



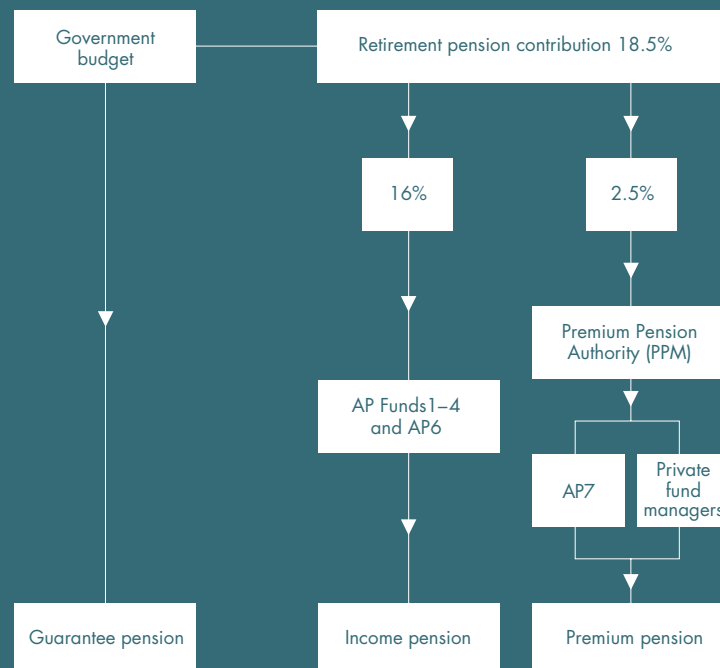
Annual Report 2005

The Fourth Swedish National Pension Fund (AP4)

is one of the national pension system's five buffer funds. Together with the other buffer funds, AP4 aims to generate optimum returns for the long-term health of the pension system. AP4 manages some SEK 180 billion of Sweden's state pension assets.

Sweden's pension system has two components: a pay-as-you-go element and a premium-funded element. The pay-as-you-go system is based on current pension disbursements being financed by contributions from people in work. The contribution is 16% of an employee's salary. The size of contributions and disbursements varies over time according to factors such as the labour participation rate, wage growth and demographic changes. The role of AP1, AP2, AP3, AP4 and AP6 is to serve as a buffer to offset the impact of temporary fluctuations in contributions and disbursements.

The premium reserve component helps to finance pension disbursements via funds accumulated from premium reserve contributions. These contributions amount to 2.5% of an employee's salary. The premium reserve is managed by private pension fund managers and AP7.



Investment goals

AP1, AP2, AP3 and AP4 have the task of managing their fund capital to generate maximum returns for the national pension system. AP6 has a specialised mandate to invest a portion of the pension system's capital in the venture capital and private equity markets. The funds must work to generate maximum returns from their investment activities in relation to the risks involved. They must also strive to ensure their investments are generation-neutral, which means that risks may not be reduced in the short term if such a strategy is deemed to increase the risk of a negative impact on the pensions of future generations.

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Investment rules

As part of the reorganisation of the Swedish pension system, new investment rules were drawn up for AP1, AP2, AP3 and AP4. These came into effect on 1 January 2001 and are identical for each of the four funds. The investment rules allow the funds to invest in most asset classes.

- They allow the funds to invest in all types of security that are listed and liquid, apart from commodity-related instruments.
- At least 30% of each fund's assets must be invested in fixed income securities with low credit and liquidity risk.
- A maximum of 40% of each fund's assets may be exposed to currency risk.
- No more than 10% of each fund's assets may be exposed to a single issuer or group of issuers with mutual links.
- The market value of each fund's equity holdings of listed Swedish corporations may not exceed 2% of the stock market's capitalisation.
- Each fund may own shares corresponding to no more than 10% of the voting capital in any single listed company.
- No more than 5% of each fund's assets may be invested in unlisted securities. Such investments must be made indirectly via venture capital firms or suchlike.
- At least 10% of each fund's assets must be managed by external asset managers.

Information

For further information, visit the AP4 website at www.ap4.se. The following publications are available there:

- Annual and interim reports from recent years
- Key documents, such as the AP4 Corporate Governance Policy
- The Fund's asset liability modelling analysis
- The publication date for the 2006 interim report

Annual and other reports may also be ordered directly from the Fund.

Further information about the national pension scheme is available at the Swedish Social Insurance Agency website at www.forsakringskassan.se.

This is a translation of AP4's Annual Report in Swedish. In the event of any discrepancy between the Annual Report in Swedish and the translation, the former shall have precedence.

2005 in brief

- The Fund's net profit for the year totalled SEK 25.8 billion (14.3).
- During the year fund capital rose from SEK 151.4 billion to SEK 180.1 billion, calculated at market value and after net payments from the national pension system and transfers from the special asset management fund totalling SEK 2.9 billion.
- The return on investment assets totalled 16.9%, an underperformance of 0.1 percentage points compared to the benchmark index.
- The global equity portfolio posted a return of 14.5%, an underperformance of 0.2 percentage points against the reference index.
- Return on the Swedish equity portfolio totalled 34.1%, compared to 36.3% for the reference index.
- Fixed income management generated a return of 3.7%, outperforming the reference index by 0.3 percentage points.
- Return on currency operations was 2.0% and active currency management contributed 0.1 percentage points to AP4's total return.
- At 31 December 2005 the Fund's currency exposure was 10.1% (20.4). A strategic decision to reduce currency exposure was taken in November.
- Operating costs totalled SEK 133 million (126), equivalent to 0.08% (0.09) of Fund capital.

Five-year summary

	2005	2004	2003	2002	2001
Fund capital at 31 Dec (SEK bn)	180.1	151.4	135.5	113.6	131.6
Net inflows from the pension system and special asset management fund (SEK bn)	2.9	1.7	2.6	5.0	4.5
Net profit for the year (SEK bn)	25.8	14.3	19.3	-23.0	-6.9
Return on total portfolio incl. expenses (%)	16.8	10.5	16.8	-16.9	-5.1
Return on total portfolio excl. expenses (%)	16.9	10.6	17.0	-16.8	-5.0
Return on total portfolio versus index excl. expenses (%)	-0.1	-0.3	-1.0	-0.5	-0.5
Return on listed assets versus index excl. expenses (%)	-0.1	-0.3	-0.4	-0.9	0.1
Active risk in total portfolio, ex post (%)	0.8	1.0	0.9	1.4	3.5
Currency exposure at 31 Dec (%)	10.1	20.4	18.5	16.8	13.5
Share of active management incl. enhanced at 31 Dec (%)	100.0	100.0	100.0	90.9	87.0
Share of external management incl. investments in venture capital firms at 31 Dec (%)	18.8	20.6	13.2	13.5	13.1
Asset management cost quotient incl. commission expenses	0.13	0.15	0.16	0.13	0.13
Asset management cost quotient excl. commission expenses	0.08	0.09	0.10	0.10	0.10

Returns

	Returns, %		
	Portfolio	Index	Relative
Global equity portfolio ¹	14.5	14.8	-0.2
Internally managed ²	11.6	12.5	-0.9
Externally managed ²	21.0	20.4	0.7
Swedish equity portfolio	34.1	36.3	-2.2
Fixed income portfolio ³	3.7	3.5	0.3
Real estate	47.7	47.7	0.0
Investment assets ⁴	16.9	17.0	-0.1
Listed investment assets	16.4	16.5	-0.1

¹ Including full hedging 2005 and excluding hedging 2004.

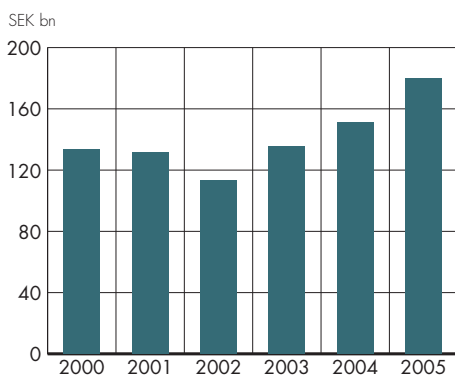
² Investments in external financial mandates prior to Dec 2005 included under internally managed global equities.

³ Fully currency hedged.

⁴ Including currencies and tactical allocation. Contributions from these asset classes are shown under analysis of relative contributions.

Percentages in the above table are individually rounded off and may therefore not equate exactly to the total.

Market value of AP4's fund capital at 31 Dec (2000–2005)



Fund capital increasing again after slow start.





THOMAS HALVORSEN

President's comments

This annual report reviews the Fourth Swedish National Pension Fund's 32nd year of operations. In 2005 fund capital rose from SEK 151.4 billion to SEK 180.1 billion and net profit for the year amounted to SEK 25.8 billion. The total return on investment assets was an excellent 16.9%.

When the pension system was restructured at the end of 2000 AP4 was allocated SEK 134 billion kronor in fund capital. Heavy falls on equity markets reduced this to a low of SEK 105 billion in October 2002. The subsequent rally in equity markets has been almost as remarkable as the slump that preceded it, generating outstanding absolute returns for AP4 in recent years. Thus, the Fund's overall average return on investment has been 19.6% over the last five years – a very reasonable performance.

Strong returns in 2005 mean that AP1, AP2, AP3 and AP4 have generated clearly positive returns since the new-style pension system began operation five years ago. This is particularly gratifying since inflation has been unusually low during the period, which in turn has resulted in a substantial upgrading of long-term projections for the pension system. The absolute returns recorded by the four funds in the last five years compare well with those of other investors with similar mandates. The PPM index, used as a benchmark by AP7, lags the buffer funds by a considerable margin. The same is true of the average returns reported by Swedish life assurance companies. It is fairer to limit the comparison to the four leading life assurance providers since these are permitted the greatest investment latitude under existing regulations. Yet even here the buffer funds come out on top. Two observations may be made in this context. First, the rules governing the funds are wisely structured in that they provide substantial long-term investment flexibility regardless of short-term market conditions. Second, the four funds have remained faithful to their long-term investment strategies, maintaining high weights in equities even in a bear market. This has allowed them to gain full benefit from the current upturn.

When it comes to AP4, I acknowledge that we did not manage to surpass the benchmark index in 2005. Fixed

income asset management outperformed its reference index and has performed excellently in recent years. Income from active currency management and tactical asset allocation was also stable and satisfactory. However, the restructuring of our equity operations (including the appointment of two new managers) has yet to produce satisfactory investment returns. The investment strategies of the global equity portfolio and especially the Swedish equity portfolio were too defensive for them to reach their targets in 2005. Major internal efforts are being made to improve the equity investment process, however, and the Fund's annual outperformance target of 0.7 percentage points for the entire portfolio remains firmly in place.

Other internal work in 2005 focused on monitoring our long-term strategic and investment performance. We also conducted a thorough cost review. The focus on investment returns resulted in several improvements and reinforcements on the equity side, while fixed interest and currency mandates were further broadened. In terms of strategy, we decided to devote greater resources and attention to the medium-term horizon of three to five years. A new strategist was appointed at year-end to focus on medium-term asset allocation. The Board also decided to allow investments in emerging market equities and resolved to reduce currency exposure because of the weakness of the Swedish krona. Though the latter decision was not implemented until December, it had a positive impact of SEK 150 million on absolute return.

The ongoing cost review was based on a benchmarking study by the Canadian firm Cost Effectiveness Measurement. This showed that AP4's costs are in line with those of other institutions with similar mandates and management models. Even so, we resolved to reduce annual direct and indirect overheads by SEK 35 million via a range of measures, some of which have yet to be fully implemented.

I would encourage readers to read the section entitled "Governance focus at Aina and Skandia", which highlights two corporate governance issues in which we were actively involved in 2005. Our efforts in both cases met with little or no apparent success, but they nevertheless highlighted interesting issues pertaining to takeover rules and the protection of minority shareholders. Opinion among Swedish financial institutions was divided in both instances.

Corporate governance issues are often matters of judgement and it is perfectly legitimate to arrive at different conclusions. The world is not as black and white as the media would have us believe. Financial institutions that are minority shareholders have to realise that they cannot make progress without cooperation. Willingness to compromise and a degree of pragmatism are necessary ingredients if the minority is to unite and maximise its influence.

In both the Skandia and Aina cases, AP4 defended the principle that a public offer for a quoted company should contain a reasonable bid premium. The size of the premium may vary from case to case, but a premium should always be offered. It is vital to stress this point since we have now seen several unfortunate instances in which bids for companies listed on the Stockholm Stock Exchange have failed to include a premium. Swedish stock market rules need to be tightened in this regard and the due diligence processes for listed companies must be called into question. A greater onus should be placed on corporations that make takeover bids. Acquiring a company should be no easier or cheaper on the Stockholm stock market than on the large international bourses.

Another issue that arose in the case of the proposed Skandia takeover was whether financial institutions have a special duty to try to preserve domestic control over Swedish corporations. My answer to that question is a resounding no. The key overriding responsibility of all shareholders is to act to ensure that the company generates maximum returns from its operations. Any dilution of this commitment is unfair on minority shareholders. Boards have special insight into a company's affairs and therefore have a key role to play in the event of a hostile takeover. Even in difficult times, AP4 has never shrunk from supporting boards in which it has confidence.

Stockholm, February 2006



Thomas Halvorsen

AP4's role in the national pension system

Sweden's national retirement pension scheme has three elements: an income pension, a supplementary pension (former ATP) and a premium pension. AP1, AP2, AP3, AP4 and AP6 together act as a buffer for income and supplementary pensions and have no links with the premium pension (which is not discussed here).

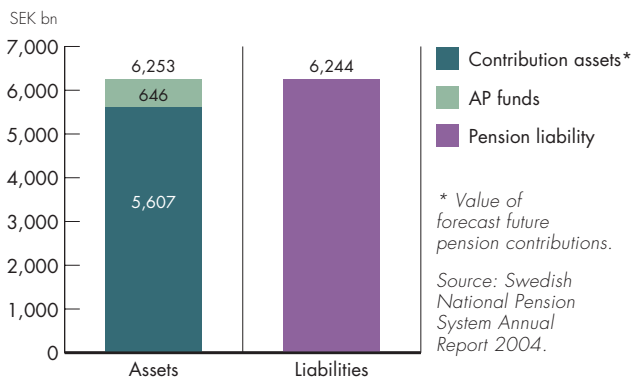
Today's income and supplementary pension disbursements are funded predominantly by current pension contributions. Future expected contributions are thus the system's most important asset, while the assets of the buffer funds amount to about 10% of total pension liabilities (see chart, below left).

The Swedish system is designed to forge a strong link between liabilities and assets. Yet assets and liabilities may not necessarily be in balance at any one point in time. Stability is ensured by a rebalancing mechanism that

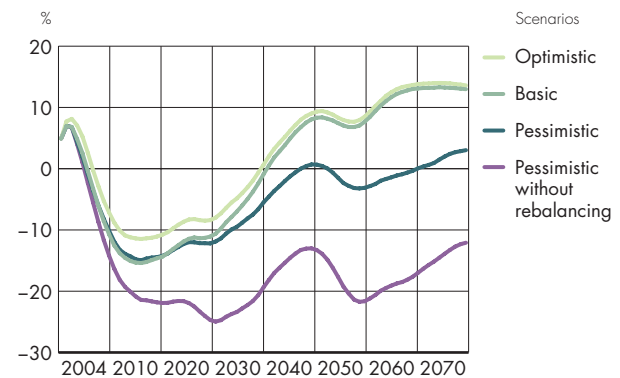
automatically adjusts pension disbursements should pension liabilities exceed pension assets. In the next 20 to 30 years the main threat to equilibrium within the system would be a fall in the labour participation, while the main long-term risk is unfavourable demographic developments, such as a low birth rate or low net immigration. Other risks include low investment returns from the buffer funds and weak economic growth.

