



AP4's brief is to manage the Fund's capital for the best possible return over time.

2009 was the Fund's best year since the pension reform of 2001, and the Fund contributed SEK 34.9 billion to Sweden's pension assets.

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Welcome to AP4's 2009 annual report, which sums up the past year with a focus on the Fund's asset management in 2009.

The annual report is an intentionally brief summary of the past year. For further information about the Fund, please visit the AP4 website at www.ap4.se.

There you will also find the complementary reports and documents mentioned below.

- List of equities
- More about the Fourth National Pension Insurance Fund (brochure)
- Administration report
- Ownership policy
- Corporate governance report

All of these reports and documents can be downloaded from AP4's website, www.ap4.se, or ordered from the Fund.

For in-depth information about the pension system and automatic balancing of pensions, contact the Swedish Pensions Agency:

www.pensionsmyndigheten.se and **www.minpension.se**.

The Swedish Pensions Agency, the new government agency for pension issues, was formed on 1 January 2010, when the Premium Pension Authority (PPM) and the Swedish Social Insurance Agency's units for pensions were coordinated.

Finally, we wish all readers a fascinating reading experience.

Every entry in the tables in the annual report has been correctly rounded, but they do not always sum to the totals shown.

AP4 AT A GLANCE

The Fourth National Pension Insurance Fund (AP4) is one of five buffer funds in the national pension system. The Fund's brief is to manage Fund capital so as to generate the best possible return over time for Swedish pensioners and thus support the stability of the pension system.

2010 GOALS

Based on its brief, AP4 has formulated two overall goals:

- The Fund's total return in real terms – that is, adjusted for inflation – shall average 4.5% per year over a 10-year period. According to the Fund's analyses, this is the return required for the pension system's assets and liabilities to balance in the long run. (Through 2009, the assessment period was five years.)
- The Fund shall achieve an average active return – that is, a return exceeding its benchmark index – of 0.5 percentage points per year during the period 2009–2012. (For the single year 2009, the target for the active return was 0.4 percentage points, because the Fund restructured its asset management organisation.)

OPERATIONS

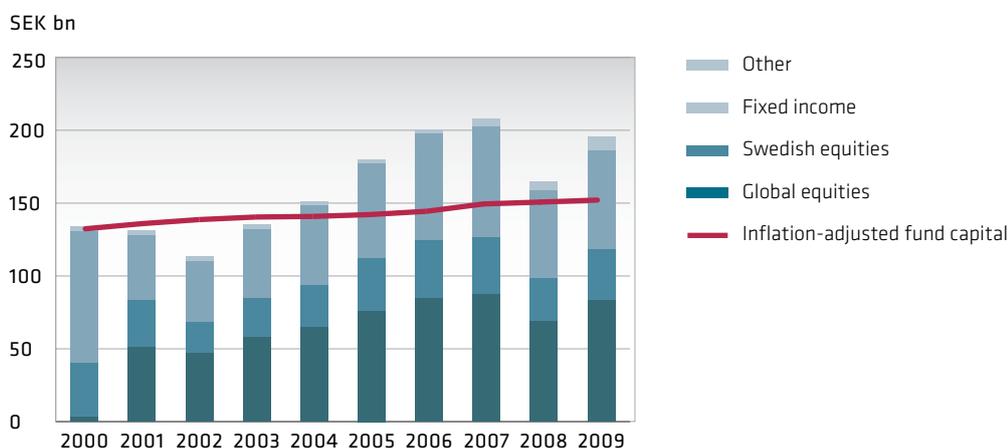
The Fund is a governmental authority whose operations are regulated in the Swedish National Pension Funds Act (LAP). The Government appoints all nine of the Fund's Board members, and the Ministry of Finance continually supervises and evaluates the Fund's operations.

The Fund shall independently formulate its targets and strategies, and by law the Fund's Board of Directors and operations are not to be controlled by Government directives or by national business or other economic policy interests. The Fund shall take into account environmental and ethical issues without compromising its goal of earning the best return possible.

FUND CAPITAL

At year-end 2009, Fund capital totalled SEK 195.7 billion. The Board of Directors has decided that the Fund will best fulfil its long-term asset management brief by holding a large proportion of publicly quoted equities, Swedish and foreign, which over time should constitute about 60% of the assets. By law, at least 30% of the assets shall be invested in interest-bearing securities carrying low risk, such as government bonds. The remaining 10% or so shall be invested in other assets such as real estate, private equity funds, and other alternative investments.

FUND CAPITAL PERFORMANCE



The diagram shows fund capital performance from 31 December 2000, when the pension system was reorganised. The Other category includes Real estate, Cash/ Foreign exchange/Tactical asset allocation and, from 2009, Alternative investments.

SEK 1.9 BILLION IN ACTIVE EARNINGS

As the Fund completed its comprehensive change initiative and global stock markets recovered, 2009 proved to be the Fund's best year since its reorganisation in 2001. Its contribution to Sweden's pension assets totalled SEK 34.9 billion. At 31 December, Fund capital totalled SEK 195.7 billion. The Fund's active management comfortably outperformed the targets set for 2009 and contributed SEK 1.9 billion to profit.

2009 was a year of recovery, memorable for extremely low interest rates as well as rocketing stock prices and commodity prices. The ample appreciation of the Fund's assets was largely a result of the recovery of global stock markets. The Fund benefited from a high equity allocation of more than 60% and from its exposure to the Swedish stock market. The total return was 21.6%. The Fund's active management comfortably outperformed the targets set as well as all of the sub-portfolios' benchmark indexes. On the whole, active management contributed SEK 1.9 billion.

The Fund did not reach its target of a real total return of 4.5% per year averaged over a period of five years. The reasons were primarily that the Fund suffered from the sharp drops in global stock markets during the financial crisis of 2007 and 2008.

CHANGE INITIATIVE CONCLUDED

The healthy earnings from active management in 2009 must be viewed in the context of the Fund having concluded during the year its comprehensive change initiative, launched in 2007. This work for change has led to processes as well as staffing being reviewed and modified. New managers have been recruited to global equity management as well as to fixed income and foreign exchange management. Of the Fund's more than 50 employees, 28 were hired after the change initiative began in 2007. What drives the new asset management organisation is primarily that its processes and targets have won acceptance and responsibilities have been explicitly delegated. Substantial efforts have also been dedicated to improving risk and return measurement. In addition, the Fund's strategic asset allocation, striving to take advantage of pricing disparities in a medium-term perspective, took on a more prominent role.

OPERATING EXPENSES

Cost-efficiency is always important, and alternative ways of working and generating value added are assessed continually. The Fund's operating expenses totalled SEK 174 million (157). This corresponded to a cost level of 0.10% (0.08) in relation to the average value of Fund capital. The cost increase was primarily attributable to a move to new premises but also to services purchased, including legal fees.

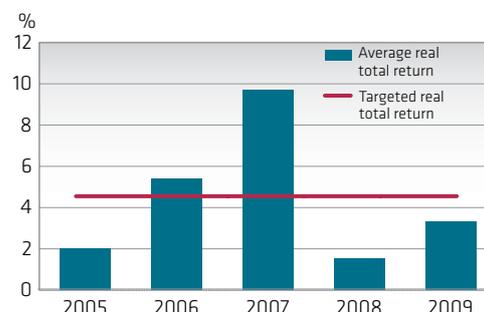
KEY POINTS OF 2009

- Assets and fund capital rose SEK 31.0 (-42.6) billion, to reach SEK 195.7 billion (164.7).
- The total return was 21.6% (-20.8) before expenses. The total return after expenses was 21.5% (-21.0). The real (inflation-adjusted) total return equalled 20.6% (-21.9).
- The real total return averaged 3.3% (1.5) over a five-year period, which was less than the target of 4.5%, chiefly as a result of the sharp drops in stock markets during 2008.
- The active return, that is, the return exceeding the benchmark index, equalled 1.4 (-0.5) percentage points before commission expenses, surpassing the Fund's 2009 target by 1.0 percentage point.
- The Fund's operating expenses totalled SEK 174 (157) million, which translates into an operating expense ratio of 0.10% (0.08).
- At year-end, the Fund's foreign exchange exposure was 14.6% (14.5).
- The Fund's net profit for 2009 totalled SEK 34.9 billion (2009: loss of 43.5).

EVALUATING POSSIBILITIES FOR COLLABORATION

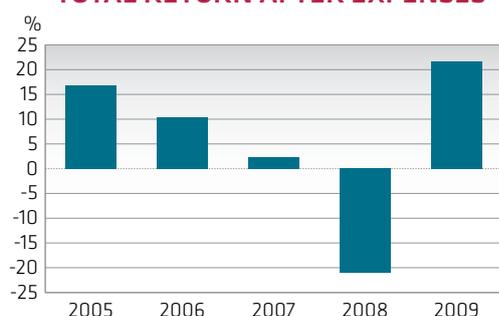
The AP Funds' expenses were discussed on several occasions during 2009. As a consequence of an assessment by the Ministry of Finance, the Funds were tasked with reviewing possibilities to reduce administrative expenses. This work has been under way since mid-year 2009. In addition, AP1-AP4 have initiated a study that will illuminate these questions and the potential for savings in the longer term. The study is expected to be completed in the spring of 2010.

REAL RETURN



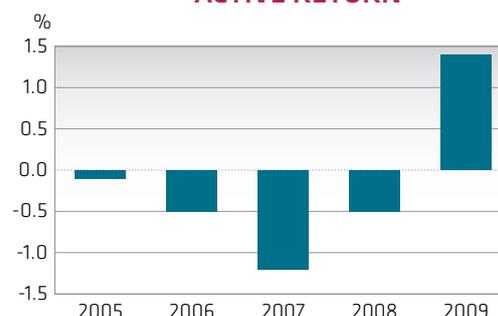
The Fund's real (inflation-adjusted) total return measured as a moving five-year average indicates that the Fund has partly recovered the massive loss from 2008.

TOTAL RETURN AFTER EXPENSES



The Fund's total return after expenses closely tracked trends in global stock markets during the period.

ACTIVE RETURN



The Fund's active return, its return in proportion to its benchmark index, has turned around following two years of work for internal change and in 2009 outperformed its benchmark index as well as its internal target.

INVESTMENT ASSETS, ALLOCATION AND RETURNS

Asset class	Return, Jan-Dec 2009		Contribution, Jan-Dec 2009			Asset mix, 31 Dec 2009	
	Portfolio return, %	Active return %	Contribution to total portfolio return, %	Contribution to profit/loss for the year, SEK bn	Contribution to active return, %	Market value, SEK bn	Exposure, ⁴⁾ %
Global equities	26.8	0.6	11.0	18.4	0.3	82.8	42.4
Swedish equities	53.8	0.7	9.2	14.5	0.1	35.9	18.0
Fixed income	3.9	1.9	1.4	2.3	0.8	67.9	34.9
Active tactical asset allocation ¹⁾	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Active foreign exchange management ¹⁾	0.1	0.1	0.1	0.2	0.1	0.0	0.0
Total actively managed liquid assets	23.4	1.4	21.8	35.4	1.4	186.6	95.2
Alternative investments	7.8		0.1	0.2		2.6	1.3
Real estate	-1.4		-0.1	-0.1		6.2	3.2
Total actively managed assets	22.2		21.8	35.5		195.4	99.7
Implementation of the strategic portfolio ²⁾	-0.3		-0.2	-0.5		0.4	0.3
Total investment assets	21.6		21.6	35.1 ³⁾		195.8	100.0

1) Portfolio return and active return based on total investment assets.

2) Passive tactical asset allocation, strategic foreign exchange, and cash as well as reversal of a SEK 107 million provision for losses on securities lending and the strategic position.

3) Profit/Loss before expenses. The profit after expenses totalled SEK 34.9 billion.

4) Exposure includes the underlying value of derivatives in tactical asset allocation for each asset class.

DRAMATIC CHANGE OF SCENE

2009 was a record year for AP4, as we beat every benchmark index and achieved a total return of 21.6%. However, the year must be seen in light of a very weak 2008, the worst in the Fund's history. AP4's large exposure to equities obviously contributed to the extreme fluctuations in returns. By sticking to our long-term portfolio strategies, though, we were able to recover much of the losses from 2008, as stock markets worldwide recovered in 2009.

One year ago, many events signalled an impending global economic collapse. In 2008, the world's stock exchanges had plummeted at a rate seldom witnessed, events seen "once in a century" came one after another, and benchmark interest rates approached zero. Following almost unimaginable, often coordinated, efforts by governments and central banks, though, the atmosphere gradually changed for the better. Most observers now seem to agree that we have passed the turning point for the world's economies and that they will successively recover during 2010. The change in atmosphere, combined with the extremely expansive monetary policy, has in turn ignited a vigorous stock market rally, not least in Sweden.

A LITTLE WAY TO GO TO 4.5% INFLATION-ADJUSTED RETURN

Since 2005, the beginning of the five-year evaluation period, the Fund's return has averaged 5.0% per year, corresponding to a real (inflation-hedged) annual return of 3.3%. This means that the Fund has a little way to go before reaching its target of a 4.5% inflation-adjusted return, seen over time. There are several reasons for this, but the primary one is the sharp drop in stock markets during the financial crisis of 2007 and 2008. Stock market corrections spoil the Fund's return, because AP4 has a high equity allocation in order to achieve its targeted return in the long run.

WORK FOR CHANGE HAS YIELDED RESULTS

The comprehensive change initiative begun at AP4 almost three years ago has been completed. Investment processes, administrative procedures, and staffing have been analysed, evaluated, and modified.

