

Administration Report 2011

In a weak stock market, in which the Fund capital decreased slightly compared to the previous year, the Fund's active management made a positive contribution of close to SEK 0.5 billion. At year-end, Fund capital totalled SEK 210 billion.

AP4's assets comprise public funds that have statutorily been allocated to the special asset management stipulated in Chapter 9 § 8 of the Instrument of Government. The Fund is a governmental authority whose operations are regulated by the Swedish National Pension Funds Act (2000:192). The Act entails that AP4's funds may only be utilised by the Government to finance the income-related retirement pension, unless the Riksdag (Swedish Parliament) resolves otherwise.

The Fund shall independently formulate its targets and strategies. 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. Environmental and ethical issues must be taken into account without compromising the goal of best possible return.

There is a substantial difference between the AP Funds and other governmental authorities. For example, the Funds are more independent than most other authorities. The operations are governed by law and the Funds have their own Boards of Directors who bear responsibility for the operations. The Funds are reviewed by external auditors. Every year, the Government adopts the Funds' income statements and balance sheets. The Funds are also evaluated each year by assignment of the Government. This evaluation results in a written communication to the Riksdag.

AP4 is thus a governmental authority and the Swedish Code of Corporate Governance is in many respects not applicable to the Fund because the differences between public law and company law are too large. The Administration Report has therefore been limited to the parts that can be deemed relevant for the Fund.

Board of Directors

AP4's Board of Directors shall consist of nine ordinary members without deputies. The members are appointed by the Government, of which one according to proposals from an employer organisation, and two according to proposals from employee organisations. The Government appoints the Chairman and Deputy Chairman from the members who have not been nominated by labour market parties.

At the end of May 2011, the Government appointed Jakob Grinbaum Deputy Chairman of the Fund's Board of Directors. Jakob Grinbaum replaced Lars Frithiof, who had declined re-election. Ing-Marie Gren, Stefan Lundbergh and Lena Micko were appointed new members. Elisabeth Nilsson had declined re-election and Ilmar Reepalu left his position because he had been a member of the Fund's Board for 11

years. Other members of the Board were re-elected. They are Monica Caneman, Chairman, Kajsa Lindståhl, Håkan Arnelid, Roger Mörtvik and Charlotte Strömberg.

Since 2010, the Board has had a remuneration committee consisting of three Board members. The committee has the task of advising the Board and preparing matters regarding remuneration made to the CEO and other senior executives. The remuneration committee also prepares matters relating to the Fund's policies regarding remuneration and other employment terms for all employees.

The Board's appointment applies until the Fund's balance sheet and income statement for 2011 have been adopted. Members of AP4's Board are presented in more detail in the annual report and on the Fund's web site www.ap4.se.

Fees paid to Board members are determined by the Government. Full-year remuneration for the Chairman of the Board is SEK 100,000, for the Deputy Chairman SEK 75,000 and for other members SEK 50,000 each. Payment to the remuneration committee is SEK 50,000, which is divided equally between the three members.

Rules of procedure

The Board is responsible for the Fund's organisation and management of its funds. The Board adopts rules of procedure for its work and an instruction for the CEO. These fundamental documents, as well as ethical guidelines for employees and regulations governing their transactions in financial instruments, are reviewed annually.

The work of the Board in 2011

During the financial year, the Board held six meetings at which minutes were recorded. As shown in the table below, attendance remained high, at around 91% on average. In the spring, the Board performed an evaluation of its work. At the Board meetings, the CEO attended as did employees of the Fund such as persons reporting and secretaries.

In 2011, the Board's work focused on the structure of the Fund's normal and strategic portfolios as well as internal control. During the year, the Fund's Board deepened its work and the discussion relating to the ALM process (Asset Liability Management).

In order to provide the Board with continuous information, the CEO writes an information bulletin between the Board members.

In November, the Board adopted an operational plan for the coming year, in accordance with the rules of procedure.

