATIONAL ASA	2 113 455	2 750 205
EKORNES ASA	767 834	1 792 000
FRED OLSEN ENERGY	2 758 481	3 867 000
GJENSIDIGE FORSIKRING ASA	3 804 356	3 802 500
KONGSBERG AUTOMOTIVE HOLDING	3 748 113	2 517 150
KONGSBERG GRUPPEN ASA	1 463 276	2 670 640
MARINE HARVEST ASA	6 426 635	7 231 857
NORDIC VLSI	513 024	1 984 000
NORSK HYDRO ASA	9 526 408	16 687 354
NORWEGIAN AIR SHUTTLE	1 685 854	2 209 000
OLAV THON EIENDOMSELSKAP	433 727	1 801 800
OPERA SOFTWARE ASA	1 909 025	2 465 000
ORKLA ASA	14 490 985	20 135 871
PETROLEUM GEO SERVICES	3 912 408	7 438 707
PRONOVA BIOPHARMA ASA	1 725 759	766 100
RENEWABLE ENERGY CORPARATION	7 678 817	3 215 703
SCHIBSTED	3 416 326	6 046 660
SPAREBANKEN VEST	1 099 980	1 148 868
STATOIL ASA	57 014 808	64 518 439
STATOIL FUEL & REATIL AS-W/I	2 033 892	2 398 500
STOREBRAND ASA	5 008 684	6 872 911
TELENOR ASA	18 194 893	32 487 960
TGS NOPEC GEOPHYSICAL CO	1 939 495	5 930 650
WILH. WILHELMSEN ASA	1 960 300	3 442 500
YARA INTERNATIONAL	10 183 970	26 988 525
Total Norwegian shares	**194 799 685**	**281 732 515**

Company	Cost price	Book value
DEEP SEA SUPPLY PLC	581 160	600 000
OCEAN RIG UDW INC.	881 895	875 500
PROSAFE ASA	3 524 787	3 370 032
ROYAL CARIBBEAN CRUISES	3 730 611	9 698 130
SEADRILL LIMITED	10 882 403	27 393 249
SEAWELL LTD EQUITY	414 000	675 000
SONGA OFFSHORE	1 504 304	1 695 600
SUBSEA 7 S.A (FORMERLY ACERGY S.A.)	6 256 472	11 969 100
SUBSEA 7	2 728 979	6 683 600
VIZRT LTD	1 852 434	1 524 000
Total foreign shares	**32 357 045**	**64 484 211**

Total shares listed on the Oslo Stock Exchange	**227 156 730**	**346 216 726**

Equity funds

Fund	Cost price	Book value
Black Rock World Index Subfund	204 410 126	222 459 551
State Street World Index Plus Fund CTF	341 229 066	281 747 271
Total foreign equity funds	**545 639 191**	**504 206 822**

Hedge funds

Fund	Cost price	Book value
Auda Fifth Avenue Sub-Trust class A EUR	0	1 674 029
Certificates Credit Suisse Guernsey branch	9 048 408	10 454 598
Gottex Market Neutral Fund (USD Class B)	133 529 012	132 698 670
Partners Grp Alt. Beta Strat. (GreenVega)	60 278 647	55 236 034
Sector Congnimetrica Fund	25 000 000	23 028 392
Sector Healthcare Fund	20 402 707	27 931 982
Total foreign hedge funds	**248 258 774**	**251 023 705**

Real estate funds

Fund		
Aberdeen Eindomsfond Norge I	250 537 783	253 350 173
Pareto Eiendomsfelleskap AS/IS	141 590 000	147 056 790
Total real estate funds	**392 127 783**	**400 406 963**

Total shares and mutual funds	**1 413 182 478**	**1 501 854 216**

Proportion of above in collective portfolio	**1 306 727 432**	**1 388 719 528**
Proportion of above in company portfolio	**106 455 046**	**113 134 688**

The portfolio of Norwegian individual shares comprises shares that are listed on the Oslo Stock Exchange or are expected to be listed within six months.

The reference index for this portfolio is the OSE Benchmark Index (OSEBX). Limits have been established on the extent to which the portfolio weighting of a company or sector may deviate from the reference weighting. Limits have also been imposed on the maximum permissible relative risk for equity management. The objective when managing this portfolio is to achieve a better return than the OSEBX. The risk profile for the portfolio both at year-end and throughout the year corresponded to a large extent with the risk profile of the OSEBX.

The Black Rock World Index Subfund and the State Street World Index Plus Fund track the MSCI World Index and accordingly have approximately the same risk profile as the latter.

Investments in hedge funds have been diversified by creating a portfolio consisting mainly of fund-of-funds solutions as well as by selecting three external hedge fund managers who use different investment strategies. The reference index for the hedge fund investments for 2010 has been the Credit Suisse/Tremont Hedge Fund Index. The overall risk profile for hedge fund investments is expected to emulate the risk profile for investments in bonds more closely than that for investments in shares.

Real estate investments consist of holdings in Aberdeen Property Investors and Pareto Eiendomsfellesskap AS/IS. These investments are booked at market value as at 31.12.2010. The market value of the investments is based on independent valuations of the properties.