Our back office was tested under the toughest circumstances imaginable in 2008 and 2009. I am satisfied to say we handled ourselves well. At the same time, with our newly won experiences we have tried to further strengthen our processes and procedures.

Having completed this comprehensive change initiative, we are especially gratified to post our best active return since the Fund was assigned its new brief in 2001. In hard cash, the active return means that we generated added value, compared to passive indexing, of close on SEK 2 billion. It is worth noting that all of the Fund's asset management units delivered a positive active return for this most recent financial year.

“Having completed our change initiative, we are especially gratified to post our best active return since the Fund was assigned its new brief in 2001.”

LESSONS FROM THE FINANCIAL CRISIS

After two years as dramatic as 2008 and 2009, it is natural that questions and discussions arise concerning asset management in general and the AP Funds in particular. In recent times, many a fund manager has carefully

considered which experiences from this financial crisis were the most crucial, based on his or her particular situation. At AP4, which works with uncommonly long-term capital, we have learned the following lessons, among others.

Liquidity is a valuable asset in turbulent markets.

When the turbulence was at its worst, many financial markets just didn't work, which caused major problems with liquidity as well as pricing. For a player such as AP4, there is good reason to monitor and track our "solvency" in the short and long term. On several occasions in 2009, we noted how sought-after our long-term capital is and the attractive terms at which this capital can be invested – as long as money is available. The value of being able to take long-term positions has probably never been greater.

Diversification strategies did not work in the global economic crisis.

Spreading risk among various assets has long been considered the “only free lunch” in the world of asset management. The simple philosophy was that the more one diversified one’s portfolio, the more robust the earnings would be. This was based on the simple premise that not all assets fall in price at the same time. In retrospect, one can say that when the need was greatest for the advantages of diversification, the strategy did not deliver. The improbable happened during the financial crisis: asset prices fell across the board and simultaneously (with the exception of government bonds).

A herd mentality and faulty models for measuring risk can have devastating consequences.

In pursuit of extra returns, many investors became increasingly inclined to assume greater risk – though the potential upside appeared marginal. The traditional and many times retrospective risk models also did not send the warning signals they should have.

Those who dare to follow their own path find good opportunities.

The sum of these lessons is that there are undeniably good opportunities for returns for those who dare to follow their own path and who also stick to the matters that portfolio managers, top executives, boards, and principals understand. But following one’s own path demands much courage as well as understanding from one’s surroundings.

ACTIVE MANAGEMENT CAN COUNTERACT AND EXPLOIT BUBBLES INFLATED BY A HERD MENTALITY

Considering AP4’s scanty returns during the first decade of the 21st century, it may be difficult to argue convincingly in favour of active management. Not until 2009 was the Fund able to demonstrate that efforts to implement active asset management have paid off. My hope is that this is no one-off occurrence but the result of our having systematically modified our investment processes and staffing and now finding a winning concept. At the same time, everyone who works with asset management knows that it takes time – often a long time – to build a successful operation.

While a growing number are abandoning active management, still a prominent trend in the finance sector, the chances of succeeding at it are increasing. At the same time, one must emphasise that any evaluation must cover a longer period than any individual year.

A basic assumption for passive management is that markets are “perfect”, that is, all information is available to



everyone and that this is reflected in stock prices all the time. Having experienced two global bubbles and their subsequent crashes within the course of only 10 years, we are probably justified in questioning the assumption of the perfect market.

Indexed equity management is also likely to contribute to inflating bubbles in the extreme. After all, an index manager is supposed to maintain a portfolio indicated by a certain index. But an index reflects – as many are well aware – yesterday’s winners and losers, not tomorrow’s.

ACTIVE MANAGEMENT – A GOOD PLATFORM FOR CORPORATE GOVERNANCE

Active management is also a good platform for implementing work on corporate governance. As pension and mutual funds have grown around the world, their investor category has also assumed the increasingly important role of owner. However, the situation has advanced to different stages in different markets. Nowadays, large Swedish financial institutions put substantial resources into corporate governance and are regarded as being at the leading edge. The system of nominating committees, which grew out of the unsuccessful merger of Volvo and Renault, has existed for more than 15 years, for example. Interestingly enough, nominating committees are a Swedish phenomenon to a large extent, seen by many as a model of how active ownership can be organised.

Of course, modern corporate governance must be conducted based on the possibilities, skills, and time horizons with which various institutional investors work. Institutional investors are often quite different from one another – even in Sweden. While it is true that AP4 is a very long-term investor in listed Swedish equities, our efforts and contributions as owners can never compare to the efforts and responsibility as owners that the Perssons show in H&M, Carl Bennet in Gethinge, the Schörling and Douglas families in Securitas and ASSA ABLOY, and so on.

NOMINATING COMMITTEES – A PLATFORM FOR OWNER RESPONSIBILITY

AP4 usually takes responsibility as an owner primarily in those companies in which its shareholding is sufficiently large to include the Fund in the company's nominating committee prior to the AGM. On this platform, as a rule, the company's major shareholders work side-by-side – private investors as well as financial institutions – to present to the AGM a slate for the board that is as competent and balanced as possible.

CONSTRUCTIVE COOPERATION AMONG SHAREHOLDERS DEVELOPS CAPITAL MARKETS FOR THE BETTER

Also, together with other owners an institutional investor can pursue important issues that build confidence in stock markets as marketplaces and a source of venture capital. One successful example of such an initiative is work in the past two years to effect new rules for how series A and B shares shall be priced in takeover bids. In autumn 2009, NASDAQ OMX Stockholm adopted new and more stringent take-over rules that the Industry and Commerce Stock Exchange Committee (NBK) had finally decided on.

For obvious reasons, it is easier and more natural to work for corporate governance in one's home market. In Sweden, AP4 is one of 10 large institutional investors, which gives it weight but simultaneously makes demands on us in our ownership role in Swedish companies.

During the past few years, AP4 has also advanced its position in work on corporate governance outside Sweden. Here we have chosen far-reaching collaboration with other Swedish institutional investors to improve our chances of being able to exert an influence.

INSTITUTIONAL INVESTORS SHOULD TAKE RESPONSIBILITY AS OWNERS BY EXERCISING THEIR RIGHT TO VOTE WHEN NEEDED

It is my opinion that it would be unfortunate if institutional investors such as AP4 could not continue to take advantage of the voting rights our shareholdings entitle us to. When I look back on the more than 35 years that AP4 has operated,

“When I look back on the more than 35 years that AP4 has operated, I find many examples of how important a long-term institutional shareholder can be for a company and for a marketplace.”

I find many examples of how important a long-term institutional shareholder can be for a company and for a marketplace. Who will perform that task if financial institutions have their ownership role taken away? What examples are there to date that actions taken by the AP Funds or other Swedish financial institutions have been detrimental?

The past two years have been dramatic for all pension fund managers the world over. I hope that we have learned lessons from what has happened so we can emerge stronger from this most recent crisis, better prepared when the next one comes.

It is customary in these contexts to thank the staff for their good efforts during the past year. Seldom has a thank you been more deserved than the one I offer this year to all my capable and loyal colleagues at AP4.



Mats Andersson, CEO

2009 – A YEAR OF RECOVERY FOR STOCK MARKETS WORLDWIDE

2009 proved to be a year of recovery for stock markets worldwide. Stimulus packages and signs of a slowdown in the slide of the global economy whetted the appetites of investors. Despite the uncertainty and crisis headlines in the early part of the year, 2009 performance was phenomenal.

Great uncertainty about the future and how the recession would progress overshadowed early 2009. Reports of crisis from around the world came one after another, and there was evident concern that the world was on its way into a depression. This deep uncertainty was reflected in global stock markets, which fell about 20% between the start of the year and the end of February.

FINANCIAL CRISIS AND RECESSION

The news was completely dominated by financial crises and recession, as well as by vigorous intervention by central banks and governments worldwide. In Sweden, reports focused on the crisis in the Baltic region and its consequences for Swedish banks, which risked enormous credit losses. Risks in the Swedish banking system led to a weakening of the Swedish krona against other currencies.

At the end of January, Barack Obama took office in the United States and pushed through a vigorous stimulus package in an attempt to stem the negative trend. Despite substantial intervention, almost 100 U.S. banks declared bankruptcy in 2009.

In the wake of the deep recession, many companies worldwide suffered sharply declining sales. To counter this, companies were forced to launch extensive cost-cutting programmes, which contributed to a surge in unemployment. GNP and industrial production plummeted in numerous economies – except the emerging markets – in the first six months of the year. Since that time, the situation has steadily improved.

The world's central banks have kept a close watch on developments and made assurances that interest rates would not be raised or other brakes put on until the labour market and the economy in general improved. The challenge is to withdraw the stimulus measures without rekindling concern and turbulence in financial markets.

Central banks in Australia and Norway, along with several others, began to raise benchmark interest rates in the latter part of 2009. The common denominator for these two countries is that the commodities sector is crucial to their

economies. The U.S. dollar's decline contributed to the prices of many commodities, which are often set in dollars, again rising to high levels, which could intensify concern about inflation.

TURNAROUND IN THE BEGINNING OF MARCH

Despite the weak start to the year, the stock market delivered a phenomenal performance in 2009. The major turnaround came in early March. By that time, declines in stock prices had produced extremely attractive valuations. The stimulus packages and a few early signs that the negative trend had been checked whetted investors' appetites for equities and investments carrying higher risk. Also, exceptionally low interest rates made investment in the fixed interest market unfavourable. The biggest rallies occurred in those companies that had fallen most during the preceding year. Winners in 2009 consisted primarily of companies and industries that are cyclical or sensitive to interest rates.

THE STOCKHOLM EXCHANGE REBOUNDED EARLY

The Stockholm exchange began rising as early as February, when the banks were issuing new shares, which reduced concern about the effects of credit losses in the Baltic region. The market benefited from a relatively large share of companies sensitive to the business cycle. When investors regain their faith in the economy, companies that benefit early in the business cycle are most favoured.

ROBUST EMERGING MARKETS

The emerging markets performed considerably better than other stock markets during the year. Rising commodity prices and a growing appetite for risky investments with plenty of upside were strong drivers. China's large stimulus package to spur its economy also fanned the positive trend. Many emerging markets benefited from the weaker dollar. Several countries have linked their currencies to the dollar, thus helping their currencies become undervalued when the dollar fell. This in turn stimulated economic growth. The Fund steadily increased its exposure to emerging markets during the year.

UNCERTAIN FUTURE

Will companies' sales reach the levels expected and will investment take off again? Can central banks raise interest rates without igniting a new panic? Without a doubt, 2010 will be a highly interesting year with many new threats and opportunities.

REAL TOTAL RETURN – THE FUND'S PRIMARY GOAL

AP4's goal is to achieve in the long run a real total return of 4.5% per year on average. This is what is required for a stable income pension system, according to the Fund's analysis.

The Fund's real (inflation-adjusted) targeted return is based on analyses of how the pension system's assets and liabilities are expected to develop during the next 40 years. If pensions are to be able to increase at the same pace as the income index, AP4 estimates that all the AP Funds together must contribute a real total return of at least 4.5% per year to the pension system. This is also why the Fund's overriding financial target is a 4.5% real total return on average.

Through 2009, the return has been assessed as a five-year average, because the return target should be seen in a longer perspective. However this period often deviates from the financial cycles, and the assessment period will be extended to 10 years starting in 2010.

THE TARGET REQUIRES A LARGE PROPORTION OF EQUITIES

To have any possibility of achieving the return target, the Fund invests about 60% of its capital in equities. Equities are estimated to provide a higher return in the long run than fixed income assets do. The proportion of equities may seem high, especially after a crisis year like 2008, but because the AP Funds together are responsible for only a little more than one-tenth of the pension system's assets, equities constitute

about 6% of the system's total assets. Equities thus account for a small share considering the long investment horizon for pension funds.

FELL SHORT OF THE LONG-TERM TARGET

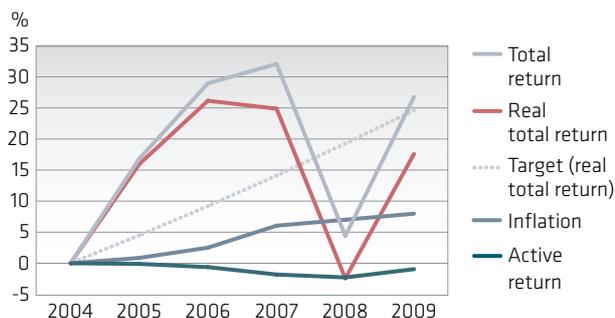
During the five years 2005–2009, the Fund's real return averaged 3.3% per year, which was less than the target of 4.5%.

Of course, the return for the most recent five years was hit hard by the financial crash of 2007 and 2008. A more indicative and fair assessment would be to calculate the return over a financial cycle. Such a calculation could simply assume that at year-end 2009 one year had passed since the most recent financial crash. The starting point for the calculation could also be based on the markets being in a similar phase of the financial cycle one year after the "Internet bubble" burst at the end of 2003. During that six-year period, the Fund's real return after expenses equalled 4.4% per year, that is, quite close to the stated target (see diagram below).