According to Swedish Social Insurance Agency forecasts, pension contributions are likely to fall short of pension liabilities in the next few decades and create deficits that are not expected to be eradicated until about 2040 (see chart, Net Contributions as % of Contribution Revenue). The role of the buffer funds will be to cover as much of this deficit as possible, starting from about 2009.

National pension system balance sheet



Net contributions as % of contribution income





Fund strategy

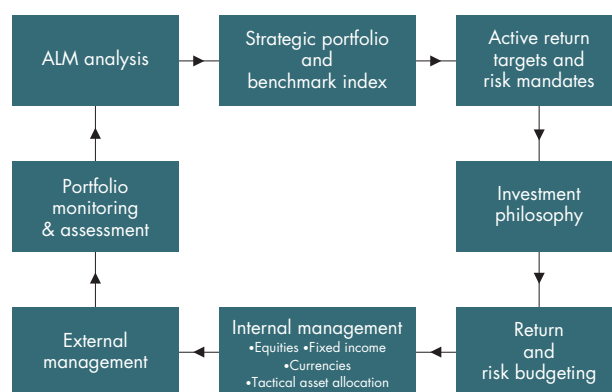
The buffer funds have the task of managing their assets to generate maximum benefit for the national pension system. AP4's interpretation of this mandate is that its primary goal is to minimise the risk of a future reduction in pension disbursements. Analyses of the pension system's assets and liabilities, known as asset liability modelling (ALM), have been carried out to determine the best strategy for achieving this goal. ALM analysis aims to determine which combination of buffer fund assets best serves the long-term interests of the pension system, based on a low level of risk. The chosen asset mix forms the Fund's long-term strategic portfolio.

The next step in the process is to establish a strategy for active management by setting outperformance targets and risk mandates relative to the strategic portfolio. At this point we also decide which management mandates are to be retained internally and which are to be entrusted to external managers (see chart, right).

ALM ANALYSIS AND THE STRATEGIC PORTFOLIO

Once every three years AP4 performs a more extensive ALM analysis that is updated and revised over the next two years. The most recent in-depth analysis was conducted in 2003 and details are available in the 2003 Annual Report or on the AP4 website at www.ap4.se under "How We Work".

For the strategic portfolio, the primary finding of our ALM analysis is that the pension system benefits if the buffer funds retain a high weight of about 60% in equities. The buffer funds account for some 10% of pension system assets and the remaining 90% – which take the form of



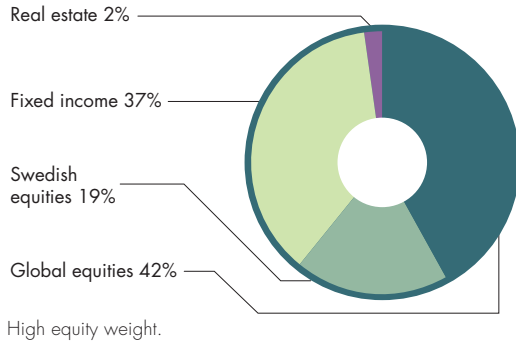
Structure of AP4's asset management process.

future contributions – can be likened to index-linked bonds. Thus, the ALM analysis suggests the pension scheme as a whole should hold about 6% of its assets in equities.

In 2005 AP4 studied a range of possible changes in the strategic portfolio. The main conclusions were that investing in emerging market equities would help to reduce the risk of a future downward adjustment in pensions, though only to a limited extent. The AP4 Board therefore decided to allow the Fund to invest 3% of its assets in emerging market equities and reduce its global equity holdings in developed markets by an equivalent amount. A detailed review of the equity portfolio concluded that the current weight of 19% Swedish equities remains appropriate.

At year-end the strategic portfolio was structured as follows: 61% equities (19% Swedish and 42% global developed market equities), 37% fixed income and 2% real

Strategic portfolio 2005



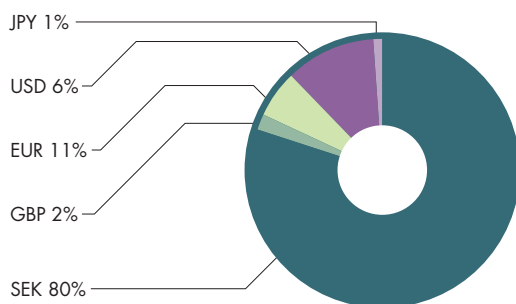
estate (see chart, above). Emerging market investments are likely to commence in 2006.

The fixed income portfolio will be structured as follows in 2006: 45% Swedish kronor, 30% US dollars, 15% euros, and 10% UK sterling. The Fund has opted to invest a relatively high share of the fixed income portfolio in non-government bonds with a high credit rating since these are expected to generate higher yields than government bonds.

AP4's currency strategy is based on the portfolio's currency exposure mirroring the currency distribution of Sweden's import. The US dollar weight has, however, been increased to account for Sweden's dollar-based raw material imports. The rationale behind the currency strategy is to achieve returns that compensate for the effects of exchange rate swings on inflation, hence helping to preserve the purchasing power of future pensions.

Econometric studies by the Riksbank estimate the feed-through effect of import price changes on Swedish inflation at 20%, even though imports account for 30% of Sweden's private consumption. Based on the Riksbank study and internal AP4 research, the long-term currency strategy is weighted to mirror Sweden's key import currencies but with an overall currency exposure limit of 20%.

Currency exposure under 2005 strategy



Currency exposure 20%.

In 2005 the Fund studied a range of possible scenarios for the next three to five years. We concluded that the Swedish krona is undervalued from a medium-term perspective and therefore we reduced our strategic currency exposure from 20% to 10% as of December 2005.

Returns on each asset class in the strategic portfolio are measured using an index – the SIX Return Index for Swedish equities; the MSCI World DNI (hedged) for global equities; the Merrill Lynch GBI (hedged) and Handelsbanken Markets Bond indices for foreign bonds and Swedish bonds respectively; and the Swedish Property Index for the real estate portfolio. Returns from strategic currency exposure are measured using a tailored import basket index.

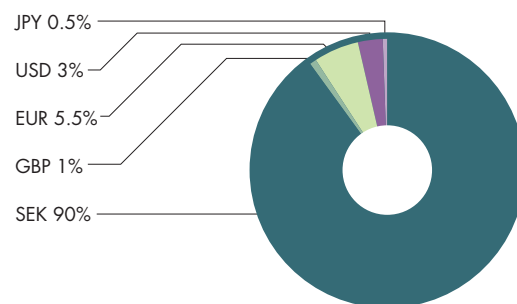
The strategic portfolio also serves as the Fund's benchmark index. With the exception of active tactical asset allocation and active currency management, AP4's asset management operations are all index-related. This means that returns and risk are subject to targets that are measured and assessed relative to the benchmark index.

ACTIVE RETURN TARGETS AND RISK MANDATES

For 2006, the Board has stipulated that total returns over a two-year period shall exceed the benchmark index by 1.35 percentage points (equating to an active return of 0.7 percentage points or SEK 1.2 billion) and active risk shall not exceed 4% on a permanent basis. The permitted deviations from the strategic portfolio are +8/-10 percentage points for equities, +10/-7 percentage points for fixed income assets and +1/-1 percentage points for real estate. The Fund's average risk-adjusted return, measured as an information ratio, shall exceed 0.3.

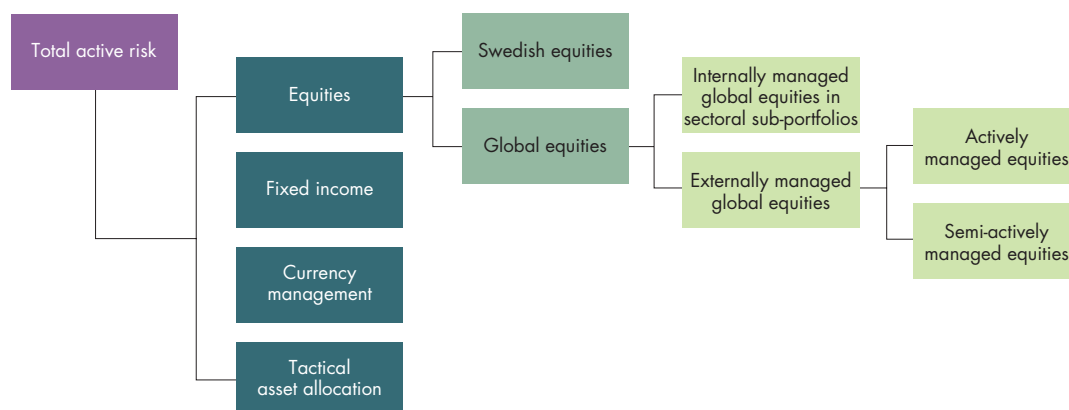
These targets and mandates form the basis for the outperformance targets and risk mandates that the Fund sets

Currency exposure under 2006 strategy



Change in currency exposure for 2006.

Return and active risk by portfolio



for its asset management operations. Active risk (risk relative to the benchmark index) is spread relatively evenly to ensure a diversification of risk among managers and portfolios. The table at the foot of the page shows the distribution of returns and active risk.

In order to achieve an even distribution of risk, we allocate the highest active return targets and largest risk mandates to those investment areas judged to have the best potential to outperform the benchmark index.

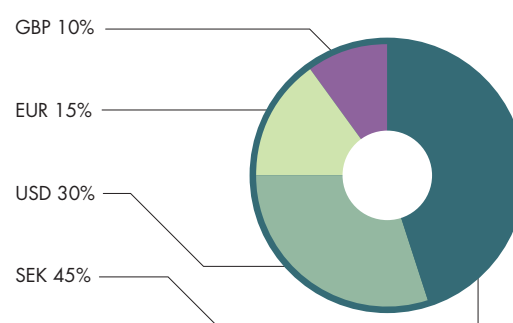
The internally managed global equity portfolio has ten sector-based equity mandates and one sector allocation mandate. Two sector portfolios are managed so as to mirror the index. Analysis and position taking are based on internal company and equity analysis using a common analysis model that creates consistency across our portfolios.

Swedish equities are managed in a separate portfolio but Swedish and global equities are closely connected because the Swedish equity portfolio manager receives analysis and other input from the global sector portfolio managers. The

return target is higher for the Swedish equity portfolio than for the global portfolio, partly because AP4 has a knowledge advantage when it comes to the Swedish market and the positive impact of corporate governance activities.

Fixed income is managed internally in a global portfolio of Swedish and international securities. Though valued against a single active return target and with one compre-

Currency distribution of fixed income portfolios, reference index 2005 and 2006



Active return targets and risk mandates, from Jan 2006

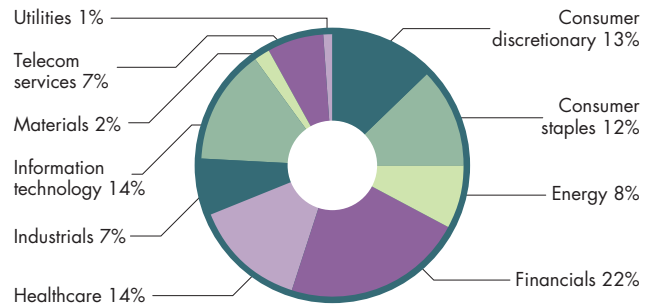
	Weight (%)	Deviation mandate (% points)	Benchmark and reference index	Annual active return target (% points)	Active risk guideline (%)
Global equity portfolio*	42	+10/-10	MSCI World DNI (SEK)*	0.7	< 4.4
Swedish equity portfolio*	19	+10/-10	SIX Return Index	1.4	< 6.0
Fixed income portfolio	37	+10/-7	Handelsbanken Markets Bond Index/ Merrill Lynch GBI (SEK)*	0.4	< 1.5
Active currency management	-	+5/-5	Tailored import basket index	0.1	< 0.5
Tactical asset allocation	-	+4/-4		0.1	< 0.6
Real estate	2	+1/-1	Swedish Real Estate Index (SFI)	-	-
Investment assets	100		Index weighted as strategic portfolio	0.7	<4.0

* = Total deviation mandate for equities +8/-10

* = Hedged in SEK



Internally managed global equities per sector



hensive risk mandate, fixed income operations are spread across five risk classes (see the 2004 Annual Report for a more detailed presentation). The aim is to diversify active risk across a large number of positions that are only weakly correlated, thereby achieving a higher information ratio (higher active return in relation to the chosen level of risk).

Currency management is divided between a strategic component and an active component. The strategic management side aims to ensure that the Fund's total currency exposure – as opposed to the exposure arising from active currency management – is in line with the strategic currency exposure target. The active management side focuses chiefly on markets in which AP4 has fixed income operations and seeks to maximise the Fund's absolute returns within given risk mandates. The annual return target is 0.1% of total Fund assets, which equates to SEK 180 million.

Tactical asset allocation also has two components: passive management and active management. The former aims to minimise differences in asset allocations between the Fund and the strategic portfolio. The latter uses derivatives in the form of equity index futures and interest rate futures in different markets. It has an annual return target of 0.1% of total Fund assets.

Active currency management

AP4 conducts active currency management primarily in those currencies in which it has fixed income operations, which enables fixed income analysis to be used for foreign exchange activities. The risk mandate is defined as the highest permissible active position for each currency of $\pm 5\%$ of the total value of the investment assets and as 0.5% active risk for the active currency management operations as a whole. Decisions on overweights or underweights in different currencies are taken jointly by the fixed income and currency management team. Currency management is team-based rather than being structured on a currency-by-currency basis.

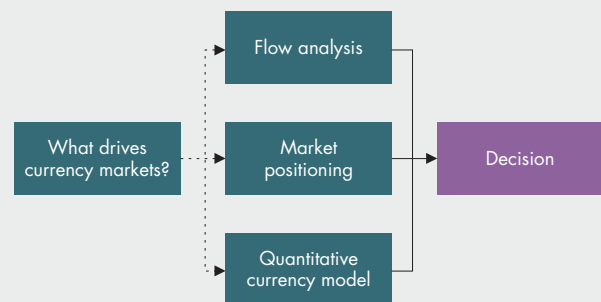
Our view is that currency markets are inefficient because some players, such as central banks and export companies, are not motivated primarily by profit maximisation. Moreover, empirical studies have shown that currencies tend to follow certain trends, while other research suggests that currencies backed by high interest rates tend to appreciate. It has been shown that a currency management strategy based on these considerations generates positive returns, which is why they are key elements in the Fund's investment philosophy.

MEDIUM-TERM PERSPECTIVE

An investment horizon of three to six months means that analysis is focused on identifying factors that can be expected to influence a specific currency during the medium term. However, the Fund also takes shorter-term positions where we see the potential for good returns in relation to risk.

Currency strategy is based on fundamental flow analysis and a quantitative currency model combined with market positioning analysis. Technical analysis is used to identify entry and exit levels. The aim is to generate more stable returns by spreading active risk across a number of positions.

Fundamental flow analysis aims both to assess long-term currency valuations and to forecast flows of different currencies over a 12-month period. These flows can arise for cyclical and structural reasons. It can be noted that individual currencies may



for long periods deviate substantially in value from what appears justified on fundamentals. This is often because capital balance flows exceed current account balance flows.