The book value of real estate investments as at 31.12.2010 is derived as follows (NOK 1,000):

	2010	2009	2008	2007	2006
IOpening balance	207 866	196 447	246 358	231 754	201 768
Purchases during the year at acquisition cost	178 446	13 144	0	0	0
Disposals during the year at disposal cost		- 963	0	0	0
Adjustments in value during the financial year	14 095	- 762	- 49 911	14 604	29 986
Closing balance	**400 407**	**207 866**	**196 447**	**246 358**	**231 754**

Proportion of above in the collective portfolio	370 244	181 549	181 301		
Proportion of above in the company portfolio	30 163	26 317	15 146		

Aberdeen Property Investors is structured as a co-ownership in which each co-owner owns a share of each of the properties in the portfolio. Investments have only been made in properties in Norway. Of Aberdeen Property Investors' total investments, 52% comprise real estate in Oslo. 71 % of the total fund is invested in office buildings. The average time remaining on lease agreements for properties in the portfolio fell during 2010 from 6.7 years to 5.5 years. At year-end 2010 gross rents for properties in the portfolio amounted to NOK 389 million.

Pareto Eiendomsfellesskap AS/IS is structured as two companies – Pareto Eiendomsfellesskap IS and Pareto Eiendomsfellesskap AS – with the latter company being the principal shareholder in the former. The investment in Pareto

Eiendomsfellesskap AS/IS is considered a direct investment in real estate. Investments have only been made in properties in Norway. Of the total investments made by Pareto Eiendoms-fellesskap, 40% comprise real estate in Greater Oslo, while 29% comprise real estate in Vestfold. 55% of the total investments have been made in real estate relating to warehousing/logistics.

The average time remaining on the lease agreements for the properties in the portfolio is 11.3 years. At year-end 2010 gross rents for properties in the portfolio amounted to NOK 30 million.

None of the premises is occupied by the Pension Scheme for Pharmacy Businesses.

NOTE 5 OBLIGASJONER

Issuer	Cost price	Market value	Unrealized gain
Bank/financial institution	986 698 600	997 674 000	10 975 400
Municipality/county	573 455 650	587 474 300	14 018 650
Statsgaranterte (kommer i korr)	368 106 241	370 045 000	1 938 759
Industry	302 331 678	308 744 128	6 412 450
Energi	45 106 500	45 950 500	844 000
Sum rentepapirer omløpsmidler (kommer i korrektur)	**2 275 698 669**	**2 309 887 928**	**34 189 259**
Accrued interest		41 477 991	
Total	**2 275 698 669**	**2 351 365 919**	

Proportion of above in the collective portfolio		2 174 237 508	
Proportion of above in the company portfolio		177 128 411	

The interest-bearing securities portfolio is classified as a financial current asset and consists of interest-bearing securities listed on the Oslo Stock Exchange and the Oslo ABM, as well as non-listed securities. All interest-bearing securities classified as financial current assets are nominated in NOK, with the exception of three securities nominated in USD. The effective rate of interest is approximately 3.7%. The average effective rate of interest is calculated on the basis of the securities' effective rate of interest in relation to their 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 general the pension scheme may only invest in listed (standardised) derivatives, and the underlying securities must be of a type in which the scheme is authorised to invest under prevailing guidelines. Non-standardised derivatives ("over-the-counter – OTC-derivatives") may only be employed for hedging purposes. However, this rule does not apply to Norwegian future rate agreements (FRAs), which may be traded on the OTC market without being employed for hedging purposes.

As at 31.12.2010 investments were held in the following derivatives:

	Nominal amount in NOK	Fair value in NOK
Forward currency contracts:		
EUR	-151 443 500	-144 665 025
USD	-483 344 810	-465 755 521
GBP	-49 084 491	-46 478 259
JPY	-52 069 980	-51 157 381
NOK	735 942 781	735 942 781
Total forward currency contracts	**0**	**27 886 595**
Interest rate derivatives:		
NOK FRA	4 000 000 000	-6 273 700
Total interest rate derivatives	**4 000 000 000**	**-6 273 700**
Total derivatives recognised in the balance sheet	**4 000 000 000**	**21 612 895**
Proportion of above in the collective portfolio:		19 984 795
Proportion of above in the company portfolio:		1 628 100

During 2010 investments in foreign shares have been hedged for periods of three to six months through the use of options. The last of these hedging options matured in 2010 and have been recognised in the financial statements for 2010 at around NOK -7 million net. New hedging arrangements have been put in place for 2011.

In addition to instruments of the types described above, the scheme also traded in share index futures and bond and interest rate futures during 2010.

NOTE 7 BANK DEPOSITS

As security for various derivative positions, the pension scheme may be obliged to provide collateral in the form of restricted bank deposits held in margin accounts. There are no restricted deposits as at 31.12.2010.

NOTE 8 ACCOUNTS RECEIVABLES - LOSSES ON ACCOUNTS RECEIVABLES

Accounts receivables had a book value of NOK 82,249,724 and consisted of:

	31.12.2010	31.12.2009
Accounts receivables related to premium income:	81 597 950	80 561 605
Accounts receivables related to loans:	651 774	706 467
Provision for potential loss:	0	- 96 051
Total accounts receivables:	**82 249 724**	**81 172 021**

Accounts receivables are recorded at par value as at 31.12.2010.