TOUGH TIMES LEAVE THEIR MARK ON 2010 PENSIONS

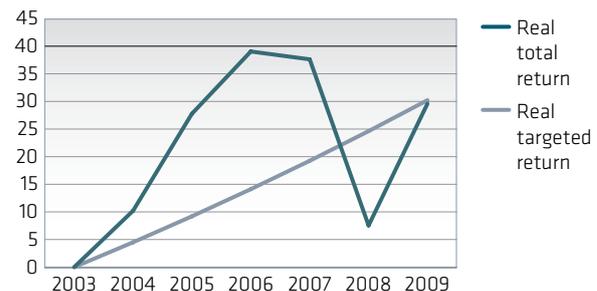
In the wake of the steep declines in global stock markets in 2008, the AP Funds' assets declined SEK 191 billion overall. These losses contributed to the pension system's assets becoming less than its liabilities, which activated the system's automatic balancing mechanism, popularly referred to as "the brake" and intended to prevent the system from becoming underfinanced. The effects of the brake were not felt until 2010, when pensions were reduced for many pensioners.

FIVE-YEAR SUMMARY



The Fund's real return averaged 3.3% per year, which was short of the target of 4.5%.

RETURN OVER A STOCK MARKET CYCLE

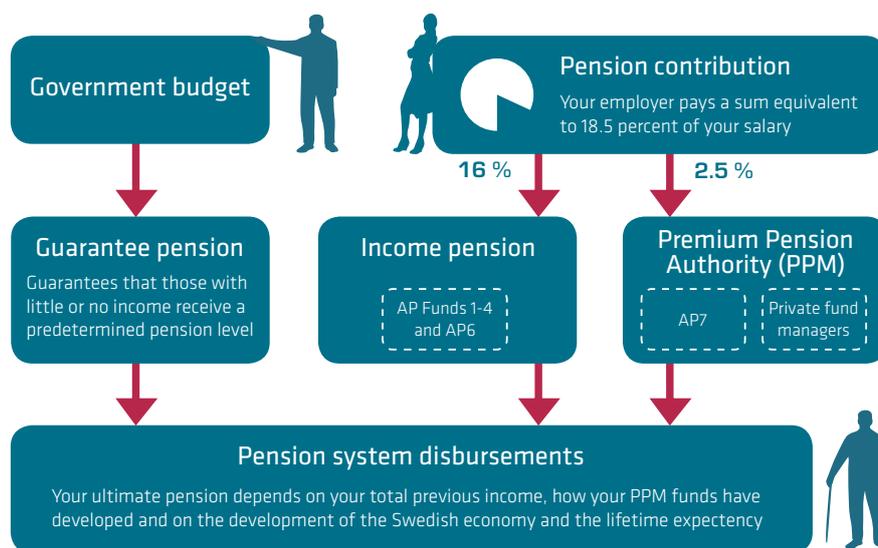


Calculated over the most recent stock market cycle (six years), the Fund's real total return after expenses equalled 4.4% per year, that is, quite close to the stated target.

AP4 is part of the Swedish income pension system. The Fund’s brief is to manage Fund capital so as to generate the best possible return over time while carrying low risk for Swedish pensioners and thus support the stability of the pension system.

The income pension system is a distribution system in which pension contributions paid in by the gainfully employed during the year are used to pay out pensions to pensioners the same year. The surpluses and deficits that arise when contributions deviate from disbursements are handled by the AP Funds, which is why they are often referred to as “buffer funds”.

For the income pension system to function reliably for numerous generations, the assets must be as large as the liabilities. In simple terms, about 90% of the assets are represented by the value of future pension contributions, while the AP Funds’ assets account for the remaining 10% or so. The liabilities correspond to the value of paid-in contributions, increased by the pension system’s internal rate of return (IRR). As a rule, the IRR is made up of the changes in an income index, but when the automatic balancing mechanism is applied (ABM, or “the brake”, see page 10), the IRR decreases.



The AP Funds’ operations are regulated in legislation. The Ministry of Finance monitors and evaluates the operations on an ongoing basis.

The justification for the structure of five separate AP Funds is that it helps spread risk in the pension system, prevents the funds from being too large, and fosters creative competition among the Funds. Each Fund has wide latitude for independently formulating its targets and strategies, and by law each Fund’s board of directors and operations are not to be controlled by Government directives or by national business or other economic policy interests. The Fund shall take into account environmental and ethical issues without compromising its goal of earning the best return possible.

SLIM MARGINS

Margins in the pension system are tight, and there is always the risk that a year of extreme stock market fluctuations, such as 2008, will activate the brake. On the other hand, if the AP Funds were not invested in assets with a high return, the system would have been underfinanced back in 2004 and 2007, activating the brake then. However, the AP Funds’ returns are not the only factor influencing the stability of the system. Other important factors are the number of gainfully employed and pensioners, the retirement age, nativity rates, life spans, and immigration.

AP FUNDS PAY NET CONTRIBUTION TO THE PENSION SYSTEM

In 2010, the AP Funds will make net payments into the pension system. Since 2001, when the pension system was reorganised, the AP Funds have received a small but positive net payment from the pension system in every year up to and including 2008, because payments into the system from current wage earners have exceeded disbursements to current pensioners. However, the Swedish Social Insurance Administration has forecast that net payments into the system will decrease in future, because pension disbursements are expected to be greater than payments into the system. One important reason for this is that the post-war generation is now approaching retirement age. When these “boomers” leave the labour force, they will stop paying income pension contributions and start receiving their pensions.

FUND CAPITAL INCREASED SEK 31 BILLION

2009 was the Fund's best year since its reorganisation in 2001, and the Fund contributed SEK 34.9 billion to Sweden's pension assets. At 31 December, fund capital totalled SEK 195.7 billion, and the total return was 21.6%. All areas of active management outperformed their benchmark indexes and gave a total contribution of SEK 1.9 billion. Even the active return was the Fund's best ever.

FUND ACTIVITIES

As a consequence of unsatisfactory performance, in 2007 the Fund launched a comprehensive change initiative that led to modifications in the organisation and staffing, more efficient processes, and – not least important – changes in asset management strategies and improved risk management. The results of this work for change should be evaluated over an extended period, but 2009 performance is still a positive sign that the management organisation is moving in the right direction.

Alongside its asset management, the Fund works actively with corporate governance. The Fund strives to participate in numerous annual general meetings, serve on nominating committees, and in other ways contribute to the ongoing dialogue surrounding corporate governance. Work on sustainability issues is also assuming an increasingly prominent role, as business ethics and sustainability are crucial to the assessment of risks and potential profitability in future investments.

FUND CAPITAL INCREASED SEK 31 BILLION

Fund capital increased SEK 31.0 billion, to SEK 195.7 billion (164.7). Change in fund capital consists of profit/loss for the year, in other words the return for the year less management expenses, as well as net payments to/from the pension system. The excellent return for the year resulted primarily from the recovery of stock markets worldwide.

The Fund has benefited from an equity allocation exceeding 60% and high exposure to the Swedish stock market. The active management has also contributed SEK 1.9 billion in that all sub-portfolios outperformed their benchmark index. Net payments to/from the pension system totalled SEK –3.9 billion (0.8).

CHANGE IN FUND CAPITAL

SEK bn	2009	2008
Fund capital, opening balance	164.7	207.3
Net payments to/from the pension system	–3.9	0.8
Transfers from Special Asset Management Fund	0.0	0.1
Net profit/loss for the period	34.9	–43.5
Fund capital, closing balance	195.7	164.7

Low operating and employee benefits expenses

The management cost, measured as operating expenses divided by average fund capital, equalled 0.10% (0.08).

Including commission expenses, such as fees paid to external managers and for custody accounts, the ratio was 0.11% (0.11). AP4's management cost, with and without commission expenses, is low and competitive in domestic as well as international comparisons.

2009 RETURN – BEST SINCE THE REFORM

2009 total return reached 21.6% (–20.8) before expenses and 21.5% (–21.0) after expenses, the highest return since the pension reform of 2001. This return corresponded to a management return of SEK 34.9 billion (–43.5).

The most important factors behind the excellent return were the Fund's decisions to hold a high proportion of equities and to allocate about 30% of the equity portfolio to the Swedish market. The Swedish equity portfolio's benchmark index returned a whopping 53.1% (–39.0), and the global equity portfolio's benchmark index made a return of 26.1% (–39.0).

New organisation has improved the active return

The active return was the Fund's best ever, at 1.4 percentage points (–0.5). Thus the active return contributed SEK 1.9 billion (–0.9) to the management return.

The different sub-portfolios' total and active returns are shown in the table on the next page. All sub-portfolios outperformed their benchmark indexes and thus generated significant value added through active management. Fixed income management achieved an active return of 1.9 percentage points, 1.6 percentage points more than the internal target. The strong performance resulted chiefly from overweighting in corporate bonds but also from trading on movements in interest rates relative to an index. It is also worth noting that global equity management, contributing to earnings through active management as well as indexing, also beat its internal target for active return.

RETURN BY TYPE OF ASSET

Asset class	Portfolio return, %		Active return, %	
	2009	2008	2009	2008
Global equities	26.8	-39.4	0.6	-0.4
Swedish equities	53.8	-40.3	0.7	-1.3
Fixed income	3.9	11.4	1.9	-0.2
Active tactical asset allocation ¹⁾²⁾	0.0	-0.1	0.0	-0.1
Active foreign exchange management ²⁾	0.1	0.1	0.1	0.1
Alternative investments	7.8	-33.8		
Real estate	-1.4	-2.7		

1) Active tactical asset allocation means that the Fund takes positions in various types of asset to outperform the index.

2) Portfolio return and active return based on Total investment assets.

Lower expenses to maintain the strategic asset allocation

In addition to active asset management, the Fund dedicates significant resources to making the actual portfolio reflect the asset allocation and foreign exchange exposure of the strategic portfolio. One reason this demands resources is hedging; another is that the values of different assets change in different ways, which changes their weighting in relation to each other. Thus the Fund has to continuously make changes in investment assets to maintain the preferred asset weightings. These expenses for implementing the strategic portfolio, which is passive management, declined noticeably during 2009. The reasons were new and better procedures as well as a sharp decrease in turbulence in financial markets.

For 2009, implementation of the strategic portfolio cost SEK 0.3 billion, corresponding to a return contribution of -0.2 (-0.6) percentage points.

SIGNIFICANT EVENTS FOR THE FUND IN 2009

Work for change concluded

The comprehensive change initiative carried out at the Fund since 2007 was concluded at 30 June 2009. During this period, processes, asset management models, systems, and staffing were reviewed. The most extensive changes occurred in the Fund's global equities management and fixed income management. A key component in this work for change has been to further develop the systems for measuring risk and return.

New management for alternative investments

During the year, the Fund invested resources and capital to build up a management unit for alternative investments, including real estate and infrastructure. The Fund analysed some 50 investment proposals and decided to invest in five projects. During 2009, the Fund made commitments to invest close to SEK 2 billion.

Annual assessment and strategy review

Each year, every asset management unit at the Fund undergoes an objective assessment of its possibilities for generating an active return. This includes the choice between managing assets internally or externally.

Changes in staffing

Staff changes continued at a high level in 2009. In the first six months, the Fund recruited new employees to fixed income management, global equity management, and other units based on the new management strategies introduced by these units. During the latter half of 2009, employee turnover was more normal. At year-end, the Fund had 53 (50) employees.

COST-SAVING COLLABORATION BETWEEN AP FUNDS

AP4 and the other AP Funds work together to implement, as far as possible, common procurement of external services and to pursue certain issues with external parties with a common course of action. Examples of such areas include the Ethical Council (a joint effort by AP1-AP4), management of common tax issues, accounting and valuation issues, legal issues, and a global voting platform. In addition, experience and expertise are exchanged on an ongoing basis, especially between the Funds' administrative functions.

During the year, an array of activities were carried out with external independent partners with the purpose of finding additional areas for more efficient use of resources and actual savings. Examples of such areas include the Funds' expenses for information systems and administration of custody accounts. Implementation of proposed activities will take place continuously during 2010.

ASSET ALLOCATION LONG, MEDIUM, AND SHORT TERM

The Fund's asset allocation, in other words the proportion of equities in relation to fixed income assets and other types of asset such as real estate, is estimated to produce 80%–90% of total return in the long run. The Fund invests significant resources in analysis to optimise the allocations among various types of asset.

Because the investment horizon for pension assets is very long, up to 40 years, the asset allocation analysis is broken down into three timeframes. This approach is intended to better utilise the opportunities and manage the limitations in long-term, medium-term, and short-term analyses. For each investment horizon, the Fund determines an optimal asset portfolio according to the following.

LONG TERM – THE NORMAL PORTFOLIO

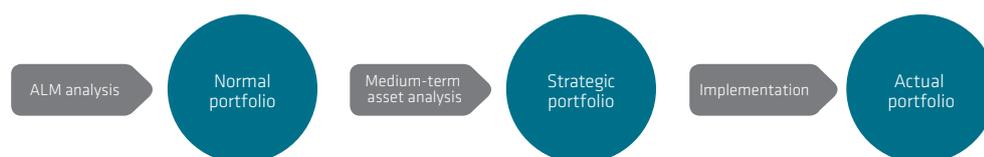
The normal portfolio indicates the asset allocation that will yield the best anticipated return in the long run based on the Fund's analyses. To derive the normal portfolio's asset allocation, the Fund performs analyses using asset liability modelling (ALM) based on the income pension system's

total assets and liabilities. In simple terms, future pension contributions make up about 90% of assets; the AP Funds' assets constitute the remaining 10% or so. The liabilities of the pension system correspond to the value of paid-in contributions, increased by the pension system's internal rate of return (IRR; see page 11).