AP4 analyses currency market trends and drivers to determine which currencies are likely to experience substantial flows. If, for example, interest rate differentials and a strong rise in raw material prices were considered to be currency market drivers, the beneficiaries would be currencies with high interest rates and extensive raw material production. Economies with low interest rates and high raw material dependence would be likely to see their currencies weaken.

The quantitative valuation model is based on a range of financial variables and is used to rank currencies. Tests using historical data have shown that each indicator is a reliable guide to future exchange movements. The model's primary aim is to act as a filter and to provide input for position-taking.

Market positioning analysis generates information on the positions of the average player and is used to assess the risk attached to various currency positions. The market's positioning is determined by compiling data from a number of individual market players.

Since AP4's inception in 2001, currency management operations have made a positive contribution to income, and with a high information ratio. The risk contribution of our active currency management activities has increased each year.

Corporate governance in 2005

AP4's corporate governance activities came within a number of different categories in 2005:

PROCESSES PRIOR TO AGMS

In the early 1990s Swedish financial institutions initiated the first nominating committees in large Swedish-listed corporations without a controlling shareholder. The aim was to promote improved decision-making at annual general meetings. In spite of initial opposition from some quarters, nominating committees have been gaining ground ever since and are now an accepted part of the corporate fabric. Indeed, they are a cornerstone of the new Swedish Code of Corporate Governance published by the Government Commission on Business Confidence in 2004 and which came into force for large and medium-sized publicly quoted companies on 1 July 2005. Paragraph 2.1 of the code states: "The nominating committee is the mechanism for the shareholders' meeting to elect members and its role is to provide the meeting with a firm foundation for addressing such issues." The same rule states that the nominating committee must represent the company's shareholders. Under current law there is no parallel statutory provision regulating this area of corporate activity.

AP4 had representatives on 17 nominating committees prior to the 2005 AGM season. For the 2006 AGM season, the Fund has representatives on 16 nominating committees: Alfa Laval, Beijer Alma, BioInvent, Capio, Clas Ohlson, Getinge, JM, Karo Bio, Metro, Micronic, MTG, Precise Biometrics, SCA, Securitas, Telelogic and Transcom. In most cases we are represented because we are one of the three to five largest shareholders.

Nominating committee seats 2006

- Addtech
- Alfa Laval (Chairman)
- Beijer Alma
- BioInvent
- Capio
- Clas Ohlson
- Getinge
- JM
- Karo Bio
- Metro
- Micronic (Chairman)
- MTG
- Precise Biometrics
- SCA
- Securitas
- Telelogic (Chairman)
- Transcom

Nomination processes have become reasonably effective and in most cases receive due attention from shareholders and corporations alike. The nomination process often starts with the chief executive presenting the company's strategy. In most cases a review of the board's activities is also presented, which serves as a basis for the process of deciding how the board should be structured and finding appropriate candidates. Nominating committee members are often able to comment on any new share-related incentive schemes proposed by the company. The committee's workload customarily increases every fourth year in conjunction with the auditor selection process.

The new national code represents a more rigorous approach to corporate governance compared to the past. This means more work for nominating committees and therefore places greater demands on the human resources of large Swedish financial institutions. AP4 currently has three senior staff members whose work involves nominating committee activities.

PARTICIPATION AT AGMS

The AGM is the principal forum for shareholders. AP4 aims to participate in such meetings and to exercise its voting rights as a shareholder when it holds a significant holding in the company in question. In 2005 we were represented at 41 AGMs and extraordinary general meetings, which means we attended almost all the shareholder meetings of companies in our Swedish equity portfolio.

Nominating committee involvement has generally meant we have played a more prominent role at the AGM, either as a proposer of motions and/or as a respondent to questions about the nominating committee's work.

JOINT SHAREHOLDER INITIATIVES

During the year the Fund was active in the Association of Institutional Shareholders, an organisation formed by financial institutions in 2003 to build on the self-regulation of Sweden's equity market.

The association in 2005 submitted a formal response to draft parliamentary legislation on remuneration of business executives and declared itself strongly opposed as a matter of principle to the proposal that the AGM should set the remuneration of senior managers. The main criticism was that the proposal would shift responsibility for corporate administration from the board and chief executive to the AGM, thereby blurring the line of responsibility between



the various parts of the company and restricting the ability of shareholders to hold the board and chief executive to account. The association said this reduction in the powers of the board and chief executive risked undermining the purpose of the legislation – to promote reasonable and measured levels of remuneration. There is reason to believe that the association’s basic criticism, and that of many other parties consulted, resulted in an overelaborate proposal. A revised proposal is expected to be put to Parliament in the spring.

AP4 President Thomas Halvorsen invested considerable time during the year in helping to restructure the Swedish Society for Stock Market Issues to enable it to serve as the main self-regulation body in Sweden and to secure its finances.

SPECIAL SHAREHOLDER INITIATIVES

As in previous years, we wrote to a number of companies in our Swedish portfolio on the topic of female board members. Letters were sent to companies with fewer female directors than the stock market average. The short-term impact of this correspondence was marginal, however. Official figures show that female representation on corporate boards in Sweden continued to rise in 2005, but at a lower rate than in previous years. The proportion of female directors was 16.1% in 2005, compared to 6.1% in 2002.

Like other large financial institutions, AP4 will continue to work actively to accelerate progress towards greater female boardroom representation. We believe the proportion of female directors will continue to increase but not to the extent demanded by many commentators and policymakers.

It is a frustrating fact that it takes time to develop a sufficiently large pool of suitable candidates. The main problem for nominating committees is not identifying appropriate candidates but finding women who can combine their chosen careers with one or more directorships.

SPECIAL CASES

Every year tends to turn up at least one case that commands extra attention from large institutional shareholders. In 2005 we were involved in two such cases: Ainax and Skandia. These are covered in more detail under the “Two special cases” section on page 14.

BOARD REPRESENTATION

In contrast to many other financial institutions, the AP4 corporate governance policy allows the Fund to nominate, albeit on a restrictive basis, its own employees to non-executive directorships of listed companies. AP4 President Thomas Halvorsen has held seats on the boards of several companies over the years and is currently a director of Beijer Alma.

CORPORATE GOVERNANCE POLICY

The Fund reviews its corporate governance policy annually, and in late 2005 amended the section on ethical and socially responsible investment. The policy now states explicitly that the Fund will seek partnerships with other institutions in this area, when appropriate, to achieve a greater impact. Other sections remain unchanged pending firm conclusions on the initial impact of the new national corporate governance code.

Corporate governance focus on Ainax and Skandia

Every year tends to generate at least one issue that demands extra attention from large institutional shareholders. There were two such cases in 2005: Ainax, the soon to be forgotten spin-off from Volvo, and Skandia, which once again stood – and continues to stand – in the spotlight.

AINAX was created by Volvo's board of directors and distributed to shareholders in 2004 after the European Commission blocked a proposed merger with Scania and ordered Volvo to sell the Scania shares it had acquired prior to the planned tie-up.

The Volvo board insisted there was a substantial premium in the A-class shares it held in Scania and which accounted for 25% of Scania's voting capital. It therefore transferred the shares, along with a relatively large amount of working capital, to a new company, Ainax. Ainax was then floated on the stock exchange and simultaneously distributed to shareholders by way of a bonus issue.

Scania's two main shareholders, Volkswagen and Investor, and the company's management reacted negatively to Ainax's creation. Scania responded by making a public offer to acquire Ainax in late 2004. Arguing that the circumstances were so unusual as to warrant the absence of a bid premium, Scania offered one newly issued Scania share for every Scania share owned by Ainax. Thus, the proposed offer valued Ainax's SEK 100 million of working capital at zero.

AGM PARTICIPATION REVOKED

AP4's initial response was to write in friendly but firm terms to the Scania board revoking our plans to attend the company's extraordinary general meeting. The Fund held shares not just in Ainax but also had an even larger stake in Scania. We told Scania we would not be attending the EGM because we did not consider the Ainax offer to be fair. Our letter read: "As a major financial institution with substantial shareholdings in a large number of Swedish corporations, we regard the observance of basic rules of fair play on the Swedish equity market as a matter of the utmost importance. For the Ainax offer to be acceptable to us, the offer price should not only equal the value of the Scania share but should reflect Ainax's liquid assets and thus offer some form of bid premium."



We held firm to this line over the next few months in our contacts with Volkswagen and Investor, Scania's executive management, the Ainax board and other large shareholders in Ainax. However, we did not succeed in changing the offer terms and were unable to generate sufficient support from Ainax's other institutional shareholders. Most of the institutions also considered the bid to be too low and wrong in principle but regarded the lack of compensation for the liquid assets to be marginal and not worth a drawn-out legal wrangle. A majority of shareholders, including AP4, eventually accepted Scania's offer. The Ainax board's unexpectedly swift acceptance of the bid also served to accelerate the delisting process.

SKANDIA has for several years featured prominently in the Swedish corporate governance debate, especially due to a bonus programme for senior executives that precipitated a major scandal in 2003. The election in 2004 of a new board unconnected to the previous regime led many to believe that the company had put the negative headlines behind it. However, when the new board announced early in 2005 that it had agreed a conditional settlement of just SEK 2.2 million with former chairman Lars Ramqvist, shareholders reacted angrily and Skandia once again found itself the butt of adverse coverage.

Insurance law stipulates that settlements such as that agreed with Ramqvist must be approved by the AGM, which meant



the matter was one for shareholders in spite of the minor amount involved. The core principle of a chairman's responsibility for the administration of a company made it a shareholder issue of paramount importance.

LEGAL OPINION OBTAINED

From AP4's perspective, the matter was complicated by the fact that three of our nine directors – including the Chairman and Deputy Chairman – declared conflicts of interest. This forced the Board to depart from its usual decision-making processes in key governance issues.

The AP4 Board only rarely takes a stance on specific governance matters. Indeed it has done so only three times in the last 20 years, and on each occasion in the context of a major corporate transaction: the failed Volvo-Renault merger, the sale by Volvo of its car business and the merger of Astra and Zeneca.

After taking initial soundings, the Board decided at an extraordinary board meeting that the Fund would support the Skandia board's proposed settlement with Ramqvist. In addition to the information publicly disclosed by Skandia, we obtained an extensive legal opinion on the matter.

In our subsequent press release AP4 noted that the formal inquiry into Skandia's affairs had clearly shown that the board under Ramqvist's leadership had serious shortcomings and deficiencies. Given the chairman's extensive experience and

reputation we said it would have been interesting to take the case to its conclusion to establish a legal precedent.

Nevertheless, we noted that Skandia's current board – which had no links with the previous regime – was unanimously behind the settlement. We wrote: "The Skandia board has based its decision on detailed analysis and published a highly comprehensive account of its reasoning, taking legal and business issues into consideration. Very strong reasons would be required to justify opposing this decision.

"In its decision, the AP4 Board has attached considerable weight to the fact that Lars Ramqvist has publicly accepted moral responsibility for the events that occurred during his chairmanship. The Board has attached considerable importance to the legal opinion it has obtained on the matter..."

At Skandia's AGM in April AP4 joined most other financial institutions in voting to approve the settlement proposed by the board. This long-running and controversial corporate governance saga then duly disappeared from public attention.

DRAWN-OUT BID PROCESS

Yet the drama did not stop there but took a fresh and remarkable turn. A wave of newspaper speculation began that Skandia would either be taken over or broken up. The rumour mill suggested that Old Mutual, the South African insurer, was interested in buying Skandia, and this was later confirmed. However, the bid process proved both unusual and protracted. Old Mutual attempted to secure support from Swedish financial institutions before a public offer had been made or even presented to Skandia's board. AP4 protested in writing to the Skandia board against this departure from established practice in Sweden.

Old Mutual did not launch a formal takeover bid until September and a few days later it was rejected by Skandia's board, which itself was deeply divided on the matter. Skandia's chairman, deputy chairman and one director backed the bid but eight directors, including the three trade union representatives, were against.

Skandia presented both sides of the argument in a long and detailed press release. With the backing of the Board, AP4 published a press release rejecting the Old Mutual offer. Referring to the fact that a majority of Skandia directors were against the offer, we highlighted several

important points. The bid, we argued, lacked a premium (cf Ainox) and was premature because Skandia's board and management had for a long time been forced to focus their efforts on a variety of internal crises instead of on core operations.

HOSTILE BID

We also noted that the bid was hostile since it had been rejected by a majority of the Skandia board. Hostile takeovers of sophisticated services companies like Skandia are unusual because they are generally regarded as risky undertakings. That the Old Mutual bid was unsolicited and unwelcome was made abundantly clear when Skandia's chairman resigned soon after the board's internal divisions became public. The change of chairman gave Skandia's executive management, led by the chief executive, more freedom than before to explain to the Swedish and international capital markets the alternative of a standalone Skandia and the management's "turbo plan" for the company.

Yet these initiatives came late in the day and neither they nor the arguments advanced by the board were able to swing opinion among international investors, who currently hold a majority in Skandia. It would now appear that the control exerted by shareholders with short-term holdings in the company will decide the outcome of this protracted tussle. At the time of writing, Old Mutual has cut its minimum acceptance condition from 90% to 50%, extended the offer period and revealed it already owns more than 60 percent of Skandia's shares.

Should this remain the position at the end of the offer period then Old Mutual will be Skandia's new majority shareholder and will appoint a new board. However, Skandia will remain as a publicly listed company, with a large group of minority shareholders composed primarily of Swedish financial institutions and private investors. Such a situation would be unsustainable since the majority shareholder would be unable to realise the substantial synergy gains forecast in the offer document.

STORY TO CONTINUE

The story is not over yet. And whatever the final outcome, there are many lessons to be learnt. Issues that require consideration include the ability of potential bidders to conduct due diligence of listed companies, Swedish

takeover regulations compared to those of other developed markets and the legal protection afforded to minority shareholders by Swedish legislation in an increasingly international capital market. Attention will doubtless also be paid to how nominating committees should be appointed and how they should operate in a global marketplace characterised by increasingly active and strong short-term players.



Macroeconomic review 2005

The world economy performed well in 2005. At the end of the third quarter, annual GDP growth for the OECD area was running at 2.8%. Indications are that growth remained strong in the fourth quarter and that the overall growth rate of OECD countries in 2005 was only marginally lower than in the previous year.

The main growth driver was the US economy, where private consumption and business investment remained at high levels in spite of rising oil prices and higher interest rates. In Europe, however, growth was again lower. The Japanese economy, meanwhile, performed somewhat better than expected due to relatively buoyant private consumption and a rebound in investment during the second half.

Economic activity in non-OECD nations slowed – but not as abruptly as had been forecast, and expectations of a visible slowdown in the Chinese economy came to naught. Instead, China’s growth accelerated again in the second half after easing in 2004 and early 2005. Global growth was estimated at 4%, of which between 1 and 1.5 percentage points was attributable to non-OECD countries.

Leading global industrial indicators nevertheless fell sharply during the first half – as did key OECD macroeconomic benchmarks and business optimism indices in the US and Europe. Industrial growth in all regions also slowed, with the loss of momentum most pronounced in Japan and Europe. The primary underlying reasons were lower demand from China and inventory run-down in all regions. Once inventories returned to equilibrium and the Chinese

economy entered a fresh phase of growth in the second half, industrial production picked up again.

Oil prices rose from US\$40 to US\$60 a barrel but this increase had little adverse effect on global economic growth. However, the oil price rise did produce a slight increase in inflation in the OECD area during the year.