Recorded losses on receivables were as follows:

	2010	2009
Realised loss on receivables:	85 227	0
Change in provision for potential loss:	- 96 051	- 16 949
Recorded loss on receivables:	**- 10 824**	**- 16 949**

NOTE 9 RISK EQUALISATION FUND

The risk equalisation fund shall act as a buffer against unanticipated changes in the result of insurance operations over the course of time. This type of provision is currently compulsory for private sector pension funds regulated by the new Norwegian Insurance Activity Act that came into force on 1 January 2008. Up to 50% of a positive risk result may be allocated to the risk equalisation fund. No assets have been allocated to the risk equalisation fund in 2010.

NOTE 10 OTHER RETAINED EARNINGS

As at 31.12.2010 other retained earnings totalled NOK 480 million and, together with the securities adjustment reserve, made up the pension scheme's excess capital.

Private sector and municipal pension funds regulated by the Insurance Activities Act are under a statutory obligation to calculate their capital adequacy requirement. This was not a requirement for the Pension Scheme for the Pharmacy Sector in 2010. The board has nonetheless decided to calculate the capital adequacy requirement in order to ascertain the pension scheme's financial position on the basis of the guidelines applicable to private sector and municipal pension funds and to provide an improved basis for comparison with such funds. The requirement calculated for the guarantee fund as at 31.12.2010 was NOK 206 812 350 (see calculation in note 15 below).

The capital adequacy requirement must be covered by other retained earnings. Other retained earnings less the capital adequacy requirement, but with the addition of the securities adjustment fund, total NOK 398 966 697 and constitute the scheme's buffer capital.

NOTE 11 PREMIUM RESERVE

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

The premium reserve corresponds to the calculated pension liabilities applied as technical reserves. These reserves must cover future pension entitlements accrued at the balance sheet date by the scheme's members. Wherever possible the amount of provision has been calculated in accordance with the guidelines applicable to private sector pension funds. This involves the calculation of the cash value of linearly accrued pension entitlements registered on the balance sheet date for deferred, potential and current benefits in accordance with standard technical insurance principles. The basis for the calculation is the industry tariff K2005 with a base interest rate of 3%. The assumption for disability rates is based on K1963, boosted 100%.

The provision for the premium reserve includes provisions to cover future costs relating to the administration of payments of current accrued pension entitlements. The Pension Scheme for the Pharmacy Sector has opted to make provisions for these future costs in the order of 4% of calculated pension liabilities. Provisions have 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 but who have not retired).

The premium reserve includes provisions in respect of actively contributing members who are entitled to draw a contractual pension (AFP) or take retirement under the 85-year rule during 2011. The provision for this group amounted to approximately NOK 82 million as at 31.12.2010 and is included in the premium reserve. Pension schemes regulated by the Insurance Activities Act are not required to make provisions for actively contributing members in respect of contractual pensions or retirement under the 85-year rule, since the schemes do not incur a defined obligation until an individual employee chooses to take early retirement. Financing of these schemes is in the form of a non-recurring premium.

NOTE 12 PROVISION FOR EXTRAORDINARY COMMITMENTS

The EFTA Court has concluded that the differential treatment of widowers and widows of members of the Pension Scheme for the Pharmacy Sector and public sector pension schemes that took place prior to 1 October 1976 was in breach of the Equality Directive and Article 69 of the EEA Agreement. With widows and widowers having to be treated equally, the pension scheme is obliged to recalculate benefits for a number of widowers who are affected by the new regulations. This implies retrospective payments to the widowers as well as additional provision linked to future payments for this increased benefit. NOK 60 million has been allocated in the 2010 financial statements to meet these commitments. The size of this provision is highly uncertain. The increased commitment must be calculated individually for each widower and may vary significantly.

NOTE 13 ALLOCATION OF THE RESULT FOR THE YEAR

This year's net loss of NOK 101 421 571 will be covered by other retained earnings.

Other retained earnings total NOK 480 million as at 31.12.2010 and constitute the scheme's excess capital.

NOTE 14 SPECIFICATION OF CHANGES IN RETAINED EARNINGS

As at 31.12.2010 retained earnings total NOK 486,412,272. The change in retained earnings in 2010 may be specified as follows:

Retained earnings as at 31.12.2009	587 833 843
- Net profit for the year allocated to other retained earnings	- 101 421 571
= Retained earnings as at 31.12.2010	**486 412 272**

NOTE 15 CALCULATION OF CAPITAL ADEQUACY REQUIREMENT

The basis for calculating primary capital as at 31.12.2010 was as follows:

Certificates & Bonds	Balance sheet	Risk weighting	Risk-weighted balance	Risk-weighted calculation basis, 8%
Government and central bank	409 076 867	0	0	0
Investments in state-owned enterprises	14 946 344	0,1	1 494 634	119 571
Public sector (except govt. and central bank)	650 775 935	0,2	130 155 187	10 412 415
Domestic financial institutions and foreign credit institutions	1 711 835 551	0,2	342 367 110	27 389 369
Book value of primary capital in other financial institutions	0	1	0	0
Investments in industry or other business undertakings	448 198 590	1	448 198 590	35 855 887
Total	**3 234 833 287**		**922 215 522**	**73 777 242**
Bank deposits	**219 022 352**	0,2	**43 804 470**	**3 504 358**
Investments in share/equity founds	**1 101 447 253**	1	**1 101 447 253**	**88 115 780**
Forign exchange contracts	**27 886 595**	0	**0**	**0**
Derivatives	**-6 273 700**	0	**0**	**0**
Mortgage and business loans				
Loans (except mortgages) guaranteed by governments/central banks	6 410 828	0	0	0
Mortgages with a loan-to-value ratio not exceeding 80%	124 313 468	0,35	43 509 714	3 480 777
Loans other than mortgages	2 904 900	1	2 904 900	232 392
Total	**133 629 196**		**46 414 614**	**3 713 169**
Real estate investments	**400 406 963**	1	**400 406 963**	**32 032 557**
Time-limited assets				
Accounts receivable	82 249 724	0,5	41 124 862	3 289 989
Other receivables	0	0,5	0	0
Accrued dividend	3 359 656	0,5	1 679 828	134 386
Accrued interest income	481 407	0,5	240 704	19 256
Accrued premiums	1 393 682	0,5	696 841	55 747
Prepaid expenses	72 720	0,5	36 360	2 909
Total	**87 557 189**		**43 778 595**	**3 502 288**
Total calculation basis recognized in the balance sheet	**5 198 509 135**		**2 558 067 416**	**204 645 393**
Derivatives and non-balance sheet items				
Foreign-exchange-related contracts with less than one year to maturity	708 056 186	0,01	7 080 562	566 445
Interest-rate-related contracts with less than one year to maturity	-7 553 700	0	0	0
Interest-rate-related contracts with one – five years to maturity	4 001 280 000	0,005	20 006 400	1 600 512
Total calculation basis including derivatives and non-balance sheet items	**9 900 291 621**		**2 585 154 378**	**206 812 350**

8% of risk-weighted balance comprises **NOK 206 812 350**

In comparison, the basis for calculating primary capital as at 31.12.2009 was as follows:

Certificates & Bonds	Balance sheet	Risk weighting	Risk-weighted balance	Risk-weighted calculation basis, 8%
Government and central bank	658 219 666	0	0	0
Investments in state-owned enterprises	14 904 095	0,1	1 490 410	119 233
Public sector (except govt. and central bank)	592 662 030	0,2	118 532 406	9 482 592
Domestic financial institutions and foreign credit institutions	1 568 216 524	0,2	313 643 305	25 091 464
Book value of primary capital in other financial institutions	0	1	0	0
Investments in industry or other business undertakings	506 260 539	1	506 260 539	40 500 843
Total	**3 340 262 853**		**939 926 659**	**75 194 133**
Bank deposits	**137 185 986**	0,2	**27 437 197**	**2 194 976**
Investments in share/equity founds	**997 440 095**	1	**997 440 095**	**79 795 208**
Forign exchange contracts	**-12 681 554**	0	**0**	**0**
Derivatives	**3 381 546**	0	**0**	**0**
Mortgage and business loans				
Loans (except mortgages) guaranteed by governments/central banks	7 711 876	0	0	0
Mortgages with a loan-to-value ratio not exceeding 80%	111 069 069	0,35	38 874 174	3 109 934
Loans other than mortgages	3 307 800	1	3 307 800	264 624
Total	**122 088 745**		**42 181 974**	**3 374 558**
Real estate investments	**207 865 610**	1	**207 865 610**	**16 629 249**
Time-limited assets				
Accounts receivable	81 172 030	0,5	40 586 015	3 246 881
Other receivables	0	0,5	0	0
Accrued dividend	2 827 662	0,5	1 413 831	113 106
Accrued interest income	402 726	0,5	201 363	16 109
Accrued premiums	593 696	0,5	296 848	23 748
Prepaid expenses	371 682	0,5	185 841	14 867
Total	**85 367 796**		**42 683 898**	**3 414 712**
Total calculation basis recognized in the balance sheet	**4 880 911 077**		**2 257 535 433**	**180 602 835**
Derivatives and non-balance sheet items				
Foreign-exchange-related contracts with less than one year to maturity	666 448 289	0,01	6 664 483	533 159
Interest-rate-related contracts with less than one year to maturity	2 656 464 316	0	0	0
Interest-rate-related contracts with one – five years to maturity	4 456 690 276	0,005	22 283 451	1 782 676
Share-related (equity-related) contracts with less than one year to maturity	89 080 560	0,06	5 344 834	427 587
Total calculation basis including derivatives and non-balance sheet items	**12 749 594 518**		**2 291 828 201**	**183 346 256**

8% of risk-weighted balance comprises **NOK 183 346 256**

NOTE 16 PREMIUM CONTRIBUTIONS

Members contributed premium income totalling NOK 311 990 210 in 2010. By comparison, recorded premium income amounted to NOK 313 911 768. In 2009 members contributed NOK 302 629 958 in premiums, while recorded premium income totalled NOK 301 591 015. 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 within the profit and loss account, NOK 441 419 represents write-offs of pension benefit overpayments. The corresponding figure for 2009 was NOK 556 298.

NOTE 18 INSURANCE-RELATED ADMINISTRATIVE EXPENSES

The pension scheme is managed by the Norwegian Public Service Pension Fund. In 2010 NOK 21 525 232 was charged against income in respect of the purchase of administrative services for the pension scheme, including costs relating to bookkeeping, actuarial services and pensions management. A further NOK 24 375 was charged against income in respect of consultancy services, NOK 42 125 for legal fees and NOK 268 261 for audit services – all of the latter relating to standard audit services. Other operating costs totalled NOK 1 359 991 comprising directors' fees and miscellaneous costs.

