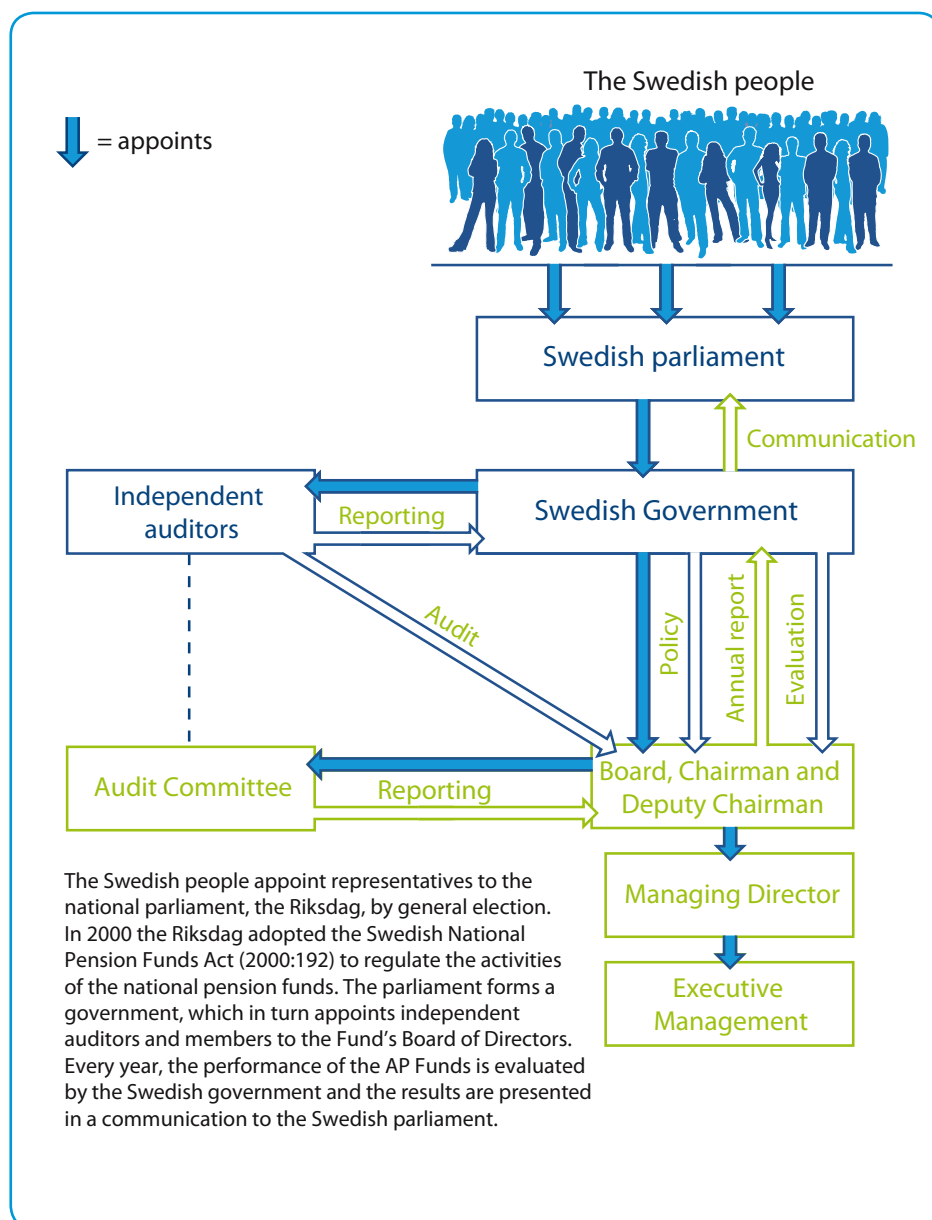




Fund management report



Första AP-fonden issues a fund management report and thereby applies the recommendations in the Swedish Code of Corporate Governance as far as applicable with respect to the Fund's organizational structure. However, not all rules in the Code are applicable, since Första AP-fonden is a government entity (for more details see the Fund's website www.ap1.se).

The AP funds are more independent than most other government entities, since their operations are regulated only by law and not by directive. The funds' board of directors and independent auditors are appointed by the Swedish Government.

Every year, the performance and management of the AP funds is evaluated by order of the Swedish Government and the results are presented in a communication to the Swedish Parliament. The communication for the financial year 2005 (2005/06:210) was the first to be based on the government's new policy for governance and evaluation of the AP funds.

Board of Directors

Första AP-fonden's Board of Directors consists of nine members who are appointed by the Swedish Government. The Government also appoints the Chairman and Deputy Chairman. Of the other members, two are nominated by the employer organizations and two by the employee organizations. The Fund's Managing Director is not a member of the Board.

