



Andra AP-fonden

Second Swedish National Pension Fund - AP2

Annual Report 2001



The Second AP Fund in brief

- In January 1999, the Swedish Parliament decided to introduce a new Swedish pension system. As a result of this decision, the previous First, Second, Third, Fourth and Fifth Swedish National Pension Fund Boards were reorganised in May 2000, to become four independent "buffer" funds, all subject to joint investment rules.
- The capital accumulated by this pension system will be managed by investment in the equity market. Investment regulations are more flexible than they were and permit investment in different classes of asset on a variety of markets.
- The Second Swedish National Pension Fund/AP2, located in Gothenburg, started operations on January 1st, 2001.
- The aim of the Second Swedish National Pension Fund/AP2 is to ensure that the Swedish pension assets for which the Fund is responsible are invested to generate a maximum long-term return at minimum risk, supported by modern, efficient and professional asset management techniques.
- The Board of the Second Swedish National Pension Fund/AP2 consists of nine directors, appointed by the Swedish Government. Each director is appointed on the basis of their individual ability to further the Fund's management goals.
- The Second Swedish National Pension Fund/AP2 is determined to be the most successful Swedish pension fund manager, with respect to the long-term return generated on invested assets. To attain this goal, the quality of the Fund's asset management must maintain the highest international standard, to secure a reputation as "second to none".

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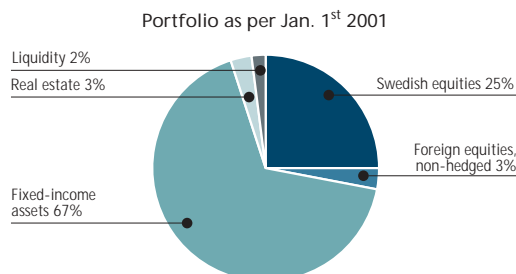
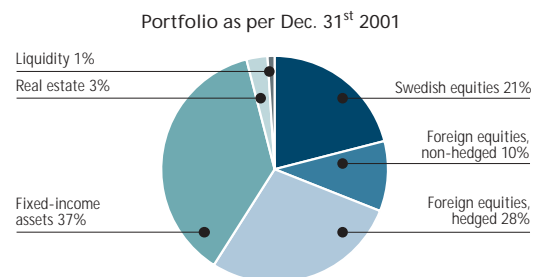
2001 in brief

- The pension assets managed by the Second AP Fund amounted to SEK 133.5 billion on December 31st 2001. The fund capital transferred to the Second AP Fund at the start of 2001 amounted to SEK 134 billion. During the year, the Fund's net inflow totalled SEK 4.5 billion.

- The Fund noted a return on investment of –3.7 percent for the full year 2001, an improvement of 1.7 percentage points compared with the Fund's reference index, which noted a return of –5.4 percent.

- The Fund has radically readjusted the composition of the asset portfolio, involving a two-dimensional shift. A geographical shift in focus – from a highly national to an international emphasis – and a redistribution of classes of asset, from a portfolio featuring a heavy predominance of fixed-income instruments to a more equity-oriented composition.

- The composition of the portfolio at year-end was consistent with the reference portfolio parameters determined by the Fund's board of directors. The composition of this reference portfolio is as follows: fixed-income assets (40%); Swedish equities (20%); non-hedged foreign equities (10%) and hedged foreign equities (30%).



Amounts in Swedish kronor are given as SEK k (thousand), SEK million (million) and SEK billion (thousand million).

Andra AP-fonden is officially translated as the Second Swedish National Pension Fund/AP2. In body text, for convenience, this is shortened to the Second AP Fund.

Chief Executive's review



At a time when everything is moving faster and faster, the challenge facing the Second AP Fund, which operates with a planning horizon of anything from 10 to 20 years or more, can be both stimulating and challenging. Stimulating, because it's unusual to be able to work on such a long-term basis when precisely the opposite normally applies to the market in which we operate. Challenging, because our efforts can only be evaluated and judged fairly if placed in the right time scale.

In other words, we must ensure that our investments are geared to provide the greatest benefit to tomorrow's pensioners, a fact that an impatient world is quick to forget. But to invest long-term demands an ability to work at several levels in the short-term too. It is of course important to be able to respond to – and counteract – short-term developments, to avoid a negative impact on the final result. The task of the Second AP Fund is therefore to transform knowledge and a capacity for clear judgement into more capital. To create value – which in turn contributes to security and the common good.

The foundations have been laid

The year 2001 was the Second AP Fund's first year of operation under own management. It is a year that in every respect has been dominated by the building-up process. The establishment of a new Fund of this size is almost unique in modern times. The fact that we started from scratch has meant that the majority of our efforts in the past year have been highly practical in nature. We have concentrated on laying the foundations for operations which will progressively become more established during 2002, enabling us to present the market with modern, efficient and value-generating asset management as we enter 2003. Anyone who knows the nature of our business understands that the creation of a completely new fund management organisation takes time. Asset management is a highly knowledge-intensive sector, which demands smooth integration of the specialist competence, experience, dynamism and abilities of many individuals, to ensure a successful result. The first (and time-consuming) priority in the past year has been to establish a creative interplay between our brand new IT system, our newly recruited staff and the ongoing management of pension assets by external managers, both Swedish and foreign. This has been achieved in a climate where demands made upon the Fund have been the same as if we had already been established for years. Generally speaking, the start-up and establishment phase has gone well. Gothenburg has proved to be a highly suitable location, and the Fund has received a highly favourable response from institutions in the region and the business community at large.

Build-up of fund management

To permit concentration on the establishment process, management of the Fund's assets has been delegated to external fund managers during 2001. Given the circumstances, we have been fairly satisfied with the way this has functioned, and shall continue to benefit from this type of support. This will, however, involve closer interaction between the Fund and its external asset managers, wherever they may be located. Cooperation with external asset managers is highly important and offers considerable development potential. A number of other external suppliers of a whole range of services and products have also helped to ensure that things worked well during the year.

Turbulent year on stock markets

During the year, the Fund's strategic allocation of assets has been subject to analysis, prior to approval by the Board. The reference portfolio selected by the Fund is constructed to generate a yield of approximately 4.5 percent, calculated in real terms over time, to ensure the Fund's ability to meet its liabilities. In terms of Fund investments, return on investment linked to a limited relative risk shall amount to an average annual surplus yield of 0.5 percent, compared with the reference portfolio.

The past year has been extreme, making it one of the worst years on stock markets since 1990. The Stockholm Stock Exchange noted a 16.7 percent decline, for example, corresponding to approximately SEK 500 billion over the year. The Dow Jones fell by 7.1 percent, NASDAQ by 21.1 percent, London by 16.2 percent and Frankfurt by 18.2 percent, to name but a few.

The Second AP Fund reported a return on investment of -3.7 percent, compared with its reference index of -5.4 percent. At year-end 2001, the Fund's capital assets amounted to SEK 133.5 billion. This is hardly what we had anticipated when we launched the Fund, but must be considered acceptable given the conditions that applied in 2001.

Extensive redistribution of assets

The extensive reallocation of the asset portfolio during the year, in which more than SEK 50 billion was allocated to investment in foreign equities, is based on the Second AP Fund's conviction that equities offer a higher return over time than fixed-income instruments alone – even though we must always seek to achieve a balanced portfolio. The new pension regulations applying to the Second AP Fund will help ensure that we can achieve rates of return consistent with the creation of a stable pension system. Greater freedom to invest pension assets in foreign securities is also a requirement for achieving a well-defined portfolio with a broad risk profile – and in fact essential to add value. Anything else would be a departure from the Second AP Fund's guiding principles.

Active owner

The issue of the ownership role and responsibilities of institutional investors has attracted increasing attention. As institutional investors have increased their

corporate stakes in leading stock exchanges, this is perfectly natural. The Second AP Fund feels it is entirely reasonable that the demands made on institutions as active owners should increase in a world of increasingly unrestricted flows of capital, characterised by growth in cross-border trade, new currency zones and a more multicultural society, where traditional national borders have acquired a new meaning. To these must be added environmental and ethical issues, as well as the need to develop a society based on sustainable goals. The Second AP Fund has confronted and attempted to address these issues in its corporate governance policy. In concrete terms, in the day-to-day work of the Fund, it is often simply a matter of adopting a principled but pragmatic approach, given the complexity of the issues and the guiding principles on which the activities of the Fund are founded. This corporate governance policy will gradually evolve and become more specific as the Second AP Fund becomes more established.

Looking ahead

For the Second AP Fund, 2002 will be a year in which the build-up and establishment process will continue, although in conditions radically different from the preceding year. Any attempt to forecast stock market trends is fraught with uncertainty, even when the Fund has reallocated its asset portfolio, strongly shifting the emphasis to equities. We believe that 2002 will be a year in which the leading economies note a steady recovery. Assuming, of course, that events such as that of early autumn 2001 do not happen again.

The Second AP Fund will focus on four guiding principles in 2002: value creation, competence, professionalism and openness. The concrete implication of these key concepts is a matter of individual responsibility and personal commitment. But it is also a highly stimulating challenge to all of us who work for the Second AP Fund. It is we who must build the future.

Gothenburg, February 2002



Lars Idermark
CEO

More pensioners mean new pension system

Historically speaking, care of the elderly – pensioners – has undergone many changes, in Sweden as well as abroad.

Until the start of the 20th century, everyone had to look after themselves in their old age. The most common solution was to have as many children as possible, who were then expected to contribute to the care of their ageing parents and other elderly relations. A large family was the commonest form of “pension insurance”.

In Sweden, in 1913, a pension system was introduced whereby the state took responsibility for part of an individual citizen’s fundamental security, when no longer able to look after him/herself. However, compared with subsequent pension insurance systems, these initial pension commitments were extremely limited.

Following the Second World War, a variety of reforms to the State pension system were suggested and, in 1946, Sweden introduced a new pension system – the National Basic Pension Insurance Act. The system, based on the “maintenance principle”, guaranteed all citizens basic security in the form of a “national basic pension”. From a modern perspective, however, the level of benefit was still very low.

After some tough political bargaining, the Swedish Parliament approved the introduction of a new type of pension in 1960 – the National Supplementary Pension (ATP) scheme. The ATP scheme was based on

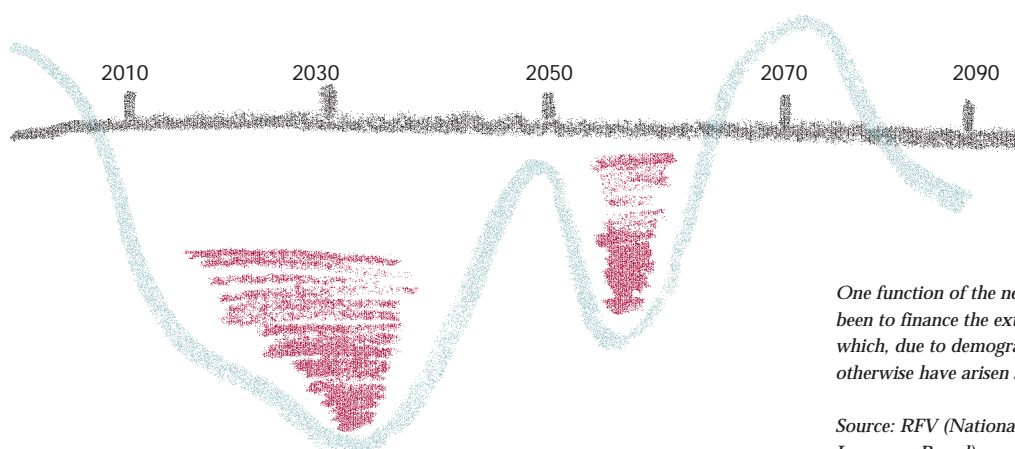
the “loss-of-earnings” principle, which meant that the State guaranteed its citizens a certain minimum supplementary pension in addition to the national basic pension. The size of this supplementary pension was based on income received by the individual beneficiary over the 15 most favourable income-generating years of his/her life.

Common to all pension systems, up to and including ATP, was that they were financed largely on a “pay-as-you-go” basis, whereby pension disbursements were made on an ongoing basis out of Swedish State finances and, to a limited extent only, out of previously invested funds. This was possible thanks to vigorous economic growth and a stable number of pensioners in proportion to the number of those in work.

Provision requirement for the elderly grows

During the last two decades of the 20th century, it became apparent to both politicians and pension experts that the “pay-as-you-go” principle would become increasingly untenable with time. Economic growth would eventually be inadequate to support a rapidly growing number of pensioners. The demands made on the working sector of the population, in terms of financial support for the elderly, will rise dramatically. In 2000, pensioners accounted for about 16 percent of the population: after 2040, this percentage is expected to increase by between 30 and 40 percent.

Ageing population creates economic instability



One function of the new pension system has been to finance the extended period of deficit which, due to demographic factors, would otherwise have arisen subsequent to 2010.

Source: RFV (National Social Insurance Board)

In 1998, the Swedish Parliament achieved a broad consensus to introduce a new, reformed pension system, where financial stability would be guaranteed by clearly linking individual pension contributions to what is later received in the form of pension disbursements. Pension contributions are invested for long-term management by “buffer” funds.

Contribution-linked pension

The reformed pension system is based on the life income principle, based on the amount each individual earns during an entire working life. “Pension entitlement” is calculated on a yearly basis, corresponding to 18.5 percent of pensionable income, in addition to a number of supplementary entitlements, in special areas such as paternity/maternity leave. Corresponding pension contributions are paid in the form of taxation and premiums. Of these, 16 percentage units are managed collectively within the framework of the First to Fourth AP Funds. The remaining 2.5 percentage units are managed by the Premium Reserve Pension Authority (PPM) on an individual basis, either by private fund managers or by the Seventh AP Fund. The pension is therefore linked directly to the size of the individual’s contribution to the system. Those whose income-linked pension fails to meet a minimum guaranteed level are compensated in the form of a special income supplement – the guarantee pension – financed from state funds.