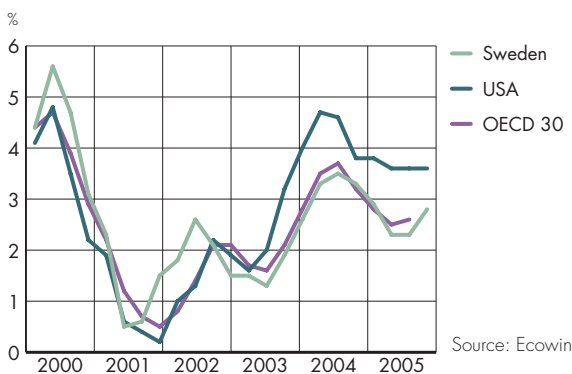
AP4 expects US economic growth to slow in 2006 while growth in Europe and Japan remains unchanged or slightly higher than in 2005. Our assessment is that growth in the OECD area as a whole will slow slightly.

FIXED INCOME AND CURRENCIES

In 2005 we witnessed wider international interest rate spreads. The US Federal Reserve raised rates by 0.25 percentage points at each of its meetings during the year. By contrast, the European and Japanese central banks left rates unchanged. In Sweden, the Riksbank cut rates by 0.5 percentage points during the summer amid sluggish economic activity and a continuing low rate of new job creation.

Long-term nominal bond yields remained at low levels despite interest rate increases by the Federal Reserve, strong economic growth and higher energy prices. This can be explained partly by lower than expected inflation, which in turn was linked to higher industrial output in countries such as China and India. Backed by mounting foreign exchange reserves, Asian central banks engaged in substantial buying of US government bonds, which also helped to keep long-term bond yields down. Global demand for longer-term bonds rose amid efforts to secure better matching of long-term pension liabilities.

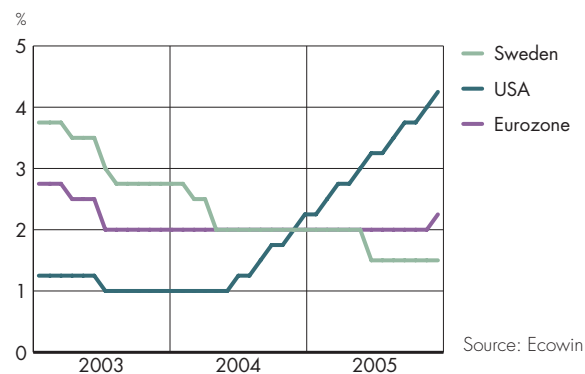
Annual GDP growth 2000–2005



Source: Ecwin

Strong global economic growth continues.

Benchmark interest rates 2003–2005



Source: Ecwin

Multiple US interest rate rises.

In 2005 the Federal Reserve raised interest rates by a total of 3 percentage points to 4.25%. Together with persistently low long-term bond yields, the increases resulted in a substantially flatter US yield curve. Flatter yield curves usually indicate a cooling of economic activity – a reasonable scenario at this time considering the strong growth of recent years.

In the absence of any upward movement in US bond yields, and with central banks tending towards further interest rate cuts, European bond yields fell across the board during the first half. But amid growing signs of a recovery in the European economy and increased US interest rates, European yields moved upwards again in the second half of the year. The year ended with the European Central Bank raising interest rates by 0.25 percentage points, the first increase since late 2000. The bank reasoned that higher rates were warranted because inflation had breached the bank's 2% target and prospects for the eurozone economy had improved. At the end of the year Sweden's Riksbank clearly signalled its intention to raise rates in 2006.

Contrary to market expectations, the US dollar strengthened at the start of the year, reflecting higher short-term interest rates in the US compared to other parts of the world and substantial capital inflows prompted by a temporary tax break for US corporations seeking to repatriate profits from foreign subsidiaries. This tax break disappeared at the end of the year, and substantial deficits remain in the US federal budget and balance of payments. The next test for the dollar will arise when the US yield spread begins to narrow vis-à-vis the rest of the world.

The Swedish krona weakened appreciably during the year, falling by almost 8% on a trade-weighted basis.

Ten-year government bond yields 2003–2005



Long-term interest rates remain low.



This was primarily due to relatively low Swedish short-term interest rates. AP4 believes the krona is now substantially undervalued in purchasing power terms. The currency did, however, strengthen somewhat towards the end of the year when the Riksbank signalled its intention to tighten monetary policy in 2006.

EQUITY MARKETS

After a cautious start to the year, positive economic data and a belief that key indicators had bottomed stimulated the market's appetite for risk. The strength of the economic upturn, combined with strong corporate earnings, spurred equity markets to make strong headway in the first half.

The MSCI World DNI rose 15.8% (11.3) in local currency terms in 2005 but was held back by the US market, which advanced just 5.1% (10.1). Most European stock markets performed strongly, posting gains of about 30%. Emerging markets also did well and many stock markets in Asia and South America soared to new all-time highs.

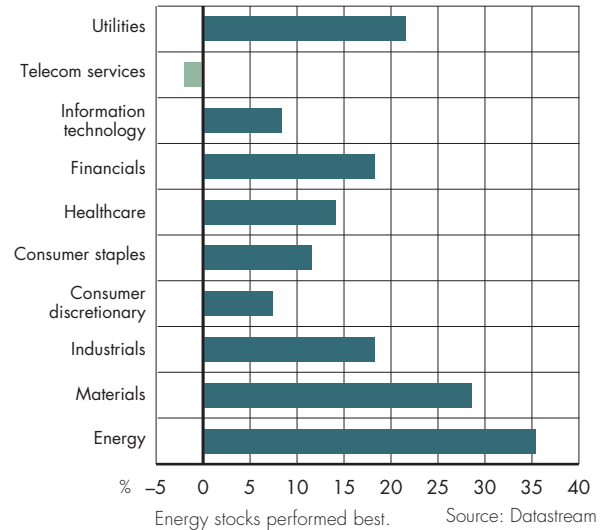
Unexpectedly robust demand in the world economy resulted in surprisingly strong corporate earnings, with many sectors reporting historically high margins and strong cash flow. After several years of close attention to cost control, listed companies are now generally speaking in good financial shape.

Oil prices played a prominent role in equity market developments in 2005. Strong global demand for oil and limited supply maintained the trend of rising prices. During the autumn hurricane season prices reached US\$70 per barrel. Other commodities reached record levels during the year and these high prices boosted the earnings of companies in the energy and basic materials sectors. Together with utilities, these sectors were the winners in 2005.

However, increased costs of intermediate goods and higher interest rates may start to eat into corporate margins. Certainly, there were signals during the autumn that such a squeeze may be under way as a number of consumer-oriented companies published profit warnings. Sector-specific problems among telecom services companies resulted in this sector being the poorest performer of the year.

In Sweden, the SIX Return index rose 36.3% (20.8). Many of the trends seen on global equity markets were replicated in Sweden. Raw materials companies with high exposure to commodities performed strongly. The overall health of the economy, coupled with positive earnings figures, resulted in earnings expectations being adjusted upwards for the engineering and raw materials sectors and lifted the shares of companies like Volvo, Sandvik and Atlas Copco to gains of between 35% and 90%. Companies with direct exposure to raw materials, such as Boliden and Lundin Petroleum, saw their shares rise by well over 100%.

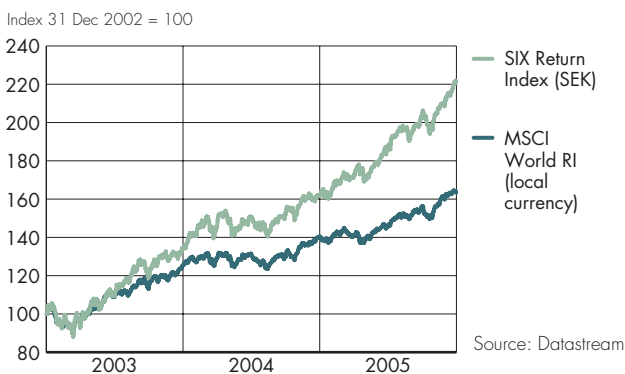
Sector trends 2005 (MSCI World DNI)



Earnings at pharmaceuticals company AstraZeneca beat expectations and helped the share to gain almost 60% during the year. The poorest performers were telecom services companies, the forest sector and consumer-oriented companies. Stocks of a less cyclical nature, such as Assa Abloy and Securitas, also underperformed the index.

As we move into 2006, world market fundamentals remain strong. Earnings are healthy, corporate finances are on a sound footing and order levels remain buoyant. Nevertheless, higher costs and rising interest rates do create some uncertainty over corporate earnings going forward.

Equity markets 2003–2005



Unexpectedly strong equity markets in 2005.

Report of the Board of Directors

Report of the Board of Directors and the President of the Fourth Swedish National Pension Fund (AP4) for the financial year 1 January 2005–31 December 2005, the Fund's 32nd year of operation and the fifth since the reorganisation of the Swedish pension system. Accounting and valuation principles are described in a separate section.

In 2005 AP4 generated a total return before expenses of SEK 16.9% (10.6), corresponding to a net profit of SEK 25.8 billion (14.3). This excellent result can be ascribed primarily to the Fund's strategic decision to maintain a high equity share (61%), which was beneficial since equity markets performed well during the year. Global equity markets produced a return of 15.8% in local currency terms, while the Swedish equity market posted a return of 36.3%. Since its inception on 31 December 2000 the Fund has recorded a return of 19.6%, or 3.6% per year. In real terms (after inflation) this equates to an annual level of 2.2%, which means AP4 has more than met its target of preserving the value of its assets.

Financial market developments in 2005 confirmed that the Fund had been correct to retain a high long-term weight in equities despite the stock market downturn a few years earlier. The decision to invest more than 30% of AP4's equity holdings in the Swedish market also proved justified and contributed strongly to net profit (see table, "Contributions to Fund performance 2005", on page 23).

Asset returns relative to the index were negative, however, and totalled -0.1 (-0.3) percentage points. As in previous years, fixed income management made a positive contribution, as did currency management and tactical asset

allocation. However, the Swedish and global equity portfolios both fell short of their respective indices.

Asset management income relative to the index has been unsatisfactory for several years now and AP4 has taken steps to ensure higher returns in the future. Some of these measures are structural and long-term in nature, while others were felt in 2005.

The government's annual evaluation of the AP funds, which it submits to Parliament, included a special cost assessment based on research by financial consultancy and audit firm KPMG. The government's view is that the costs of AP1, AP2, AP3 and AP4 are disproportionately high compared to the funds' asset management activities. AP4 attaches high priority to cost effectiveness but believes the KPMG report did not accurately portray the funds' cost base and was not sufficiently detailed to serve as a basis for concrete efficiency proposals. As a result, AP4 and the three other AP funds commissioned Canadian company CEM (Cost Effectiveness Measurement), a world leader in efficiency comparisons and pension fund benchmarking, to conduct an in-depth study of the funds' costs and efficiency. CEM based its analysis on comparisons with around 20 European and US pension funds of equivalent size and with corresponding management strategies.

The study found AP4's costs in 2004 to be somewhat lower than those of the benchmark group. This can be ascribed to the Fund's lower external management costs per krona under management and its strategy of having a relatively low proportion of funds under external management. For internally managed assets, AP4's costs were at the same level as those of the benchmark group, while administration costs (including costs for Performance and Risk

Absolute return 2005

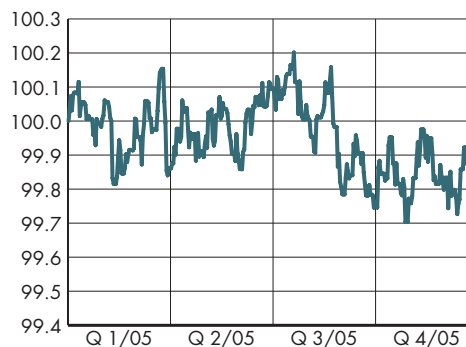
Index 31 Dec 2004 = 100



Unexpectedly strong equity markets in 2005.

Relative return 2005

Index 31 Dec 2004 = 100



Marginally lower than the benchmark index.



Control and for custody accounts) were somewhat higher. In these two areas the Fund implemented substantial cost savings in 2005 and efficiency measures will continue in the coming years.

SIGNIFICANT EVENTS

During the year AP4 gave priority to measures to increase portfolio returns both in absolute terms and relative to the benchmark index. In addition, a range of efficiency measures generated annual cost savings of SEK 18 million.

ASSET MANAGEMENT APPROACHES

Efforts to clarify responsibilities relating to AP4's asset management operations and to improve performance measurement were highlighted in 2005. Initiatives included handing responsibility for currency returns on foreign currency-denominated equities to AP4's currency managers. This means that the currency management of all foreign assets (including fixed income and equities) now has the same structure. Currency management was also split into two portfolios. The strategic currency portfolio hedges foreign assets to keep the Fund in line with its strategic targets for currency exposure, and the active currency

portfolio is structured so as to generate maximum returns within specified risk levels.

A similar structure was also introduced for tactical asset allocation. Starting in September 2005, tactical asset allocation now consists of a passive component, which ensures the neutrality of the Fund's asset mix line vis-à-vis the benchmark index, and an active component. The latter deploys equity and fixed income derivatives to generate maximum investment returns within specified risk levels.

AP4's fixed income and currency management group has generated healthy returns for several years and developed its methods further in 2005. During the year it commenced investments in three new bond markets, four new currencies and in a new instrument – credit default swaps.

Equity management analysis was reinforced by the launch of a joint valuation model and an increase in the number of visits paid to companies. Steps were also taken to introduce quantitative methods of screening and portfolio analysis.

During the spring the Fund analysed its financial results for 2002–2004 and concluded that a medium-term strategic allocation should be added to the long-term strategic portfolio and active index-linked management. The first step in this process came in December when the strategic currency exposure was changed. At year-end, special

resources were also assigned for medium-term strategic allocation.

The annual ALM process focused on analysing a range of possible changes in the strategic portfolio. As outlined on page 7, the most important result of the ALM process was a strategic decision to invest in emerging-market equities. A formal decision was taken in December that the Fund would invest 3% of its assets in emerging-market equities. An asset management procurement process was then launched.

RATIONALISATION AND EFFICIENCY MEASURES

A series of mainly administrative measures generated annual cost savings of SEK 18 million, or 8% of AP4's total operating and commission costs. The most significant change was to move to a new custodian bank, which will lower the Fund's custody account costs and is also expected to generate long-term cost savings. Invoicing was outsourced and AP4 also renegotiated its office rental contract and a number of IT contracts. Performance and Risk Control commenced the procurement of a return and risk analysis system to provide better analysis tools and to achieve greater efficiency in daily monitoring and control. Six employees left the Fund and two new employees joined.

ORGANISATIONAL CHANGES

AP4's Chief Investment Officer left in September and his departure coincided with organisational changes that

resulted in President Thomas Halvorsen assuming direct responsibility for investment operations. As part of these changes, the Head of Fixed Income and Currencies and the Head of Global Equities joined the executive management committee. The outcome was a flatter organisational structure with shorter decision-making channels, which has created good conditions for further improvements.

RETURN AND RISK

MARKET TRENDS

Relatively robust economic conditions resulted in equity markets performing much better than most observers had predicted at the start of the year. The MSCI World Index rose 15.8% in local currency terms and 31.3% in SEK terms. The Swedish equity market gained 36.3%. Globally, the US equity market was comparatively weak, rising 5.1%, while many Asian and South American bourses performed strongly and posted increases of more than 25% in local currency terms.

Interest rates remained at low levels during the year, which generated only moderate returns on bond markets. In local currency terms, bond indices rose 2.4% in the US, 4.9% in the eurozone and 4.7% in Sweden.