All members of the Board of Directors were re-elected in 2008. The members have been appointed to serve until the income statement and balance sheet for 2008 have been adopted. When a new member is elected, the Fund arranges a special review of Första AP-fonden's operations.

The Government determines the amount of fees and remuneration to be paid to the

members of the Board. Remuneration for the full year amounts to SEK 100,000 for the Chairman, SEK 75,000 for the Deputy Chairman and SEK 50,000 each for the other Board members. The members of the Fund's audit receive additional annual compensation of SEK 15,000 each.

Procedural plan

The Board is responsible for overseeing the Fund's organization and management of the investment assets. The work of the Board is regulated by a procedural plan that is adopted yearly.

Every year, the Board establishes the Fund's operational plan, goals and guidelines for investment operations, budget, risk management plan and ownership policy. The Board also appoints a Managing Director to whom it delegates responsibility for the Fund's day-to-day activities.

The Board of Directors is required to hold at least four meetings per year. The Fund's external auditors report to the Board at least once every year.

Committees

From among its own members the Board appoints two committees, an audit committee and a remuneration committee.

The audit committee assists the Board in matters related to internal control, operating risks, financial reporting and auditing. However, decision-making authority and responsibility in these areas is held by the Fund's entire Board of Directors. In 2008 the committee consisted of Deputy Chairman Håkan Tidlund together with Board members Katja Elväng and Per Nordberg. The committee met on three occasions during the year.

The remuneration committee assists the Board in matters related to remuneration.

In 2008 the committee consisted of Board Chairman Anna Hedborg and Board members Anna Ekström and Tor Marthin. The committee met on one occasion during the year.

Work of the Board in 2008

In 2008 the Board held seven minuted meetings. The meetings were attended by an average of eight Board members.

One of the Board's foremost tasks is to discuss and take a position on the composition of the strategic benchmark in relation to the Fund's commitments in the pension system. In 2008 the focus on this area was particularly strong due to a decision regarding the composition and implementation of a new ALM portfolio, both before and during the financial crisis. Aside from Board meetings, a special board seminar was held to discuss ALM-related issues.

Asset management and risk reporting have also been standing items on the agenda. At one meeting, the Board of Directors evaluated its work during the past year.

Fund management

The Board of Första AP-fonden has delegated responsibility for the Fund's day-to-day activities to the Managing Director. The Executive Management Team consists of the Managing Director, together with the Administrative Manager and the heads of External Management, Business Support and Risk Management, Strategic Asset Allocation, Foreign Exchange/Treasury, HR and Corporate Communications.

Remuneration to the Managing Director consists of basic salary and payment of defined contribution pension premiums equal to 30% of basic salary. For that portion of salary granting entitlement under the national pension scheme, the pension premium is reduced to

11.5 percent. Remuneration to the other senior executives is determined by the Managing Director and consists of basic salary and pension premiums according to the applicable agreements for bank employees. Första AP-fonden applies market-based salaries.

Auditors

Första AP-fonden's auditors are appointed by the Swedish Government. The current ordinance, shared by Anna Peyron and Lars Bonnevier, both from Ernst & Young, commenced on 18 June 2008 and extends until the Fund's income statement and balance sheet for 2008 have been adopted. Anna Peyron has been appointed by the Government to coordinate the auditing procedures of the AP funds. In addition to his appointment as auditor of Första AP-fonden, Lars Bonnevier has been appointed together with Anna Peyron as auditor of the Third, Fourth and Seventh AP funds (AP3, AP4 and AP7).

The auditors present their observations from the audit directly to the Board in the form of a written audit report and an oral presentation.

The auditors participate in at least one Board meeting per year and meet with the Board Chairman or audit committee as needed. The auditors also submit a yearly report to the Swedish Ministry of Finance.

The auditors' duties include examining the Fund's operating activities, the administration of the Fund, the annual accounts and the accounting records, and expressing an opinion on the Fund's annual accounts and asset management based on their audit. Their duties also include assessment of Första AP-fonden's application of the accounting and valuation standards established for the AP funds and whether the overall presentation of information in the financial statements provides a true and fair view of the Fund's financial position and results.

Overview of Board member attendance and fees in 2008

	Appointed by recommendation of	Attendance at Board meetings	Fee	Audit Committee	Attendance in Audit Committee	Remuneration Committee	Attendance in Remuneration Committee	Fees for committee work
Anna Hedborg, Chairman	–	7/7	100,000		–	Chairman	1/1	
Håkan Tidlund, Deputy Chairman	–	6/7	75,000	Chairman	3/3	–		15,000
Anna Ekström	Employee organization (SACO)	7/7	50,000			Member	1/1	
Katja Elväng	–	6/7	50,000	Member	3/3	–		15,000
Anders Knape	Employer organization (Sveriges Kommuner och Landsting)	6/7	50,000		–	–		
Christina Lindenius	–	7/7	50,000		–	–	1/1	
Tor Marthin	–	5/7	50,000			Member		
Per Nordberg	Employer organization (Svenskt Näringsliv)	6/7	50,000	Member	3/3	–		15,000
Erland Olauson	Employee organization (LO)	5/7	50,000		–	–		

Report on internal control and risk management

According in the Swedish National Pension Funds Act (2000:192), the Board of Directors is responsible for the Fund's organization and management of the Fund's assets. Part of this responsibility is to ensure the high quality of the Fund's internal control, which is also consistent with the duties of the Board pursuant to the Swedish Companies Act and the Swedish Code of Corporate Governance.