A pension is earned and consumed over a long period, and the Fund's ALM analysis uses forecasts of future contributions to and disbursements from the pension system in a 40-year perspective. Examples of factors that steer these forecasts are the number of pensioners and employable persons, unemployment, immigration, the number of births, and the expected returns and risks on various types of asset.

AP4's Board adopts the normal portfolio with the aim of contributing the greatest benefit possible to the pension system. ALM analysis shows that the AP Funds can best contribute to the pension system if they invest long-term in assets with good anticipated returns, though this may entail higher risk in the short run.

As a result of the ALM analysis, the Board has decided that the normal portfolio should have a high proportion of equities, that fixed income assets should have a high proportion of investment-grade corporate bonds, and that the Fund should invest in fixed income instruments of long maturity. A 60%



	Normal portfolio	Strategic portfolio	Actual portfolio
Investment horizon	40 years	3–5 years	< 1 year
Purpose	The normal portfolio indicates the asset allocation and currency mix yielding the best anticipated return in the long run.	The return should exceed the normal portfolio's return in the medium term.	In active management, a manager strives to achieve a better return by deviating from the index and taking positions, such as when pricing disparities appear in the market.
Asset allocation	Determined based on analyses of all assets and liabilities in the pension system. The normal portfolio's asset allocation is estimated to determine 80%–90% of the Fund's return.	Based on the normal portfolio's asset allocation, adjusted for prevailing economic conditions and medium-term forecasts of returns.	Reflects the strategic portfolio's asset allocation and currency mix.
Contains	Model portfolio containing different indexes.	Model portfolio containing different indexes.	Contains the actual investment assets.
Benchmark index		Uses the normal portfolio as its benchmark index.	Uses the strategic portfolio as its benchmark index.
Positions		Strategic positions, that is, deviations from the normal portfolio, such as in asset allocation, foreign exchange exposure, and choice of index.	Active positions are taken in managing the sub-portfolios.
Deciding authority	Adopted by the Board of Directors once a year.	Decided by the Board of Directors with a special mandate for the CEO.	Executive management responsible for management within the framework of the mandates assigned by the Board of Directors.
2009 return	21.5%	20.6%	21.6%

allocation to equities in the AP Funds means that the overall equity allocation in the pension system is about 6%. Thus the income pension system, in the opinion of the Fund, has a modest exposure to stock market risk overall.

At the end of December 2009, AP4's normal portfolio consisted of 62.3% equities, 34.5% fixed income, and 3.2% real estate.

During 2009, the normal portfolio delivered a return of 21.5%. The return was high chiefly as a result of the Fund having a high proportion of equities and thus benefiting from the strong performance of stock exchanges worldwide. Had the normal portfolio consisted only of fixed income assets, the return for 2009 would have been 2.0%. The decision to invest in equities thus produced a return contribution of 19.5 percentage points, corresponding to a contribution of SEK 31 billion to profit for the year.

MEDIUM TERM – THE STRATEGIC PORTFOLIO

The Fund's strategic portfolio is used as a tool to achieve, in the medium term, an even better return than the normal portfolio's. The Fund starts with the normal portfolio's asset allocation and adapts it to fluctuations in capital markets and medium-term forecasts of returns on various assets.

Differences in asset allocation between the normal portfolio and the strategic portfolio constitute strategic positions. The Fund also takes strategic positions in the form of medium-term investments, such as when using derivatives to improve the Fund's overall risk exposure. The Board decides on the strategic positions with a special mandate for the CEO.

The Fund's strategic positions in 2009

The strategic positions generated a return contribution of -0.9 percentage points overall, which means that the strategic portfolio returned 20.6%, compared to the normal portfolio's 21.5%.

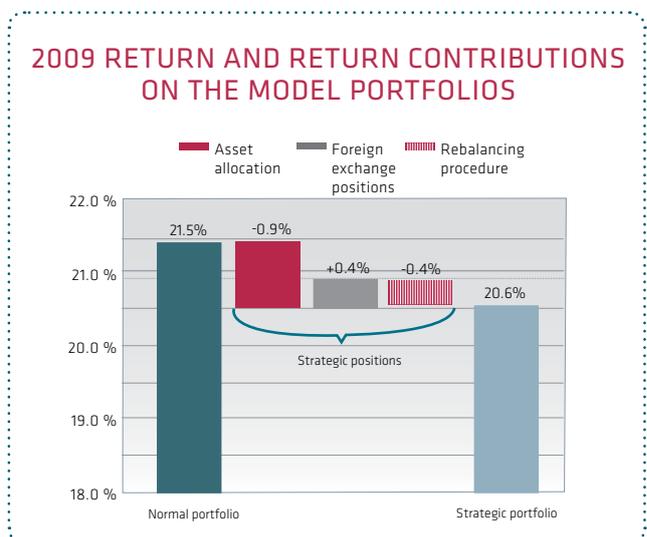
The Fund's strategic positions in 2009 can be divided into three types: asset allocation, foreign exchange positions, and differences in rebalancing procedures between the strategic and normal portfolios.

- The most important strategic position in asset allocation was an underweighting in equities and a corresponding overweighting in fixed income assets. Among other positions, it is worth mentioning underweighting in Japanese bonds as well as underweighting in long bonds in the UK and Swedish markets. Overall the Fund's strategic positions produced a return contribution of -0.9 percentage points.

- The strategic foreign exchange positions principally consisted of underweighting in euro against the Swedish kronor. These positions gave a return contribution of 0.4 percentage points during 2009.
- The differences in rebalancing procedures between the strategic portfolio and the normal portfolio are that the normal portfolio has fixed weightings for each type of asset, while the strategic portfolio's weightings are allowed to drift within set intervals as the market progresses. "Asset weight drift" occurs, for example, if the proportion of equities in the strategic portfolio increases when equities earn a higher return than other assets do. When an asset weighting in the strategic portfolio reaches a set interval limit, the holding is readjusted to the original weighting adopted by the Board, a process called "rebalancing". The reason for having floating asset weightings in the strategic portfolio is that they serve as a benchmark index for the actual portfolio and that the transaction costs for investing according to the fixed asset weightings would be too high.

The differences between the rebalancing procedure for the normal portfolio and for the strategic portfolio produced a return contribution of -0.4 percentage points in 2009. The Fund has decided to introduce starting in 2010 a rebalancing procedure in the normal portfolio that resembles the one used in the strategic portfolio.

During 2009, the strategic portfolio gave a return of 20.6%. The normal portfolio's and the strategic portfolio's return as well as the strategic positions' return contribution are shown in the diagram below.



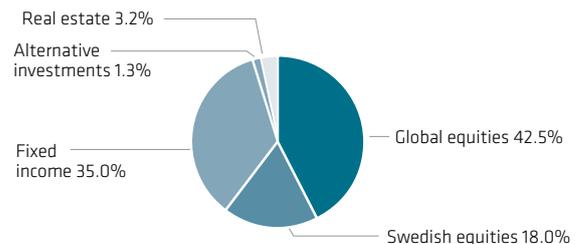
SHORT TERM – ACTUAL PORTFOLIO

The actual portfolio contains the Fund's investment assets.

The allocations among types of asset and markets are decided primarily by the strategic portfolio's asset mix. The strategic portfolio, which is a model portfolio consisting of a different index for each type of asset, is used as a benchmark index for the actual portfolio. Important choices made in the actual portfolio are the choice of active or passive management and whether management will be internal or external. Other differences between the strategic and actual portfolios might be the distribution among various geographic markets, for example.

The majority of the Fund's active management invests in relation to a benchmark index (except for active tactical asset allocation and active foreign exchange management). This means that risk and return targets are set, measured, and assessed against a benchmark index, which is found in the strategic portfolio. The active return totalled 1.4 percentage points for 2009, thus outperforming its targeted objective

ACTUAL PORTFOLIO, 31 DEC 2009

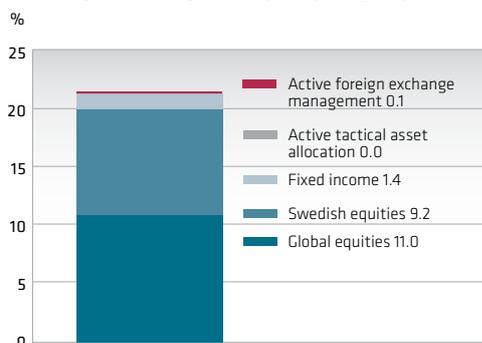


AP4's assets are dominated by listed equities and interest-bearing corporate bonds. This breakdown includes underlying values for various derivatives and forward contracts used to continuously maintain the strategic portfolio's asset allocation.

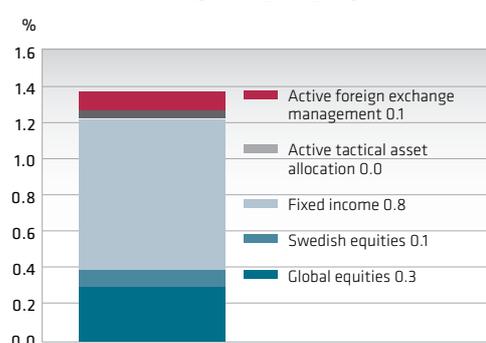
by 1.0 percentage points. The Fund's actual portfolio had a market value of SEK 195.8 billion (164.8) at year-end.

58% (60) of the Fund's investments was managed actively at that time, while 42% (40) was managed passively. 21% (42) of assets were managed externally.

TOTAL PORTFOLIO RETURN



ACTIVE RETURN



RISK AND RETURN FOR INVESTMENT ASSETS

Asset class	Portfolio return %	Active return %	Volatility % 12-month portfolio	Active risk % 12 months	Sharpe ratio, 12-month portfolio	Information ratio, 12 months
Global equities	26.8	0.6	20.7	0.1	1.2	5.0
Swedish equities	53.8	0.7	26.9	1.7	2.0	0.4
Fixed income	3.9	1.9	3.5	0.8	0.8	2.4
Active tactical asset allocation ¹⁾	0.0	0.0	0.0	0.0	-	1.0
Active foreign exchange management ¹⁾	0.1	0.1	0.1	0.1	-	1.6
Total actively managed liquid assets	23.4	1.4	12.5	0.4	1.8	3.0
Alternative investments	7.8					
Real estate	-1.4					
Total actively managed assets	22.2					
Implementation of the strategic portfolio ²⁾	-0.3					
Total investment assets	21.6					

1) Portfolio return and active return based on total investment assets

2) Passive tactical asset allocation, strategic foreign exchange, and cash as well as reversal of a SEK 107 million provision for losses on securities lending and the strategic position

RETURNS ON SUB-PORTFOLIOS

SWEDISH EQUITY MANAGEMENT

At year-end, the market value of the Swedish equity portfolio was SEK 35.9 billion (30.0), excluding unlisted equities, corresponding to 18.4% (18.2) of Fund assets. The five largest holdings in the portfolio were Nordea, H&M, TeliaSonera, Ericsson, and Atlas Copco, together constituting about 30% of the portfolio. The return for the full year was 53.8% (-40.3), which was 0.7 (-1.3) percentage points better than the benchmark index and corresponded to SEK 154 million in active profit contribution.

Management is divided into two mandates: a large cap portfolio and a portfolio of small and mid-cap companies. Both mandates can invest a portion of their portfolio outside the benchmark index in Nordic equities. The proportion of holdings outside Sweden totalled 3% at year-end, which is somewhat less than at the preceding year-end.

The large cap portfolio returned more than 50%

The large cap portfolio returned 50.3%, on a par with its benchmark index. At the start of the year, the portfolio was defensive, taking overweight positions in pharmaceuticals and non-cyclical consumer goods as well as underweight positions in energy, commodities, and engineering companies. During the year, investments were then made in energy and commodities, while the weighting in pharmaceuticals was reduced.

Underweight positions in Boliden and Alliance Oil in the beginning of the year had a negative impact of 1.0 percentage points on the active return. Other underweight positions that made negative contributions were Trelleborg, Handelsbanken, and Nordea. Overweight positions that made negative contributions included Nokia and Tricorona.

Positive contributors were overweight positions in SEB and Swedbank, which together made a positive contribution of 1.0 percentage points to the active return. Overweighting in Electrolux and JM and underweighting in Scania and Investor also contributed positively.

The portfolio of small and mid-cap companies returned close to 80%

The portfolio of small and mid-cap companies returned 79.4%, 6.9 percentage points better than its benchmark index. A large underweighting in real estate contributed positively. Other positive contributors were overweighting in Hexpol, Proffice, and Transcom. Positions outside the benchmark index in several Finnish equities, such as Oriola-KD, YIT, Ramirent, and Outokumpo, contributed positively.

FIVE LARGEST HOLDINGS IN THE SWEDISH EQUITY PORTFOLIO, 31 DECEMBER 2009

Largest holdings		
Company	Market value, 31 Dec 2009, SEK mn	Percentage of Swedish portfolio
NORDEA	3,071	8.5
H&M	3,016	8.4
TELIASONERA	2,362	6.6
ERICSSON	2,109	5.9
ATLAS COPCO	1,454	4.0
Total	12,012	33.4

LARGEST ACTIVE POSITIONS SWEDISH EQUITY PORTFOLIO, 31 DECEMBER 2009

Largest overweight positions, Sweden			
Company	Active weight, %	Portfolio weight, %	Index weight, %
RATOS	0.7	1.3	0.7
SWEDBANK	0.7	2.3	1.7
FORTUM	0.6	0.6	0.0
VOSTOK NAFTA	0.4	0.5	0.1
NORSK HYDRO	0.4	0.4	0.0

Largest underweight positions, Sweden			
Company	Active weight, %	Portfolio weight, %	Index weight, %
TRELLEBORG	-0.5	0.4	0.9
TELIASONERA	-0.5	6.6	7.0
VOLVO	-0.5	3.5	3.9
SCA	-0.4	1.3	1.7
NCC	-0.4	0.1	0.6

GLOBAL EQUITY MANAGEMENT

The Fund's global equity portfolio had a market value of SEK 82.8 billion (67.1) at year-end. The return during the year totalled 26.8% (-39.4), outperforming its benchmark index by 0.6 (-0.4) percentage points. That corresponded to an active profit contribution of SEK 351 million.