The krona fell by 8% on a trade-weighted basis and this weakness was due primarily to low Swedish short-term interest rates relative to other markets. Sweden's property

Return and risk

Asset class	Returns, %						Volatility, %	Active risk, %	Information ratio	Sharpe ratio	Beta value
	2005			2004			12 months	12 months	12 months	12 months	12 months
	Portfolio	Index	Relative	Portfolio	Index	Relative	Portfolio	Relative	Relative	Portfolio	Portfolio
Global equity portfolio ¹	14.5	14.8	-0.2	6.7	5.8	0.9	7.2	1.2	neg	1.7	1.0
Internally managed ²	11.6	12.5	-0.9	6.0	5.2	0.9	8.0	1.5	neg	1.2	0.9
Externally managed ²	21.0	20.4	0.7	8.0	7.3	0.7	8.6	1.3	0.5	2.2	1.0
Swedish equity portfolio	34.1	36.3	-2.2	18.1	20.8	-2.7	11.2	1.8	neg	2.8	1.0
Fixed income portfolio ³	3.7	3.5	0.3	7.0	6.1	0.9	1.9	0.7	0.4	0.8	0.8
Real estate	47.7	47.7	0.0	13.6	13.6	0	-	0.0	-	-	-
Investment assets⁴	16.9	17.0	-0.1	10.6	10.9	-0.3	4.7	0.8	neg	3.1	1.0
Investment assets incl. management expenses	16.8	17.0	-0.2	10.5	10.9	-0.4					
Listed investment assets	16.4	16.5	-0.1	10.6	10.8	-0.2					

¹ Including full currency hedging 2005 and excluding hedging 2004.

² An external mandate for financial sector investments is included under internally managed global equities up to Dec 2005.

³ Including full currency hedging.

⁴ Including currencies and tactical allocation. Contributions from these asset classes are shown in the Contributions to Fund performance 2005 table on page 23. Percentages in the above tables are individually rounded up or down and totals therefore do not always correspond exactly to individual figures.

market grew strongly, with a full-year growth forecast of 13.1% in the Swedish Property Index.

Overall market trends rewarded the Fund for its strategy of having a 60% weight in equities, holding substantial assets in foreign currencies and maintaining an albeit small portfolio of Swedish real estate.

INVESTMENTS AND RETURN

At year-end, the Fund's investment assets had a market value of SEK 180,168 million (151,539). The portfolio was divided as follows: global equities 42.2% (42.8), Swedish equities 20.0% (19.3), fixed income 36.4% (35.8), real estate 2.1% (2.1) and cash, unrealised income from hedging, etc. -0.7% (0.0).

Return on investment assets totalled 16.9% (10.6) before expenses, an underperformance of -0.1% (-0.3) against the benchmark index. Excluding AP Fastigheter, total return was 16.4% (10.6). The return on investment assets after operating expenses was 16.8% (10.5).

The global equity portfolio posted a return of 14.5% including hedging, which was -0.2 percentage points (0.9) relative to the reference index. As of 2005, returns from global equity management include currency hedging. In 2004, the global equity portfolio generated a return of 12.5% including full currency hedging and 6.7% excluding hedging. The Swedish equity portfolio recorded a return of 34.1% (18.1), an underperformance of -2.2 percentage points (-2.7) versus the SIX Return Index. Return on the fixed income portfolio totalled 3.7% (7.0), an outperformance of 0.3 percentage points (0.9) compared to the reference index. Returns from real estate investments, which consist entirely of shares and notes receivable in AP Fastigheter Holding, amounted to 47.7%. However, almost two-thirds of this was due to changes in the principles for valuing the company's net asset value.

CONTRIBUTIONS TO FUND PERFORMANCE

As the table to the right shows, equity holdings contributed 12.6% of AP4's total investment return of 16.9% and Swedish equities accounted for 6.2%. Thus, equity investments made a combined contribution of SEK 19.3 billion (of which Swedish equities accounted for SEK 9.5 billion) to AP4's net profit of SEK 25.8 billion. Strategic currency exposure was 20% for most of the year but was reduced to 10% in December since the Fund believed the krona to be

undervalued. During the year the krona weakened against most currencies and AP4's foreign currency exposure therefore made a positive contribution to net profit of SEK 3.0 billion and added 2 percentage points to total return. The decision to reduce currency exposure was followed by a strengthening of the krona. This added SEK 150 million to net profit and 0.1 percentage points to overall return.

Total investment returns underperformed the benchmark index by -0.1 percentage points (-0.3). The relative contributions were -0.1 percentage points from global equities (where the main negative factor was sector allocation) and -0.3 percentage points from Swedish equities (due largely to the equity mix). Fixed income management and active currency management each contributed 0.1 percentage points. Tactical asset allocation finally contributed 0.2 percentage points due to a favourable mix between regional equity markets.

RISK

The risk level (measured as volatility) of AP4's investments averaged 4.7% (6.0) during the year. Active risk, measured retroactively, was 0.8% (1.0). In both cases, the decreases were due primarily to lower equity market volatility. Active risk in the equity portfolio was also reduced during the implementation of internal organisational changes. However, active risk in the fixed income portfolio rose to 0.7% (0.6) and in currency management to 0.2% (0.1). These increases stemmed entirely from higher management activity because volatility in these markets declined in 2005.

Contributions to Fund performance 2005

	Weight in strategic portfolio %	Contribution to absolute return % points	Contribution to net profit SEK bn	Contribution to relative return % points
Global equities	42.0	6.4	9.8	-0.1
Swedish equities	19.0	6.2	9.5	-0.3
Fixed income assets	37.0	1.5	2.3	0.1
Real estate	2.0	0.8	1.2	0.0
Currencies	-	2.0	3.0	0.0
active management	-	0.1	0.2	0.1
Tactical asset allocation	-	-	-	0.2
Total	100.0	16.9	25.8	-0.1

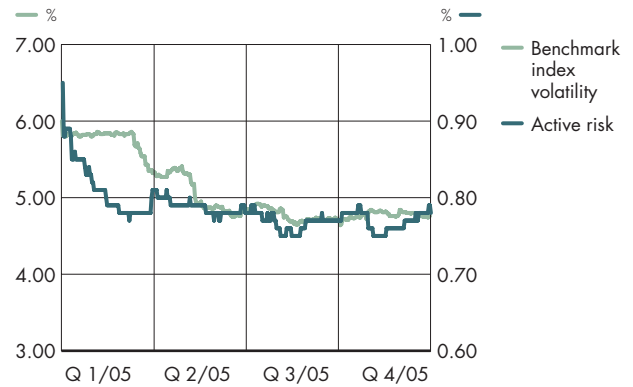
INCOME IN 2005

AP4 reported a net profit of SEK 25,759 million (14,277) for the year.

Operating income consisted of net interest income, dividends received, net income for each asset class and net commission expenses and totalled SEK 25,892 million (14,403). Net income from listed shares and investments – consisting of gains from the sales of equities and unrealised changes in the value of equity holdings – accounted for 68% (77) of total income. Commission expenses stood at SEK 87 (91) million and comprised direct transaction costs, fixed commissions to external managers and custodian bank expenses.

Operating expenses amounted to SEK 133 million (126). Personnel costs of SEK 91 million (79) included SEK 10 million (0) arising from staff departures. Other operating expenses fell from SEK 47 million to SEK 42 million, reflecting lower IT consultancy costs.

Active risk and volatility 2005



Operating expenses were 0.08% (0.09) of average fund capital. Including commission expenses, the figure was 0.13% (0.15). The cost analysis carried out by CEM, and which was based on figures for 2004, revealed that AP4's costs were somewhat lower than those of the study bench-



Exposure and returns for external mandates in 2005

Asset class	Type of management	Region	Benchmark index**	Portfolio manager	Market value at 31 Dec, SEK million	Return, %	Return on index, %	Relative return, % points
Equities	Semi-active	North America	MSCI North America	State Street	5,936	7.1	5.8	1.2
Equities	Semi-active	Europe	MSCI Europe	State Street	3,629	25.2	23.8	1.4
Equities	Semi-active	World ex Pacific	MSCI World ex Pacific	Merrill Lynch	6,902	11.8	11.2	0.6
Equities	Semi-active*	World ex Pacific	MSCI Financial ex Pacific	Merrill Lynch	75	12.0	12.3	-0.4
Total semi-active mandates					16,542	12.5	11.9	0.7
Equities	Active	Pacific ex Japan	MSCI Pacific ex Japan	APS	3,124	14.7	15.7	-1.0
Equities	Active	Pacific ex Japan	MSCI Pacific ex Japan	Capital	1,719	16.1	15.7	0.4
Equities	Active	Japan	MSCI Japan	Martin Currie	8,613	48.9	47.0	1.8
Equities	Active	World	MSCI World DNI	Capital	3,209	14.7	14.8	-0.1
Total active mandates					16,665	30.2	29.8	0.4

* Mandate terminated in December 2005 with final settlement in 2006.

** All indices currency hedged to SEK.

Percentages in the above tables are individually rounded up or down and totals therefore do not always correspond exactly to individual figures.

mark. The Fund believes that the same conclusion can be drawn when the figures for 2005 are assessed.

Fund capital at year-end totalled SEK 180,098 (151,434), an increase of SEK 28,664 million (15,928). Net payments from the national pension system accounted for SEK 2,312 million (1,397) of this increase, with transfers from the special asset management fund and the Fund's net profit contributing SEK 593 million (254) and SEK 25,759 million (14,277) respectively.

Brokerage commission costs, which are included in equity acquisition costs, totalled SEK 79 million (97).

ASSET MANAGEMENT MANDATES

TACTICAL ASSET ALLOCATION

In 2005 AP4 improved its tactical asset allocation structure to strengthen the ability of these operations to contribute positively to overall outperformance targets. Positions and risk levels in these activities will increase in 2006 and a return target corresponding to 0.1% of the Fund's market value has been set.

Tactical asset allocation contributed 0.2 percentage points of the total portfolio's active return during 2005. This performance was primarily due to a regional overweight in Japanese equities in the first half of the year, along with an overweight in equities during the second half.

GLOBAL EQUITY PORTFOLIO

The market value of the global equity portfolio (including SEK 358 million of unlisted equities) was SEK 76,813 million (62,061) at year-end. SEK 16,542 million (16,792) of this figure related to semi-active external holdings and SEK 16,665 million (14,049) to actively managed external holdings of listed equities. Global equities account for all the Fund's external mandates for listed assets.

The return on the Global equity portfolio, fully hedged, totalled 14.5%. This represented an underperformance of -0.2 percentage points against the reference index and followed an outperformance of 0.9 percentage points in 2004. The internally managed portfolio generated a return of 11.6%. The portfolio underperformed the index by -0.9 percentage points, compared to an outperformance of

Net contributions from external management of listed assets 2005

SEK million	
Gross income	6,112
Less performance-based bonuses	-16
Net	6,096
Fixed management commissions	-67
Net contribution	6,029
Assets under management at 31 Dec 2005	33,207

Allocation of investment assets

Asset class	31 Dec 2005		31 Dec 2004		Strategic portfolio, %
	Market value, SEK million	Exposure*, %	Market value, SEK million	Exposure*, %	
Global equity portfolio	76,813	42.2	62,061	42.8	42.0
internally managed**	43,322	23.6	31,220	22.4	–
externally managed**	33,491	18.6	30,841	20.4	–
Swedish equity portfolio	36,304	20.0	29,350	19.3	19.0
Fixed income portfolio	63,339	36.4	54,496	35.8	37.0
Real estate	3,842	2.1	3,091	2.1	2.0
Currencies/tactical asset allocation/cash***	–130	–0.7	2,541	0.0	–
Investment assets	180,168	100.0	151,539	100.0	100.0

* Exposure includes underlying value of derivatives for each asset class.

** An external mandate for investments in the financial sector included under internally managed prior to December 2005.

*** Market value includes unrealised income from currency futures for hedging.

0.9 percentage points the previous year. Return on external asset management mandates was 21.0% (8.0), which was 0.7 percentage points (0.7) higher than the benchmark index. As of December 2005, the external mandate for investments in the financial sector is included under internally managed global equities.

Internal management of global equities is structured on a sector basis combined with a separate sector allocation. The sector mix and weights of internally managed equities versus the reference index are shown in the chart on page 27.

The strength of the economy and increased energy prices did not favour the internal global equity portfolio because of a defensive equity mix in some sectors and in sector allocation operations. The underperformance against the index was mainly attributable to AP4's underweight in energy, the best performing sector of 2005. An overweight in telecom services and the equity mix in industrials also had an adverse impact. By contrast, the equity mix in the

consumer discretionary and healthcare sectors had a positive impact.

At the start of 2005 AP4 had eight external management mandates for listed equities. Three of these were focused on Asia-Pacific stocks, four on other developed markets and one on the financial sector. Towards the end of the year the externally managed financial sector equity fund was transferred to the internally managed portfolio. During 2005 SEK 2,880 million of externally managed assets were sold to cover hedging costs arising from the krona's weakness. The proportion of externally managed global equities therefore fell and totalled 43.6% (49.7) at year-end.

The external Asia-Pacific mandates, all of which are actively managed, posted an excellent return of 34.9% (12.0) and outperformed their benchmark indices by 0.4% (2.3). The return on the actively managed global equity fund was in line with the index, while the four semi-actively managed mandates outperformed the index by 0.7 percentage points (0.9).

Five largest holdings in internally managed global equity portfolio

Largest holdings	Market value 31 Dec 2005, SEK million	Share of global portfolio, %
MICROSOFT	1,338	3.1
IBM	1,104	2.5
WAL-MART	934	2.2
SAP	812	1.9
RECKITT	771	1.8
Total	4,959	11.4

Five largest holdings in Swedish equity portfolio

Largest holdings	Market value 31 Dec 2005, SEK million	Share of Swedish portfolio, %
ERICSSON	5,043	13.9
H&M	2,716	7.5
VOLVO	2,347	6.5
SHB	2,183	6.0
ASTRAZENECA	2,021	5.6
Total	14,310	39.4

SWEDISH EQUITY PORTFOLIO

At year-end the Swedish equity portfolio had a market value of SEK 36,304 million (29,350), including unlisted assets worth SEK 426 million (371). The Swedish equity portfolio accounted for 20.0% of the Fund's total assets.

The portfolio posted a return of 34.1% (18.1) and underperformed the SIX Return Index by -2.2 percentage points (-2.7). Excluding unlisted equities, the underperformance was -1.9 percentage points (-2.5).

The economic outlook was clouded by uncertainty at the start of the year allied to fears that rising oil prices would have a negative impact on global economic growth. This was reflected in cautious forecasts from many corporations in their fourth-quarter reports for 2004.

Amid this uncertainty, the Swedish portfolio was defensively positioned, with overweights in sectors such as healthcare and banking. The initial effect of this strategy was positive, but optimism over economic trends grew appreciably during the spring due to strong macroeconomic data and surprisingly positive interim corporate results. From the end of April, cyclical stocks outperformed the market and AP4 did not reweight its portfolio sufficiently to gain full benefit from the upturn in, for example, the engineering and raw materials sectors. This induced the Fund to underperform the benchmark index, particularly during the second half.

From a full-year perspective, this underperformance was attributable primarily to underweights in the investment

goods sector (stocks such as ABB, SKF and Skanska) and in energy stocks. The largest positive contributions to relative return came from an underweight in Telia and an overweight in MTG, while the largest negative contributions came from overweights in Handelsbanken and Tele2.