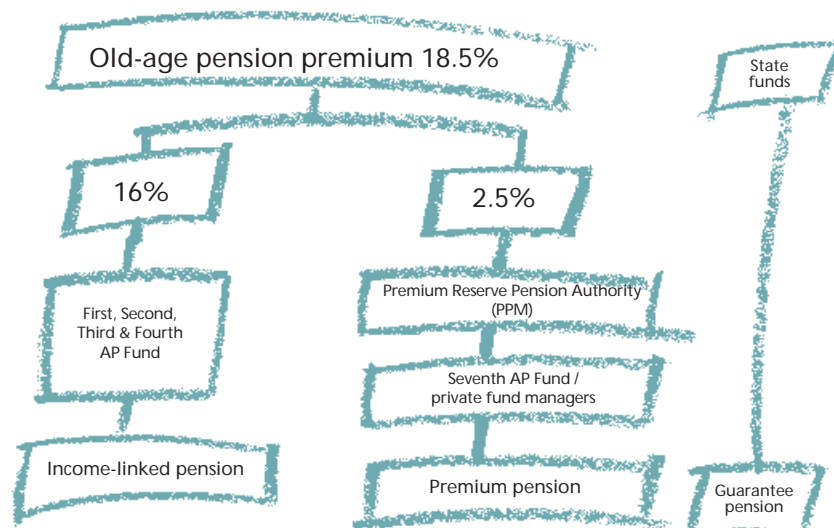
The role of the AP Funds is to function as a financial buffer, to balance periods of current surplus and deficit in the pension system. According to numerous analyses, contributions to the pension system will exceed disbursements to pensioners until a bit after 2010, followed by an extended period when contributions will fail to cover disbursements. It is crucial that the buffer funds manage the surplus to ensure a maximum return on investment up to the time of disbursement. To encourage such growth, the investment regulations applied to the AP Funds have been revised, permitting greater freedom to invest in different classes of asset, such as equities.

An international problem

The problem of guaranteeing the pensions of a country’s citizens is not uniquely Swedish. Many financial analysts warn of the significant problems that most industrialised countries, including those of the EU, will face over the next 50 years, as a result of the dramatic change in the age distribution of populations.

The way in which different countries plan to solve the long-term financing of their citizens’ pensions varies. The new Swedish pension system has attracted considerable international attention and is expected to provide a blueprint for several other countries.

The new pension system



Five boards became four funds

In conjunction with the reform of the AP (Swedish National Pension Fund) system, the AP fund boards also underwent reorganisation. The boards of the First, Second, Third, Fourth and Fifth AP (Swedish National Pension) Funds became the First, Second, Third and Fourth AP Funds.

The first four AP Funds are subject to identical investment regulations, while the smaller Sixth AP Fund operates under slightly different regulations. The Funds have separate boards of directors and conduct their activities quite separately from each other. The fund management activities of the respective AP Funds are mutually competitive, within their defined operational parameters.

The purpose of the AP Funds

The Swedish Parliament has established a broad, clear-cut objective for the First to Fourth AP Funds: to maximise return on investment in relation to risk. Pension assets shall be managed to ensure that exposure to risk is well diversified. The portfolio shall feature low overall exposure to risk.

In addition to this profitability target, the Swedish Parliament has established other targets too. The Funds shall be independent of business and other economic and political interests. Environmental and ethical issues shall be taken into consideration, without compromising the overall objective of a high return on investment.

In line with the parliamentary proposal, each Fund shall draft a corporate governance policy, designed to

contribute to the attainment of the profitability target. This corporate governance policy shall determine the Funds' role as owners, how decision processes relating to ownership issues should be handled, and so on. However, the Funds' role and performance as owners shall be clearly subordinate to the profitability target.

During autumn 2001, the investment focus of the AP Funds has been subject to some public debate, including comments about the ratio between investments in Swedish and foreign companies. In this respect, it is important to stress the fact that the regulations governing Fund investment are extremely clear-cut.

Analysis of investment focus

The directives for the new AP Funds stress the importance of thorough analysis of the funds' assets and commitments. This means that each fund shall independently conduct in-house analyses to determine when and how inflows and outflows of pension capital to and from the fund will occur.

The analytical method applied is known as "Asset Liability Modelling", more commonly referred to as an ALM study. This study, updated on a continuous basis, is designed to determine the optimal mix for the various classes of asset that comprise the Fund's portfolio, to ensure maximum benefit in terms of its long-

AP Fund goals

The goal shall be to maximise long-term return on investment relative to the degree of risk exposure. Assets shall be managed to ensure exposure to risk is well diversified. Overall exposure to risk shall be low.

...

The Funds shall be independent of business and other economic and/or political interests. Environmental and ethical issues shall be taken into consideration, without compromising the overall objective of a high return on investment.



term commitment to Sweden's pensioners. This analysis shall address demographic factors as well as the general economic climate.

A two-stage analytical process

The Second AP Fund's asset management activities are directed towards securing future pension disbursements from Sweden's reformed old-age pension system. To generate the greatest possible benefit in exercising this role, the Fund's primary management strategy must be to maximise return on investment, to preclude the need for automatic balancing of the pension system. The specific risk facing the Second AP Fund is poor performance of assets under management, especially in conjunction with negative development of the pension system or a slowdown in the Swedish economy.

The first stage of this analytical process has involved gathering comprehensive data on the new pension system's future liability side. This included analyses of the future pension liability based on several potential scenarios, developed by the National Social Insurance Board. This data contains a number of assumptions, some relating to demographic trends – anticipated birth rates, life expectancy, immigration, numbers in gainful employment etc. – and some to GNP growth rates, based on scenarios featuring varied rates of inflation and interest.

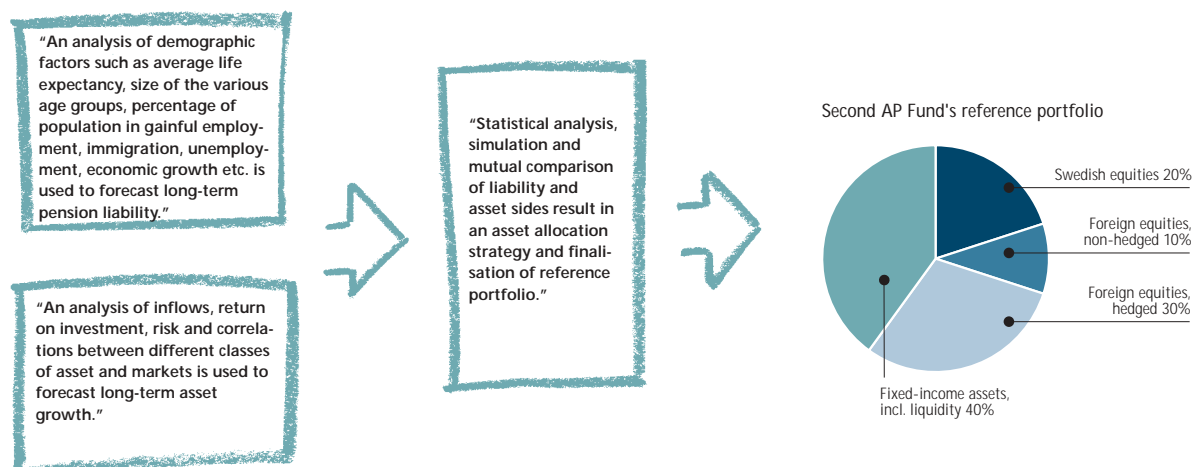
A large quantity of asset-side data has also been analysed. Long-term forecasts concerning rates of re-

turn on investment, risk and correlations between different classes of asset have been gathered from Swedish and international asset management organisations. Studies show that 80–90 percent of the return on investment can be attributed to the class of asset chosen. A key focus of this data collection process has therefore been the need to acquire a clear idea of how the distribution of equities and interest-bearing securities can affect the performance of the assets managed at various points in the future. The implications of currency exposure are factored into the equation in the same way.

The second stage has involved statistical analyses, based on random simulation, of growth in twelve different asset portfolios, designed specifically for this purpose. The assets in these portfolios are distributed in different ways, some being divided between equities and fixed-income securities, others between Swedish and foreign assets.

The completed ALM study, in which the liability and asset sides are matched in a long-term perspective, has formed the basis for a model portfolio. The Fund's asset allocation strategy is based on this portfolio, which also provides decision data for finalising the Fund's long-term reference portfolio. The reference portfolio uses absolute numbers to define the relative weightings of different classes of asset, and to establish acceptable parameters for deviations from the mean over a given period.

Reference portfolio based on ALM study



Investment regulations for Swedish National Pension Funds

The four buffer funds, the First to Fourth AP Funds, have joint investment regulations, established in conjunction with Sweden's pension reform. The regulations define the relative proportions for each class of asset under management. Compared to earlier, the new regulations permit greater exposure in equities and increased investment in international stocks. These new investment regulations establish the appropriate conditions for an increased return on long-term investment.

New investment regulations in brief:

- Investments may be made in all types of listed and negotiable instruments on the capital market.
- No more than 5% of the assets in each fund shall be invested in unlisted securities. Such investments shall only be made indirectly, via venture capital companies, mutual funds or by similar means.
- At least 30% of each fund's assets shall be invested in fixed-income instruments with low credit and liquidity risk.
- Each fund's holding in listed Swedish companies shall not exceed the equivalent of 2% of the total Swedish stock market value.
- Each fund may own no more than 10% of the votes in a single listed company.
- After a gradual increase of five percentage points per year, from 15 percent in 2001, no more than 40% of a fund's assets shall be exposed to currency risk.
- No more than 10% of a fund's assets shall be exposed to one issuer or one group of issuers.
- At least 10% of the assets of each fund shall be managed by outside managers, no later than January 1st 2002.



An international perspective on pension fund management

The Second AP Fund cooperates in a number of areas with Goldman Sachs, a global investment banking and securities firm. Nigel O'Sullivan, who heads up Goldman Sachs' European Pension & Insurance Strategy Group, here reviews current trends in the management of global pension funds.*

2001 has been a testing year for institutional investors around the globe, with the turmoil in financial markets bringing into question the long-term investment strategies that have been developed. After a disappointing year in 2000, returns for equity markets were again negative in 2001. In spite of this, the demographic and financial pressure to provide sufficient income for individuals in retirement continues to be a major focus for individuals, corporations, and Governments.

Increased average life expectancy

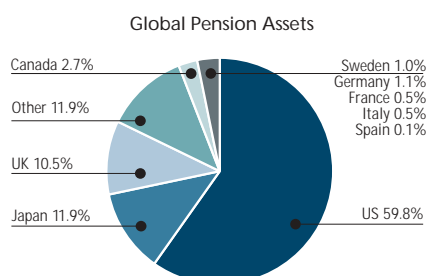
Long-term institutional investors aim to maximise returns to enhance the security and level of income available to pensioners. Demographic trends throughout the world have been remarkably consistent, revealing a steady and significant increase in life expectancy – currently 74 years in Europe, 77 in the USA and 80 in Japan. By 2050, the life expectancy of an average European citizen will have an increased to 82 years of age. In Sweden,

current life expectancy is 79 years and expected to increase to 84 years by 2050 – higher than the European average.

This anticipated sharp increase in longevity coincides with predictions of an equally sharp decline in birth rates over the next few decades. The combined effect of these two trends will result in a decline in the size of the active workforce in relation to pensioners. In short, a shrinking working population will be forced to provide for the needs of a growing number of pensioners.

Many of the continental European countries – with high expected pensions but few funded pension assets – have been grappling with the financial implications of these demographic issues. Several countries will have to restructure their pension systems to promote a higher degree of self-financing in the form of individually-funded pension schemes. The increasing level of pension disbursements and the consequent implications for cash flows will have a major impact on capital markets over the next few years.

Sweden's recent pension reform has attracted close attention from many other countries and we can look forward to the introduction of many changes in Europe's pension systems over the next few years. These will be critical to resolving the financial challenges posed by demographic change.



The diagram provides a global overview of funded pension assets for 1999. The USA accounts for some 60% of all pension assets, with only about 5% of the global population. Europe accounts for about 12% of the global population.

Source: Intersec Research.

* **Goldman Sachs** is a leading global investment banking and securities firm that provides financial services worldwide to corporations, financial institutions and governments. Goldman Sachs has offices in New York, London, Frankfurt, Tokyo, Hong Kong and other major financial centres.

Crucial aspect of the global economy

Nevertheless, significant pension fund assets have been invested to support pension provision. Global pension assets total approximately USD 13 trillion and are very important in terms of their influence in capital markets around the world.

Recently, Goldman Sachs has identified some common themes in the strategies applied by European pension fund managers, namely: an increase in equity allocations, a higher proportion of global investment and a more active approach to the identification of growth sectors that offer potentially higher returns, such as Private Equity. Institutional investors are under increasing pressure to balance the very long-term nature of the liabilities their investments are designed to secure, against the persistent demand for positive short-term performance.

The efficient management of funded pension assets is of paramount importance to ensure that returns on total pension assets are maximised. The sheer size of these assets gives them an important role in the global economy, making them necessary to the effective operation of capital markets.