NOTE 19 RETURN ON CAPITAL

Return on the total portfolio calculated according to Hardy's formula comprises:

Year:	**2010**	**2009**	**2008**	**2007**	**2006**
Return stated as % (value-adjusted):	7.17	10.53	- 7.89	5.07	6.63
Return stated as % (recorded):	4.61	10.35	-5.74	6.02	6.70

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 20 ANALYSIS OF RESULT

Changes in pension plan:	0.00 MNOK
Yield result1):	221.08 MNOK
Risk result2):	-21.51 MNOK
Other factors3):	-122.81 MNOK
Administration result:	0.00 MNOK
Insurance result:	**76.76 MNOK**

1) The yield result is the difference between actual and estimated interest rates (the base rate).

2) The risk result equals risk income less risk expenses. Risk income comprises received and technically estimated risk premiums for mortality and disability, together with reserves released on the occurrence of risk events. Risk expenses are supplemented by mortality cross-subsidies in the case of non-risk events and by provisions for risk events.

3) Other factors comprise premiums received less correctly calculated premiums. A positive result indicates that premiums received have been too high.

Cash flow statement 1.1. - 31.12. 2010

	2010	**2009**
Cash flow from operations		
Contributions from members	311 990 210	302 629 958
Bank interest income	1 658 581	2 586 346
Interest income on loans	3 592 509	4 492 753
Interest income on bonds/certificates	174 162 538	157 379 028
Dividends	16 583 363	12 073 437
Other income	1 764 990	204 353
Total	509 752 192	479 365 875
Financial expenses paid	-1 642 471	-10 937 253
Pensions benefits paid	-195 093 004	-183 367 232
Administrative expenses	-34 953 140	-31 263 906
Change in accounts payable	-541 141	-12 927 173
Changes in other debt	-113 893 627	105 073 938
Total	-346 123 383	-133 421 627
Total cash flow from operations	**163 628 809**	**345 944 248**
Cash flow from investments		
Net price gains on shares/derivatives/hedge funds	108 304 122	257 694 410
Net price gains on bonds/certificates	12 972 320	22 505 248
Net yield on real estate	30 760 700	9 289 581
Net change in lending	-11 485 758	-3 171 122
Net loss on loans	-274	-708 493
Net change in real estate	-192 541 353	-11 419 085
Net change in securities	-42 940 202	-694 458 849
Net change in other receivables	13 138 003	-8 490 866
Total cash flow from investments	**-81 792 442**	**-428 759 176**
Cash flow from financing activities		
Paid-up capital	0	0
Total cash flow from financing activities	**0**	**0**
Net cash flow during the accounting period	**81 836 366**	**-82 814 928**
Cash and cash equivalents at 01.01.2010	137 185 986	220 000 914
Cash and cash equivalents at 31.12.2010	219 022 352	137 185 986
Net change in cash and cash equivalents	**81 836 366**	**-82 814 928**

ERNST & YOUNG

Statsautoriserte revisorer
Ernst & Young AS

Dronning Eufemias gate 6, NO-0191 Oslo
Oslo Atrium, P.O.Box 20, NO-0051 Oslo

Foretaksregisteret: NO 976 389 387 MVA
Tlf.: +47 24 00 24 00
Fax: +47 24 00 24 01
www.ey.no
Medlemmer av Den norske Revisorforening

To the Board of Directors of The Pension Scheme for the Pharmacy Sector

AUDITOR'S REPORT

Report on the financial statements

We have audited the accompanying financial statements of The Pension Scheme for the Pharmacy Sector, which comprise the balance sheet as at 31 December 2010, the statements of income and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

The Board of Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

ERNST & YOUNG

2

Opinion

In our opinion, the financial statements of The Pension Scheme for the Pharmacy Sector have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the pension scheme as of 31 December 2010 and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.

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 Directors' report concerning the financial statements, the going concern assumption and the 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 the Board of Directors have fulfilled their duty to properly record and document the pension scheme's accounting information as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 24 March 2011
ERNST & YOUNG AS

Knut Aker
State Authorised Public Accountant (Norway)

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

Statistics

Total pensions 31.12.2010

Pension	Men		Women		Total	
Standard retirement pension	192	40,4 %	1 476	48,8 %	1 668	47,7 %
Contractual pension	19	4,0 %	248	8,2 %	267	7,6 %
Disability pension	56	11,8 %	1 161	38,4 %	1 217	34,8 %
Spouse pension *	193	40,6 %	130	4,3 %	323	9,2 %
Children's pension *	15	3,2 %	9	0,3 %	24	0,7 %
All pensions	**475**	**100,0 %**	**3 024**	**100,0 %**	**3 499**	**100,0 %**

** The figures in these two rows show the number of men vs. women receiving spouse pensions and the number of boys vs. girls receiving children's pensions.*
The table shows the number of paid pensions, split between women and men.

Flow of number of pensioners

The table describes the flow of incoming pensioners (31.12.2009) to outgoing pensioners (31.12.2010) for the financial year. The increase is net – incoming less outgoing.