FIXED INCOME PORTFOLIO

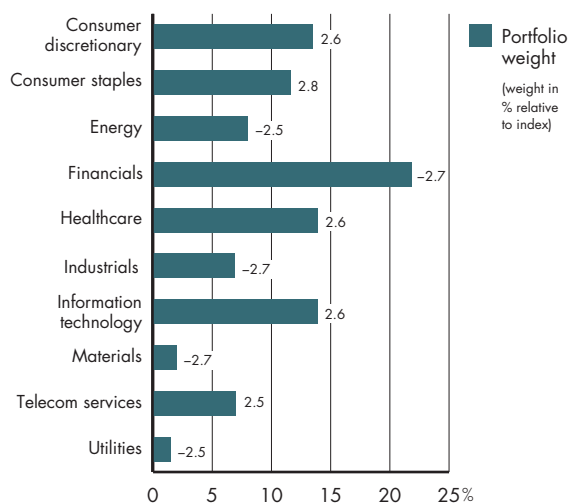
The fixed income portfolio had a market value of SEK 63,339 million (54,496) at year-end. The portfolio generated a return of 3.7% (7.0), outperforming the reference index by 0.2 percentage points (0.9).

This positive showing can be ascribed to a number of active positions, with the largest single contributor being an overweight in Swedish fixed income assets contra underweights in the US and eurozone bond markets. Positive contributions to relative return also came from an underweight in credit risk and the portfolio's positioning for rising interest rates in the US and Europe.

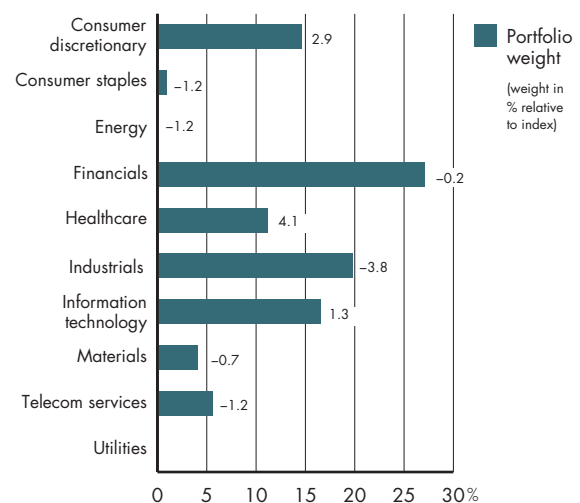
The year-end duration in the fixed income portfolio was 3.9 years, which was somewhat less than for the reference index. A breakdown of the Fund's bond holdings by rating class is shown in the chart below.

At year-end the Fund was positioned for rising interest rates in the US, for steeper yield curves in Australia and the UK and for widening credit spreads. The Fund was also overweight in Swedish bonds and underweight in US bonds.

Internally managed global equity portfolio allocations per sector at 31 December 2005



Swedish equity portfolio allocations per sector at 31 December 2005



Largest active positions in internally managed equity portfolio at 31 Dec 2005

LARGEST OVERWEIGHTS (SWEDEN)

Company	Active weight, %	Portfolio weight, %	Index weight, %
GETINGE IND	2.8	3.4	0.6
SHB	2.4	6.1	3.7
VOLVO	2.1	6.5	4.4
FSB	1.9	5.1	3.2
TELE2	1.8	2.9	1.1

LARGEST UNDERWEIGHTS (SWEDEN)

Company	Active weight, %	Portfolio weight, %	Index weight, %
TELIASONERA	-2.6	2.8	5.4
SANDVIK	-2.5	0.0	2.5
SEB	-2.2	0.9	3.1
SKF	-1.4	0.0	1.4
SKANSKA	-1.4	0.0	1.4

LARGEST OVERWEIGHTS (GLOBAL)

Company	Active weight, %	Portfolio weight, %	Index weight, %
IBM	1.9	2.6	0.7
MICROSOFT	1.8	3.1	1.3
RECKITT BENCKISER	1.7	1.8	0.1
SAP	1.7	1.9	0.2
WAL-MART	1.6	2.2	0.6

LARGEST UNDERWEIGHTS (GLOBAL)

Company	Active weight, %	Portfolio weight, %	Index weight, %
PROCTER & GAMBLE	-1.0	0.0	1.0
INTEL	-0.8	0.0	0.8
GENERAL ELECTRIC	-0.7	1.2	1.9
ROYAL DUTCH	-0.7	0.4	1.1
NESTLE	-0.6	0.0	0.6

CURRENCIES

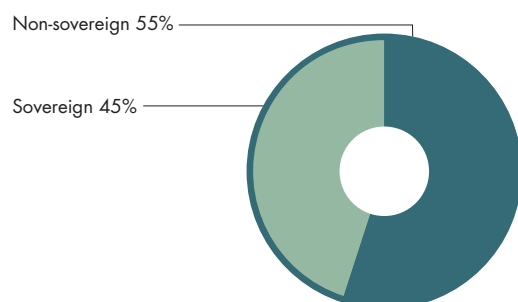
Active currency management performed strongly, contributing 0.1 percentage points or almost SEK 200 million to AP4's total relative return. The main driver was an overweight in US dollars versus sterling in the first half of the year. Positions taken in expectation of a stronger Norwegian krone and, towards year-end, of a stronger Swedish krona versus the euro also contributed to the outperformance. Transaction costs for strategic currency management were in line with expectations and amounted to 0.1% of the Fund's market value.

Currency exposure was 10.1% of total assets at year-end, compared to 20.4% at the start of the year.

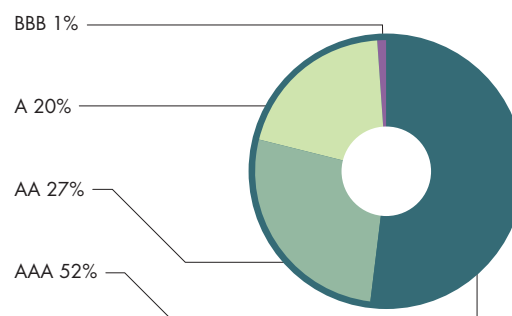
REAL ESTATE

The Fund holds a 25% stake in AP Fastigheter Holding AB, which is one of Sweden's largest property companies and has a portfolio worth SEK 31 billion. The company's main holdings are commercial real estate and residential properties in Stockholm, Uppsala and Göteborg. AP4 is an active member of the AP Fastigheter board of directors. The return on the Fund's holding in AP Fastigheter was 47.7% in 2005, of which almost two thirds related to changes in the way the company's net asset value was calculated. In order to avoid distorting its financial figures, the Fund has opted to use the return on its holding in AP Fastigheter as the reference index when calculating total relative return.

Fixed income portfolio mix between sovereign/non-sovereign issuers at 31 Dec 2005



Bond holdings by rating class at 31 Dec 2005



Currency exposure* at 31 Dec 2005 (SEK million)

	USD	EUR	GBP	JPY	Other	Total
Shares and investments	38,147	11,870	8,230	8,987	6,986	74,219
Bonds and other fixed income assets	19,181	9,767	6,065	0	0	35,013
Derivatives excl. currency derivatives	66	-347	80	3	-129	-327
Net other receivables and liabilities	36	143	116	0	287	582
Currency derivatives	-52,716	-11,535	-12,244	-7,980	-6,870	-91,345
Net currency exposure	4,714	9,898	2,247	1,010	274	18,142

Currency exposure* at 31 Dec 2005 (SEK million)

	USD	EUR	GBP	JPY	Other	Total
Shares and investments	31,291	8,344	7,529	6,119	6,854	60,137
Bonds and other fixed income assets	15,685	8,532	5,311	0	0	29,528
Derivatives excl. currency derivatives	-26	-511	19	33	0	-485
Net other receivables and liabilities	58	32	62	20	13	185
Exposure to SEK-listed companies with foreign domicile*	0	324	833	0	0	1,157
Currency derivatives	-42,562	-2,873	-10,740	-3,390	-60	-59,625
Net currency exposure	4,446	13,848	3,014	2,782	6,807	30,897

* Currency exposure was formerly calculated on the basis of legal domicile but from 2005 AP4 uses the MSCI currency domicile definition for equities and the denomination currency for fixed income assets.

UNLISTED

AP4 continued building its portfolio of unlisted assets in 2005. The very strong inflow of capital in recent years to the relatively young private equity market resulted in a more cautious approach to new investments than originally planned. Only one new undertaking was made in 2005 and this was in EQT Opportunity Fund. AP4's investment commitments to this fund totalled EUR 25 million, giving it a stake of 6.5%.

At year-end the Fund had a total of 11 private equity commitments totalling SEK 1,640 million. Since the private equity portfolio is currently under construction, implemented investments stood at just SEK 784 million at year-end (equating to 0.4% of the Fund's total assets). For the time being, AP4 will continue to report its unlisted assets as sub-portfolios of its Swedish and global equity holdings. Net income from unlisted assets totalled SEK 40 million for 2005.

Changes to accounting principles for unlisted assets were made during the year and these are explained under "Accounting and valuation principles".

RISK MANAGEMENT

The Board sets an annual risk management plan that details the main operational risks for the Fund and how to tackle them. The principal risks are of a financial and operational character. Financial risks consist of market risks, credit and counterparty risks and liquidity risks. Operational risks are defined as administrative risks, IT risks, other technical risks, legal risks and ethical risks.

Performance and Risk Control is an autonomous department that reports directly to the President and Board. Its task is to ensure compliance with investment legislation and the risk management plan throughout the Fund. This it does through close monitoring and analysis and daily

Income and expenses for external management of unlisted assets (real estate excluded) in 2005 (SEK million)

Gross income	48
Management fees stated as commission expenses	-8
Net contributions	40
Receivables, management fees	24
Assets under management at 31 Dec 2005	784
Invested capital at 31 Dec 2005	794
Investment undertakings at 31 Dec 2005	1,640

reporting of return and risk, both in absolute terms and in relation to relevant indices.

Under the new organisational structure that came into effect on 8 September 2005, the Fund President has operational charge of investment operations. However, the President may not independently carry out transactions and all changes in limits must be approved in advance by Performance and Risk Control. Moreover, the Head of Performance and Risk Control may submit any questions that arise within his remit directly to the Board.

FINANCIAL RISKS

The core aim of AP4's investment operations is to generate an active return in relation to the benchmark and reference indices, and for this reason risk is primarily determined in relation to the index (active risk). Currency, fixed income and equity risks are managed by controlling active risk, duration and permissible deviations from index weights.

For derivatives, limits are in place both on nominal underlying value and market risk. All derivative holdings and associated risks are subject to the Fund's daily position and risk monitoring.

Credit and counterparty risks depend on individual counterparties being able to discharge their undertakings to the Fund. With regard to credit risk, AP4 has established individual counterparty limits which are monitored continuously. Credit risks are limited by a rule that permits investments only in securities that are BBB rated or higher.

Liquidity risks are limited by special rules for investments in fixed income assets and close monitoring of cash balances.

OPERATIONAL RISKS

AP4 managers are responsible for taking requisite steps to identify, limit and control their departments' operational risks, in accordance with the risk management plan.

ADMINISTRATION REPORT

A separate Administration Report by the Board is published on page 42.



Income statement

SEK million	Note	2005	2004
OPERATING INCOME			
Net interest income	1	1,263	2,398
Dividends received		2,131	1,667
Net income, listed shares and investments	2	17,592	11,114
Net income, unlisted shares and investments	3	741	223
Net income, fixed income management		180	991
Net income, derivatives		351	19
Net income, foreign exchange		3,721	-1,918
Net commission expenses	4	-87	-91
Total operating income		25,892	14,403
OPERATING EXPENSES			
Personnel costs	5	-91	-79
Other administrative expenses	6	-42	-47
Total operating expenses		-133	-126
Net profit for the year		25,759	14,277

Balance sheet

SEK million	Note	31 Dec 2005	31 Dec 2004
ASSETS			
Shares and investments, listed	7	112,091	90,776
Shares and investments, unlisted	8	2,445	1,333
Bonds and other fixed income assets	9	64,611	54,689
Derivatives	10	1,404	3,893
Cash and bank balances		942	385
Other assets	11	74	678
Prepaid expenses and accrued income	12	2,166	1,579
Total assets		183,733	153,333
LIABILITIES AND FUND CAPITAL			
Liabilities			
Derivatives	10	2,322	584
Other liabilities	13	162	864
Deferred income and accrued expenses	14	1,151	451
Total liabilities		3,635	1,899
FUND CAPITAL			
	15		
Fund capital at start of year		151,434	135,506
Net payments from the national pension system		2,312	1,397
Transfers from liquidation fund and special asset management fund		593	254
Net profit for the year		25,759	14,277
Total fund capital		180,098	151,434
Total liabilities and fund capital		183,733	153,333
MEMORANDUM ITEMS			
Assets pledged and equivalent collateral	16	4,354	972
Undertakings	17	1,640	1,702

Accounting and valuation principles

In compliance with the Swedish National Pension Funds Act, the annual accounts have been prepared according to generally accepted accounting principles. AP1, AP2, AP3 and AP4 have developed and put into practice a set of common accounting and valuation principles that accord with existing regulations for comparable financial institutions.

CHANGES IN ACCOUNTING PRINCIPLES

As of 2005, AP1, AP2, AP3 and AP4 have adjusted their income statement formats and the way they report fees paid to external managers of unlisted equity holdings to comply with the principles followed by comparable organisations in Sweden and abroad. Comparative figures have been adjusted to reflect the changes made in the income statement format.

Fees paid to external private equity managers that are deemed likely to be subject to repayment prior to profit sharing are reported as a receivable under other assets in the balance sheet. This applies to fees paid from 1 January 2005. Prior payments are recognised under commission expenses. Performance-based incentives, which are payable only when a manager outperforms a predetermined level, are reported against net income for the relevant asset category in the income statement. Fixed fees to external managers and custody account expenses are recognised as commission expenses in the income statement.

For the purposes of harmonisation with the other buffer funds, investments in equipment are as of 2005 recognised as an expense as they arise. Equipment purchased in prior years is depreciated according to plan over a three to five year period.

TRANSACTION DAY ACCOUNTING

Purchases and sales on the money, bond, equity and foreign exchange markets are reported in the balance sheet on the transaction date, that is at the point when material rights, and therefore risks, are transacted between the parties. Receivables and liabilities that fall between transaction and settlement date are reported under other assets and other liabilities respectively.

FOREIGN CURRENCY

Foreign currency-denominated assets and liabilities are stated at year-end exchange rates. Changes in the values of foreign-currency-denominated assets or liabilities are divided between those attributable to the change in the value of the asset or liability in local currency and those caused by exchange rate changes. Realised and unrealised changes in value that arise due to exchange rate fluctuations are reported in the income statement under net income, foreign exchange.

SHARES AND INVESTMENTS

Shares and investments are valued at fair value. Shares listed on an authorised stock exchange are valued either by using the closing rate in local currency on the year's last day of trading or, alternatively, by using the final buying rate. Private equity holdings are valued in accordance with EVCA principles or similar standards. Fair value should primarily be calculated on the basis of transactions with third parties, though other valuation methods may be used.

BONDS AND OTHER FIXED INCOME ASSETS

Bonds and other fixed income assets are valued at fair value. The market value of fixed income securities is determined by the closing buying rate on the final day of trading or, alternatively, by the buying rate on the preceding day.

Net income is the difference between average accrued acquisition value and sales or fair value. Accrued acquisition value is the discounted present value of future payments, where the discount rate corresponds to the effective interest rate at time of purchase. This means that acquired premiums or discounts are accounted for on an accruals basis over the remaining term of the security or until the next adjustment of the interest rate. Changes in accrued acquisition values are reported as interest income.