Achieving a maximum return

A newly published report, commissioned by the UK Government and generally referred to as the “Myners Review”, will have significant implications for the UK pension fund industry. The implications of this review are sure to be subject to careful analysis by institutional investors in other countries. The main thrust of the Review has been to determine how returns for pension funds can be maximised without exposing fund capital to unreasonable risk.

The UK Government is concerned that short term considerations could have a negative affect on long-term investment strategies. This might deprive small and unquoted companies of access to vital venture capital, which could have a negative impact on the economy as a whole.

These are interesting and challenging times for institutional investors. Developing and implementing successful investment strategies will be the key to ensuring a happy and prosperous retirement for future generations.



Anticipated publicly-funded annual pension level, in relation to average final wage of industrial worker.
Source: Intersec Research, OECD, William M Mercer European Pension Fund Managers' Guide 2001.



Current invested pension capital in relation to GNP, by country (1999).

Source: Intersec Research, OECD, William M Mercer European Pension Fund Managers' Guide 2001.

The Second AP Fund's core values

VALUE GENERATING

Our asset management activities shall generate value in every sense. We shall achieve this in two ways. By utilising our broad national and international network of contacts, which are crucial to successful asset management. And by creating a modern, cost-efficient and professional organisation, alert to innovative solutions.

COMPETENT

Close interplay between our special in-house expertise and the leading-edge international skills of our external partners will ensure that we continue to develop our professional competence – in breadth and depth.



PROFESSIONAL

Our activities shall reflect a long-term perspective and be founded on sound business ethics and an environmental commitment, both with respect to the Fund's investments and to how we conduct our business activities.

OPEN

As an organisation, we shall be open in our communications, internally as well as externally.



Build-up of Second Swedish National Pension Fund/AP2

The Swedish Parliament's decision to reform the pension system has involved reorganisation of the previous pension fund boards into four independent and mutually-competitive national pension (AP) funds.

The organisation and infrastructure of the other three national pension (AP) funds derives largely from the former First to Fifth Fund boards, while the Second AP Fund has been built up from scratch.

The Swedish Parliament also decided that the Second AP Fund should be domiciled in Gothenburg. With a long tradition in financial services, which has included the operations of the Sixth AP Fund, Gothenburg presented a natural choice.

The build-up of the Second AP Fund has been accomplished in several and in some cases parallel stages, in which the board has been consistently involved. The first stage was initiated in the spring of 2000, when the newly elected board started the process of recruiting a CEO, who would be responsible for implementing the establishment phase.

Procurement of external fund management

The first and single most important operational task was to determine a strategy for management of the assets, which were scheduled for transfer to the Fund on January 1st 2001.

Following a recommendation by the Second AP Fund's newly appointed CEO, the board decided to delegate management of the Fund's total assets initially to external fund managers. After completion of an exhaustive procurement and evaluation process, four Swedish and three foreign investment management firms were commissioned to manage the Fund's assets in accordance with strictly defined parameters. These fund managers are Alfred Berg, Carlson Investment Management, Carnegie Asset Management, SEB, State Street Global Investors, Merrill Lynch and Barclays Global Investors. In October/November 2001, two additional external investment managers, Pictet and MFS, were commissioned to conduct active management of the Fund's assets. Parallel to these arrangements, additional external resources in the form of risk management, risk assessment, back-office functions and a custodian bank, were also procured.

Highly-qualified staff

The second stage of the establishment process involved the recruitment of key personnel. A large number of highly qualified personnel applied for the advertised positions and several key posts were quickly filled after a stringent selection process. It has been important to establish a good mix of skills, ages, gender and experience in laying the foundations of a completely new and clearly defined corporate culture. In conjunction with the recruiting process, the Fund acquired new, purpose-built premises. A further element of the establishment process has been the drafting of plans and guidelines, to clearly define internal and external areas of responsibility that fall outside the strict parameters of asset management – such as operational planning, IT policy and guidelines for corporate governance, business ethics and environmental commitment.

Implementation of the IT system

The third stage, which has continued throughout 2001, has involved continuing recruitment to a number of specialist functions, as well as implementation of the Danish TMS2000 IT system, that will enable the Fund to take over asset management and back-office functions that have been outsourced until now.

Implementation of the TMS2000 system has focused on achieving a high degree of automation and efficiency in business processes. The process has included installation of an "A-trade" module for the import of transactions from the Fund's external managers.

The "A-trade" module was originally developed by the Seventh AP Fund, but has been refined and adapted to the needs of the Second AP Fund. When the system is fully operational, all transactions generated by an external manager will be registered by the TMS2000 on a daily basis, providing the Second AP Fund with the same information on all transactions, whether implemented in-house or by an external manager.

The task of building up the Second AP Fund was completed in principal by the close of 2001. Operations are now entering a phase that involves a more long-term process of establishment.



Structure and staff

The Fund's Executive Management has overall operational responsibility for the Second AP Fund. In addition to specific day-to-day responsibilities, this formal body also has executive responsibility for planning, strategic development and maintaining contact with the board of directors and external parties.

As well as the CEO, the Fund's executive management consists of the Chief Investment Officer (CIO), the Chief Financial Officer (CFO), the Head of Communications and the Fund's General Counsel. The Communications function is also responsible for the Fund's General Counsel activities, while the Legal Affairs function deals with tax issues and compliance.

Asset Management

The Asset Management organisation manages the Fund's assets both short and long-term. As well as being responsible for the Fund's in-house asset management activities, the organisation is also responsible for "managing the Fund's external managers". This involves maintaining close contact with (and continuous assessment of) external managers who have been commissioned to work for the Fund.

Asset Management is organised into four profit units: Equities; Fixed Income/Foreign Exchange (FX); Allocation and Alternative Investments. Alternative Investments also includes the Fund's non-listed real estate portfolio. The Equities and Fixed Income units each comprise several portfolio managers and special functions.

The Chief Investment Officer (CIO), together with the four unit managers, the CFO and the Head of Risk Management, make up the Fund's Investment Committee. The Committee acts as an advisor to respective units, unit managers being individually responsible for active implementation of investment decisions, within strictly defined parameters.

A considerable amount of day-to-day asset management focuses on tactical and strategic allocation. In organisational terms, it is therefore kept distinct from equities and fixed income. This permits the dispersal and balance of risk across several classes of asset.

During the first quarter of 2002, the Fund will progressively transfer management of a portion of its assets to in-house managers. No predetermined relationship between in-house and external asset mana-

gement exists. This progressive transfer from external managers to the Fund's in-house team is based on the assumption that in-house managers may be expected to generate a higher return on investment compared with their external equivalents. To confirm that this is so, the Fund will continuously monitor performance and levels of risk.

Business Control & Administration

The Second AP Fund has concentrated responsibility for IT, Risk Management, Performance Measurement, Finance & Business Control and Human Resources to the Finance/Back Office unit.

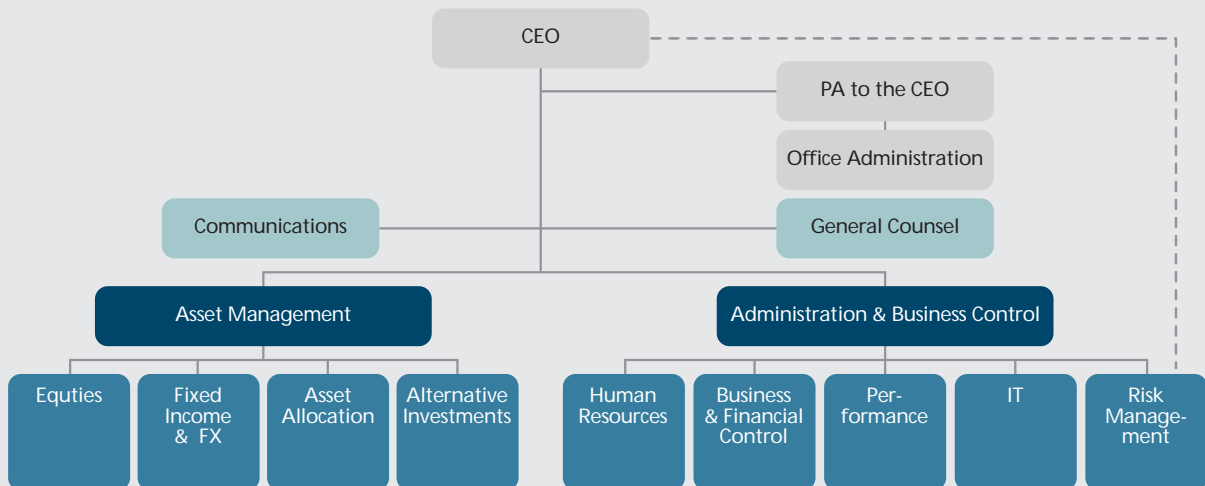
The fact that the Second AP Fund was built from scratch enabled the design and implementation of a technology platform that was a "state-of-the-art" example of modern asset management right from the start. After careful analysis and evaluation, it was agreed that the Fund's Business Control routines would be based on technically advanced systems – to reduce manual aspects of the job to a minimum, thereby enhancing security and ensuring a cost-efficient organisation. The guiding principle has been STP - Straight-Through Processing. The choice fell on an integrated solution for all front, mid- and back-office functions. Business communication with external asset managers has also been integrated with the in-house asset management system, via a Web-based system.

The Fund's back-office functions have been designed and adapted to handle a significant volume of external management routines, involving a large number of external counterparts and technical interfaces. To satisfy these requirements, separate and clearly defined functions have been created for IT, Risk Management and Performance Measurement. Monitoring of internal and external asset management activities is conducted at frequent intervals by risk mandates (tracking error) and performance.

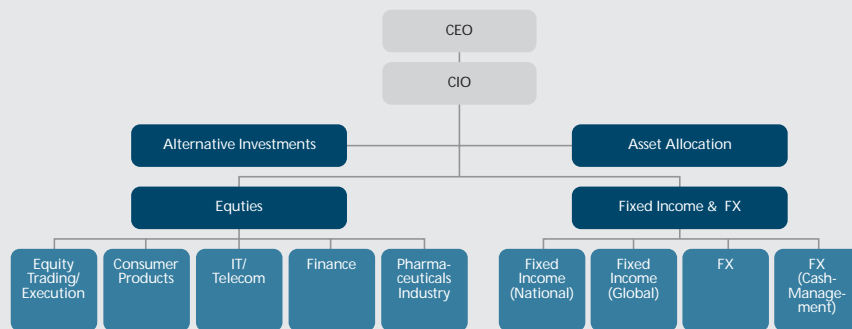
Fund administration is largely based on a modern, integrated IT architecture that offers a high level of security, both in terms of operational reliability and protection from unauthorised access.

The Fund's Accounts Department is responsible for current accounting and cost control, as well as the monthly forecasts and annual accounts. The Business Control function is responsible for control, administration and reconciliation between internal and external asset management.

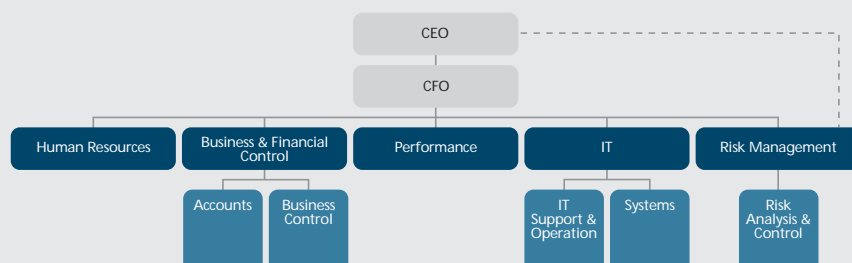
Organisation, Second AP Fund



Asset Management



Administration & Business Control



The design and implementation of the IT system has largely been delegated to external expertise. During the year, business administration and accounting routines, as well as monitoring of the return on the Fund's invested capital, has also been outsourced. As of 2002, Accounts and Business Control routines will be handled in-house, and the asset management system will be brought on line.

Breadth and depth of expertise

The wisdom of establishing the Second AP Fund in Gothenburg became the subject of public debate. Doubts were raised as to whether localisation in Gothenburg might not inhibit the Fund's ability to attract appropriately qualified personnel, with the expertise necessary to build up and operate a modern asset management organisation. These fears have proved groundless.

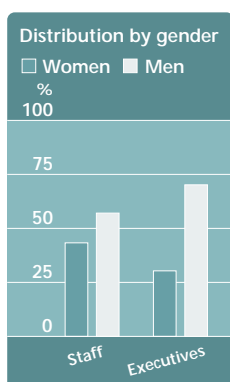
Counter to such expectations, the new Fund has attracted considerable and enthusiastic attention. Applications from a large number of highly qualified candidates enabled the creation of an organisation that features staff with an exciting mix of backgrounds. Several have long experience of various forms of international asset management, from major centres such as London, New York, Frankfurt and Singapore. Other members of staff have joined the Fund from previous positions in banking, industry, commerce and consultancy. Even when viewed from an international and cultural perspective, the Fund has succeeded in recruiting staff of highly varied backgrounds.