Fund management

The Board of AP4 has delegated responsibility of ongoing administration to the CEO of the Fund. To support him in his decision-making, the CEO has appointed an executive management committee which, at the end of 2011, consisted of three employees. The executive management committee as per 17 February 2012 is presented in the annual report, see www.ap4.se.

Remuneration for employees

The Board sets the terms of employment for the CEO based on recommendations from the remuneration committee. All employees have individual employment contracts. The Board had adopted a policy for remuneration and other employment terms. The policy, which comprises all employees employed for more than six months, apart from the CEO and senior executives, can give a maximum outcome of two additional monthly salaries in accordance with the Government's guidelines regarding terms of employment for senior executives at the AP Funds. In order for incentive-based remuneration to be payable, the Fund must report a positive total return. Also, the Fund's outcome in terms of market value, including expenses, must be to a sufficient amount that costs relating to the incentive-based pay system can be carried without the Fund reporting a loss. A further requirement is that certain previously established return targets are met.

Information regarding remuneration levels for the CEO, executive management committee and other employees, as well as the outcome of incentive-based pay in 2011, is provided in detail in note 6 of the annual report.

Auditing

AP4's auditors are appointed by the Government. The current audit mandate for 2011 is held by Anna Peyron and Peter Strandh of Ernst & Young AB. The assignment is in place until the Fund's income statement and balance sheet

for 2011 have been adopted, and also involves a special mandate for Ernst & Young AB to co-ordinate the audits of the AP Funds. The auditors submit an auditors' report on their review. They report directly to the Board, partly by means of a written audit memorandum, and partly by verbal presentation. The auditors attend at least one Board meeting per year. The auditors also provide a verbal report to the Ministry of Finance annually.

Internal control

Each year, the Board of the Fund draws up a risk management plan in accordance with generally accepted principles on the financial market and the Swedish National Pension Funds Act. The plan shall ensure smoothly functioning internal control of risks, that the responsibility of the Performance and Risk Control unit (which has an independent position) is clearly established, and that this responsibility carries the requisite authorities.

The Performance and Risk Control unit is independent of the investment operations and administration and reports directly to the CEO and to the Board if necessary. Performance and Risk Control reports to the Board verbally and in writing at each Board meeting. In the opinion of the Board, such reporting and frequency thereof adequately covers the Board's requirement in this regard.

According to the plan, the Management shall be aware of different risks and how they are managed. It shall also ensure that routines are established to ensure that the Fund complies with the legislation governing its operations and the decisions taken by the Board and CEO.

Other information

In the section Risks and in note 21 of the Fund's annual report for 2011, a more detailed overview is provided of different financial and operational risks. The annual report is available on the Fund's web site www.ap4.se.

BOARD MEETINGS 2011

	16 Feb.	14 April	9 June	4 Aug.	19 Oct.	22 Nov.	Fee received, SEK '000
Monica Caneman, Chairman 1)	x	x	x	x	x	x	117
Lars Frithiof, Deputy Chairman	x	x					37
Jakob Grinbaum, Deputy Chairman (formerly member of the Board)	x	x	x	x	x	x	62
Kajsa Lindståhl, member of the Board	x	x	x	x	x	x	50
Charlotte Strömberg, member of the Board 1)	x	x	x	x	x	x	67
Håkan Arnelid, member of the Board	-	x	x	x	x	x	50
Roger Mörtvik, member of the Board 1)	x	x	-	x	x	x	67
Ilmar Reepalu, member of the Board	x	x					25
Elisabeth Nilsson, member of the Board	x	x					25
Ing-Marie Gren, member of the Board			-	x	x	x	25
Stefan Lundbergh, member of the Board			x	x	-	x	25
Lena Micko, member of the Board			x	-	x	x	25

1) The fee received includes the fee from the remuneration committee.

On 26 May, the Government announced that it had appointed the following members of AP4's Board: Prof. Ing-Marie Gren, Stefan Lundbergh PhD and Local Government Commissioner Lena Micko. Board member Jakob Grinbaum was appointed new Deputy Chairman. Lars Frithiof, Ilmar Reepalu and Elisabeth Nilsson left their positions.