BUYBACKS

In a true buyback (repurchase), the asset remains on the balance sheet and cash received is reported as a liability. The divested security is reported under memorandum items as a pledged asset on the balance sheet. The cash value difference between spot and forward legs accrues during the maturity period and is reported as interest.

DERIVATIVES

Derivatives are valued at fair value based on year-end market rates. Derivative contracts with a positive fair value at year-end are reported as assets, while contracts with a negative fair value are reported as liabilities. Regarding foreign exchange forward contracts, the difference between forward and spot rates accrues evenly over the term of the forward contract and is accounted for as interest.

EQUIPMENT AND COMPUTER SOFTWARE

Investments in in-house and externally purchased computer software are generally taken up as an expense as they arise.

ITEMS REPORTED DIRECTLY AGAINST FUND CAPITAL

Transfers to and from the national pension system, together with transfers from the liquidation and special asset management funds owned jointly by AP1, AP2, AP3 and AP4, are reported directly against fund capital.

COMMISSION EXPENSES

Commission expenses are reported in the income statement as a deduction from operating income. They consist of direct transaction costs, custody account expenses and fixed commissions to external managers. For accounting principles for performance-based incentives and fees paid to external private equity managers, see “Changes in accounting principles”, previous page.

OPERATING EXPENSES

All management expenses, excluding brokers' commission, performance-based incentives to external managers and commission expenses are reported under operating expenses.

AP4 is VAT-exempt since it is not classed as conducting business activities. Consequently, the Fund is not entitled to claim back its VAT outlays. VAT that has been paid or reserved to be paid is reported under the relevant expense item.

INCOME TAXES

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

Notes to the income statement and balance sheet

SEK million, unless otherwise stated

NOTE 1 Net interest income

	2005	2004
Interest income		
Bonds and other fixed income assets	2,358	2,109
Derivatives	2,089	1,327
Other interest income	12	5
Total interest income	4,459	3,441
Interest expense		
Derivatives	-3,196	-1,042
Other interest expenses	0	-1
Total interest expense	-3,196	-1,043
Net interest income	1,263	2,398

NOTE 2 Net income, listed shares and investments

Performance-related remuneration, which is payable only if a manager exceeds certain agreed investment targets, resulted in a SEK 16 million (29) charge to net profit for the year.

NOTE 3 Net income, unlisted shares and investments

	2005	2004
Capital gain	13	0
Unrealised changes in value	728	223
Net income, unlisted shares and investments	741	223

NOTE 4 Net commission expenses

	2005	2004
External management fees (listed assets)	67	53
External management fees (unlisted assets)	8	18
Other commission expenses, incl. custody account fees	12	20
Net commission expenses	87	91

NOTE 5 Personnel

NUMBER OF EMPLOYEES	2005 Total	2005 Female	2004 Total	2004 Female
Average no. of employees	46	17	48	17
Number of employees on 31 December	50	22	50	22
Number of executive management committee members on 31 December	6	1	5	1

PERSONNEL COSTS, SEK '000

	2005	2004
Salaries and remuneration		
Chairman of the Board	100	100
Other Members of the Board	425	410
President	1,731	1,791
Other executive management committee members*	10,919	5,945
Other employees**	36,799	36,395
Total salaries and remuneration	49,974	44,641

* thereof employment termination costs for other exec. mgt. committee members

3,189 0

** thereof employment termination costs for other employees

1,011 0

Variable remuneration

	2005	2004
President	0	0
Other executive management committee members	345	224
Other employees	817	1,643
Total variable remuneration	1,162	1,867

Pension costs

	2005	2004
President	1,781	1,637
Other executive management committee members*	2,529	1,920
Other employees**	12,484	8,596
Total pension costs	16,794	12,153

* thereof employment termination costs for other exec. mgt. committee members

124 0

** thereof employment termination costs for other employees

3,803 0

Social security costs

Chairman of the Board	33	33
Other Members of the Board	135	130
President	645	646
Other executive management committee members*	4,133	2,395
Other employees**	15,019	14,250
Total social security costs	19,965	17,454
* thereof employment termination costs for other exec. mgt. committee members	1,065	0
** thereof employment termination costs for other employees	1,251	0
Other personnel costs	2,820	3,052
Total personnel costs	90,715	79,167
* thereof costs of employment termination	10,443	0

*** Costs of employment termination**

These costs total SEK 10,443,000 and relate to costs for early retirement pensions, salary during termination periods and other severance pay. All employment termination costs are recognised as an expense in the 2005 accounts but will be paid in part after year-end.

Salaries and remuneration

The Government sets the remuneration of Members of the Board. The Board of Directors decides the employment conditions of the President and Deputy Managing Director, following recommendations by the Chairman and Deputy Chairman of the Board. Remuneration of the President and Deputy Managing Director is paid in the form of salary. Remuneration of other members of the executive management committee consists of salary plus variable remuneration.

Variable remuneration

The variable remuneration scheme is set by the Board and covers all employees (bar the President and Deputy Managing Director) who have been in AP4's employment for more than six months. The basic principle is that variable remuneration are payable in the event that the Fund outperforms the benchmark and reference index. The maximum variable remuneration for a financial year is two months' salary. Variable remuneration includes provisions for 2005, which will be paid in 2006 after the Board has finalised the annual accounts and after estimated returns on investment have been examined by the Fund's auditors.

Pensions and similar benefits

The President's pension benefits and severance pay are specified in his contract of employment. The agreement entitles him to a pension from the age of 58 amounting to 75% of his full salary at the retirement date until the age of 65. The President is also entitled to severance pay of two years' salary.

Other executive management committee members have individual employment contracts. The Deputy Managing Director is entitled to receive a pension from the age of 63 amounting to 75% of his salary on the retirement date until the age of 65.

The Fund's pension liabilities in respect of its individual agreements with the President and Deputy Managing Director amount to SEK 13,013,000.

The President and Deputy Managing Director have agreed with AP4 to reduce their previously stipulated pensionable age by two years in return for abstaining from commensurate salary increases.

Sickness absence

Sickness absence in 2005 amounted to 2.7% (4.6) of normal working hours. The figures were 5.2% (9.8) for female staff and 0.9% (0.9) for male staff. Some 1.2% (3.0) of absences lasted 60 days or longer. The incidence of sickness absence among employees aged 29 or younger was 0.0% (2.4). For those aged 30-49 the figure was 3.0% (4.7) and for those over 50 the figure was 1.5% (4.1).

NOTE 6 Other administrative expenses

	2005	2004
Cost of premises	9	10
Information and IT expenses	18	23
Services purchased	8	6
Other administrative expenses	7	8
Total other administrative expenses	42	47
Purchased services include the following fees paid to auditors:		
Audit services, Öhrlings PwC	0.8	0.8
Audit services, KPMG	0.3	0.3
Other services, Öhrlings PwC	0.0	0.1
Other services, KPMG	0.2	0.0
Total fees to auditors	1.3	1.2

NOTE 7 Shares and investments, listed

	31 Dec 2005		31 Dec 2004	
	Fair value	Acquisition value	Fair value	Acquisition value
Listed Swedish equities (internally managed)	38,230	28,878	30,600	29,108
Listed foreign equities (internally managed)	40,883	36,042	29,525	30,075
Listed foreign equities (active external asset management)	13,228	8,960	9,028	8,191
Investments in foreign mutual funds	19,750	16,473	21,623	22,965
Total listed shares and investments	112,091	90,353	90,776	90,339

A detailed list of holdings is published on the AP4 website and printed copies can be ordered from AP4.

NOTE 8 Unlisted shares and investments

Holding at 31 Dec 2005	Corp. id. no.	Number	Equity capital, %	Voting capital, %	Acquisition value
<i>Swedish shares and investments:</i>					
AP Fastigheter Holding AB	556650-4196	1,000,000	25	25	721
Innoventus AB	556602-2728	2,334	17	17	1
Innoventus Projekt AB	556616-8356	31,032	16	16	13
Accent Equity 2003 KB	969694-7739		19 *		53
BrainHeart Capital KB	969674-4102		21 *		192
HealthCap III Sifund KB	969699-4830		20		40
HealthCap Annex Fund III KB	969690-2049		20		43
HealthCap IV KB	969683-6650		41 *		27
Innoventus Life Science I KB	969677-8530		16		14
Northern Europe Private Equity KB (EQT III)	969670-3405		10 *		65
Total Swedish shares and investments					1,169
<i>Foreign investments:</i>					
EQT IV			4		237
European Strategic Partners II			4		63
Goldman Sachs Multi Strategy Fund			**		46
Total foreign investments					346
Total acquisition cost of unlisted shares and investments					1,515
Total market value of Swedish shares and investments					2,087
Total market value of foreign investments					358
Total market value of unlisted shares and investments					2,445

* AP4's share of the total commitments in Accent, BrainHeart, HealthCap IV and EQT III is 6%, 19%, 2% and 1% respectively.

** AP4's share of the underlying funds is 1% and 4% respectively.

NOTE 9 Bonds and other interest-bearing assets

	31 Dec 2005		31 Dec 2004		31 Dec 2005		31 Dec 2004	
	Fair value	Accrued acquisition value	Fair value	Accrued acquisition value	Fair value	Accrued acquisition value	Fair value	Accrued acquisition value
<i>Issuers</i>								
Kingdom of Sweden	10,062	10,018	8,191	7,940				
Swedish municipalities	0	0	51	50				
Swedish mortgage lending institutions	16,531	16,637	14,151	13,838				
Other Swedish financial companies	940	942	158	155				
Swedish non-financial companies	2,079	2,080	2,287	2,280				
Foreign states	17,366	16,428	15,546	16,544				
Other foreign issuers	17,633	17,115	14,305	15,670				
Total interest-bearing assets	64,611	63,220	54,689	56,477				
<i>Instrument type</i>								
Bonds	61,681	60,294	52,531	54,322				
Promissory note loans	2,000	2,000	2,000	2,000				
Subordinated debentures	221	217	81	78				
Overnight loans	709	709	77	77				
Total interest-bearing assets	64,611	63,220	54,689	56,477				

NOTE 10 Derivatives

	31 Dec 2005		
	Nominal value	Fair value	
		Positive	Negative
<i>Share futures</i>	3,093	15	4
thereof cleared	3,093	15	4
<i>Interest-rate-related instruments</i>			
Swaps	76,421	342	505
FRA/Futures	82,612	47	136
<i>Total interest-rate-related instruments</i>	159,033	389	641
thereof cleared	82,612	47	136
<i>Foreign exchange forward contracts</i>	124,116	1,000	1,677
Total derivatives	286,242	1,404	2,322
thereof cleared	85,705	62	140

NOTE 11 Other assets

	31 Dec 2005	31 Dec 2004
Receivables on unsettled transactions	46	672
Equipment	2	4
Management fees receivable for unlisted assets	24	0
Other receivables	2	2
Total other assets	74	678

NOTE 12 Prepaid expenses and accrued income

	31 Dec 2005	31 Dec 2004
Accrued interest income	2,111	1,517
Accrued dividends and repayments	50	56
Other	5	6
Total	2,166	1,579

NOTE 13 Other liabilities

	31 Dec 2005	31 Dec 2004
Trade payables	4	2
Pension provisions	13	11
Payables for unsettled transactions	141	848
Other liabilities	4	3
Total other liabilities	162	864

NOTE 14 Deferred income and accrued expenses

	31 Dec 2005	31 Dec 2004
Accrued interest expenses	1,077	377
Accrued personnel costs	12	7
Accrued external management expenses	60	62
Other accrued expenses	2	5
Total	1,151	451

NOTE 15 Fund capital

	31 Dec 2005	31 Dec 2004
Fund capital at 1 Jan	151,434	135,506
<i>Net payments from the national pension scheme</i>		
Paid-in pension contributions	44,883	42,904
Disbursed pension payments	-42,268	-40,696
Transfer of pension rights to the EU	-14	-95
Settlement of pension rights for prior years	5	-4
Final adjustment for 1999-2002	0	-400
Administration fee paid to Swedish Social Insurance Agency	-294	-312
Total net payments from the national pension scheme	2,312	1,397
Transfer from AP1's liquidation fund	363	129
Transfer from AP4's special asset management fund	230	125
Total transfers	593	254
Net profit for the year	25,759	14,277
Fund capital at 31 Dec	180,098	151,434
Capital under management in AP1's liquidation fund	3,688	4,924
Capital under management in AP4's special asset management fund	472	806

Annual reports are available from AP1 and AP4.

NOTE 16 Pledged assets and equivalent collateral

	31 Dec 2005	31 Dec 2004
Bonds pledged as collateral for futures	1,199	972
Bonds pledged as collateral for buybacks	3,155	0
Total bonds pledged as collateral	4,354	972

NOTE 17 Undertakings

	31 Dec 2005	31 Dec 2004
Capital investments not yet drawn down	1,640	1,702

NOTE 18 Related enterprises

AP4 rents its office premises from AP Fastigheter at market rates.

Stockholm, 9 February 2006

Birgit Friggebo
CHAIRMAN

Karl-Olof Hammarkvist
DEPUTY CHAIRMAN

Göran Johnsson

Kajsa Lindståhl

Marianne Nivert

Sture Nordh

Inga Persson

Ilmar Reepalu

Ulrik Wehtje

Thomas Halvorsen
PRESIDENT

We expanded our audit remit to include examination of the administration report for the Fourth Swedish National Pension Fund in 2005.

We found no cause for qualification in respect of our audit.

Our auditors' report was submitted on

Stockholm, 9 February 2006

Anna Hesselman
AUTHORISED PUBLIC ACCOUNTANT

Anders Bäckström
AUTHORISED PUBLIC ACCOUNTANT

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 2005. These accounts and the administration, and 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 misstatements. An audit involves examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the

board of directors, the significant estimates made by the board when compiling the annual accounts and evaluating 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 fund's financial position and results of operations in accordance with generally accepted accounting standards in Sweden. The administration report 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 sheets, 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, 9 February 2006

Anna Hesselman

AUTHORISED PUBLIC ACCOUNTANT

Appointed by the Swedish Government

Anders Bäckström

AUTHORISED PUBLIC ACCOUNTANT

Appointed by the Swedish Government

Administration report

The assets of AP1, AP2, AP3, AP4 and AP6 are state-owned and reserved by law for specific asset management purposes in accordance with chapter 9, section 8 of the Instrument of Government. The organisational structure and activities of the AP funds are regulated by the Swedish National Pension Funds Act. This states that the government may not use fund assets for purposes other than those specified in the act, unless Parliament decides otherwise. The AP funds therefore have the status of government bodies, though there are substantial differences between them and other government authorities.

The funds are more independent than most other government bodies and have their own boards of directors and external auditors. Each fund has its own president. The government approves each fund's annual income statement and balance sheet and also commissions an annual evaluation of the funds' performance, which is submitted in writing to Parliament.

As a state body, AP4 is not directly covered by many of the provisions of the Swedish Code of Corporate Governance. In any case, there are very substantial differences between public law and commercial law. This administration report is therefore limited to relevant areas. The report has been examined by AP4's auditors.

BOARD OF DIRECTORS

AP4's Board of Directors has nine members, all appointed by the government. Two directors are appointed on the basis of nominations from employer organisations and a further two on the basis of nominations from employee organisations. The government appoints the Chairman and Deputy Chairman from its own nominees.