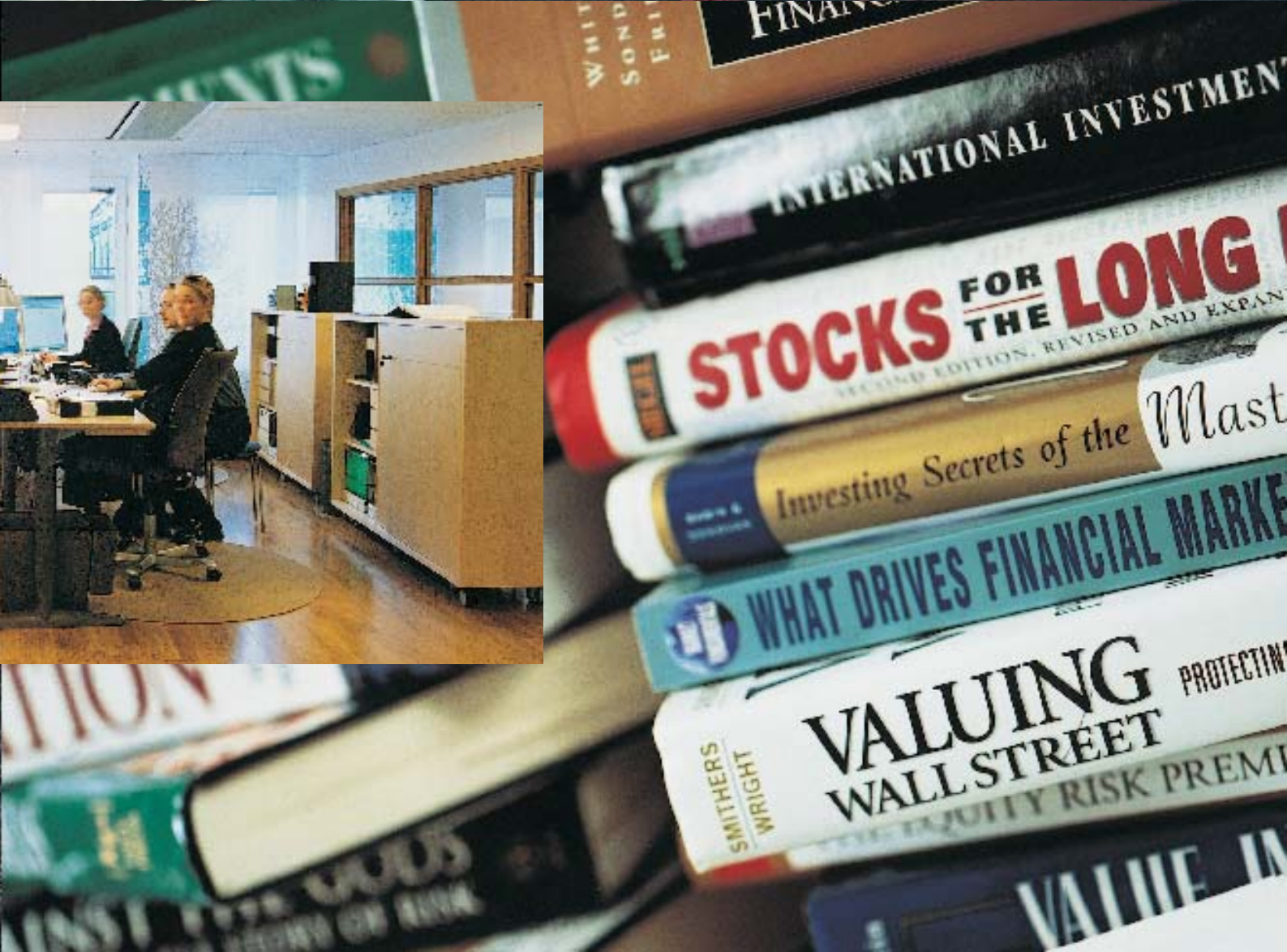
In its day-to-day activities, the Fund benefits greatly from this international expertise. Furthermore, this concentration of expertise also offers considerable

regional benefits in various forms of competence transfer. The Fund's head of Equities, for example, has lectured regularly at the Gothenburg School of Economics during the year. In association with the Sixth AP Fund and Svenska Handelsbanken, the Fund is engaged in a development project that is designed to create trainee posts within the financial sphere.

By year-end 2001, the Second AP Fund totalled 28 staff, with an average age of 37 and an average of 14 years professional experience. Following the recruitment of complementary staff, this total is expected to rise to just over than 35 employees during 2002

Evert Carlsson, head of Equities at the Second AP Fund, lectures at the Gothenburg School of Economics.





Economic and financial trends in 2001

During 2001, the international economy slumped dramatically. The US economy went into recession in the spring, after ten years of economic expansion – the longest period of continuous expansion on record.

In Europe, the economy initially noted continued expansion, although by autumn the rate of growth fell sharply towards zero. Also in the autumn, the Japanese economy – severely burdened by continuing debt deflation and the impact of the slowdown in the global economy – entered its third period of recession in ten years. The world's economies were under pressure from declining stock markets, shrinking corporate profits and a dramatic redistribution of investment, especially in the technology sector. Extensive rationalisation of corporate inventories, combined with the delayed effects of increased interest rates and oil prices during 2000, also served to dampen economic activity. This negative economic trend was enhanced by the September 11 terrorist attack against the USA.

Synchronised slowdown

In the first half of 2001, the rate of growth fell in Sweden too, a consequence of the global slowdown, especially in the telecom and other technology sectors. The global slowdown in the autumn placed even greater pressure on Sweden's export industry and industrial

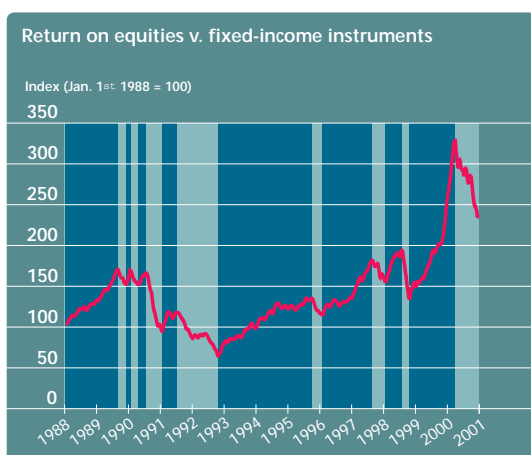
economy. This slump subsequently also spread to the service sectors and the construction industry.

Reviewing the global economic situation in 2001, the international community's apparent failure in the early part of the year to anticipate the subsequent sharp decline in the economy is striking. In January, a panel of international analysts predicted growth of less than three percent for the OECD zone in 2001, and just over three percent in 2002. These expectations have now been adjusted to one percent for both years.

Recovery assumes stability

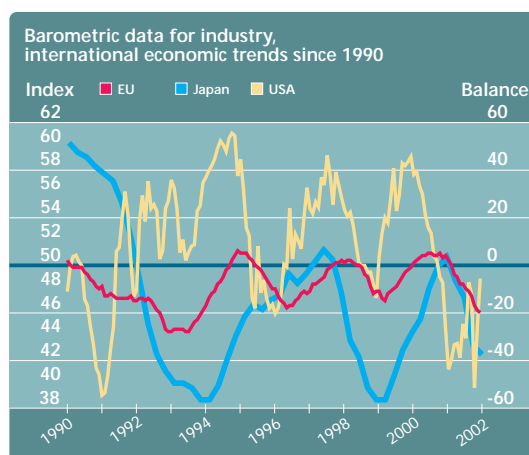
The Central Banks in Europe and the USA have reacted by adopting a highly expansive monetary policy, which has led to low interest rates and a sharp injection of liquidity. In the USA, there are also plans to provide further substantial fiscal stimulus in the form of increased public spending and reductions in domestic and corporate taxation. This mix of expansive monetary and fiscal policies is intended to reduce the likelihood of highly negative economic scenarios. Lower energy prices will also contribute to greater stability. After a certain delay, this could lay the foundations for a significant economic recovery during the second half of 2002.

Towards the end of 2001, however, there were few really convincing indications that this was about to



The graph matches ROI generated by investment in the Stockholm Stock Exchange against that from Swedish bonds. Equities during the periods marked in blue have outperformed fixed-income investments (light green).

Source: Ecwin and Second AP Fund data



Source: Ecwin and Second AP Fund data

happen. Prospects for a recovery in 2002 are based on the assumption that the level of household consumption can be sustained and that companies start to invest in the future again. This in turn assumes that the labour market situation does not worsen dramatically and that corporate profits stabilise.

The staging of a favourable recovery by the global economy must assume that no new major terrorist acts will be perpetrated and achievement of a more generally stable geopolitical situation.

Financial market status

For most of 2001, the financial markets found themselves in that phase of the capital market cycle where bond portfolios performed best. This applied equally to much of 2000. Although market rates on the world's stock exchanges had already fallen by more than 15 percent (from their top quotations) during 2000, rates fell a further 30 percent in the period up to September 21st 2001. The Stockholm Stock Exchange reported corresponding declines of 30 and 35 percent. During 2001, international bond interest rates (10 year coupon) noted a decline of 0.5–1.0 percent at most, depending on the market.

The sharp decline of the stock market also meant that many asset managers' portfolios featured a relatively small proportion of equities. This presented no great problem as long as the stock market's prospects were highly negative. Towards the close of the autumn,

however, a turnaround in the economy started to affect prices on the financial markets.

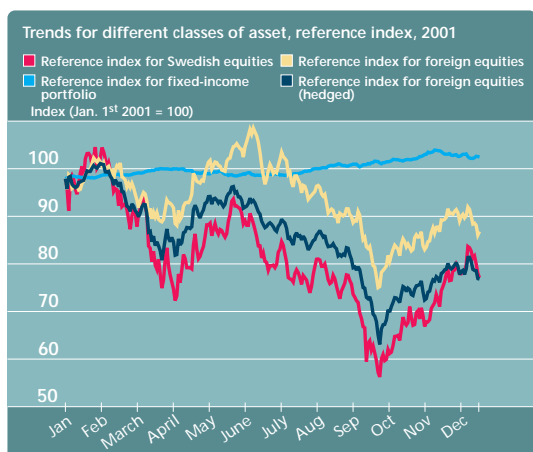
The buying spree which ensued helped fuel the steep rise in stock prices. This was also reflected in rising bond interest rates in the final two months of 2001. This is a classic sequence, when the bond phase of the capital market cycle switches to equities.

Investors' uncertainty as to whether the upturn noted during the late autumn was only temporary persisted but, by the close of the year, interpretations of the trend were markedly more upbeat.

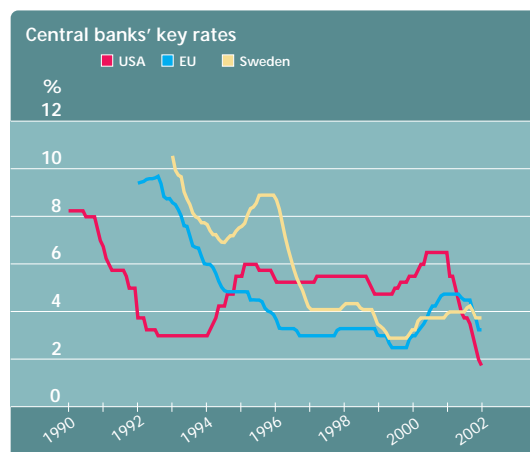
Portfolio reallocation, 2001

Reallocation of the Second AP Fund's portfolio of assets has involved a shift of emphasis at two levels. Partly a shift in geographical emphasis, from a highly domestic to a global portfolio – and partly a shift in classes of asset, from a portfolio strongly focused on fixed-income investments to one with a higher proportion of equities. In other words, the major reallocation process has involved a shift from Swedish government securities to global equities.

In line with the strategic allocation of assets determined by the board of directors in the spring, almost SEK 50 billion will be invested in foreign shares. This reallocation process had been completed by November. The sharp decline in stock prices during the year resulted in a periodic decline in the value of the portfolio. In the long-term, however, the chance to build



Source: Mpir and Second AP Fund data



Source: Ecwin and Second AP Fund data.

up the Fund's portfolio of equities at lower initial values should prove to be fortuitous.

The purpose of this reallocation process has first and foremost been to match the Fund's assets to the parameters defined by the reference portfolio. To a growing extent, however, strictly tactical concerns (such as the rate and degree of the shift to foreign equities) have become predominant. As of late August, the situation became critical, in the sense that the upper limits for various classes of asset (as defined by the strategic parameters established for asset allocation) had been reached. Subsequently, the process has focused wholly on the extent to which under- or over-allocation in respective classes of asset can be tolerated.

The Fund's investments in equities

By the end of June, the Fund had acquired foreign equities to a value of SEK 28 billion.

Of these, some SEK 12 billion were in the form of non-hedged equities. By the end of June, it was clear that the relatively slow pace at which the Fund had built up its share portfolio had been far from disadvantageous. The advantage of being underweighted at that point should, however, be seen in the context of the continuing decline of the world's stock markets during the summer and autumn.

During the period June/July, an investment plan was finalised which involved continued investment in equities amounting to SEK 1 billion a week, until such time as a change of strategy should be required. This strategy was based on an anticipated, more stable turnaround of equities markets, within a time scale of three to six months, i.e. before the close of the year.

An additional SEK 9 billion was invested in foreign equities up until the end of August.

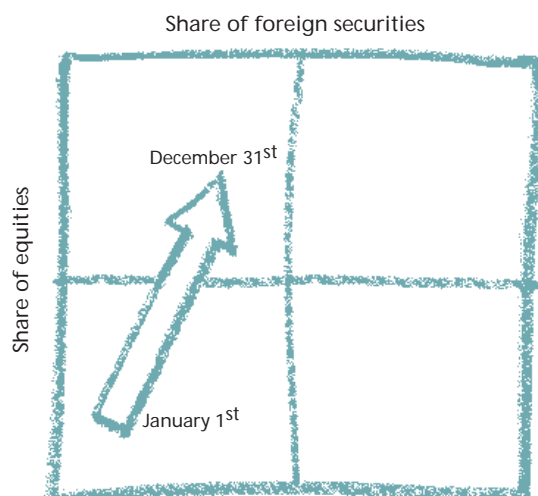
During much of this reallocation process, the Fund's portfolio of equities, especially the hedged foreign equities portfolio, was underweighted. This was a conscious decision. Compared with the reference portfolio, the Fund benefited from being underweighted in a class of asset that fell in value.