This report has been prepared in compliance with the Swedish Code of Corporate Governance, articles 3.7.2 and 3.7.3, and is thereby limited to internal control over financial reporting. Reporting on internal control is structured according to the division in COSO, the most well established international framework for internal control. This report is not part of the formal annual report and has not been examined by the company's auditors. In this context, financial reporting refers to the Board's approved external reports, which are published in connection with the annual and semi-annual accounts.

Monitoring, analysis and reporting of internal control are handled by two functions within the Fund. The Risk Management function is primarily concerned with financial risks, while the Compliance Officer focuses mainly on operating risks and compliance with norms and rules. The work of both functions is carried out independently from the Fund's other activities, and both report directly to the Managing Director.

Control environment — fund management

The responsibilities of the Board of Directors are regulated by the Swedish National Pension Funds Act. Every year, the Board adopts a

normative document in which the roles and responsibilities of the Board and the Managing Director are described. This document contains a number of policies, a risk management plan and a reporting plan, and defines the respective areas of responsibility and authority.

There is a well ingrained risk culture in the Fund, which is partly due to the fact that successful asset management relies on the ability to identify, analyze and manage risks on the basis of a risk mandate.

Two central aspects of this culture are transparent reporting of business activities and a duality principle for processing of business transactions. This means, among other things, that the entire organization can monitor business activities via an enterprise-wide system and that these business transactions require approval from both the Fund's financial administration and investment units.

Furthermore, there are established and documented routines for valuation of financial instruments and well-defined structures for decision-making in day-to-day operations.

For preventive purposes, the Fund's risk management activities are focused on avoiding undesired financial risks and minimizing operating risks. This work, combined with a strong risk culture, promotes a high level of understanding regarding the need for internal risk control within the Fund.

Risk assessment

To ensure effective financial reporting and identification of operating risks, a recurring review of the Fund's processes and documentation is conducted at the request of the Board.

The results of this review are reported to the Board. A central component of this review is the account closing process, which describes valuation, reconciliation and control of securities in connection with closing of the accounts. The account closing process serves as basis for the Fund's external financial reporting.

Aside from a general evaluation of processes, the Managing Director and Executive Management Team together establish the areas to be prioritized and subjected to special review on a yearly basis. The units within the organization that are affected by the review participate actively in the analysis, which is based on a self-assessment method. This work results in an evaluation of identified risks and proposed measures. The Fund's Compliance Officer oversees the analysis process and ensures that the Fund's corrective measures are implemented.

Control structure and activities

The financial information is analyzed and examined by the Fund's financial administration, control and risk management functions, which verify the performed internal controls and issue opinions on the Fund's management to the Managing Director. Control activities are conducted with the support of the Fund's portfolio management system (Dimension) and risk system (Wilshire).

The control function is largely built into these systems, which also produce data for various risk analyses. This creates an effective structure for both prevention and identification of undesired risks. Risks are identified through the process described above, with a focus on those that are considered significant from a

Fund perspective. This dynamic handling of prioritized risks leads to continuous development of the Fund's internal risk management.

The risk management function is responsible for monitoring financial risks in the Fund issues guidelines for internal control routines as well as monitoring compliance and the outcome of these. The Fund's Compliance Officer monitors the operating risks, oversees compliance with the Fund's policies and normative documents and coordinates the yearly review of operating risks.

The process description and approved control and monitoring routines serve as normative documents for the Fund's Risk Management function and Compliance Officer.

Information and communication

The Board is regularly informed about the Fund's financial position and investment results. The Board is provided with an income and return report every month and a complete income statement and balance sheet on a quarterly basis. Reports on the Fund's financial position and risk-taking are also presented at each regular Board meeting.

The financial information provided by the Managing Director to the Board follows the Fund's account closing process, a procedure deemed to ensure the quality of the Fund's external financial reporting. External reports are published in connection with the annual and semi-annual accounts.

All policies and instructions with relevance for internal control are communicated clearly and made accessible to all employees on the Fund's intranet. This transparency also extends to continuous internal risk and return reports,

which are also made available on the Fund's intranet.

