

ADMINISTRATION REPORT 2008

2008 was a dramatic year. Warning signs emerged at the start of the year, but few people realised the breadth of the global crisis that was brewing. An equity allocation of roughly 60% made 2008 a difficult year, to say the least.

The assets of AP1–AP4 and AP6 are state-owned and reserved by law for specific asset management purposes in accordance with chapter 9, section 8 of the Instrument of Government. The organisational structure and activities of the Funds are regulated by the Swedish National Pension Funds Act. The law provides that the Government may not use Fund assets for purposes other than those specified in the Act, unless the Riksdag decides otherwise. The AP Funds are state bodies, but there are substantial differences between the Funds and other government agencies. The Funds are more independent than most other agencies and have separate boards of directors and external auditors. The Government adopts the Funds' annual income statements and balance sheets and orders annual evaluations of the Funds' performance. The results of these evaluations are presented to the Riksdag in written reports.

As AP4 is a state body, many aspects of the Swedish Code of Corporate Governance are not applicable to the Fund, owing to substantial differences between public law and commercial law. Thus, this administration report is limited to areas relevant to the Fund.

BOARD OF DIRECTORS

The AP4 Board of Directors is made up of nine directors with no alternates. All directors are appointed by the Government. Two are appointed based on nominations from employer organisations, two based on nominations from employee organisations. The Government selects the Chairman and Deputy Chairman from among its own appointees.

In May and June, the Government took decisions on Fund administration for 2008. Monica Caneman was appointed Chairman, to succeed Birgit Friggebo, who had been Chairman since 2000. The Fund also got a new Deputy Chairman. Lars Frithiof succeeded Karl-Olof Hammarkvist, who had been Deputy Chairman since 2000. Stefan Löfven was appointed the new representative for the Swedish Trade Union Confederation, replacing Göran Johnsson, who had served on the Board in that capacity for 15 years. The other directors were re-elected. The Board's mandate runs until the Fund's income statement and balance sheet for 2008 have been adopted. More information about the directors is provided on page 28 of the annual report and at www.ap4.se.

Board remuneration is set by the Government. The annual fees are SEK 100,000 for the Chairman, SEK 75,000 for the Deputy Chairman, and SEK 50,000 each for other directors.

RULES OF PROCEDURE

The Board is responsible for the Fund's organisation and management of its assets. The Board has adopted a charter for its work and a charter for the CEO. These documents are revised annually, as are the ethical guidelines for employees and rules for reporting holdings of financial instruments.

BOARD ADMINISTRATION IN 2008

In 2008, the Board held nine meetings of record. As shown on the table, average attendance was high, at 88%. At a meeting in the spring, the Board evaluated its administrative work. The CEO and other AP4 staff participate in Board meetings in the capacity of reporter or secretary. The Board has not found it necessary to appoint standing committees to handle specific tasks.

The Board underwent extensive change in 2008, when a new Chairman, Deputy Chairman, and director were appointed. Naturally, this has influenced the way the Board works. Much work has revolved around revisiting old procedures and decisions while capitalising on the fresh approaches brought by new directors. In 2008, the Board focused on supporting and following up the Fund's CEO, Mats Andersson, in his comprehensive change initiative aimed at enhancing the Fund's active return, which began in 2007. Turbulent financial markets also had an impact on the work of the Board.

To provide more timely information, the CEO writes an update to the Board between their meetings.

As in previous years, the Fund's positions on various matters of corporate governance were discussed on several occasions. The Fund's governance policy was revised in September.

In December, the Board adopted an operations plan for the following year, in accordance with its charter.

EXECUTIVE MANAGEMENT

The Board delegates responsibility for day-to-day management of AP4 to the CEO. The CEO has an executive management committee, which in 2008 consisted of eight additional employees, to support him in the decision process. The executive management committee as of 17 February 2008 is presented on page 29 of the annual report and at www.ap4.se.

SALARIES AND REMUNERATION

The Board of Directors determines the terms of employment of the CEO based on the recommendations of the Chairman and Deputy Chairman. All employees have individual employment contracts. The Board has adopted an incentive scheme for employees of the Fund. This scheme applies to all employees who have been with the Fund for more than six months (apart from the CEO) and potentially pays a bonus of up to two months' salary. In December, the Board decided that the scheme's potential maximum bonus should equal four months' salary, in accordance with the new regulations issued by the Government concerning incentive-based pay at state-owned enterprises. Incentive-based bonuses may be paid only if the Fund's net profit at market value is large enough so that the costs of the incentive scheme can be borne without the Fund reporting a loss. In addition, certain predefined targets based on returns must be reached.

Detailed information about salary and remuneration paid to the CEO, members of the executive management committee, and other employees as well as the outcome of the incentive scheme is provided in Note 5 on page 22 of the annual report.

AUDIT

AP4's auditors are appointed by the Government. The current audit mandate took effect in 2008 and is shared by Anna Peyron and Lars Bonnevier of Ernst & Young AB. The mandate is valid until the Fund's income statement and balance sheet are adopted in 2008 and separately appoints Ernst & Young AB to coordinate the audit process across all AP Funds.

The auditors submit a report based on their audit. They report directly to the Board in a written report and an oral

presentation. The auditors attend at least one Board meeting per year. An additional minimum of two meetings are held each year between the auditors and the Chairman and Deputy Chairman. The auditors also make an oral presentation to the Swedish Ministry of Finance each year.

INTERNAL CONTROL

The Board of Directors produces an annual Risk Management Plan in accordance with generally accepted financial market standards and the Swedish National Pension Funds Act. The Plan is intended to ensure effective internal risk control and that the duties of the Performance and Risk Control Department – which has independent status – are clearly stipulated and attached to the requisite powers.

Performance and Risk Control is independent of the Fund's other operations and reports directly to the CEO and, when necessary, directly to the Board. The Plan states that the executive management committee must be aware of risks in the Fund's operations and how those risks are managed. The committee must also ensure that procedures are in place to make certain that AP4 complies with relevant legislation and decisions taken by the Board and CEO.

At each of its meetings, the Board receives written and oral reports from Performance and Risk Control. The Board believes the structure outlined above is adequate to ensure the Fund meets its obligations.

OTHER DISCLOSURES

A more detailed explanation of various financial and operational risks is provided in the section covering risk, on page 18 of the annual report. The main Board documents referred to in this Administration Report are publicly available and may be accessed from the AP4 website at www.ap4.se.

MEETINGS OF THE BOARD IN 2008

SEK bn	Jan 23	Feb 14	Apr 22	Jun 18	Sep 8	Oct 9-10	Dec 1	Dec 15	Dec 17
Birgit Friggebo, Chairman	X	X	X						
Monica Caneman, Chairman				X	X	X	X	X	X
Karl-Olof Hammarkvist, Deputy Chairman	X	X	X						
Lars Frithiof, Deputy Chairman					X	X	X	X	X
Göran Johnsson		X	X						
Stefan Löfven						X	X		X
Kajsa Lindstahl	X	X	X	X	X	X	X	X	X
Sture Nordh	X	X	X	X		X	X		X
Inga Persson	X	X		X	X	X	X	X	X
Ilmar Reepalu	X	X	X	X	X	X	X		X
Ulrik Wehtje	X	X	X	X	X		X	X	X
Charlotte Strömberg	X	X	X	X	X	X	X	X	X

Birgit Friggebo, Karl-Olof Hammarkvist, and Göran Johnsson left the Board of Directors during the year and were replaced by Monica Caneman, Lars Frithiof, and Stefan Löfven.