After the summer, the continued underweighting of the portfolio was considered permissible and appropriate in the short term, although the risks implicit in such underweighting had grown. A turnaround on the equity markets, with a subsequent decline of fixed income investments, could at the time have rapidly changed the consequences of the way the Fund had allocated its assets. The Fund therefore responded in early September by seeking to accelerate the process of reallocating its portfolio in favour of foreign equities.

At a single blow, the terrorist attacks against the USA changed the short-term prospects for the economy and corporate profits. A new element of uncertainty had been introduced. This forced up the risk premium on equities markets which, in the short term, fell sharply.

A further SEK 12 billion was invested in foreign equities during September and October, thereby bringing the allocation of assets in line with the reference portfolio by the start of November.

Reallocation in two dimensions





Equities Management

The equities management activities of the Second AP Fund will be handled partly by the Fund's own asset managers, operating in selected sectors, and partly by a number of external partners, authorised to manage various aspects of the portfolio.

The Consumer Products, IT/Telecom, Finance and Pharmaceuticals Industry sectors will be managed by the Fund's in-house expertise. These sectors, focused primarily on Europe, will be monitored by the Fund's own portfolio managers. Other industries and regions will be monitored by external fund managers. This specialisation in certain sectors is a consequence of the rapid increase in globalisation, whereby the national origin of individual companies means less and less. Conversely, the specialist competence of individual asset managers with respect to specific industries and their commercial logic has gained increasing importance, regardless of geographical boundaries, in determining the long-term potential for the creation of added financial value. This is the rationale for the Fund's choice of sectors to be monitored, as opposed to selecting portfolio companies on the basis of their registered country of residence.

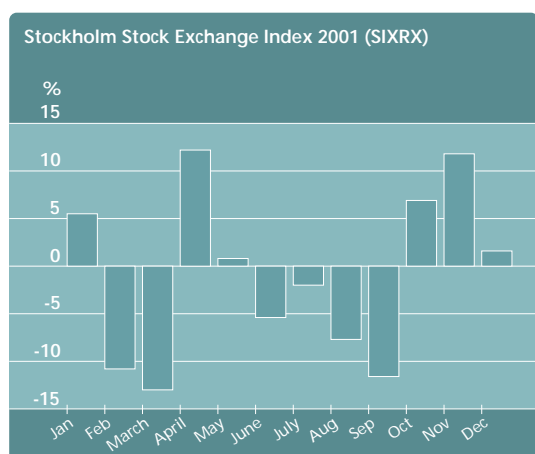
Consequently, the Fund's equities management activities will in the long term be based on external management of a large proportion of its assets. A key task of the Fund's own asset managers therefore, in addition to their own portfolio responsibilities, will be to monitor and analyse the performance of external

managers on a continual basis. The better our ability to carry out such an analysis, the greater the active risk delegated to the external managers. The degree to which they actively manage the assets entrusted to their care will depend on the degree to which our own organisation is able to accurately assess their performance. Factors that normally lead to a greater degree of passive management are geographical distance and a lack of transparency in the investment process, as well as fragmented and inadequately transparent markets.

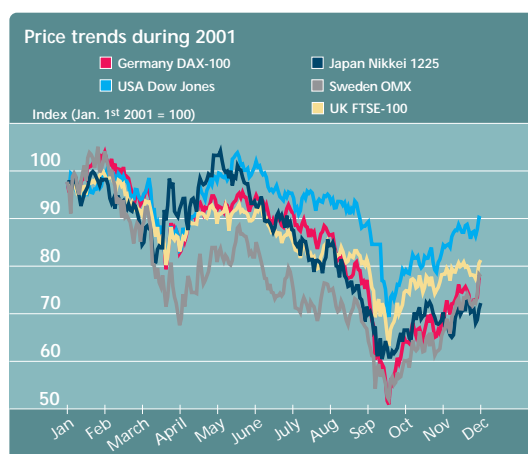
The stock market in 2001

The stock market decline initiated in the year 2000 continued during the first few months of 2001. As stock prices fell, corporate profit forecasts were adjusted downwards, with the result that cost multiples (such as P/E ratios) remained high. This led share prices to fall still further, forcing the stock market into a sharply negative spiral. The volume of buy recommendations fell rapidly and investors reduced their broad stock market exposure, taking refuge in bonds or defensive equities.

After staging a brief recovery during the second quarter, stock markets continued to decline throughout the summer and early autumn. Hardest hit were technology-intensive companies and industries. The finance requirement in this sector is considerable and a number of corporate restructuring and rationalisation programmes were carried out during the year to release capital. This process came to a head in the



Conditions on the Stockholm Stock Exchange were highly volatile during 2001.



Source: Ecwin

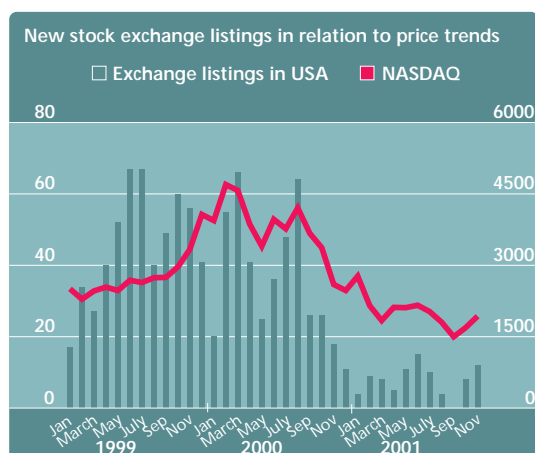


autumn, when the telecom companies came under pressure from a further wave of negative earnings forecasts and rumours of imminent new share issues.

Optimism returns

Although stock markets staged a strong recovery during the fourth quarter, when seen over the full twelve month period, 2001 was yet another year of negative yields on equities and comparatively better returns on bonds. In 2001, the world's stock markets generated a total return on investment of -17.8 percent*, while bonds noted a global return for the same period corresponding to +5 percent**. During the final months of the year, the Swedish stock market was one of the strongest performers in the world, yet still joined several other European stock markets at the bottom of the league seen over the full twelve months. Globally, both defensive and cyclical equities could be found among the relative winners for the full year 2001 – the forest sector, for example, was among the top performers. Among the losers, media and telecom companies were especially prevalent (operators as well as manufacturers) in company with industries such as the insurance sector.

Another indicator of the general weakness of stock markets was a reduction in the volume of mergers and acquisitions and in the number of stock market floatations. After a whole series of record-breaking corporate deals and a wave of stock floatations in 1999 and 2000, volumes contracted dramatically during the year, in both the USA and Europe.



Since autumn 2000, the number of new exchange listings in the USA has fallen sharply. Prices on NASDAQ (red curve) also fell.
Source: HSBC.

However, a mood of optimism returned during the fourth quarter. The substantial relaxation of fiscal and monetary policies, combined with the publication of more optimistic forecasts by the major companies, has sharply boosted market confidence that the worst is now over for the US economy. Several leading stock exchanges noted dramatic upturns in November and December, and a number of individual share prices have risen sharply. There is therefore good reason to believe that 2002 will be a more profitable year for stock markets than the one we leave behind us.

The Second AP Fund's equities management

In the past year, work has concentrated to a great extent on building up the Fund in terms of personnel recruitment and systems development, as well as in broadening its exposure to the market.

Almost all equities have been handled by external managers, with foreign equities pegged to the MSCI World index, leaving little room for deviation from the predetermined index. Seventy-five percent of the Swedish equities portfolio has been actively managed at low risk, while the remaining 25 percent has been managed at index.

The total value of the foreign equities portfolio amounted to SEK 50 billion at the end of 2001. This portfolio of equities has been built up during a period of extreme volatility on the world's stock markets, causing dramatic fluctuations in market values.

During 2001, the portfolio of Swedish equities declined in value by 15.6 percent. SIXRX noted -14.8 percent for the same period. By year-end 2001, the portfolio was worth SEK 27.7 billion.

External partners involved in the management of the Second AP Fund's equities portfolio during the year reported relatively similar results, a consequence of the investment policy established during the build-up phase. As the terms governing the external handling of assets now permit an increase in the degree of active management, it seems likely that differentiation in the performance of individual external asset managers will also increase.

* MSCI World Index

** Lehman Global Aggregated excl. Japan Fixed Income Index.

Fixed-income Management

The Second AP Fund's fixed-income group is responsible for managing the portfolio of fixed-income securities, as well as for the Fund's liquidity control and FX transactions.

FX transactions comprise foreign exchange transactions prior to investment in non-hedged foreign assets, as well as ongoing monitoring and re-balancing of the Fund's hedging activities.

The fixed-income management group is responsible for fixed-income securities, Swedish index-linked fixed-income bonds and foreign bonds. Assets in all three areas are handled by in-house and/or external fund managers. In establishing the fixed-income management department, considerable emphasis has been placed on recruiting staff with a broad range of experience and backgrounds, especially in the international arena. This has partly been to secure the skills necessary to monitor the activities of the Fund's external managers, partly to secure in-house expertise for monitoring and trading on the international market for fixed-income securities.

Interest rates during 2001

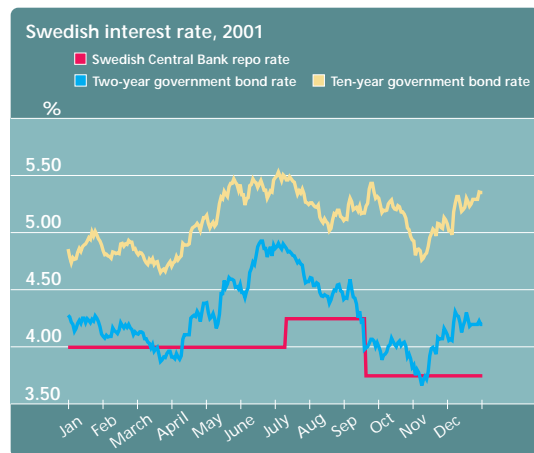
During the year, interest rates largely reflected the sharp rate cuts introduced by the US Federal Reserve, implemented to combat the effects of an increasingly weak economy. As a result of this expansive monetary policy, the US economy's yield curve has angled sharply upwards. Interest on two-year bonds has fallen by two percentage points, while that on 30-year bonds remains unchanged.

Weak performance of Swedish krona

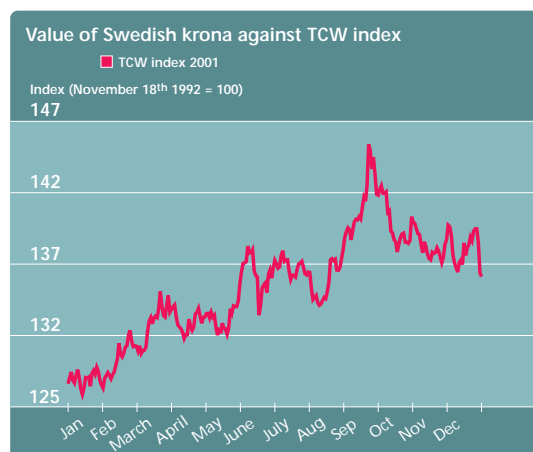
Swedish interest rates developed less favourably against international market rates during the year. Despite a 50-percentage-point reduction in the interest rate following the September 11 tragedy in New York, Swedish monetary policy has continued to be more restrictive than elsewhere. In Sweden, the negative trend in interest rates was reversed in the spring, when the Central Bank was forced to peg a sharp decline in the value of the krona, leading to a rise in the repo rate. In July, the Swedish Central Bank pegged the krona again, combining this with an isolated 25-point rise in the interest rate. During the late summer, the economic downturn accelerated,

and interest rates slumped. However, as autumn turned to winter, there were growing hopes of economic recovery, with a corresponding rise in interest rates.

During 2001, the fixed-income portfolio consisted exclusively of Swedish interest-bearing instruments such as government bonds, treasury bills, housing bonds and certificates and corporate bonds. Holdings in government bonds are distributed between fixed-income and index-linked bonds. Due to contraction of the overall portfolio, the proportion of index-linked bonds relative to fixed-income bonds rose during the year.



Source: Ecwin and Second AP Fund data.



The Swedish Central Bank's TCW index consists of a carefully balanced mix of the currencies of Sweden's most important competitors, starting November 18th 1992. At this moment in time, the ratio between the Swedish krona and the TCW index was 1/1. The diagram shows that the exchange rate for the Swedish krona, compared to the TCW index, reached its lowest level in September and October 2001.

Source: Ecwin and the Second AP Fund's own statistics.

The majority of the portfolio has been managed by Barclay Global Investors, which was instructed to follow a combination of SHB's interest-index family. The composition of the portfolio corresponded to the reference index, generating a return that deviated only marginally from index.

The Fund's portfolio of fixed-income instruments commanded a market value of SEK 50.1 billion by the close of 2001, including liquidity. At the start of the year, the corresponding value had been SEK 91.8 billion. The difference is largely attributable to reallocation of the Fund's assets during the year, involving a shift from fixed-income assets to foreign equities.

The return on the Fund's portfolio of fixed-income assets was +3.7 percent in 2001, compared with a return of +3.8 percent on the reference portfolio.