All directors were re-elected in May 2005 and their mandate runs until the Fund's income statement and balance sheet for 2005 have been approved. 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 other directors. The Board's members are shown on page 44.

RULES OF PROCEDURE

The Board is responsible for the Fund's organisation and management of its assets. It has a written work schedule and issues written instructions to the President. These documents are revised annually, together with the ethical



guidelines for employees and rules for reporting holdings of financial instruments.

BOARD ADMINISTRATION IN 2005

In 2005 the Board held seven minuted meetings, one more than in 2004. An eighth meeting was held to evaluate the Board's own work. The President and other AP4 staff also attend Board meetings in the role of rapporteur and secretary. An average of eight members attended Board meetings in 2005. The Board has not yet found it necessary

to appoint sub-committees to handle specific issues or remits.

During the year the Board focused particularly on the opportunities for expanding AP4's investments in emerging markets, based on sound ethical and environmental principles. The Fund's corporate governance strategy was discussed on a number of occasions. Turbulence at insurance company Skandia resulted in an extraordinary board meeting being held in April to discuss the important issue of the extent of a chairman's responsibilities.

The Board also drafted an operations plan for 2006 that encompasses AP4's investment policy, risk management plan, corporate governance policy, environmental and ethical investment guidelines, and annual plan and operating cost budget.

EXECUTIVE MANAGEMENT

The Board delegates operational management of AP4 to the President. In 2005 the President restructured the organisation, abolishing the post of chief investment officer. The President now has operational charge of asset management operations, while other staff have been given increased responsibilities. The changes resulted in the executive management committee being expanded from five to six members. Executive management committee members are shown on page 45.

SALARIES AND REMUNERATION

The Board approves the employment conditions of the President and Deputy Managing Director on the recommendation of the Chairman and Deputy Chairman. All employees have individual employment contracts. In addition, the Board operates a bonus scheme for all employees who have been with the Fund for more than six months (apart from the President and Deputy Managing Director). This may result in the payment of bonuses not exceeding two months' salary

Salary and bonus levels are detailed in Note 5 on page 36.

AUDIT

AP4's auditors are appointed by the government. The current audit mandate came into effect in 2005 and runs to 2008. It is shared between Anna Hesselman of Öhrlings PricewaterhouseCoopers and Anders Bäckström of KPMG. Anders Bäckström is also responsible for coordinating the audit process across the various AP funds.

The auditors submit a report based on their examination of the Fund's activities and finances. They report to the Board both by way of the written report and by oral presentation, attending at least one Board meeting per year. An additional minimum of two meetings are held each year between the auditors and the Chairman and Deputy Chairman. The audit process itself is conducted by a team of auditors from Öhrlings PricewaterhouseCoopers.

INTERNAL CONTROL

Each year the Fund is obliged to produce a risk management plan, in accordance with generally accepted financial market standards and the Swedish National Pension Funds Act. The plan aims to ensure effective internal risk control. The responsibilities of the Performance and Risk Control department are clearly stipulated and give the department's staff appropriate powers.

Performance and Risk Control is independent of the Fund's other operations and reports directly to the President. The plan states that the executive management committee must be aware of the different risks arising within the Fund's operations and how they 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 President.

The Head of Performance and Risk Control submits written and oral reports to the Board at each of its meetings. It is the Board's opinion that the structure outlined above is sufficient to ensure the Fund meets its obligations.

For 2005, the executive management committee has submitted a statement certifying that the annual accounts were prepared in accordance with the Swedish National Pension Funds Act and are accurate and correct from an internal control perspective.

OTHER DISCLOSURES

Various aspects of the Board's work during 2005 are described in fuller detail in the Report of the Board of Directors. In particular, the sections entitled "Significant events" and "Risk management" provide further information on financial and operational risks. The main Board documents referred to in this administration report are publicly available and can be accessed via the AP4 website at www.ap4.se.

Board of Directors and auditors



BIRGIT FRIGGEBÖ

Year of birth 1941. Chairman since 2000.

Other assignments:

Chairman of the University College of Opera and the Swedish Educational Broadcasting Company.



KARL-OLOF HAMMARKVIST

Professor. Pro-Vice-Chancellor of the Stockholm School of Economics. Year of birth 1945. Deputy Chairman since 2000.

Other assignments:

Member of the Board of the Stockholm Institute for Financial Research and Skandia AB.



INGA PERSSON

Professor. Year of birth 1945. Member of the Board since 2000.

Other assignments:

Member of the Board of the Sida/SAREC Research Board.



KAJSA LINDSTÅHL

Director. Year of birth 1943. Member of the Board since 2000.

Other assignments:

Chairman of the Board of Amnesty Business Group, Stiftelsen Tumba Bruk and Aktiefremjandet. Member of the Board of Skandia AB, NGM Holding AB, Swedish National Road Consulting AB, Riksbankens Jubileumsfond and SIFR Stockholm Institute for Financial Research.



ILMAR REEPALU

Chairman of Malmö City Executive Board. Year of birth 1943. Member of the Board.

Other assignments:

Chairman of the Swedish Association of Local Authorities. Deputy Chairman of KPA AB. Member of the Board of E.ON Sverige AB and Förenade Kommunföretag AB.



MARIANNE NIVERT

Director. Year of birth 1940. Member of the Board since 2000.

Other assignments:

Chairman of Posten AB. Member of the Board of SSAB, Beijer & Alma AB, Huddinge Universitetssjukhus AB, Lennart Wallenstam Byggnads AB and Systembolaget.



GÖRAN JOHNSON

Chairman (outgoing) of the Swedish Metalworkers' Union. Year of birth 1945. Member of the Board since 1997 and Deputy Member of the Board 1993–1996.

Other assignments:

Deputy Chairman of the Swedish Export Credits Guarantee Board. Member of the Board of FöreningsSparbanken, the Swedish Foundation for Strategic Research, Stockholm Business Region AB and Kvinnoforum. Adviser to Region Blekinge, Blekinge Institute of Technology and Vinnova.



ULRIK WEHTJE

Master of Engineering. Year of birth 1956. Member of the Board since 2004.

Other assignments:

Deputy Chairman of the Swedish Bookbinders' Union, the Swedish Graphic Companies' Federation and the Confederation of Swedish Enterprise's SME Committee. Member of the Board of the Confederation of Swedish Enterprise and AFA Trygghetsförsäkring.

ANNA HESSELMAN

Authorised Public Accountant:
Öhrlings PricewaterhouseCoopers



STURE NORDH

Chairman of the Swedish Confederation of Professional Employees. Year of birth 1952. Member of the Board since 1999.

Other assignments:

Chairman of the Board of Karlstad University. Deputy Chairman of Folksam Liv. Member of the Board of the Swedish National Labour Market Administration, Riva del Sole Spa and the European Trade Union Confederation.

ANDERS BÄCKSTRÖM

Authorised Public Accountant:
KPMG

Executive management committee



GÖRAN SCHUBERT

Year of birth 1953
 Head of Performance and Risk Control
 Employed at AP4 since 2004
 Bachelor of Science
 Previous employment: Alecta and Nordea

AGNETA WILHELMSON KÅREMAR

Year of birth 1952
 Director of Administration
 Employed at AP4 since 2001
 Bachelor of Laws and DIHM Diploma in Business Finance
 Previous employment: Nordnet, Swedbank Markets and Handelsbanken

THOMAS HALVORSEN

Year of birth 1949
 President
 Employed at AP4 since 1983
 Bachelor of Arts
 Previous employment: Handelsbanken
 Directorships: Beijer Alma and others

LEIF HÄSSEL

Year of birth 1960
 Head of Fixed Income & Currencies
 Employed at AP4 since 2000
 Bachelor of Science
 Previous employment: TryggHansa/SEB, Alfred Bergs Transferator and the Riksbank
 Directorships: AP Fastigheter

ANDERS ÅRJES

Year of birth 1971
 Head of Global Equities
 Employed at AP4 since 1998
 Bachelor of Science
 Previous employment: Myrberg Fondkommission and MoDo

BJÖRN FRANZON

Year of birth 1944
 Deputy Managing Director
 Employed at AP4 since 1993
 Bachelor of Science
 Previous employment: Alfred Berg Fondkommission and Affärsvärlden
 Directorships: AP Fastigheter (deputy member of the board) and others

Definitions

Active management

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

Active position

Difference between a portfolio and its reference or benchmark index, e.g. in terms of weight in individual equities (in active stock selection), sector weight (in active sector allocation) or duration (in active duration management).

Active return

Difference between the return on a portfolio compared to the return on its benchmark or reference index. Is synonymous with relative return. See excess return.

Active risk

Risk that arises as a result of active management. Is defined as the standard deviation of the difference between fair return and index return (i.e. the standard deviation of the active return) and also known as tracking error.

Active stock selection

The taking of active positions in different equities in order to outperform the reference index.

Asset liability modelling

Analysis model used for compiling AP4's strategic portfolio. An ALM analysis is premised on the Fund's long-term undertakings, forecast pension contributions and the expected return and risk of different asset categories. The model simulates theoretical portfolios to provide a basis for selecting a strategic portfolio that provides the optimum combination to meet the Fund's pension commitments.

Asset management cost quotient

Operating expenses as a ratio of average fund capital.

Automatic rebalancing

A mechanism that reduces pensions when pension liabilities exceed pension assets (see balance figure).

Balance ratio

The total assets of the national pension system (excluding premium pensions) divided by pension liabilities. It is an estimate of the pension system's financial balance. If the balance figure falls below 1.0, the automatic rebalancing mechanism is triggered and pension disbursements are reduced.

Beta value

Denotes the portfolio's propensity to rise or fall when the benchmark or reference index rises or falls. It states the expected percentage change in the value of the portfolio given a change of 1% in the reference or benchmark index.

Buffer fund

The name for the First, Second Third, Fourth and Sixth Swedish National Pension Funds. The funds' purpose is to compensate for temporary deficits in pension contributions in relation to pension disbursements (i.e. periods when disbursements exceed contributions) and also to maintain the value of pension assets in relation to pension liabilities. See balance ratio.

Benchmark index

Combination of various reference indices. Is a series of index returns against which AP4's total risks and return is compared. Returns mirror those from the strategic portfolio.

Contribution value

Estimate of the present value of future forecast pension contributions to the national pension system (excluding the premium reserve pension scheme). Calculated by multiplying a three-year average of contributions by the "turnover period", which measures the average time between acquired pension entitlement and disbursed pension payments.

Corporate governance

The sharing and exercise of rights and responsibilities in relation to the running of a company, notably between management and shareholders.

Country risk

A risk arising from differentials in yield spreads between countries in the context of an international bond portfolio.

Credit risk

Risk that a counterparty wholly or partly cannot fulfil his undertakings due to financial incapacity.

Currency exposure

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

Currency risk

The risk of a change in value of the portfolio as a result of fluctuations in foreign exchange rates.

Derivatives

Collective term for financial instruments whose value is linked to the value of an underlying instrument. Government bond futures are an example of a derivative linked to government bonds as an underlying instrument.

Duration

Approximate measure of interest rate risk. Measures the average outstanding life of all future cash flows (coupon yields and final maturity) for a bond or portfolio of bonds. Is also known as McCauley Duration. See modified duration.

Enhanced index management

See semi-active management.

Excess return

Arises when a portfolio outperforms its benchmark or reference index. Is the same as active return where the latter exceeds zero.

Fixed income portfolio

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

Fundamental analysis

Analysis aimed at predicting a company's future value. Is based primarily on information about companies and their markets, e.g. information about their executive management, strategy, earnings forecasts and financial status and performance.

Global equity portfolio

Consists of equities and equity-related instruments listed on global stock exchanges included in the MSCI World Index. (Note that a share listed on the Swedish stock exchange may be included in both the Swedish and global equity portfolios and such shares are allocated to the intended portfolio at the time of purchase.) The reference index is the MSCI World DNI hedged.

Handelsbanken Markets Bond Index

Svenska Handelsbanken's return index for Swedish fixed income bonds.

Hedging

The removal of currency risk by swapping exposure to foreign currencies for Swedish kronor using currency futures.

Import basket

Basket of currencies weighted in relation to their respective share of Swedish import revenues.

Information ratio

A measure of risk-adjusted return. Measured as a portfolio's active return compared to its active risk.

Investment assets

Used in the 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. These require that buybacks, liquid assets and derivatives with negative market value are reported under items other than investment assets.

Investment grade

Term to describe borrowers assigned an A-rating (A, AA, AAA or equivalent) or triple-B-rating (BBB or equivalent).

Interest rate risk

Measurement of the change in value of a fixed income portfolio after a specified change (often 1%) in market interest rates.

Legal risk

Risk of unforeseen losses arising because of legal errors in agreements and contracts, e.g. that an agreement proves invalid or less advantageous than intended.

Liquidity risk

Risk that a financial instrument cannot be divested within a reasonable period without significantly affecting its pricing.

Market risk

Risk of a change in the value of a financial instrument due to changes in equity prices, exchange rates or interest rates.

Merrill Lynch GBI

The Merrill Lynch Global Bond Index is a return index for government and non-government bonds. It is used as the reference index for the foreign part of the fixed income portfolio.

Modified duration

Measure of interest rate risk. Defined as the percentile change in value of a fixed income security as a result of a 1% parallel shift in the yield curve. Calculated by dividing duration (see definition) by the market interest rate plus 1.

MSCI World DNI

The Morgan Stanley Capital International World Developed Markets Daily Net Index. Is the reference index for AP4's global equity portfolio and charts global market performance, including dividends.

Net contributions

Difference between annual pension contributions to the national pension system and disbursed pension payments.

Non-government bond

Bond carrying a higher credit risk than a government bond, for instance a corporate bond.

Operational risks

Collective term for risk of losses arising through operational disruptions, e.g. human error, deficient systems or shortcomings in instructions or routines.

Passive management

Portfolio management where portfolio holdings mirror a chosen index in order to match the index return.

Pension liability

The financial commitment to current pensioners plus total pension entitlements accumulated by those in work.

Reference index

Index series against which a portfolio's return and risk is compared, e.g. the MSCI World DNI or SIX Return Index.

Return

Time-weighted return excluding asset management costs, calculated on a daily basis and assuming that all transactions are carried out at the end of the day. Is used when reporting the financial performance of the portfolio and sub-portfolios.

Risk-adjusted return

The return on a financial instrument or portfolio divided by the level of risk (measured as volatility). If two portfolios offer the same return but differ in volatility, the one with the lower volatility offers the higher risk-adjusted return. This is often measured as an information or Sharpe ratio.

Sector allocation

Active overweights or underweights in different equity market sectors relative to the index in order to outperform the index.

Semi-active asset management

Portfolio management with a somewhat higher active risk than passive management, i.e. resembling index management but with a limited active component. Also known as tracking error.

Sharpe ratio

A measure of risk-adjusted return. Calculated as portfolio return minus risk-free interest and divided by portfolio volatility.

SIX Return Index

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

Strategic portfolio

The distribution of assets deemed to correspond best to AP4's long-term objectives and targets. Its composition is determined by the Fund's Board of Directors following an ALM analysis. The strategic portfolio thus determines the benchmark index against which the Fund's risk and return are compared.

Swedish equity portfolio

Consists of equities and equity-related instruments listed on the Swedish stock market and unlisted Swedish shares and investments, with the exception of shares in AP Fastigheter. The reference index is the SIX Return Index.

Tactical asset allocation

Active position-taking between different asset categories or regions in order to outperform the index.

Tracking error

See active risk.

Volatility

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

Yield curve

Graph created by plotting the market interest rates of a particular class of security according to maturity.



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