Retirement pensioners/early retirees	Men	Women	Total
Number as at 31.12.2009	202	1600	1802
Total new pensioners	21	185	206
Total deaths/No longer eligible	12	61	73
Net increase in number of pensioners 2010	9	124	133
Number as at 31.12.2010	211	1 724	1 935

Spouse pension	Men	Women	Total
Number as at 31.12.2009	194	131	325
Total new pensioners	18	7	25
Total deaths/No longer eligible	19	8	27
Net increase in number of pensioners 2010	-1	-1	-2
Number as at 31.12.2010	193	130	323

Disability pension	Men	Women	Total
Number as at 31.12.2009	48	1137	1185
Total new pensioners	12	156	168
Total deaths/No longer eligible	4	132	136
Net increase in number of pensioners 2010	8	24	32
Number as at 31.12.2010	56	1 161	1 217

Children's pension	Men	Women	Total
Number as at 31.12.2009	17	10	27
Total new pensioners	0	1	1
Total deaths/No longer eligible	2	2	4
Net increase in number of pensioners 2010	-2	-1	-3
Number as at 31.12.2010	15	9	24

Pension benefits paid 2010

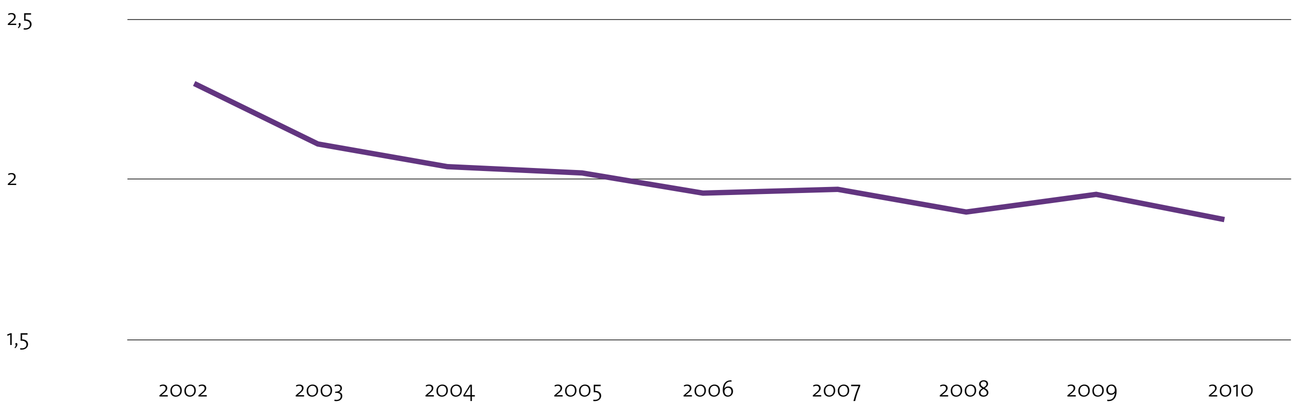
Pensions		Gross paid	%	Coordination-deduction	%	Net paid	%
Retirement and contractual pensions	Men	56 386 612	12,40 %	34 503 307	13,28 %	21 883 305	11,22 %
	Women	230 472 092	50,66 %	114 410 719	44,04 %	116 061 373	59,49 %
	Total	286 858 704	63,06 %	148 914 026	57,32 %	137 944 678	70,71 %
Disability pension	Men	6 850 103	1,51 %	4 538 474	1,75 %	2 311 629	1,18 %
	Women	131 519 410	28,91 %	89 812 709	34,57 %	41 706 701	21,38 %
	Total	138 369 513	30,42 %	94 351 183	36,32 %	44 018 330	22,56 %
Spouse pension	Widowers	8 241 837	1,81 %	5 744 221	2,21 %	2 497 616	1,28 %
	Widows	20 507 311	4,51 %	10 798 427	4,16 %	9 708 884	4,98 %
	Total	28 749 148	6,32 %	16 542 648	6,37 %	12 206 500	6,26 %
Children's pensions	Men	600 992	0,13 %	-	0,00 %	600 992	0,31 %
	Women	322 504	0,07 %	-	0,00 %	322 504	0,17 %
	Total	923 496	0,20 %	-	0,00 %	923 496	0,47 %
All pensions	**Men**	**72 079 544**	**15,85 %**	**44 786 002**	**17,24 %**	**27 293 542**	**13,99 %**
	Women	**382 821 317**	**84,15 %**	**215 021 854**	**82,76 %**	**167 799 462**	**86,01 %**
	Total	**454 900 861**	**100,00 %**	**259 807 857**	**100,00 %**	**195 093 004**	**100,00 %**

The table shows pension payments in 2010, split between the various types of pensions and specified by gender. The gross total shows the total amount paid by the National Insurance Scheme and the pharmacy scheme in combination. The net total shows the pharmacy scheme's share, i.e. how much more the member has been paid than if he/she had only received a pension from the National Insurance Scheme.

Active members relative to pensioners

Members	2002	2003	2004	2005	2006	2007	2008	2009	2010
Active	5859	5743	5882	5996	6049	6215	6308	6515	6561
Deferred	5061	5273	5547	5642	5855	6005	5673	5783	6093
Pensioners	2551	2730	2877	2977	3086	3152	3312	3339	3499
Active / Pensioner	2,297	2,104	2,044	2,014	1,960	1,972	1,905	1,951	1,875