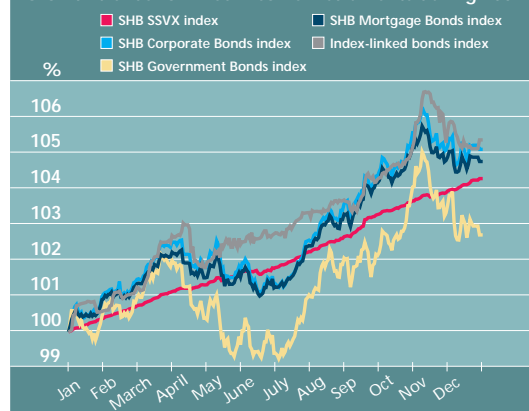
Simplified reallocation

A diversification of the portfolio will take place parallel to the manning of the internal asset management organisation, and as the Fund's asset management system becomes fully operational. The share of Swedish government securities will be reduced, to be replaced by foreign government bonds and securities. The future weighting of the portfolio will be determined by the demands of portfolio optimisation, the goal being to create a portfolio that ensures a maximum return for a given level of risk. The Fund will also continue to commission external asset managers, specifically in those areas where the organisation lacks the experience and competence necessary to generate a consistent surplus on investment.

During 2001, management of the fixed-income portfolio has focused on simplifying the reallocation of assets from Swedish fixed-income instruments to foreign equities. The portfolio's maturity profile during the first half of the year meant that funds realised on the maturity of fixed-income securities could be released for investment in equities. During the second half of the year, bonds and government securities were also sold to achieve the required exposure in equities.

As mentioned earlier, the Swedish krona performed poorly against other currencies during the year. Public debate attributed much of the blame for this negative development to changes in the investment regulations applied to Sweden's AP Funds. Nevertheless, other factors have also had a negative and probably greater impact on the krona than the reallocation of the AP fund portfolios. The Second AP Fund was relatively quick to adopt a level of currency exposure that was somewhat higher than that of the reference portfolio. At the close of the first half, the Fund's currency exposure was 13 percent, as compared with the reference portfolio's 10 percent and maximum ceiling of 15 percent. During the autumn, this level of exposure has been gradually reduced towards the level specified by the reference portfolio and, by year-end 2001, the share of assets exposed to foreign exchange fluctuations had been reduced to approximately 10 percent.

Growth trends for fixed-income instruments during 2001



Source: Ecwin and Second AP Fund data.



Alternative Investments

– funds for unlisted and listed equities

The investment options normally recommended as appropriate for Alternative Investments are unlisted equities, hedge funds, raw-material-related assets and other asset management options that offer an absolute return.

Common to all classes of alternative investment is the requirement for a substantial absolute return, and that the various classes of asset shall differ distinctly in character from other classes of asset featured in the overall portfolio, to contribute to a strategic dissemination of risk. The AP Funds' new investment regulations permit only indirect investment in unlisted equities, via funds and investment brokers. And the Fund may not invest in raw-material-related instruments.

The Fund is developing an investment strategy

During the year, the Second AP Fund has initiated work on the development and implementation of an investment strategy for alternative investments.

In respect of investment in funds for unlisted and listed equities, this strategy will involve the step-by-step build up of a well diversified portfolio over a period of three years. Investments will be made using a selection process based on the Fund's established working methods. The Second AP Fund aims to create long-term and strategic relationships with a limited number of market players, to secure access to the best investment opportunities and, at the same time, to establish a well-developed network that can contribute to the build-up of in-house expertise in this field. During the initial phase, the Fund will focus on investment in funds for unlisted and listed equities that offer an absolute return on invested capital.

Investments during 2001

During 2001, investments totalling SEK 237 million were made in three funds. In the "buy-out" segment (strategic and financially oriented acquisitions and mergers of relatively large companies active in mature industries), investments were made in a venture-capital fund: EQT Northern Europe. In its turn, this fund has invested in companies such as Electrolux Leisure Appliances, Duni and Plantasjen (Växus).

In the "ventures" segment (investments in smaller companies, often specialised in technology or the life sciences, which are in the start-up or development phase), the Second AP Fund has invested in the Swedestart Tech and Swedestart Life Science funds. During the year, these funds invested in the pharmaceutical sector and in technology development in IT-related areas.

The market trend

Several years of vigorous global growth for funds focused on the above-mentioned sectors peaked during 2000, since when the market has been less active. This derived from a sharp worsening of market conditions, attributable in particular to the bursting of the "IT bubble". This has led to fewer stock market floatations and a general reduction of activity in terms of corporate deals. Responding to this change in business climate, many funds have been forced to write off or write down their holdings.

Another clear market trend is the adoption of a broader investment perspective, which has moved beyond the earlier narrow focus on IT-related development companies. Interest in investment in the life science sector, which has been keen in recent years, has grown still more. This interest has grown partly out of the huge strides being made in the field of medicine, partly out of the major demographic changes, which are becoming increasingly pronounced. Even so, the majority of investments are made in relatively mature companies and industries, where added value can be created out of restructuring and developing existing business operations. Compared to investment in development companies, investment in this sector normally involves a lower level of risk, although historically it also generates a lower rate of return.

Clearly, both from a national and international perspective, the market is entering a phase of consolidation and globalisation. Generally speaking, the number of players will be fewer but larger, and often more specialised, even though there will always be a place for smaller players with leading-edge competence.

Real Estate

The Second AP Fund's real-estate-related holdings consist of shares in both listed and unlisted property companies.

The sharp economic growth of recent years has fuelled demand for commercial premises, resulting in rising rents and property prices. This positive trend has been especially pronounced in the Stockholm region, but the property market in other major urban centres and university towns has also enjoyed strong growth.

In 2001, however, this upward trend faltered. This was the year when demand for commercial property slowed down, notably from companies in the IT, telecom and Internet sector. The general slowdown of the economy during the autumn meant that companies in other industries also anticipated a slowdown, leading to a reduction in demand for commercial real estate. For the first time in almost ten years, the number of vacant commercial properties has started slowly to rise, while rent levels are tending to fall, especially in central Stockholm. Seen in a historical perspective, the level of vacancies is still low, however, while the production of new commercial property remains limited in most parts of the country.

During the year, the property market has enjoyed a relatively high level of activity, with a large number of transactions. Most property companies have strong cash flows and stable balance sheets which, combined with low interest rates, has created a climate favourable for making new acquisitions. In recent years, institutional investors have also become major net purchasers of real estate, partly as direct acquirers of property, but also through the acquisition of exchange listed real estate companies. Following the sharp decline of the stock market during 2001, some of these institutional investors have been forced to a net sale of their real-estate assets to balance their portfolios. During the year, new categories of buyer have appeared on the market, including newly started

(often international) real estate funds, which have acquired properties.

Shares in property companies listed on the Stockholm Stock Exchange appreciated strongly during 2000, noting gains of some 37 percent, in contrast to the general index, which backed by about -11 percent. During 2001, shares in property companies have declined by approximately 3 percent compared to the stock market as a whole, which dropped by 16.7 percent.

Second AP Fund real-estate holdings

The Second AP Fund invests in real estate to generate a solid direct return and to diversify risk in its overall portfolio. The Fund's real estate exposure partly comprises a portion of the portfolio of listed equities, partly substantial holdings in unlisted property companies.

The Second AP Fund's unlisted shareholdings in real estate consist of a 25-percent participation in AP-fastigheter AB, which is jointly owned by the four first AP funds, as well as a 33.3 percent interest in NS-Holding AB (Fastighetsbolaget Norrporten AB). The Fund's shares in both companies are valued at SEK 4.1 billion. Both holdings have developed favourably during the year.

AP-fastigheter has concentrated and well placed real-estate holdings in the Stockholm, Uppsala and Gothenburg regions. The majority of these holdings consist of office premises, with a lesser number of residential properties and commercial premises.

Norrporten, in which the Second AP Fund became a joint owner in 2001, is a real-estate company with nationwide interests. It specialises in attractively located properties in residential areas on the outskirts of major urban centres. The greater part of its real estate portfolio consists of office space, much of which is rented to local government and public authorities.

Risk Management

The mission of the Second AP Fund is to maximise long-term return on investment, with a well-diversified and low level of risk. It is important that any risk incurred should be calculated prior to investment, and should subsequently be subject to control.

A comparison between return achieved and degree of active risk is an important source of data when optimising part or all of an investment portfolio.

The responsibilities of the Second AP Fund's Risk Management function are:

- to control and analyse the exploitation of and limits set for risk, and to ensure that such operations are consistent with the highest standards,
- to ensure that asset management activities are backed by the latest support tools for calculating risk when optimising the composition of a portfolio, and for subsequent monitoring of the actual risk incurred,
- to develop guidelines and models for improving the management and control of risk.

Risk Management operates independently from the asset management organisation and is therefore not involved in business decisions. The independent role of the RM function is further stressed by the fact that it reports directly to the CEO as regards risk utilisation and possible violations of risk limits.

The Fund formulates risk limits

The parameters and limits adopted by the Second AP Fund govern its activities at several levels. The overall parameters governing risk have been determined by the Swedish Parliament in the "Act concerning National

Pension Funds (2000:192)". These regulations have since been realised in more concrete form in the operations plan finalised by the Fund's board of directors. The guidelines for the Fund's operational activities are based on this plan. These guidelines also comprise a summary of the Second AP Fund's total risk limits and limits per class of asset. Within these prescribed parameters, the asset management organisation is free to distribute risk between different mandates or portfolios.

Responsibility for reporting risk limits devolves onto Risk Management, which also ensures that limits and guidelines for investment activities are respected. Limits for individual portfolios/mandates are monitored by the manager for each class of asset.

Different types of risk

Handling of risk by the Second AP Fund asset management team is based on the idea that risk is relative. This means that no risk is considered to exist where Second AP Fund holdings correspond to the reference portfolio. In absolute terms, a risk naturally exists, given the fact that the reference portfolio can itself generate a negative or positive return on investment. The portfolio's absolute and relative risks are tracked and reported to the board of directors, Fund management and asset managers.

Since the purpose of asset management is to outperform the reference portfolio, risk is defined relative to the reference index provided by the reference portfolio. The yield and risk that result from this position are known as "relative yield" and "relative risk". Deviations are monitored by a "tracking error" system, which measures standard deviation for the relative yield.



Market risk

“Market risk” refers to the risk of the value of a holding changing when the market rate changes. In terms of operational management, the market risk is measured against the reference index, and the potential deviation in yield is also calculated. The market risks most relevant to the Second AP Fund are share price risk, interest-rate risk and currency risk.

Credit risk and counterparty risk

“Credit risk” refers to the risk that an issuer of securities becomes insolvent and is unable to fulfil his obligations, or is awarded a lower credit rating, resulting in a negative impact on the market value of the investment. “Counterparty risk” refers to the risk that some other party, with which the Fund does business, becomes insolvent and is unable to fulfil its obligations. This risk can be controlled by permitting business transactions only with approved counterparties who meet predetermined criteria.

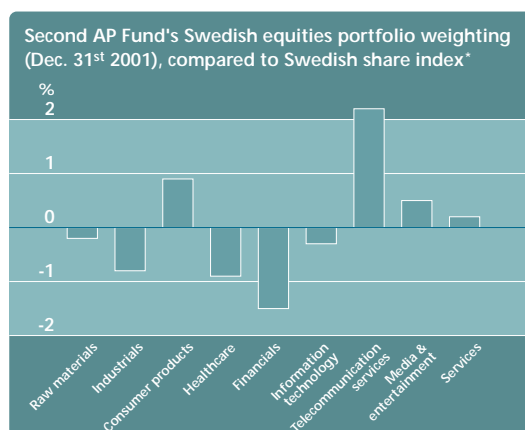
Operational risk

“Operational risk” refers to the risk that an error or stoppage in operations could lead to economic loss or reduced credibility. To reduce operational risks to a minimum, there is strict distribution of responsibilities between the asset management and back-office functions.

The Second AP Fund has invested considerable resources in the purchase and commissioning of a reliable, fully-integrated asset management system, as well as in establishing clear and consistent guidelines and routines to determine how its activities should be conducted. As part of this process of identifying and reducing operational risks, the activities of external asset managers will be subjected to a quality audit during 2002.

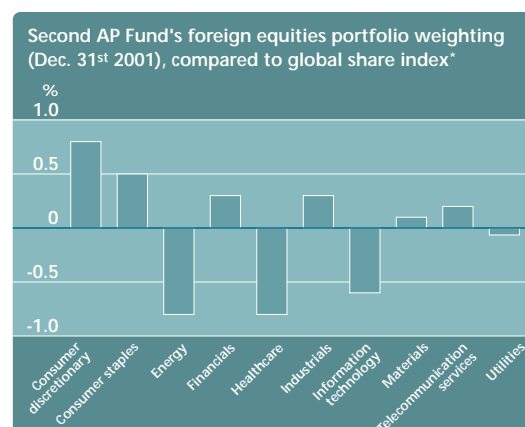
Liquidity risk

“Liquidity risk” refers to the risk that a holding cannot be converted into cash at the time originally envisaged, without a radical reduction in the selling price or at considerable cost.



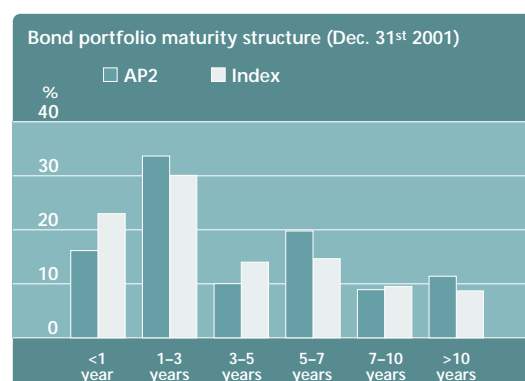
*) Excl. share index futures.

