

Global Corporate Governance Policy

Approved by AP3's Board of Directors as of April 2011

AP3's mandate

The Swedish National Pension Funds Act makes clear that the AP funds should exercise their influence as investors to achieve the overall goal of high investment returns. The act also requires the AP funds to take due account of environmental and ethical considerations in their investment processes, while still aiming for maximum investment returns.

Means of implementation

AP3 holds shares in a vast number of foreign companies (approximately 4,500) and the purpose of this policy is primarily to make public the Fund's expectations of companies in which it invests.

AP3 will exert its influence as a shareholder by participating in international networks and organisations in order to promote good governance by individual companies. These efforts will include initiatives to influence regulatory authorities, self-regulatory bodies and the listing requirements of securities exchanges. The Fund may also cooperate with other investors to promote specific proposals or topics.

AP3's foreign equity portfolio is mainly managed by external managers and AP3 has previously opted to delegate voting rights to those managers. As part of AP3's increased ownership engagement, we have gradually increased the level of activity in the foreign equity portfolio. As of this year, AP3 has taken over the voting responsibility from external managers fully. Increased ownership engagement is expected to contribute to increased confidence in our corporate governance work, which ultimately should lead to higher returns on our equity portfolio. Since AP3 has a very diversified equity portfolio with relatively small holdings in most foreign companies, when determining whether to exercise voting rights, AP3 will weigh the costs against the value voting is expected to create. AP3's intention is to vote in as many AGMs as possible, and we are currently voting in approximately 500 foreign companies.

Disclosure and transparency

Corporations should disclose relevant and material information in a timely manner so that investors are able to make informed decisions.

The information should include data about major shareholders, including information on special voting rights, shareholder agreements, significant cross-shareholding relationships and related-party transactions.

Corporations should disclose their systems for governance and whether such systems comply with any code of governance principles. Where a system does not comply with a relevant code, the differences – and the reasons for them – should be explained.

Shareholder ownership rights

The exercise of ownership rights should be facilitated, and this should include giving shareholders reasonable notice of forthcoming shareholder meetings. AP3 supports initiatives to expand in absentia voting options, including proxy voting by mail and electronic voting.

Boards should treat all shareholders equally and should ensure that the rights of all investors, including minority and foreign shareholders, are protected.

Basic shareholder rights should include the right to nominate, appoint and remove members of the board and the external auditor.

Corporate boards

The board should consist of directors with the requisite range of skills, knowledge and experience to enable it to discharge its duties and responsibilities.

The duties and responsibilities of the board are best described in section VI of the OECD Principles of Corporate Governance.

The chairman of the board should be a non-executive director separate from the CEO and independent¹ from the company.

Each board should have a strong presence of independent² non-executive directors. It should evaluate its performance and the performance of individual directors on a regular basis and disclose the process for such evaluations.

Non-executive directors should meet in the absence of company executives as often as required (at least once a year).

Corporate remuneration

Executive remuneration should be designed so as to ensure cost-effective rewards for the creation of long-term shareholder value. Total compensation should be fair and in line with market norms.

Remuneration committees composed of independent directors should be responsible for designing and controlling executive remuneration schemes.

Boards should publish statements on remuneration structure outcomes. Reports should also include remuneration principles for key executives and directors, including salary, cash bonus, share-based compensation and other benefits.

Options and other share-based compensation should have vesting conditions linked to relevant performance measures. The principles and conditions of these instruments should be subject to shareholder approval, as should any repricing of options.

Options and other share-based compensation should be expensed in the income statement.

Audit

A company's financial statements should be subject to an annual audit on behalf of shareholders. The audit should be carried out by independent, external auditors. The fees paid by the company to auditors for non-audit services should be disclosed in the annual report.

Ethical conduct of business

The observance of good environmental and social practice is essential if companies are to be run in investors' best interests over the long term. Hence, ethical and environmental considerations are an important aspect of AP3's corporate governance activities. AP3 will work to ensure that the executive managements of companies in which we invest identify and manage ethical and environmental risks in a way that maximises returns for shareholders.

As part of the Swedish pension system, AP3 rest on the same principles of commitment, action and demand for change as those that form the core values of the Swedish state. Central tenets of these values include democracy, the equal value of all people, the freedom and dignity of the individual and sustainable development, in accordance with the wording of the Instrument of Government.

The Swedish Government's core values also find expression in those international conventions that Sweden has signed, which include conventions on environment, human rights, labor rights, corruption and inhumane weapons, as well as through support given to initiatives such as the United Nations Global Compact and OECD guidelines for multinational companies, in addition to Sweden's own stance on international public law issues. In tandem with the Swedish

Government's value system, international conventions constitute essential instruments for AP3 in its efforts to take environmental and ethical issues into account.

If it comes to AP3's attention that a company in which it holds shares is responsible for violating international agreements, the Fund will contact the company to obtain information on the factual background of the alleged breaches. If inquiries indicate that severe violations have been committed, AP3 will request that the company takes measures to prevent repetition. If this request does not produce the desired results, and there is reason to believe that the company will continue to violate international conventions, AP3 may exclude the company from its portfolio.

Collaboration with other owners

AP3 believes that greater results can be achieved through joint collaboration with other owners. AP3 therefore seek to cooperate with other shareholders when appropriate and in accordance with the Fund's corporate governance policy.

AP3 has together with three of the other AP funds (AP1, AP2 and AP4) formed an Ethical Council. The council coordinates the SRI analysis of the environmental and ethical compliance in the foreign companies where the funds have holdings. The collaboration involves screening of portfolio companies with regard to violation of international conventions, analysis and dialogue with the portfolio companies.

The Ethical Council gives international investors a powerful partner in Sweden with an active commitment to ethical and environmental aspects of corporate social responsibility. The Council also supports investor initiatives and conduct proactive dialogues.

AP3 signatory of PRI

AP3 has signed the United Nations Principle for Responsible Investments (PRI).

Status of this policy

This policy has been approved by the AP3 Board of Directors and applies to all non-Swedish corporations in which AP3 has a direct ownership interest. It is based on relevant parts of AP3's Corporate Governance Policy for Swedish holdings (approved by the Board as of April 2011) and has been adapted to international corporate governance practices.

The above policy statements have been inspired by the Global Corporate Governance Principles of the International Corporate Governance Network and the OECD Principles of Corporate Governance.

¹ Independence here is defined as independence from the company, not independence from major shareholders.

² See above.