Active / Pensioner

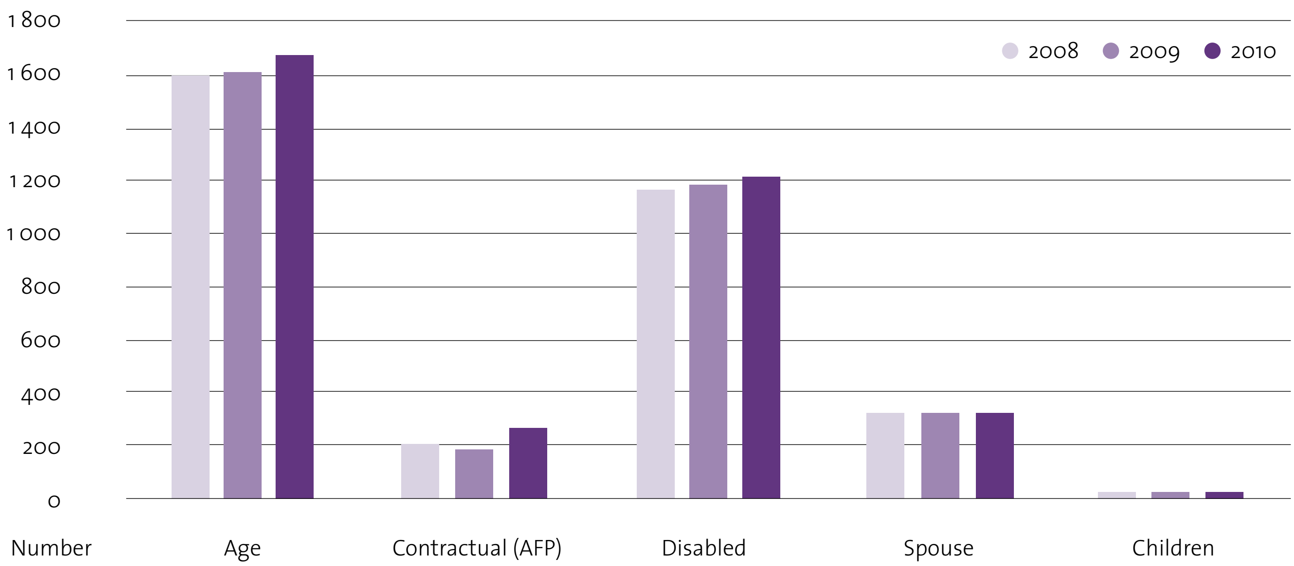


The figure shows the change in the number of pensioners from 2002 until the present day.
The relative figure active/pensioner shows the number of active members having to fund one pensioner.
The trend is falling, like elsewhere in society. This is one of the elements driving the pension reform.

Number of pensioners

	2008	2009	2010
Age	1601	1611	1668
Contractual (AFP)	201	191	267
Disabled	1163	1185	1217
Spouse	323	325	323
Children	24	27	24
Total	**3312**	**3339**	**3499**

Number of pensioners

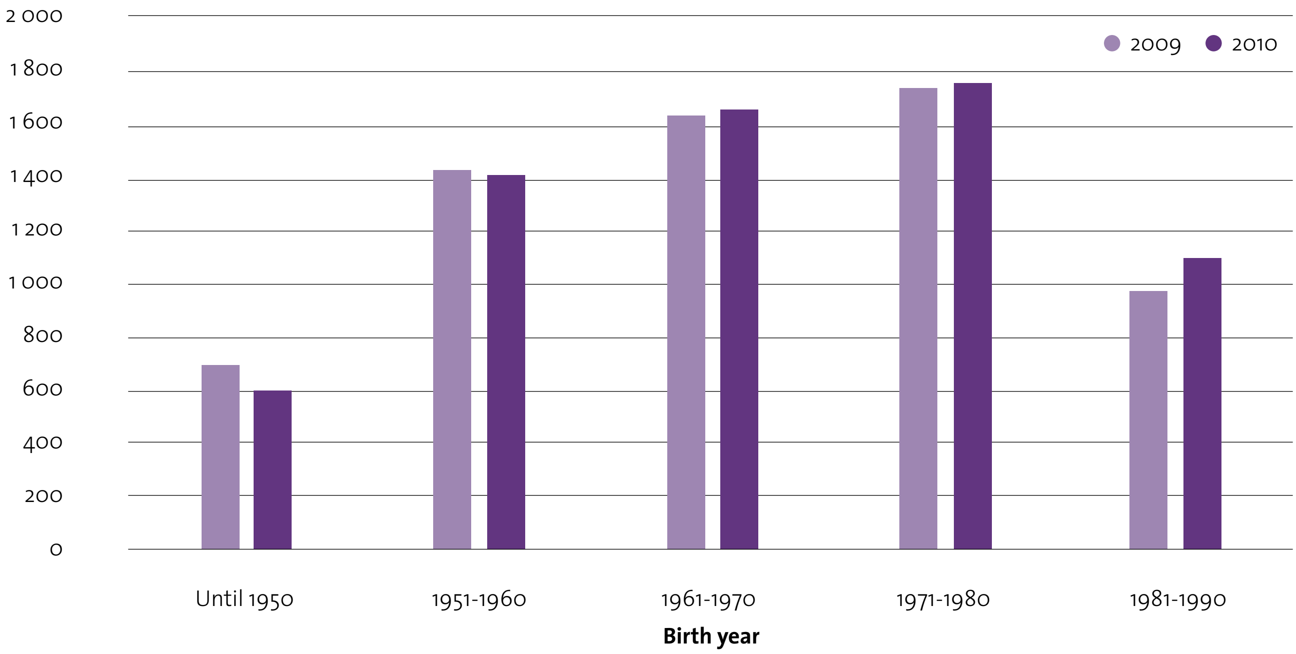


The figure shows that the number of pensioners is slightly increasing for retirement pension, contractual pension (AFP) and disability pension. The number of persons drawing a spouse pension has been stable over the last few years.