Global equity management is divided into definite areas of responsibility for active management and indexing. Active management uses a structured process to continually follow-up and assess different external active strategies. The process is intended to compose a well balanced portfolio of external active mandates. The index management unit performs cost-effective indexing with elements of arbitrage activity.

This management unit's positive active return can roughly be divided into two sources of revenue. Active management contributed a little less than one-third of the positive return, and indexing the remainder.

Global equity management strongly emphasises efficient risk management in the sub-mandates as well as at the aggregate level. With the aid of sophisticated systems, the Fund has integrated the risk management process into its day-to-day asset management.

Large part of portfolio indexed

In conjunction with the restructuring of asset management, large parts of the global portfolio were indexed and temporarily assigned to external managers. Since then, the management of European and North American equities has gradually been brought back for indexing in-house, a total of about SEK 50 billion at year-end.

Indexing – neither simple nor risk-free

An index manager must always take several calculated risks and/or cultivate other sources of income to achieve the same return as the benchmark index. Thus indexing, in contrast to how it is often described, is neither simple nor risk-free. In reality, elements of risk taking are always present, because changes in the index and capital structure of companies, for example, are ongoing and extensive. As a result, managing a portfolio that exactly reflects the index (direct replication) in many cases is complicated. In addition, an actual portfolio is subject to transaction costs that reduce the return on the portfolio. By systematically and actively taking advantage of index rebalancing and changes in companies' capital structure, the fund can add value.

External index managers are often limited by their size, which affects their flexibility and impedes them from being able to perform certain transactions in a timely and cost-effective way. The Fund's internal index portfolio has a natural advantage as it is relatively small and flexible, which enables it to act without influencing pricing in the markets.

Other factors, such as skill and computer support, have also helped internal index management become profitable. During the year, this management unit has been able to act in areas and to an extent not always possible for competing index managers.

FIVE LARGEST HOLDINGS IN THE GLOBAL EQUITY PORTFOLIO, 31 DECEMBER 2009

Company	Market value, 31 Dec 2009, SEK mn	Percentage of global portfolio
EXXON MOBIL CORP	1,114	1.6
MICROSOFT	831	1.2
HSBC HOLDINGS PLC	674	0.9
APPLE INC	642	0.9
ROYAL DUTCH SHELL PLC	637	0.9
Total	3,898	5.5

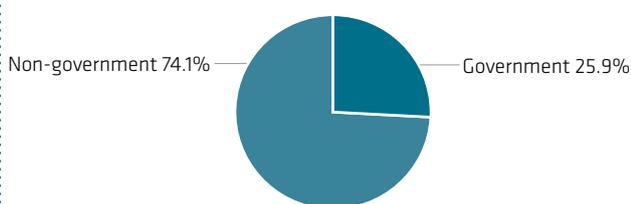
FIXED INCOME MANAGEMENT

The Fund's fixed income portfolio had a market value of SEK 67.9 billion (68.5) at year-end. The portfolio posted a full-year return (fully hedged) of 3.9% (11.4), outperforming its benchmark index by 1.9 (–0.2) percentage points. This translates into an impact of SEK 1,138 million on earnings.

Powerful market fluctuations benefited performance

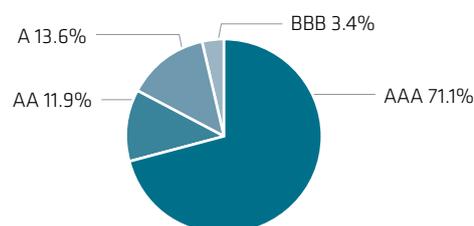
The first quarter of 2009 was marked by the deep global economic crisis with ongoing sharp declines in stock markets, weakening energy and commodity prices, and falling interest rates. Governments and central banks reacted in a way never before witnessed. Benchmark interest rates close to zero, enormous stimulus packages, bailouts of financial institutions in default, and buying to support bond prices were some of the measures that produced the desired effects. Economies and markets the world over were stabilised, which lifted interest rates on long maturities while rates on short maturities remained low throughout the year.

FIXED INCOME PORTFOLIO BY ISSUER TYPE, 31 DEC 2009



Corporate bonds dominate the Fund's bond portfolio.

BOND HOLDINGS BY CREDIT RATING, 31 DEC 2009



Concentration in investment-grade debt remains high.

The improved economic situation resulted in much narrower spreads between government bond yields and rates on certain debt instruments (such as corporate bonds).

The portfolio's large proportion of corporate bonds at the start of the year contributed most to the high active return versus the benchmark index, but trading on fluctuations in interest rates also contributed positively.

New management structure in place

The process of change in fixed income management, which began towards the end of 2008, continued in 2009. Management was divided into definite mandates and markets with responsibility for risk and performance. The fixed interest group recruited three new portfolio managers and was fully staffed at year-end. New systems for analysing risk and measuring returns as well as a system for e-trading and registration progressed and were implemented during the year.

Continued overweighting in corporate bonds

At year-end 2009/10, the fixed income portfolio was still overweight in corporate bonds versus government bonds. This position reflects the Fund's belief in continued wide or decreasing spreads between interest on government bonds and various corporate bonds. Bond holdings distributed by type of bond and credit rating are shown in the diagram on the preceding page.

FOREIGN EXCHANGE MANAGEMENT

Foreign exchange management is divided into two management mandates: one active and one strategic.

Active foreign exchange management

Active foreign exchange management is an independent management mandate that strives for an absolute return target based on the Fund's total assets. Active foreign exchange management made a positive contribution of 0.11 (0.11) percentage points to the Fund's performance. This translates into an impact of SEK 183 million on earnings. The positive results were attributable principally to long positions in Swedish and Norwegian kronor along with short positions in euro.

Strategic foreign exchange management

Strategic foreign exchange management implements the foreign currency exposure adopted by the Board. This means that parts of the Fund's foreign assets are hedged.

The management of the strategic foreign exchange portfolio was further enhanced in 2009. In other words,

the portfolio's risks are managed actively, chiefly through rebalancing hedges and the portfolio's interest rate risk, while the foreign currency exposure adopted is implemented in a cost-effective manner. During 2009, this work contributed SEK 93 (-0.44) million, corresponding to a return contribution of 0.05 percentage points.

At year-end 2009/10, the Fund's foreign currency exposure, the proportion of assets in foreign currencies not neutralised through hedging, equalled 14.6% of total assets, compared to 14.5% at year-end 2008/09.

TACTICAL ASSET ALLOCATION

In tactical asset allocation, the Fund takes positions in different asset classes to outperform the benchmark. The Fund's tactical asset allocation is divided into active and passive tactical allocation.

Active tactical asset allocation

Active tactical asset allocation is an independent management mandate that strives for an absolute return target based on the Fund's total assets. Active tactical asset allocation made a positive contribution of 0.03 (-0.08) percentage points to the Fund's return for 2009, which translates into an impact of SEK 57 million on earnings. A long position mainly in European equities contributed positively to the outcome, while a long position in Japanese equities versus a short position in U.S. equities, during the latter part of the year, contributed negatively.

At year-end, the active tactical asset allocation portfolio held extremely small positions.

Passive tactical asset allocation is a cost mandate

The aim of passive tactical asset allocation is to minimise undesired differences between the Fund's investment assets and the asset allocation of its benchmark index, the strategic portfolio, incurring reasonable transaction costs.

REAL ESTATE

Together with AP1-AP3, AP4 owns the property management company Vasakronan, Sweden's biggest property owner. The holding has a carrying amount of SEK 6.2 billion. Vasakronan is AP4's principal exposure to real estate as an asset class.

For financial year 2009, the Fund's holding in Vasakronan gave a return of -1.4% (-2.7), corresponding to an impact of SEK -97 million on earnings. Vasakronan's return was used as the reference index for the real estate asset class.

During 2009, AP4 made a small investment in the property management company Hemfosa, in which the Fund owns 15%. The holding has a carrying amount of SEK 34 million.

The property and rental markets continued to reflect uncertainty during the year. Vacancies increased, and the rental market subsided. Sales of real estate remained extremely slow, making it more risky than usual to assess the value of properties. On the other hand, low interest rates were a plus for the sector.

ALTERNATIVE INVESTMENTS

The market value of alternative investments was SEK 2.6 billion (1.9), corresponding to 1.3% (1.2) of total Fund assets. The total return was 7.8% (-33.8).

Alternative investments, chiefly unlisted, are made using a longer investment horizon than the Fund's publicly quoted assets. The benchmark index for each individual alternative investment is determined based on a relevant risk assessment. The benchmark index for unlisted investments in private equity funds, for example, is the MSCI World plus four percentage points, which reflects an investment in equities with compensation for lower liquidity and higher operating and financial risk.

SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

The Fund's work is progressing according to plan, and there are no significant events to report that have occurred since year-end.

INVESTMENTS AND COMMITMENTS

During the year, the Fund committed to investing in a private equity fund, Keyhaven Capital Partners III. The investment will be SEK 260 million when fully funded.

At the start of the year, a new sub-portfolio was set up within alternative investments to take advantage of opportunities created as a consequence of the financial crisis. New investments have been made in Hemfosa (see the earlier section titled Real estate), CapMan Public Market Fund, PCP Debenture (issued by Proventus Capital AB), and EQT Credit. At year-end, commitments for this sub-portfolio totalled SEK 1.5 billion, and the market value was SEK 0.3 billion.

INCOME AND EXPENSES RELATED TO EXTERNAL MANAGEMENT OF UNLISTED ASSETS (EXCLUDING REAL ESTATE), 2009

SEK mn	Unlisted assets
Gross income (interest income, dividends, realised and unrealised gains/losses)	261
Management fees paid and posted on the balance sheet	-62
Management fees paid and recognised as commission expenses	-2
Net contribution	197
Assets under management, 31 Dec 2009	2,485
Invested capital, 31 Dec 2009	3,090
Commitments for future investments, 31 Dec 2009	2,117

INVESTMENT POLICY

The investment policy, adopted by the Riksdag, is the same for AP1-AP4 and entails the following.

- The Fund may invest in all listed and transferable instruments traded in capital markets except commodity-based instruments.
- At least 30% of Fund assets must be invested in fixed income securities carrying low risk.
- A maximum of 40% of Fund assets may be exposed to currency risk.
- A maximum of 10% of Fund assets may be exposed to a single issuer or group of issuers that are interrelated.
- Holdings of equities issued by listed Swedish companies may not exceed 2% of total market capitalisation.
- The Fund may not control more than 10% of the voting rights in any single listed company.
- No more than 5% of Fund assets may be invested in unlisted securities. Such investments must be made indirectly via venture capital firms and the like.
- At least 10% of Fund assets must be managed by external asset managers.

RISKS

Each year, the Board of Directors adopts a risk management plan for the Fund's activities. The plan describes the principal operational risks and how these risks shall be managed. The principal risks are of a financial and operational nature.

The financial risks are managed by an independent Performance and Risk Control department that reports directly to the CEO and Board. Its task is to ensure compliance with legal regulations on investment and the risk management plan throughout the Fund. The chief means are careful measurement and analysis as well as daily reporting of return and risk, in absolute terms and in relation to benchmark indexes.

To manage operational risks, AP4 department heads take responsibility for identifying, limiting, and controlling their units' operational risks in accordance with the risk management plan.

In the current organisation, the CEO of the Fund has operational responsibility for investment activities. The principle of duality is safeguarded by rules in the organisation; for example, the CEO may not independently carry out transactions, and every change in a limit must be reviewed and approved in advance by Performance and Risk Control. Also, the head of Performance and Risk Control is entitled at any time to submit any questions that arise within the department's remit directly to the Board.

The Fund's active management is conducted principally for mandates, intended to generate an active return in relation to their benchmark indexes, but the Fund also has several mandates based on absolute returns. Thus the risks in active management are defined partly as risk related to the benchmark index (active risk), partly – for the absolute mandates – as contributions to the total actual portfolio's risk related to the benchmark indexes (contribution to total active risk).

Foreign exchange, fixed income, and equity risks in active management are managed by means including limitation of active risk, duration, and permissible deviations from index weights. The use of derivatives is limited with respect to nominal underlying values as well as market risk. All derivative positions and associated risks are covered by daily position and risk monitoring.

Credit and counterparty risks consist of the risk that individual counterparties will be unable to fulfil their obligations to the Fund. AP4 has established individual, continuously monitored counterparty limits to manage credit risks. Credit risk is also limited by a rule that permits investment only in securities with a BBB or higher rating. Liquidity risk is limited by special rules for investment in fixed income assets and careful monitoring of cash balances.

RISK MANAGEMENT KEEPS EVOLVING

During the financial year, day-to-day risk management evolved through periodic (weekly) measurement of risk in the liquid assets using the BarraOne risk-management system. This gave the Fund access to forecasts of the collective risks in the Fund's investments, both in absolute numbers and relative to their benchmark indexes. Risk forecasts can be broken down by management areas, instruments, risk factors, and more, serving as input data for the Fund's ongoing efforts to optimise its risk-taking.