Monitoring

Risk management and internal control are standing items on the agenda of all of the Fund's regular board meetings, at which the Managing Director reports on the prioritized risk areas. The Board approves all financial reports prior to publication.

The Fund's Board of Directors is ultimately responsible for internal control. From among its members, the Board appoints an audit committee whose duties include matters related to internal control.

In response to unrest in the global financial markets during 2008, the Fund's Board of Directors and Audit Committee have specifically addressed the Fund's risk exposure to banks and other financial institutions. Aside from reviewing its limits on banks, a considerable emphasis has been placed on the Fund's positions in derivative instruments and securities liquidity.

The Board has decided not to establish an internal audit function to monitor the quality of internal control, but has instead engaged independent consultants for this work as needed. The Risk Management function and Compliance Officer report to the audit committee at its meetings. The independent auditors report regularly to the audit committee and to the Board in connection with the annual accounts.

Board of Directors



Anna Hedborg, born in 1944

Chairman. Appointed to the Board in 2000. M.B.A. Director General of the Ministry of Health and Social Affairs.



Håkan Tidlund, born in 1943

Deputy Chairman. Appointed to the Board in 2003. Chairman of the Board's Audit Committee. M.Sc.Econ. Chairman of the Swedish Film Institute. Board member of the Premium Pension Authority (PPM).



Anna Ekström, born in 1959

Appointed to the Board in 2002. Appointed by recommendation of the Swedish Confederation of Professional Associations (SACO). LL.B. Chairman of SACO and AEA. Vice Chairman of the board of Uppsala University. Member of the boards of AMS and the Södermanland County Council.



Katja Elväng, born in 1947

Appointed to the Board in 2007. M.B.A. Managing Director of Didaktus AB. Chairman of Swedcarrier AB and member of the boards of Didaktus AB and Milagro Business Partner AB.



Anders Knape, born in 1955

Appointed to the Board in 2007. Appointed by recommendation of the Swedish Association of Local Authorities and Regions (SKL). Chairman of SKL and SKL Företag AB. Vice Chairman of KPA AB, the Congress of Local and Regional Authorities of Europe, the EU Committee of the Regions and CEMR. Member of the Karlstad Municipal Council. Co-opted to the Board of the Moderate Party.



Christina Lindenius, born in 1964

Appointed to the Board in 2005. M.B.A. Managing Director of the Swedish Insurance Federation and the Swedish Insurance Employers' Association (FAO). Chairman of the Swedish Motor Insurers (TFF) and Svensk Försäkrings Administration AB. Member of the boards of the Swedish Social Insurance Agency, SNS Stockholm and Svenska ICC.



Tor Marthin, born in 1944

Appointed to the Board in 2006. M.B.A. Chairman of Brandkontoret, AMF Pension Fondförvaltning AB and Folkhem Byggnads AB. Member of the board of the Swedish Institute for Financial Research and member of the Swedish Securities Council.



Per Nordberg, born in 1956

Appointed to the Board in 2007. M.B.A. Appointed by recommendation of the Confederation of Swedish Enterprise (Svenskt Näringsliv). Vice President and CFO of Sandvik.



Erland Olason, born in 1949

Appointed to the Board in 2006. LL.B. First Vice President and Negotiating Secretary of LO. Member of the boards of the AMF companies, the Swedish Labour Court and Aftonbladet. Chairman of the Museum of Work, LO-data AB, LO servicecenter AB and LO-Tidningen AB.

Executive Management Team



Johan Magnusson, born in 1959
Managing Director, employed in 2008.
Previous positions at SEB Wealth Management and ABB Investment Management.
Member of the board of Vasakronan.



Anders Rahmn, born in 1951
Administrative Manager since 2000, employed in 1990 and member of the executive management team since 1998.
M.B.A.
Previous positions at the Swedish National Audit Office (SNAO) and the Ministry of Health and Social Affairs.



Nadine Viel Lamare, born in 1967
Head of Corporate Communications since 2001, employed in 1992 and member of the executive management team since 2004.
M.B.A., AFA, CEFA.
Former Head of the Fund's Performance Measurement unit.



Cecilia Thomasson Blomquist, born in 1963
Head of Head of Foreign Exchange and Treasury since 2000, employed in 1997 and member of the executive management team since 2006.
M.B.A, AFA, CEFA.
Previous positions at NCC Treasury AB and in the NCC group.



Rikard Kjörling, born in 1959
Head of External Management, employed and member of the executive management team since 2004.
M.B.A.
Previous positions at SEB Asset Management, SEB Investment Management and Trygg-Hansa.



Marina Westman, born in 1960
Head of Human Resources, employed in January 2008. Member of the executive management team since August 2008.
Previous HR positions in the SEB group.



Andrejs Landsmanis, born in 1952
Head Strategist, employed and member of the executive management team since December 2008.
Previous positions at Länsförsäkringar and SEB Wealth Management.