Active members

Birth year	2009	2010
Until 1950	695	598
1951-1960	1451	1435
1961-1970	1641	1665
1971-1980	1746	1768
1981-1990	980	1095

Active members



*The number of active member by birth year illustrates how older cohorts are falling in numbers, while younger cohorts are added.

Various statistics

Pharmacy sector, members

	Men	Women	Total
Members in qualifying positions	676	5 885	6 561
Deferred with/without entitlement	736	5 357	6 093
Pensioners	475	3 024	3 499
Total members	1 887	14 266	16 153

The table shows the distribution of members in the main categories active, deferred or retired, male or female.

Members in qualifying positions

Position	Men	Women	Total
Dispensing pharmacist	47	87	134
Pharmacy manager	163	578	741
Pharmacist	22	161	183
Dispensing technician	92	1 098	1 190
Laboratory assistant	2	3	5
Pharmacy technician	88	3 476	3 564
Office employee	82	106	188
Messenger, driver	9	2	11
Cleaner	1	56	57
Manager	8	37	45
Operating concession holder	149	266	415
Miscellaneous	13	15	28
Total	676	5 885	6 561

The table gives descriptions of the active members' positions, specified by gender.

Disability pensions

Degree of disability	Men	Women	Total
<=25%	2	60	62
26-50%	7	164	171
51-75%	2	28	30
76-99%	0	3	3
100 %	42	909	951
Total	53	1 164	1 217

Degree of disability is defined in combination with capacity for work, i.e. the degree to which a person is able to fully or partially continue working following illness or disability.

Unlike the National Insurance Scheme, the pension fund can approve degrees lower than 50%.

Retirement pensioners by age

Age limits	Men	Women	Total
65 years	6	261	267
68 years	78	1 123	1 201
70 years	127	340	467
Total	211	1 724	1 935

The table shows the number of early retirees/old-age pensioners broken down by the age limits of the pensioners' previous positions of employment, and specified by gender.

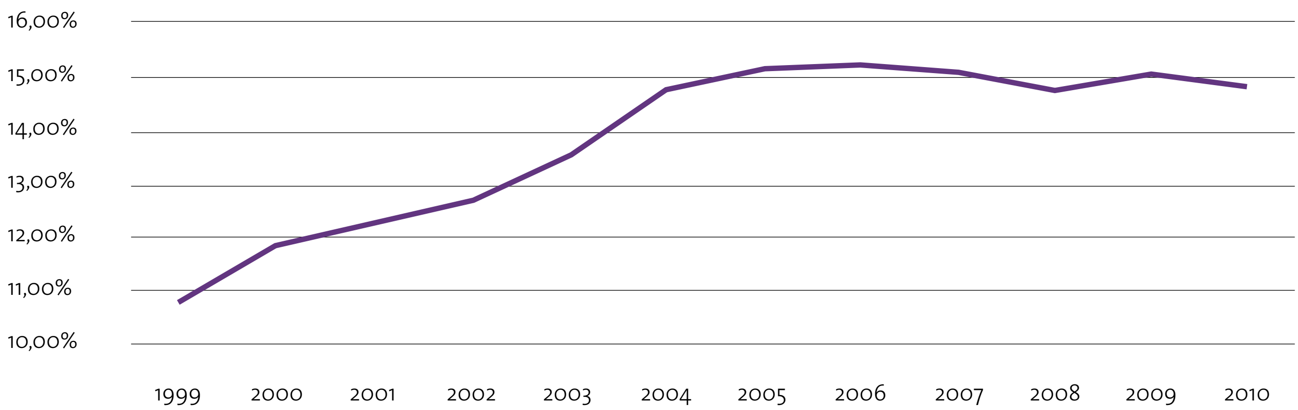
The age limit is the age at which an employee must leave his/her position. The person will then normally be entitled to a retirement pension.

Changes to the number of disabled

The period 1999–2005 saw a sharp rise in the number of disabled members. From 2005 to the present day the share of disabled members has flattened out and is now around 15%. While the slowdown in the increase of disabled members is positive, 15% is still a high figure.

Case processing times and waiting periods will normally cause delays to disabled benefit payments. This means that the figures from recent years may rise.

Disabled members as a proportion of total members in the Pension Shceme for the Pharmacy Secor 1999-2010



The number of disabled members has increased by 76% during the period, while the total number of members has increased by 28%.

Women outnumber men by some margin in the scheme, and women also make up the proportional majority of the number of disabled.

Looking at the different age groups, we find that the oldest age group contains the largest number of disabled members.

In the last few years there has been a marked increase in the number of younger employees in the scheme. This could possibly help reduce the proportion of disabled members in the coming years. At the same time, however, there has been an increase in the number of older employees, which could have the opposite effect.

Tre Pension Scheme for the Pharmacy Sektor is managed by the Norwegian Public Service Pension Fund (SPK) in Oslo

Visiting address: Slemdalsveien 37, Oslo
Postal address: P.O. Box 5364 Majorstuen, 0304 Oslo
Phone: 02775
E-mail: bedriftsservice@spk.no

www.spk.no/apotekordningen