To reduce its counterpart exposure, the Fund has intensified its efforts to call in collateral from counterparties and begun work streamlining the handling of collateral received.

During 2009, the Fund has dedicated substantial resources to implementing a new electronic trading system (AIM), which by the turn of the year was deployed for the global equity portfolio and the allocation function. The Fund has used the AIM system to develop limit management with automatic locks for prohibited transactions, something not possible in traditional trading in financial instruments over the phone.

LOWER RISK LEVELS

2009 was notable for the retreat of volatility, as financial markets returned to "normal". The volatility of investment assets averaged 11.6% (17.1). The decrease in volatility was especially pronounced in the stock market, with decreases to 20.7% (31.4) for global equities and 26.9% (38.0) for Swedish equities.

The active risk for the Fund's publicly quoted assets fell to a low 0.4% (0.7), partly as a result of reduced market volatility. During the year, indexing of the global equity portfolio showed its full impact on the average active risk, which was only 0.1% (0.8). Active risk fell in Swedish equity management as well as fixed income management, to 1.7% (1.9) and 0.8% (1.2), respectively. The risks in the mandates based on absolute returns – active tactical asset allocation and active foreign exchange management – were low and made only minor contributions to the Fund's collective active risk.

CORPORATE GOVERNANCE AND FUND ADMINISTRATION

CORPORATE GOVERNANCE

By law, the Fund's work in active corporate governance shall promote the Fund's overall goal of managing Fund capital, so as to generate the best possible return over time, while carrying low risk, for the benefit of Swedish pensioners. Work in corporate governance may not be controlled by Government directives or by national business or other economic policy interests, by law. The Fund shall take into account environmental and ethical issues without compromising its goal of maximising returns.

The operational plan of each AP fund, adopted annually, shall contain guidelines for exercising voting rights in individual corporations. The first priority of the Fund's corporate governance policy is Swedish stock market companies. The Fund's active ownership in non-Swedish companies is presented in the document "Corporate governance in foreign companies". These corporate governance documents and the Fund's corporate governance report are found on the Fund's website: www.ap4.se.

ADMINISTRATION REPORT

The Fourth National Pension Insurance Fund (AP4) annually submits an Administration Report containing those parts of the Swedish Code of Corporate Governance appropriate for the Fund.

AP4's Board of Directors, comprising nine regular members, is appointed by the Government and is responsible for the organisation and the management of AP4's funds. At the end of May, the representative from the Confederation of Swedish Enterprise resigned from the Board. The Confederation did not nominate a new representative, so one Board seat is vacant. Members of the Board are presented on page 32.

The Board has delegated responsibility for day-to-day management to AP4's CEO, who has an executive management committee of eight employees to support him in the decision-making process. The Executive Management Committee is presented on page 33.

AP4's auditors are appointed by the Government. The current audit mandate for 2009 is valid until the income statement and balance sheet for 2009 are adopted. The auditors report to the Fund's Board and to the Ministry of Finance.

The full Administration Report and the main Board documents it refers to are public documents and may be accessed through the AP4 website at www.ap4.se.

FIVE-YEAR SUMMARY

Five-year summary	2009	2008	2007	2006	2005
Fund capital, flows, and net profit/loss, SEK bn					
Fund capital	195.7	164.7	207.3	200.5	180.1
Net inflows from the pension system and special asset management funds	-3.9	0.9	2.0	1.7	2.9
Net profit/loss for the period	34.9	-43.5	4.8	18.8	25.8
Return, %					
Return on total portfolio excluding expenses	21.6	-20.8	2.5	10.5	16.9
Return on total portfolio including expenses	21.5	-21.0	2.4	10.4	16.8
Return on total portfolio versus index, excluding expenses	0.9	-1.1	-1.0	-0.6	-0.1
Return on listed assets versus index, excluding expenses ¹⁾	1.4	-0.5	-1.2	-0.5	-0.1
Inflation	0.9	0.9	3.5	1.6	0.9
Real return after expenses	20.6	-21.9	-1.0	8.8	15.9
Management costs as a percentage of assets under management					
Operating expenses	0.10	0.08	0.07	0.07	0.08
Operating expenses and commission expenses	0.11	0.11	0.10	0.11	0.13
Risk in total portfolio, %					
Portfolio, ex-post ²⁾	11.6	17.1	8.6	7.1	4.7
Active risk, ex-post	0.4	0.7	0.7	0.8	0.8
Sharpe ratio ²⁾	1.8	neg	neg	1.0	3.1
Foreign exchange exposure, %					
	14.6	14.5	14.2	15.1	10.1
Proportion under active management, including enhanced, %					
	57.7	59.7	93.5	100	100
Proportion under external management, including investments in venture capital firms, %					
	21.1	41.9	17.8	17.3	18.8
Number of employees at end of accounting period					
	53	50	45	46	50
Allocation of investment assets, % ³⁾					
Global equity portfolio	42.4	41.7	42.0	42.2	42.2
Internally managed	25.8	0.0	24.2	25.1	23.6
Externally managed	16.6	41.7	17.8	17.1	18.6
Swedish equity portfolio	18.0	18.0	18.8	19.9	20.0
Fixed income portfolio	34.9	36.8	36.9	36.3	36.4
Real estate	3.2	4.1	2.4	2.3	2.1
Alternative investments ⁴⁾	1.3				
Foreign exchange/Tactical asset allocation/Cash	0.3	-0.6	-0.2	-0.7	-0.7
Total investment assets	100.0	100.0	100.0	100.0	100.0

1) Refers to actively managed listed assets starting in 2008 and total listed assets prior to 2008.

2) Refers to listed assets (investment assets excluding alternative investments and real estate); prior to 2009 refers to all investment assets.

3) Refers to exposure by asset class; underlying values for derivatives have been distributed by asset class.

4) Alternative investments are included in global and Swedish equities before 2009.

ACCOUNTING AND VALUATION POLICIES

According to the Swedish National Pension Funds Act (2000:192), the annual report shall be prepared according to generally accepted accounting principles, such that the assets in which AP4's funds are invested shall be recognised at fair value. Based on this premise, AP1-AP4 have developed and put into practice a set of common accounting policies and valuation principles as summarised below. The accounting and valuation policies have not changed since the preceding year.

Transaction date accounting

Purchases and sales of securities and derivative instruments in the money, bond, equity, and foreign exchange markets are recognised in the balance sheet on the transaction date; that is, at the point when material rights, and therefore risks, are transferred between the parties. Receivables and liabilities posted between transaction and settlement dates are recognised in other assets and other liabilities, respectively. Other transactions, primarily transactions in private equity, are recognised in the balance sheet at the settlement date, conforming to market practices.

Net accounting

Net accounting is applied for fund settlements, repurchase agreements, and derivatives when the right to offset assets and liabilities is established and the intent is to wind them up simultaneously.

Foreign currency

Transactions in foreign currency are posted at the exchange rate on the transaction date. Assets and liabilities denominated in foreign currencies are stated at year-end exchange rates. Changes in the values of foreign-currency-denominated assets are divided into changes attributable to changes in the value of the asset or liability in local currency and changes stemming from fluctuations in exchange rates.

Valuation of financial instruments

All of the Fund's investments are stated at fair value such that realised and unrealised changes in value are recognised in the income statement. The following describes how fair value is determined for the Fund's different investments.

Listed shares and investments

Shares and investments listed on a regulated market or trading platform are stated at fair value. Fair value is calculated based on the official public quotation at year-end according to the Fund's designated index provider. Commission fees paid are recognised as part of purchase cost.

Unlisted shares and investments

Shares and investments not listed on a regulated market or trading platform are stated at fair value based on the valuation made by the fund administrator. The stated value is updated upon receipt of a new valuation and is adjusted for any cash flows up to the accounting year-end. If the Fund has good reason to judge the fund administrator's valuation to be incorrect, the valuation received can be adjusted. Stated values comply with International Private Equity and Venture Capital (IPEVC) Valuation Guidelines or equivalent principles and are based primarily on transactions with third parties, though other valuation methods may be used.

Bonds and other fixed income assets

Bonds and other fixed income assets are stated at fair value. Fair value is calculated based on the official public quotation at year-end according to the Fund's designated index provider. If an instrument is not traded in an active market and reliable market prices are not available, the instrument is valued using generally accepted valuation models, which discount cash flows using a yield curve appropriate for the instrument.

Net income is the difference between average amortised cost and sale value or fair value. The amortised cost is the discounted present value of future

payments, where the discount rate corresponds to the effective interest rate at time of purchase. Thus, premiums or discounts on acquisition are accrued to maturity or until the coupon changes. These premiums and discounts are recognised as interest income.

Buybacks

In a true repurchase transaction (buyback), the asset remains on the balance sheet, and cash received is recognised as a liability. The divested security is recognised as a pledged asset on the balance sheet. The cash value difference between the spot and forward legs is accrued to maturity and recognised as interest.

Derivatives

Derivatives are stated at fair value based on year-end market rates. If an instrument is not traded in an active market and reliable market prices are not available, the instrument is valued using generally accepted valuation models, for which the input data consists exclusively of observable market data.

Derivative positions with a positive fair value on the balance date are recognised as assets, while positions with a negative fair value are recognised as liabilities. The difference between forward and spot rates is accrued evenly over the term of the forward contract and recognised as interest.

Securities on loan

Securities on loan are recognised in the balance sheet at fair value. Collateral received for securities on loan consists of securities and cash. If AP4 is entitled to exercise control over collateral received, the collateral is recognised in the balance sheet as an asset, and an offsetting liability is posted. The value of securities on loan as well as their collateral is recognised in pledged assets, contingent liabilities, and commitments. Payments received for securities on loan are recognised as interest income.

Items recognised directly in fund capital

Transfers to and from the national pension system as well as transfers from the special asset management funds owned jointly by AP1-AP4 are recognised directly in fund capital.

Commission expenses

Commission expenses are recognised in the income statement as a deduction from operating income. They consist of direct transaction costs such as custody account fees and fixed fees paid to external managers.

Fixed fees for externally managed listed assets, including listed funds, are recognised as commission expenses. Performance-based fees, paid when a manager produces returns above the agreed level where profit-sharing applies, are recognised in the income statement as a deductible item in net income for the asset class in question.

Fees for the management of unlisted shares and investments, for which repayment is granted prior to profit-sharing and for which repayment is deemed probable, are recognised as part of the acquisition cost of the assets. Otherwise, such fees are recognised as commission expenses.

Operating expenses

All management expenses except brokers' commissions, fees to external managers, and custody account fees are recognised as operating expenses.

Investments in equipment and software, whether developed in-house or purchased, are customarily expensed as they are incurred.

AP4 is exempt from value-added tax (VAT), because the Fund is not regarded as an entity conducting business activities. Consequently, the Fund is not entitled to reimbursement of input VAT. VAT that has been paid or reserved for payment is recognised with the expense item to which it belongs.

Income taxes

AP4 is exempt from income tax on investments in Sweden. The tax liability on investments outside Sweden varies from country to country.

INCOME STATEMENT AND BALANCE SHEET

INCOME STATEMENT			
SEK mn	Notes	2009	2008
OPERATING INCOME			
Net interest income	1	2,997	4,205
Dividends received		2,944	3,454
Net income, listed shares and investments	2	26,578	-54,407
Net income, unlisted shares and investments	3	-314	-1,621
Net income, fixed income assets		554	2,418
Net income, derivatives		3,004	-2,738
Net income, changes in exchange rates		-666	5,388
Net commission expenses	4	-25	-44
Total operating income		35,072	-43,345
OPERATING EXPENSES			
Employee benefits expense	5	-93	-88
Other administrative expenses	6	-81	-69
Total operating expenses		-174	-157
PROFIT/LOSS FOR THE YEAR		34,898	-43,502

BALANCE SHEET			
SEK mn	Notes	2009	2008
ASSETS			
Shares and investments, listed	7	111,368	93,032
Shares and investments, unlisted	8	4,473	4,427
Bonds and other fixed income assets	9	70,301	72,841
Derivatives	10	9,100	7,636
Cash and bank balances		708	1,971
Other assets	11	25	492
Prepaid expenses and accrued income	12	2,029	2,461
Total assets		198,004	182,860
LIABILITIES AND FUND CAPITAL			
Liabilities			
Derivatives	10	1,764	14,148
Other liabilities	13	373	3,562
Deferred income and accrued expenses	14	149	424
Total liabilities		2,286	18,134
Fund capital			
Fund capital, opening balance	15	164,726	207,345
Net payments to/from the pension system		-3,906	831
Transfers from Special Asset Management Fund		0	52
Profit/Loss for the year		34,898	-43,502
Total fund capital		195,718	164,726
TOTAL LIABILITIES AND FUND CAPITAL		198,004	182,860
Pledged assets, contingent liabilities, and commitments	16		

NOTES TO THE INCOME STATEMENT AND BALANCE SHEET

(SEK million unless otherwise stated.)

