

ADMINISTRATION REPORT 2009

2009 was a powerful year – a year of recovery. The Fund made a positive return of 21.6%, and Fund capital increased SEK 31 billion, to SEK 195.7 billion. With an equities allocation of more than 60%, the Fund benefited from significant appreciation in global stock markets.

The assets of AP1–AP4 and AP6 are state-owned and reserved by law for specific asset management purposes in accordance with chapter 9, section 8 of the Instrument of Government. The operations of the Fund are regulated by the Swedish National Pension Funds Act (LAP). The law stipulates that the Government may not use Fund assets for purposes other than financing income-based old-age pensions, unless the Riksdag decides otherwise. The AP Funds are governmental authorities, but there are major differences between the Funds and other authorities. For example, the Funds are more independent than most other authorities. Their operations are regulated by law, and the Funds have their own boards that bear the responsibility for their operations. The Funds are audited by external auditors. The Government adopts the Funds' annual income statements and balance sheets and orders an assessment of the Funds' performance each year. These assessments are presented to the Riksdag in written reports.

As AP4 is a governmental authority, many aspects of the Swedish Code of Corporate Governance are not applicable to the Fund, as the differences between public law and commercial law are far too great. Thus, this administration report is limited to areas relevant to the Fund.

BOARD OF DIRECTORS

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

At the end of May, the Swedish Ministry of Finance announced that Roger Mörtvik, head of the Swedish Confederation of Professional Employees' social policy department, had been appointed the Confederation's representative on AP4's Board. Roger Mörtvik replaced Sture Nordh, who had been a member of the Board since 1999. At the same time, Håkan Arnelid, finance manager at IF Metall (the Swedish metalworkers' union), was appointed the new representative for the Swedish Trade Union Confederation. Håkan Arnelid replaced Stefan Löfven, who left the Board after one year as a director. Ulrik Wehtje, who has represented the Confederation of Swedish Enterprise since 2004, left the Board of his own accord at the end of May. The Confederation did not nominate a new representative, so one

Board seat is vacant. The other members of the Board were re-elected: Monica Caneman, Chairman; Lars Frithiof, Deputy Chairman; Kajsa Lindståhl; Inga Persson; Ilmar Reepalu; and Charlotte Strömberg. The Board's mandate runs until the Fund's income statement and balance sheet for 2009 have been adopted. More information about the directors is provided in the annual report and at the Fund's website, www.ap4.se.

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

RULES OF PROCEDURE

The Board is responsible for the Fund's organisation and management of its assets. The Board has adopted rules of procedure and instructions for the CEO. These key documents are revised annually, as are the ethical guidelines for employees and rules for trading in financial instruments.

BOARD ADMINISTRATION IN 2009

In 2009, the Board held nine meetings of record. As shown in the table, average attendance was high, at 90%. During the spring, the Board assessed its work with the aid of an outside consultant. The CEO and other AP4 staff participate in Board meetings in the capacity of reporter or secretary. The Board has not found it necessary to date to appoint standing committees to handle specific tasks.

The Board underwent extensive change in 2008 and 2009, when a new Chairman, Deputy Chairman, and several new directors were appointed. Naturally, this has influenced the way the Board works. Much work has revolved around revisiting old procedures and decisions while capitalising on the fresh approaches brought by new directors. In 2009, the Board's focus has been decisions for the strategic portfolio. Significant time has also been dedicated to discussing corporate governance in general and remuneration in listed companies in particular. The Fund's ownership policy was revised in October. The Board has also followed up on the final phase of the comprehensive change initiative that the Fund's CEO, Mats Andersson, launched in 2007 with the aim of improving the Fund's active return.

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

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

EXECUTIVE MANAGEMENT

The Board delegates responsibility for day-to-day management of AP4 to the CEO. The CEO has an executive management committee, consisting of eight employees in 2009, to support him in the decision process. The executive management committee as of 17 February 2010 is presented in the annual report and at www.ap4.se.

SALARIES AND REMUNERATION

The Board determines the terms of employment of the CEO based on the recommendations of the Chairman and Deputy Chairman. All employees have individual employment contracts. The Board has adopted an incentive scheme for employees of the Fund. This scheme applies to all employees who have been with the Fund for more than six months (apart from the CEO and senior executives) and potentially pays a bonus of up to two months' salary, in accordance with the Government's new guidelines on terms of employment for senior executives at the AP Funds. Incentive-based bonuses may be paid only if the Fund posts a positive total return and the net profit at market value is large enough so that the costs of the incentive scheme can be borne without the Fund reporting a loss. In addition, certain predefined targets based on returns must be reached.

Detailed information about salary and remuneration paid to the CEO, members of the executive management committee, and other employees, as well as the outcome of the incentive scheme for 2009, is provided in Note 5 of the annual report.

AUDIT

AP4's auditors are appointed by the Government. The current audit mandate for 2009 is shared by Anna Peyron and Lars Bonnevier of Ernst & Young AB. The mandate is valid until the Fund's income statement and balance sheet for 2009

are adopted and separately appoints Ernst & Young AB to coordinate the audit process across all AP Funds.

The auditors submit a report based on their audit. They report directly to the Board in a written report and an oral presentation. The auditors attend at least one Board meeting per year. The auditors also make an oral presentation to the Ministry of Finance each year.

INTERNAL CONTROL

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

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

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

OTHER DISCLOSURES

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

MEETINGS OF THE BOARD IN 2009

	Feb 17	Apr 20	June 5	June 25 by corre- spondence	Aug 24	Oct 7 extra	Oct 22	Nov 25	Dec 21 by corre- spondence
Monica Caneman, Chairman	X	X	X	X	X		X	X	X
Lars Frithiof, Deputy Chairman	X	X	X	X	X	X	X	X	X
Inga Persson	X	X	X	X	X	X	X	X	X
Ilmar Reepalu		X	X		X	X	X	X	X
Kajsa Lindståhl	X	X	X	X	X	X	X	X	X
Charlotte Strömberg	X	X	X	X	X	X	X		X
Håkan Arnelid			X		X	X	X	X	X
Roger Mörtvik			X	X	X	X	X	X	X
Stefan Löfven	X	X							
Ulrik Wehtje	X	X							
Sture Nordh	X	X							

Stefan Löfven, Ulrik Wehtje, and Sture Nordh left the Board of Directors during the year and were replaced by Håkan Arnelid and Roger Mörtvik.