Index: SIXRX. Source: Deloitte & Touche, Mpir



*) Excl. share index futures.

Index: MSCI World. Source: Deloitte & Touche, Mpir



Source: Deloitte & Touche, Mpir

Second AP Fund corporate governance policy

The Board of Directors of the Second AP Fund finalised a corporate governance policy in May 2001, which first and foremost addressed governance issues in connection with holdings in Swedish listed companies.

During the year, the policy has been developed and implemented progressively in the Fund's activities. The Fund's governance policy now focuses on five areas:

- The Fund's perception of shareholders' influence and rights in a listed company
- The Fund's perception of issues concerning the board and management of a listed company
- The Fund's perception of the degree of transparency practised by a listed company, and the quality of its external communication to the capital market
- The Fund's perception of its relationship to other shareholders
- The Fund's response in situations where a portfolio company acts in contravention of sound business practice.

The Second AP Fund's primary objective in exercising active ownership is to contribute to solid long-term growth in those companies in which it has invested. Through its ownership, the Fund shall actively promote good business ethics and environmental awareness, while contributing to the development of sound business principles in the asset management sphere.

The Fund's position on ownership issues is that a listed company, by seeking a listing on the Stockholm Stock Exchange (or corresponding institution), accepts that its primary objective must be to increase the value of the funds invested by shareholders, and that the company's board of directors shall act accordingly.

Exercise of shareholder influence and rights

The Second AP Fund shall, when appropriate, exercise its right to vote at the annual general meetings of those Swedish and foreign companies in which it has stakes. The Fund may vote either through its own representatives at the meeting or by proxy.

The Second AP Fund will vote in favour of those proposals, which it considers most likely to benefit the current and future worth of a company.

The Second AP Fund will vote against proposals that it considers are in conflict with the its rights as a stakeholder or which may negatively affect a company's growth in value. In such cases, the Fund shall normally communicate its position to the company's board of directors prior to the vote.

The Second AP Fund subscribes to the principle of "one share, one vote". The Fund will therefore vote against proposals aimed at introducing limitations on voting rights or any other limitations to shareholders' traditional rights as joint-owners in a listed company.

Notification convening an annual general meeting shall be disseminated in good time, on the same terms, to all shareholders.

No measures that could result in a dilution of share capital, or that in some other way could weaken the position of individual shareholders, may be implemented without approval by the annual general meeting.

Role and responsibilities of board and management

Members of the board of a company shall be independent and separate from its executive management. Each member shall always strive for the company's best interests. Directors' fees should always be predetermined and openly declared.

Special committees should be established for the nomination of board members and for drafting policy on directors' remuneration. Equality of opportunity and an enlightened approach to the company's human capital should be considered basic principles. The Second AP Fund shall strive for gender balance in the composition of the board.

Incentive programmes and compensation packages, as well as severance payments, should be in line with market conditions. Decisions about incentive programmes shall be approved by the annual general meeting and should conform to the guidelines established by the Swedish Securities Council (2001:01). The regulations applying to severance pay, pension benefits and bonus payments, as well as their combined worth, shall be openly declared.



If a company becomes the subject of a public take-over offer, the board of directors and management of the company shall act to secure the best possible long-term growth for shareholders. This normally involves commissioning an independent evaluation of the company and ensuring that such information is brought to the attention of all shareholders.

**The Fund's perception of
a listed company's transparency
and forms of market communication**

The company shall fulfil the requirements of the law and observe accepted recommendations concerning the presentation of information by exchange-listed companies. There should be no selective distribution of information.

The Second AP Fund will visit companies, in which it has significant holdings, on a regular basis. The purpose of such corporate visits is to acquire an impression of the company's strategic development and to inform the company in question of the Fund's position with respect to environmental and ethical issues. On issues such as shareholder control, major strategic decisions and the board of directors, the Fund will normally communicate with the company chairman. On matters that are more operational in nature, such as general corporate presentations, or in connection with the presentation of the annual accounts, the Fund will communicate with representatives of the company's management.

**The Fund's perception of its
relationship to other shareholders**

The Second AP Fund is committed to promoting equal and fair treatment of all shareholders in a company.

Any cooperation with other shareholders in a company is based exclusively on promoting the best interests of the Fund, and collaboration in the form of more long-term and/or permanent "power structures" does not exist.

**The Fund's response in situations where
a portfolio company acts in contravention**

The Second AP Fund continuously monitors developments in companies in which it has invested. In cases where a company is suspected of deviating from sound business ethics, the Fund contacts the company in question for additional information. If the company fails to respond to the Fund's query within a reasonable period of time, or is unable to provide an acceptable explanation for its behaviour, and/or has failed to take adequate measures to avoid repetition of the problem, the Fund shall normally dispose of its holding in a suitable manner.

"Corporate Governance", defines the guidelines, regulations and forms of collaboration, which govern relations between the owners (shareholders) of a company, the board of directors (representatives of the owners and employees) and company management (with operational responsibility for the company).

In conjunction with the official inauguration of the Second AP Fund, held on September 26th 2001, a panel discussion was held about the role of institutional investors and their responsibilities as owners. The panel featured, from left: Göran Johnson, Swedish Metal Workers' Union; Anders Nyrén, Industrivärden; Peggy Bruzelius, Lancelot; Carl Bennet, Getinge (and other companies), and Lars Idermark, Second AP Fund.

Second AP Fund as owner

– in 2001

During 2001, work has focused on the build-up and establishment of the Fund. As part of this process, a number of ownership-related issues have been addressed and several initiatives have been taken in this area. It is clear that the broader community places considerable expectations on the new AP Funds with respect to ownership issues.

As well as participation in some 20 annual general meetings during the year, at companies in which the Fund has an interest, the Fund has also visited some 10 companies. During the year, the Fund has also actively checked out the actual situation in some 10 companies in which it has holdings (companies whose behaviour has in various ways raised doubts about possible infringements with respect to business ethics, environmental issues and/or sound business practice). This process has involved direct contact with the companies' boards of directors or executive management. The majority of these meetings have resulted in more detailed and explanatory information, convincing the Fund that it need not dispose of its interests in the companies in question. In two cases, however, the companies approached have been unable or unwilling to supply information that would guarantee continuation of a reasonable commitment on ethical and environmental issues. The Second AP Fund has therefore disposed of its holdings in these companies.

Environment and ethics

The Fund's efforts to favourably influence progress on ethical and environmental issues has otherwise been more indirect in nature. This also applies to the issue of how to increase the number of women on the boards of listed companies. During the year, the Fund has initiated or actively participated in several conferences, debates and surveys focused on such issues. Specially noteworthy was a panel discussion on the role of institutional investors and their responsibilities as owners, held in connection with the official inauguration of the Second AP Fund, as well as a study of attitudes and action taken by major Swedish companies in the areas human rights, working environment/working conditions and environment.

Scandinavian study

In 1999, in Davos, UN General Secretary Kofi Annan presented the concept "The Global Compact – Corporate Leadership in the World Economy". This UN concept establishes nine key principles for human rights, working environment/working conditions and environmental issues, which it challenges the world's corporate moguls to respect. The purpose of the Fund's own survey was to determine how Scandinavian companies view these principles, and to what extent they are actually implemented in practice.

The study, conducted in association with consultants Deloitte & Touche, covered about 50 of the largest companies listed on the Stockholm Stock Exchange. A similar study was conducted simultaneously among the largest companies listed on the Oslo and Copenhagen exchanges.



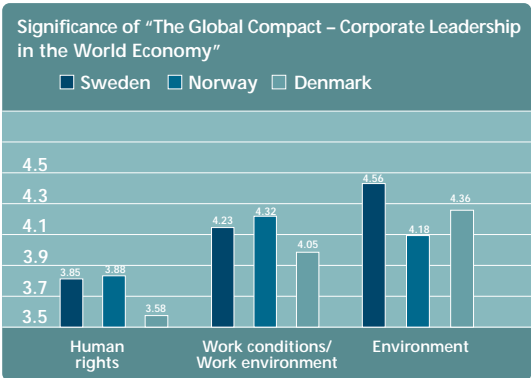
The result of this study demonstrates that many Scandinavian companies are convinced that adherence to the Global Compact will immediately or at least eventually generate commercial value, and is therefore of relevance to their business activities. When it comes to order of priority, there is little dispute between the Scandinavian countries:

- working environment/working conditions and environmental issues are thought to have the greatest impact on the commercial value of a business,
- human rights are thought to have less commercial impact, possibly due to the fact that Scandinavian companies consider respect for human rights to be self-evident.

Nevertheless, the study also reveals different approaches to these issues in the internal policies of many companies, as well as variations in actual commitment within the individual organisation. Several of the companies in which the Second AP Fund holds a considerable stake have chosen not to respond to the survey. When eventually contacting these companies, the Fund will therefore seek a response to their views on the issues addressed by the Global Compact.

The inauguration programme also included a presentation by Wim Duisenberg, CEO of the European Central Bank.

Swedish Finance Minister Bosse Ringholm and Gunnar Larsson, chairman of the board of the Second AP Fund, presided at the official inauguration.



There is considerable consensus among the companies of the Nordic countries about the commercial value of adherence to the UN's principles of corporate responsibility. Importance is assessed on a scale of one to five.

Sources: Deloitte&Touche and the Second AP Fund.



Administration report

Build-up of Second AP Fund

The new Second AP Fund formally started operations on January 1st 2001. From the start, the Fund has invested intensive effort in laying a stable foundation for its long-term operations. During the year, the Fund has completed installation of the technical infrastructure and implemented IT systems. Attention has also focused on recruitment and the build-up of an asset-management organisation, as well as on analysis and formulation of the Fund's long-term investment strategies. Finalisation of guidelines (such as a corporate governance policy for the Fund), forming a framework for control of the Fund's asset management and other activities, has been another priority.

Net result for the year

The Fund reports total assets of SEK 133.5 billion, including net flows.

The Fund's rate of return in 2001 amounted to -3.7 percent. This means that the Fund exceeded its reference index, which was -5.4 percent.

Inflow of liquid funds during the year totalled SEK 4.5 billion, of which SEK 3.1 billion in the form of payments from RFV (National Social Insurance Board). The remaining inflows pertain to dividends from the Special Funds, which are administered by the First and Fourth AP Funds.

Dividends received amount to SEK 823 million, the capital loss incurred on equities-related assets was SEK -1.8 billion and SEK -0.3 billion for interest-bearing instruments.

The net result for the year amounted to SEK -5 billion. This result consists of dividend payments, interest income, currency rate earnings/losses, realised and unrealised changes in value and operating expenses.

Reallocation process in 2001

Readjustment of the composition of the Fund's asset portfolio during the year has involved a two-dimensional shift. A geographical shift – from a portfolio with a strongly national to a global emphasis – and a redistribution of classes of asset, from a portfolio featuring a heavy predominance of fixed-income instruments to one with a more distinct focus on equities.

On January 1st 2001, the Fund acquired responsibility for the management of SEK 134 billion in capital assets, distributed mainly between fixed-income securities and a smaller share of Swedish and foreign equities. This reallocation of the asset portfolio was initiated in the spring and intensified during the third quarter. By early November, this reallocation process had been completed, and the composition of the Fund's portfolio of investments was now in line with the reference portfolio determined by the board of directors.

This change in composition has mainly involved a shift in emphasis towards listed equities, with the focus on foreign equities. The sharp declines in share prices on global equity markets during the year have led to periodical reductions in the total value of the portfolio. The table below shows the shift in the composition of the portfolio between the start and the close of the year.

Reallocation of portfolio, %

Asset class	Jan. 1 st 2001*	June 30 th 2001*	Dec. 31 st 2001*	Dec. 31 st 2001**
Swedish equities	25	22	21	20
Foreign equities, hedged	—	13	28	30
Foreign equities, non-hedged	3	13	10	10
Fixed-income assets, incl. liquidity	69	49	38	37
Real estate (unlisted holdings)	3	3	3	3

* as per market value

**as per exposure

Reference portfolio and reference index

The ALM (Asset Liability Modelling) study conducted during the year, in which liability and asset sides are compared over the long term, has led to the formulation of a model portfolio. This portfolio provides a model for the Fund's strategic distribution of assets and the basis for determining the composition of the Fund's long-term reference portfolio.

The reference portfolio indicates the relative weighting to be assigned to each class of asset in absolute terms, and the acceptable interval over time. The Fund's reference portfolio is constructed with selected reference indexes as indicated below.

Portfolio performance is matched continuously against predetermined indexes (see table on page 42). The goal, based on an approximate investment horizon of ten years, is to create a long-term surplus yield of 0.5 percent against reference index.

Distribution and performance of Fund assets

The Fund's assets as per December 31st 2001 were distributed as follows: SEK 77.7 billion in listed equities, of which SEK 27.7 billion in Swedish equities, SEK 36.8 billion in hedged foreign equities and SEK 13.2 billion in non-hedged foreign equities. Fixed-income assets, including liquid funds, amount to SEK 50.1 billion. Holdings in unlisted shares in real estate companies amount to SEK 4.1 billion, with alternative investments amounting to SEK 57 million.

After a stringent procurement and evaluation process in the early part of 2001, the Fund outsourced its asset management responsibilities to four Swedish and three foreign fund managers: Alfred Berg, Carlson Investment Management, Carnegie, SEB, State Street Global Investors, Merrill Lynch and Barclays Global Investors. As of October and November 2001 respectively, fund managers Pictet and MFS have also been authorised to actively manage part of the Fund's asset portfolio.