NOTE 1 Net interest income

	2009	2008
Interest income		
Bonds and other fixed income securities	2,828	3,489
Derivatives	1,248	3,622
Other interest income	107	360
Total interest income	4,183	7,471
Interest expense		
Derivatives	-1,173	-3,110
Other interest expense	-13	-156
Total interest expense	-1,186	-3,266
Net interest income	2,997	4,205

NOTE 2 Net income, listed shares and investments

	2009	2008
Net income, listed shares and investments	26,625	-54,285
Less brokers' commissions	-47	-122
Net income, listed shares and investments	26,578	-54,407

NOTE 3 Net income, unlisted shares and investments

	2009	2008
Capital gain	29	234
Unrealised changes in value	-343	-1,855
Net income, unlisted shares and investments	-314	-1,621

NOTE 4 Commission expenses

	2009	2008
External management fees, listed assets	-13	-31
External management fees, unlisted assets	-2	-2
Other commission expenses, including custody account fees	-10	-11
Commission expenses	-25	-44

No performance-based fees were incurred for 2008 or 2009. External management fees for unlisted assets are recognised as commission expenses to the extent agreements do not permit repayment prior to profit-sharing in connection with future profitable divestment. During the year, SEK 64 million (65) in management fees related to unlisted assets were paid. Of this total, SEK 62 million (64) referred to agreements that permit repayment of fees paid prior to profit-sharing upon divestment. These are recognised as part of the purchase cost of the asset.

NOTE 5 Personnel

	2009	2009	2008	2008
NUMBER OF EMPLOYEES	Total	Women	Total	Women
Average number of employees	48	16	41	14
Number of employees at 31 December	53	17	50	16
Number of executive management committee members at 31 December	9	3	9	3

EMPLOYEE BENEFITS EXPENSE, SEK '000

	2009	2008
Salaries and remuneration		
Chairman of the Board	100	100
Other directors	388	425
CEO	2,951	2,621
Other executive management committee members ^{1) 3)}		12,508
Manager 1	1,720	
Manager 2	1,318	
Manager 3	2,179	
Manager 4	1,731	
Manager 5	1,343	
Manager 6	2,590	
Manager 7	1,576	
Manager 8	1,766	
Other employees ^{2) 4)}	31,461	34,573
Total salaries and remuneration	49,123	50,227

Incentive-based pay

	2009	2008
CEO	-	-
Other executive management committee members ³⁾	-	-
Other employees ⁴⁾	4,152	-
Total incentive-based pay	4,152	-

¹⁾ Costs of executive redundancies included

²⁾ Costs of employee cutbacks, other employees, included

³⁾ "Bonus 80" included (recognised in 2008 as incentive-based pay)

⁴⁾ "Bonus 156" included (recognised in 2008 as incentive-based pay)

Pension expenses

	2009	2008
CEO ⁷⁾	876	705
Other executive management committee members ^{5) 8)}	-	5,496
Manager 1 ⁸⁾	522	
Manager 2 ⁸⁾	642	
Manager 3	673	
Manager 4	472	
Manager 5	373	
Manager 6	746	
Manager 7 ⁸⁾	798	
Manager 8	635	
Other employees ^{5) 6) 9)}	9,919	8,399
Total pension expenses	15,656	14,600

⁵⁾ Costs of cutbacks in executive management included in above

⁶⁾ Costs of employee cutbacks, other employees, included

⁷⁾ Substitution of pension for salary by CEO included

⁸⁾ Substitution of pension for salary by executive management committee members included

⁹⁾ Substitution of pension for salary by other employees included

Note 5, cont'd.

EMPLOYEE BENEFITS EXPENSE, SEK '000	2009	2008
Social security expenses		
Chairman of the Board	32	32
Other directors	100	127
CEO	1,140	1,021
Other executive management committee members ^{10) 12)}		5,288
Manager 1	667	
Manager 2	570	
Manager 3	848	
Manager 4	658	
Manager 5	512	
Manager 6	995	
Manager 7	689	
Manager 8	709	
Other employees ^{11) 12)}	13,034	13,164
Total social security expenses	19,954	19,632
¹⁰⁾ Recognised under Other employees in 2008	-	914
¹¹⁾ Costs of cutbacks in executive management included in above	219	3,036
¹²⁾ Costs of employee cutbacks, other employees, included	-	323
Other employee benefits expense	4,559	3,776
Total employee benefits expense	93,444	88,471
Costs of employee cutbacks included	959	16,931

AP4 adheres to the Government's guidelines for remuneration to senior executives and other employees.

Costs of employee cutbacks

The costs total SEK 959 (16,931) thousand and relate to compensation for pension expenses and salary in connection with employee cutbacks in investment operations. All costs of employee cutbacks were recognised as an expense in the 2009 accounts but will be disbursed in part in 2010.

Salaries and remuneration

The Government sets remuneration for the Board of Directors. The Board determines the terms of employment of the CEO based on the recommendations of the Chairman and Deputy Chairman. Remuneration to the CEO and senior executives is limited to base salary.

Incentive-based pay

The CEO and senior executives receive no incentive-based pay. The Board determines the plan for incentive-based pay. The plan covers all employees, except for the CEO and senior executives, employed more than six months. The basic principle is that employees earn incentive-based pay when the Fund outperforms the benchmark and reference indexes, provided that the Fund posts a positive return. The maximum incentive-based entitlement for a full-year employee is two months' salary.

Pensions and similar benefits

The CEO's pension benefits and severance package are specified in his employment contract. The provisions of the agreement include pension entitlement at age 65, with a pension provision of 30% (20) of salary. A mutual period of notice of termination of six months applies for the CEO. If the Fund gives notice of termination, the CEO is also entitled to a severance package equal to 18 months' salary. Any other income is deducted from the severance pay, which is paid monthly.

Other executive management committee members and other employees have individual employment contracts that specify severance notice based on the relevant collective agreement between the Employers' Organisation of the Swedish Banking Institutions (BAO) and the Swedish Confederation of Professional Associations (SACO). Pension entitlements are based on either defined benefits, according to the relevant collective agreement between BAO and SACO, or defined contributions, according to the Fund's pension policy of a pension contribution of 30% on remuneration exceeding 7.5 base amounts.

All employees are entitled to substitute pension contributions for gross salary. In such cases, the pension contribution is increased by the difference between payroll tax and the 5.8% social security contribution.

All employees also have healthcare coverage. The CEO and persons employed before 1 January 2007 have sickness insurance covering terms of illness longer than three months, paying compensation of 90% of income less than 20 basic amounts and 80% of income greater than 20 basic amounts. The maximum amount is 40 basic amounts. The amount disbursed is reduced by the amounts disbursed under the Social Insurance Administration, SPP insurance, and any other insurance policies.

Other benefits

All employees can purchase group life insurance taxed as a fringe benefit. The Fund also has four parking spaces that employees can use for which they then pay fringe benefits tax.

Sickness absence

The sickness absence rate in 2009 was 2.4% (0.9) of normal working hours; the figures were 2.1% (1.9) for female staff and 2.6% (0.4) for male staff. Of total absences, 1.1% (0.0) lasted 60 days or longer. The sickness absence rate was 1.6% (1.3) for employees aged 29 or younger, 3.1% (0.6) for employees aged 30-49, and 1.5% (1.9) for employees over 50.

NOTE 6 Other administrative expenses

	2009	2008
Costs of premises	11	8
Information and IT expenses	38	41
Services purchased	18	13
Cost of moving office to new premises	7	-
Other administrative expenses	7	7
Total other administrative expenses	81	69
Services purchased includes fees to accounting firms as follows:		
Audit services, Ernst & Young	1.0	1.0
Other services, Ernst & Young	0.5	0.2
Audit services, Öhrlings PwC	-	0.2
Audit services, KPMG	-	0.1
Other services, KPMG	-	0.2
Total fees to accounting firms	1.5	1.7

NOTE 7 Listed shares and investments

	31 Dec 2009		31 Dec 2008	
	Fair value	Purchase cost	Fair value	Purchase cost
Swedish equities	36,073	33,439	29,338	42,900
Foreign equities	71,110	69,420	61,584	70,416
Investments in foreign mutual funds	4,185	4,444	2,110	2,650
Total listed shares and investments	111,368	107,303	93,032	115,966

A detailed list of holdings is published on the AP4 website, www.ap4.se, and printed copies may be ordered from the Fund.

NOTE 8 Unlisted shares and investments

Holding at 31 Dec 2009	Corp. ID no.	Quantity	Pctg. voting capital	Pctg. equity capital	Pctg. equity in total fund	Purchase cost
<i>Swedish shares and investments:</i>						
Accent Equity 2003 KB	969694-7739			19	6	74
BrainHeart Capital KB	969674-4102			21	19	107
Hemfosa Fastigheter AB	556780-5816	1,500,000	15	15		15
HealthCap KB	969614-4162			16	16	7
HealthCap ColInvest KB	969625-6255			24	24	13
HealthCap 1999 KB	969656-1647			8	8	33
HealthCap III Sidefund KB	969699-4830			20	20	41
HealthCap Annex Fund I-II KB	969690-2049			20	20	77
HealthCap IV KB	969683-6650			41	2	36
Industrial Development & Inv. Equity KB	969640-9631			15	15	0
Innoventus AB	556602-2728	2,334	17	17		1
Innoventus Project AB	556616-8356	31,032	9	9		13
Innoventus Life Science I KB	969677-8530			16	16	26
Northern Europe Private Equity KB (EQT III)	969670-3405			10	1	35
Priveq Investment Fund III KB	969704-1524			19	12	76
Skandia Investment KB	969654-5046			10	10	50
Vasakronan Holding AB	556650-4196	1,000,000	25	25		1,221
Total Swedish shares and investments						1,825
<i>Foreign investments:</i>						
Accent Equity 2008 LP				6	6	68
CapMan Public Market Fund FCP-SIF				18	18	124
EQT IV LP				4	3	664
EQT V LP				2	1	340
EQT Opportunity LP				12	7	117
EQT Infrastructure LP				3	3	60
European Strategic Partners II				4	4	219
Goldman Sachs Multi-Strategy Fund Offshore LP				95	-*	391
Goldman Sachs Vintage Fund IV Offshore LP				1	1	102
Goldman Sachs Distressed Opportunities Fund III Offshore LP				5	3	152
Goldman Sachs Private Equity U.S. Focused II Offshore LP				21	21	70
Goldman Sachs Vintage Fund V Offshore LP				1	1	69
HealthCap V LP				12	12	73
Keyhaven Capital Partners III LP				18	18	-
Scope Growth II LP				10	10	51
Total foreign investments						2,500
Total purchase cost, unlisted shares and investments						4,325
Total fair value, Swedish shares and investments						2,457
Total fair value, foreign investments						2,016
Total fair value, unlisted shares and investments						4,473

* AP4's shares of the underlying funds are 2% (GS Vintage III) and 4% (GS PEP 2004).

NOTE 9 Bonds and other fixed income assets

	31 Dec 2009		31 Dec 2008			31 Dec 2009		31 Dec 2008	
	Fair value	Amor-tised cost	Fair value	Amor-tised cost		Fair value	Amor-tised cost	Fair value	Amor-tised cost
<i>Issuer category</i>					<i>Type of instrument</i>				
Kingdom of Sweden	4,121	4,101	4,266	3,850	Bonds	64,097	63,342	68,018	62,983
Swedish housing institutions	20,697	20,225	17,362	16,686	Inflation-linked bonds	1,284	1,282	-	-
Other Swedish financial services companies	3,073	3,084	5,455	5,388	Promissory note loans	4,250	4,250	4,250	4,250
Swedish non-financial companies	5,664	5,581	5,261	5,235	Subordinated debentures	651	634	573	608
Foreign governments	10,580	10,679	13,595	11,975	Shareholder loans	19	19	-	-
Other foreign issuers	26,166	25,857	26,902	24,707	Total fixed income assets *	70,301	69,527	72,841	67,841
Total fixed income assets *	70,301	69,527	72,841	67,841	* Amount valued using a theoretical valuation model	1,799	1,783	3,940	3,776

NOTE 10 Derivatives

	31 Dec 2009		
	Nominal amounts	Fair value	
		Positive	Negative
<i>Equity-based instruments:</i>			
Stock options held	7,516	7,516	-
Stock options issued	15	-	15
Stock futures	1,276	-	-
Total equity-based instruments	8,807	7,516	15
of that total, cleared	1,276	-	-
<i>Interest-based instruments:</i>			
Swaps	21,496	510	36
FRAs / Forward contracts	31,877	-	-
Total interest-based instruments	53,373	510	36
of that total, cleared	31,877	-	-
<i>Instruments based on foreign exchange:</i>			
Foreign currency options held	8,922	61	2
Foreign currency options issued	12,531	2	38
Foreign exchange forward contracts	128,923	1,011	1,673
Total instruments based on foreign exchange	150,376	1,074	1,713
Total derivative instruments *	212,556	9,100	1,764
of that total, cleared	33,153	-	-
* Amount valued using a theoretical valuation model	164,418	1,528	1,724

NOTE 11 Other assets

	31 Dec 2009	31 Dec 2008
Receivables on unsettled transactions	23	488
Other assets	2	4
Total other assets	25	492

NOTE 12 Prepaid expenses and accrued income

	31 Dec 2009	31 Dec 2008
Accrued interest income	1,907	2,322
Accrued dividends and repayments	111	133
Other	11	6
Total	2,029	2,461

NOTE 13 Other liabilities

	31 Dec 2009	31 Dec 2008
Trade payables	6	12
Payables for unsettled transactions	111	286
Payables for collateral received	-	2,951
Other liabilities	256	313
Total other liabilities	373	3,562

NOTE 14 Deferred income and accrued expenses

	31 Dec 2009	31 Dec 2008
Accrued interest expense	103	363
Accrued employee benefits expense	11	15
Accrued external management expenses	29	29
Other accrued expenses	6	17
Total	149	424

NOTE 15 Fund capital

	31 Dec 2009	31 Dec 2008
Fund capital, opening balance	164,726	207,345
<i>Net payments to/from the pension system</i>		
Paid-in pension contributions	50,678	50,783
Pension moneys disbursed to the Swedish Social Insurance Agency	-54,348	-49,796
Transfer of pension entitlements to the EU	-5	-6
Settlement of pension entitlements for previous years	-	2
Administration fee paid to the Swedish Social Insurance Agency	-231	-152
Total net payments from the pension system	-3,906	831
Transfer from AP4's special asset management fund	-	52
Profit/Loss for the year	34,898	-43,502
Fund capital, closing balance	195,718	164,726

Assets under management, AP4's special asset management fund ¹⁾

¹⁾ AP4's special asset management fund was wound up in 2009.

NOTE 16 Pledged assets, contingent liabilities, and commitments

	31 Dec 2009	31 Dec 2008
<i>Collateral pledged for AP4's liabilities</i>	-	-
<i>Other pledged assets and equivalent collateral:</i>		
Securities on loan for securities received ¹⁾	18,590	18,992
Collateral pledged for exchange-traded derivative contracts	895	2,034
Collateral pledged for OTC derivative contracts ²⁾	170	3,944
<i>Commitments</i>		
Investment commitments for alternative investments	3,223	2,237

¹⁾ Collateral received for securities on loan totalled SEK 19,335 million (19,634).

²⁾ Collateral received for OTC derivatives totalled SEK 9,746 million (0).

NOTE 17 Related parties

AP4 rents its office premises from Vasakronan AB at market rates.

ADDITIONAL TABLES**FOREIGN EXCHANGE EXPOSURE, 31 DEC 2009, SEK MN**

	USD	EUR	GBP	JPY	Other	Total
Shares and investments	46,896	14	7,414	7,025	8,980	84,770
Bonds and other fixed income assets	19,902	10,254	6,855	-	-	37,011
Derivatives, excluding foreign exchange derivatives	272	349	13	-	-	635
Other receivables and liabilities, net	111	135	83	32	56	418
Foreign exchange derivatives	-50,063	-20,921	-8,109	-6,144	-9,017	-94,254
Foreign exchange exposure, net	17,118	4,272	6,257	913	20	28,579

BOARD OF DIRECTORS' SIGNATURES

Stockholm, 17 February 2010

Monica Caneman
CHAIRMAN OF THE BOARD

Lars Frithiof
DEPUTY CHAIRMAN

Håkan Arnelid

Roger Mörtvik

Ilmar Reepalu

Kajsa Lindståhl

Inga Persson

Charlotte Strömberg

Mats Andersson
CHIEF EXECUTIVE OFFICER

Our auditors' report was submitted on
18 February 2010

Anna Peyron
AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

Lars Bonnevier
AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

AUDITORS' REPORT

for the Fourth Swedish National Pension Fund
(Corporate identity number 802005-1952)

We have examined the annual accounts, the accounting records, and the administration of the Fourth Swedish National Pension Fund by the Board of Directors for the financial year 2009. The Fund's annual accounts are included in the printed version of this document on pages 12–30. These accounts and the administration as well as the application of the Swedish National Pension Funds Act in conjunction with the annual accounts are the responsibility of the Board of Directors. Our responsibility is to express our opinion on the annual accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. These standards require that we plan and perform the audit to obtain high but not absolute assurance that the annual accounts are free from material misstatement. An audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting policies used and their application by the Board of Directors, the significant estimates made by the Board when compiling the annual accounts, and the overall presentation of information in the annual accounts. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Swedish National Pension Funds Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting standards in Sweden. The Report of the Directors is compatible with the other sections of the annual accounts.

The audit has given us no reason for qualification with regard to the annual accounts, the income statement and balance sheet, the accounting records, the inventory of assets, or the administration of the company in general.

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

Stockholm, 18 February 2010

Anna Peyron
AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

Lars Bonnevier
AUTHORISED PUBLIC ACCOUNTANT
Appointed by the Government

BOARD OF DIRECTORS



MONICA CANEMAN

Chairman since 2008. Born 1954.
Other board assignments:
Chairman of the boards of Point International AB, Linkmed AB, and SOS International A/S. Member of the boards of Investment AB Öresund, Orexo AB, Poolia AB, SJ AB, Securia AB, and Schibsted ASA.



LARS FRITHIOF

Deputy Chairman since 2008. Born 1946.
Other board assignments:
Chairman of the boards of Swedgas AB, Chamber of Commerce and Industry of Southern Sweden, and Comsys AB.
Deputy chairman of the board of Scandinavian International Management Institute.
Member of the boards of Midway Holding AB, AH Industries A/S, Sydsvenska städ AB, and the Advisory Board at the Lund University School of Economics and Management.



KAJSA LINDSTÅHL

Member of the Board since 2004. Born 1943.
Director.
Other board assignments:
Chairman of the boards of Södersjukhuset AB, Stiftelsen Tumba Bruk, and Vectura Consulting AB.
Member of the boards of Försäkringsbolaget PRI Pensionsgaranti and the Institute for Financial Research (SIFR).



INGA PERSSON

Member of the Board since 2000. Born 1945.
Professor of Economics.
No other board assignments.



ILMAR REEPALU

Member of the Board since 2000. Born 1943.
Member of the Malmö City Executive Board.
Other board assignments:
Deputy chairman of the boards of the Swedish Association of Local Authorities and Regions (SALAR) and SKL Företag AB. Member of the boards of KPA AB, the Nanometer Structure Consortium at Lund University, and the Advisory Board for E.ON Sverige AB.



CHARLOTTE STRÖMBERG

Member of the Board since 2007. Born 1959.
CEO of Jones Lang LaSalle, the Nordics.
Other board assignments:
Member of the boards of Intrum Justitia AB and Gant Company AB.



HÅKAN ARNELID

Member of the Board since 2009. Born 1949.
Former finance manager, IF Metall.
No other board assignments.



ROGER MÖRTVIK

Member of the Board since 2009. Born 1960.
Head of the Swedish Confederation of Professional Employees' social policy department.
Other board assignments:
Member of the board of the National Public Transport Agency.

EXECUTIVE MANAGEMENT COMMITTEE



MATS ANDERSSON

Born 1954. Chief Executive Officer and Chief Investment Officer. Employed at AP4 since 2006. B.Sc. Economics. Previously employed by Deutsche Bank, AP3, Skandia Liv, and other companies.



AGNETA WILHELMSON KÅREMAR

Born 1952. Director of Administration. Employed at AP4 since 2001. Bachelor of Laws and DIHM Diploma in Business Finance. Previously employed by Nordnet, Swedbank Markets, and Handelsbanken.



ANNIKA ANDERSSON

Born 1958. Head of Corporate Governance and Communications. Employed at AP4 since 1994. B.Sc. Economics. Previously employed by Aktiv Placering, Bohusbanken, Swedish Society of Financial Analysts, and other companies.



GÖRAN SCHUBERT

Born 1953. Head of Performance and Risk Control. Employed at AP4 since 2004. B.Sc. Economics. Previously employed by Alecta, Nordea, and other companies.



THOMAS WUOLIKAINEN

Born 1966. Head of Swedish Equities. Employed at AP4 since 1998. B.Sc. Economics. Previously employed by KP Pension & Försäkring and Myrberg Fondkommission.



BJÖRN KVARNSKOG

Born 1965. Head of Global Equities. Employed at AP4 since 2008. B.Sc. Business and Economics. Previously employed by Handelsbanken Liv (RKA), Alfred Berg Asset Management, AP3, DnB NOR, and other companies.



CATRIN ABRAHAMSSON POHJANEN

Born 1961. Head of Tactical Asset Allocation. Employed at AP4 since 1999. B.Sc. Economics. Previously employed by LF, AMF pension, ABB IM, and SEB.



TOBIAS FRANSSON

Born 1968. Head of Alternative Investments. Employed at AP4 since 2003. B.Sc. Economics. Previously employed by ABB, SEB, Capto Financial Consulting, and other companies.



BENGT LINDEFELDT

Born 1962. Head of Fixed Interest and Foreign Exchange Management. Employed at AP4 since 2008. M.Sc. Engineering. Previously employed by Investor, Nordea, Carnegie, AFA insurance, and other companies.

GLOSSARY

Absolute return target

A targeted return intended to produce over time a positive return regardless of market trends. Contrast with a relative return target, for which the target is to outperform a specific index.

Active management

Asset management using a portfolio composed differently from the index in an effort to secure a higher return.

Active return

Difference between the return on a portfolio compared to the return on its benchmark index. The active return is disclosed in the Fund's annual and interim reports for the actively managed portfolios with liquid assets. The term is used synonymously with return versus index, relative return, and outperformance.

Active risk

Risk that results from active management. Defined as the standard deviation of the difference between actual performance and index performance (that is, the standard deviation of the active return). Also known as tracking error.

Benchmark index

Index against which a portfolio's return and risk is compared. Also called reference index.

Corporate bond

Bond that carries a higher credit risk than a government bond.

Credit risk

Risk that a counterparty cannot perform all or part of their obligations as a result of financial incapacity.

Derivatives

Collective term for many different instruments. The value of a derivative is linked to the value of an underlying instrument. A government bond future is an example of a derivative that has as its underlying instrument a government bond.

Duration

Measure of interest rate risk. Measures the average time to maturity of all future cash flows (coupons and final redemption) for a bond or bond portfolio. Also known as Macaulay duration. See also Modified duration.

Fixed income portfolio

Comprises fixed income assets including interest rate derivatives. The foreign portion of the fixed income portfolio's reference index is hedged in Swedish kronor.

Foreign exchange exposure

Denotes the proportion of the portfolio exposed to currencies other than the Swedish krona and for which foreign exchange risk has not been neutralised by hedging.

Global equity portfolio

Consists of equities and equity-based instruments listed on stock exchanges included in the MSCI All Country Index. (Note that an equity listed on a Swedish stock exchange can be included in the global as well as the Swedish equity portfolio. At the time of purchase, the holding is assigned to the intended portfolio.)

Hedging

Neutralisation of foreign exchange risk by swapping exposure, from foreign currencies to Swedish kronor, using foreign exchange forward contracts, for example.

Investment assets

Used in this annual report to denote the Fund's total capital under management. In the balance sheet, however, investment assets are defined in accordance with generally accepted accounting principles. The principles require that buybacks, cash and equivalents, and derivatives with negative market value are recognised on the balance sheet but not as investment assets.

Liquidity risk

Risk that a financial instrument cannot be divested within a reasonable time without significantly affecting its price.

Long position

Positive exposure to a market or type of asset. For example, a positive derivative exposure to a foreign currency.

Market risk

Risk of a change in the value of a financial instrument as a result of variations in equity prices, exchange rates, or interest rates.

Operational risk

Collective term for risk of loss resulting from disruptions in business operations, for reasons such as human error, deficient systems, or shortcomings in instructions or procedures.

Outperformance

Achieved when a portfolio produces a higher return than its benchmark or reference index. Earning an active return greater than zero.

Passive management

Management of a portfolio so that the holdings mirror the composition of a chosen index so that the portfolio return matches the return on the index. Also known as indexing.

Portfolio risk, ex post

The standard deviation of the return on the portfolio during the period. Indicates the extent of fluctuations in the value of the portfolio and reflects the portfolio's risk level. See also Volatility.

Real return

Return minus inflation.

Rebalancing

Restoring the composition of assets in a portfolio or a benchmark index to a desired allocation, such as 50% equities and 50% fixed income.

Reference index

Index series against which a portfolio's return and risk is compared, such as the SIX Return Index.

Return

Time-weighted return, calculated on a daily basis and based on the assumption that all transactions occur at the end of the day. This concept is always used when reporting the financial performance of a portfolio or sub-portfolio and refers to the performance before expenses unless stated otherwise.

Return contributions

Shows how large a part of the return is attributable to a particular portfolio or decision. Return contributions are usually measured in percentage points. The sum of all return contributions equals the total percentage return for asset management overall or in a specific area.

Semi-active asset management

Portfolio management carrying somewhat higher active risk than passive management, that is, indexed management with limited intervention. Also known as enhanced indexing.

Sharpe ratio

A measure of risk-adjusted return. Calculated as the portfolio's return minus risk-free interest, divided by the standard deviation on the portfolio. A high Sharpe ratio indicates a good trade-off between risk and return.

Short position

Negative exposure to a market or type of asset. For example, a negative derivative exposure to a foreign currency.

SIX Return Index

Reference index for the Fund's Swedish equity portfolio. Charts the market performance, including dividends, of companies listed on the A and O lists of the NASDAQ OMX Stockholm exchange.

Strategic allocation

Medium-term deviations from the normal portfolio's asset allocation, foreign exchange exposure, duration, and so forth aimed at enhancing returns on and risk characteristics of the strategic portfolio. Strategic allocations are decided by the Board of Directors based on the normal portfolio and medium-term forecasts of risk and return.

Swedish equity portfolio

For 2009, the portfolio consists of equities and equity-based instruments listed on a Swedish exchange and unlisted Swedish shares and investments other than holdings in AP Fastigheter.

Tactical asset allocation

Active position-taking between different asset categories or regions, for example, to outperform an index.

Volatility

Risk yardstick that corresponds to the measured standard deviation of the return on an asset. It shows how much returns vary.



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