Composition of reference portfolio, %

Asset class	Portfolio weighting	Interval	Reference index
Swedish equities	20	15–25	SIXRX
Foreign equities, hedged	30	20–40	MSCI, World Local
Foreign equities, non-hedged	10	5–15	MSCI, World
Fixed-income assets, incl. liquidity	40	30–50	SHB Swedish interest index
Real estate (unlisted holdings)	1)	0–20	—
Alternative investments	2)	0–5	—

1) Properties are measured against the fixed-income portfolio.

2) Alternative investments are measured against total return.

Swedish equities

The portfolio of Swedish equities taken over by the Fund on January 1st 2001 had an estimated market value of SEK 32.9 billion. Holdings were well diversified among the major listed Swedish companies. During the year, some 75 percent of the portfolio has been under active management at limited relative risk, while the rest of the assets have been managed passively against index.

The market worth of these Swedish equities was SEK 27.7 billion on December 31st 2001. In addition to this, the Fund had a short-future position in an amount of SEK 1.5 billion. The portfolio of equities noted a negative return of -15.6 percent compared to the SIXRX reference index, which generated a return of -14.8 percent. The Fund's five largest Swedish holdings by value are: Ericsson (16.8 percent); H&M (7.8 percent); AstraZeneca (7.4 percent); Nordea (4.7 percent) and Skandia (3.7 percent).

Foreign equities

The process of building up a portfolio of foreign equities was completed during the year, thereby amounting to SEK 50 billion. In addition to this, the Fund had a long-future position in an amount of SEK 3.8 billion.

The non-hedged portfolio of foreign equities has yielded a return of -9 percent compared with the MSCI World index, which generated a return of -7.3 percent for the same period.

Hedged equities, which account for the majority of the foreign equities portfolio, have generated a return of -6.9 percent against the MSCI World Local index of -7.8 percent.

At year-end, the five largest holdings in foreign equities were: General Electric (2.5 percent); Microsoft (2.1 percent); Pfizer Inc. (2.0 percent); Exxon Mobil (2.0 percent) and Citigroup (2.0 percent).

Fixed-income assets

The worth of the Fund's fixed-income holdings as per January 1st 2001 was SEK 89.2 billion. The reallocation of the portfolio in favour of foreign equities, to accomplish a redistribution of assets in line with the reference portfolio, has led to the sale of fixed-income assets exceeding SEK 45 billion. At year-end 2001, the portfolio had a market value of 48.2 billion. This portfolio of fixed-income assets consists mainly of bonds and treasury bills issued by the Swedish State. The return on fixed-income assets was 3.7 percent, while the reference index generated 3.8 percent.

In addition to fixed-income holdings, the Fund's liquid assets amounted to SEK 1.9 billion at year-end.

Return in relation to index 2001, %

	AP2	Referensindex	
Second AP Fund's total return	- 3.7	Total index ¹⁾	- 5.4
Swedish equities	- 15.6	SIXRX	- 14.8
Foreign equities, hedged	- 6.9	MSCI World Local	- 7.8
Foreign equities, non-hedged	- 9.0	MSCI World ²⁾	- 7.3
Fixed-income assets	+ 3.7	SHB interest index ³⁾	+ 3.8

¹⁾ As of May 1st 2001, composed of SIXRX 20%, MSCI World (hedged) 30%, fixed-income 40% and MSCI World (non-hedged) 10%. In the preceding period, it comprised 70% fixed-income, 25% SIXRX and 5% MSCI World (non-hedged).

²⁾ As of June 1st 2001, MSCI Provisional is used for MSCI index..

³⁾ As of July 1st 2001, composed of 45% SHB NomGovt, 23% SHB T-Bill, 12% SHB Mortgage, 15% RealGovt and 5% SHB Corporate. In the preceding period, it comprised 45% SHB NomGovt, 28% SHB T-Bill, 12% SHB Mortgage, 10% RealGovt and 5% SHB Corporate.

Alternative investments

During 2001, investments amounting in total to SEK 237 million have been pledged to three funds. Of these, commitments amounting to SEK 57 million have been capitalised during the year. Investments in the "buy-outs" segment have been made in the venture-capital fund EQT Northern Europe. In the "ventures" segment, investments have been made in the Swedestart Tech and Swedestart Life Science funds.

Real estate

The Fund's exposure with respect to real estate consists partly of a section of the portfolio of listed equities, partly of holdings in unlisted property companies.

The Second AP Fund's holdings of unlisted shares in real estate companies consist of a 25-percent participation in AP-fastigheter AB and a 33.3 percent interest in NS-Holding AB (Fastighetsbolaget Norrporten AB). The Fund's holdings in both companies have developed favourably during the year. The reported market value for AP-fastigheter is SEK 3.8 billion, and SEK 293 million for Norrporten.

Currency exposure

Approximately ten percent of the Fund's assets are exposed in foreign currency. This foreign currency exposure, which derives mainly from assets held in the foreign equities portfolio, is distributed as shown in the table below.

Transfer to euro

The transfer to the euro within the EMU at the start of 2002 is not thought to have any decisive influence on the Fund's activities, either with respect to possible impact on the economy or on the Fund's asset management activities in general.

Derivatives

The Fund has exploited the opportunities presented by the decline in the global stock market to shift the focus of the portfolio with which it was originally entrusted to one with significant holdings in domestic and foreign equities, and fixed-income assets. This reallocation process has been accomplished with the help of stock derivatives, to enhance efficiency and reduce transaction fees. During this reallocation process, stock market exposure incurred by these derivative positions has never exceeded the total Fund capital.

As per December 31st 2001, the Fund had share-index forwards that featured relatively brief exposure, amounting to SEK 5.3 billion, and currency forwards that featured relatively long exposure, corresponding to the value of the global portfolio of hedged foreign equities.

Currency exposure as per Dec. 31st 2001

Equivalents in SEK m	USD	GBP	EUR	YEN	Other	TOTAL
Shares and participations	29 468	5 607	7 124	3 913	3 885	49 997
Bonds and other fixed-income securities	0	0	2 528	0	0	2 528
Cash and bank balances	88	5	10	12	1	116
Derivatives with a positive value, exposure	23 218	0	4 414	14	0	27 646
Derivatives with a negative value, exposure	- 45 173	- 4 213	- 12 039	- 2 873	- 2 730	- 67 028
Total	7 601	1 399	2 037	1 066	1 156	13 259

The table shows total exposure in the contract.

Valuation principles

The principles applied in evaluating the Fund's assets are common to the First, Second, Third and Fourth AP funds. For a description of the valuation principles applied, please refer to page 48.

Integrated asset management system

The Fund is a large and internationally active asset manager, with several assignments delegated to external fund managers. This places severe demands on the Fund's ability to monitor and control the portfolio, both in terms of its respective parts and as a whole. To satisfy these demands requires an advanced IT platform that combines reliability and flexibility.

After a stringent assessment process, the Fund selected the Danish TMS2000 system to form the platform for the development and implementation of the asset management system that is scheduled to be fully operational in the first quarter of 2002.

Operating expenses

Work during the year has focused on the establishment and build-up of the Fund, its organisation and IT systems. During the year, all the Fund's assets, with a few minor exceptions, have been placed under external management.

The Fund's operating expenses for the year total SEK 187 million, of which SEK 22 million in personnel costs and SEK 47 million in fees to external asset managers. The cost of external asset management corresponded to 0.04 percent of the average market value of invested assets during the year.

The Fund's expenses include establishment expenses of approximately SEK 70 million, all investments being written off in the accounts. Operating expenses include a sum of SEK 48 million, pertaining to the purchase and implementation of the TMS2000 asset management system.

Risk

All forms of asset management are associated with numerous financial risks. The Fund's risk exposure and risk-adjusted return is shown in the table below.

For distribution of credit risks, refer to Note 16.

Taxation

In its capacity as a government agency, the Second AP Fund is in most cases not subject to tax. Nor is the Fund subject to VAT.

Risk and risk-adjusted return

Annual benchmarking		Dec. 31 st 2001
Standard deviation	AP2	9.7%
	Total index	10.2%
Tracking Error	AP2	1.7%
Sharpe ratio	AP2	Neg
Information ratio	AP2	1.0

Risk definitions (see Note 17).

Income statement

Amounts in SEK million		January–December 2001	January–June 2001
Operating income			
Dividends received		823	622
Net interest income	Note 1	3 775	2 043
Capital gain/loss, net	Note 2	– 3 918	– 818
Exchange gain/loss, net		899	1 364
Unrealised changes in value	Note 3	– 6 397	– 6 880
Total operating income		– 4 818	– 3 669
Operating expenses			
Personnel expenses	Note 4	– 22	– 6
Other expenses	Note 5	– 118	– 51
External asset management expenses		– 47	– 23
Total operating expenses		– 187	– 80
Net result for the year		– 5 005	– 3 749

Comments to the income statement

Operating income

Since the Second AP Fund started operations on January 1st 2001, comparison is made in the accounts with the interim half-year figures reported for June 30th 2001.

The net of interest is positive and includes interest income in an amount of SEK 3 795 million, of which SEK 3 574 million in the form of interest income from bonds and other interest-bearing securities, together with other interest income amounting to SEK 221 million. Interest expenses total SEK 20 million.

The net of capital gains/losses (capital gains less capital losses) was SEK –3 918 million at year-end, increasing the deficit by 3 100 million compared with the half-year result (SEK –818 million). Of this amount, equity holdings accounted for a net capital loss of SEK –1 771 million, bonds and other interest-bearing securities for a net capital loss of SEK –334 million and derivative instruments for a net capital loss of SEK –1 813 million.

The net of exchange gains/losses was positive, contributing SEK 899 million (SEK 1 364 million at the close of the first six months). The majority of the Second AP Fund's currency exposure at year-end was in USD (corresponding to SEK 7 601 million) and in euros (corresponding to SEK 2 037 million). The Fund's total cur-

rency exposure amounted to SEK 13 259 million, corresponding to about ten percent of Fund capital. In accordance with the guidelines governing the Fund's investment activities, no more than 15 percent of the portfolio's total market value may be invested in foreign equities and securities without hedging.

The net of unrealised changes in value amounts to SEK –6 397 million. Listed equities account for an unrealised loss of SEK –894 million, unlisted equities for SEK 129 million, bonds and other fixed-income securities amounting to SEK –633 million and derivatives totalling SEK 1 million.

At the close of the first six months, the net unrealised loss on changes in value amounted to SEK –6 880 million.

Operating expenses

Personnel expenses amount to SEK 22 million. The majority of Second AP Fund staff were appointed in June 2001 and after. The cost of external asset management services adds up to SEK 47 million, with additional expenses of SEK 118 million, including establishment expenses.

Balance sheet

Amounts in SEK million		Dec. 31 st 2001	Jan. 1 st 2001
ASSETS			
Investment assets			
Equities and participations			
Listed	Note 6, 15	77 743	36 304
Unlisted	Note 7	4 139	3 660
Bonds and other			
fixed-income securities	Note 8	48 172	89 157
Derivatives	Note 9, 15	585	—
Total investment assets		130 639	129 121
Receivables and other assets			
Cash and bank balances	Note 0, 15	1 916	2 678
Other assets		43	0
Prepaid expenses and accrued income	Note 11	1 193	2 186
Total receivables and other assets		3 152	4 864
Total assets		133 791	133 985
FUND CAPITAL AND LIABILITIES			
Fund capital			
	Note 12		
Fund capital at beginning of year		133 975	133 975
Net pension contributions received		3 062	—
Transferred from Special Funds		1 461	—
Net profit for the year		— 5 005	—
Total fund capital		133 493	133 975
Liabilities			
Derivatives	Note 9, 15	217	—
Other liabilities		48	0
Deferred income and accrued expenses	Note 13	33	10
Total liabilities		298	10
Total fund capital and liabilities		133 791	133 985
Memorandum items			
Assets pledged for forward transactions	Note 10	657	—
Obligations	Note 14	180	—

Comments to the balance sheet

Balance sheet total

The Fund's balance sheet total declined during the year by SEK 194 million to SEK 133 791 million.

Investment assets

At the beginning of the year, the greater part (SEK 89 157 million) of the Second AP Fund's assets were invested in bonds and other fixed-income securities. During the year, the focus of the portfolio has been shifted from fixed-income securities to listed equities. At year-end, the fixed-income portfolio was worth SEK 48 172 million and the asset class "listed equities" had increased by SEK 41 439 million to a closing market value of SEK 77 743 million.

At the beginning of the year, the Fund's unlisted holdings consisted of the associated company AP-fastigheter AB, with a market value of 3 660 million (the Second AP Fund has a 25 percent interest). During the year, the Fund acquired stock in another company, NS Holding AB (Fastighetsbolaget Norrporten AB), amounting to a market value of SEK 293 million (a 33-percent interest in the company). The Fund also invested approximately SEK 57 million in unlisted equities in funds such as EQT Northern Europe, Swedestart Tech and Swedestart Life Science.

Derivatives permit more efficient management of the portfolio, assuming that the decisions to invest in subsidiary instruments have already been approved.

Currency forwards are used to replicate currency exposures which would have arisen when investing in equities, where index forwards are used. The purpose is also to temporarily reduce the risk of reductions in the value of the portfolio.

The balance sheet reports the gross market value of outstanding forward contracts – derivatives with a positive worth of SEK 585 million and derivatives with a negative worth of SEK 217 million. These derivatives consist of currency forwards, currency swaps and share-index forwards.

Fund capital

The Second AP Fund's total assets on January 1st 2001 amounted to SEK 133 975 million. Inflows from the pension system during the year amounted to SEK 3 062 million, with SEK 1 461 million transferred from the Special Funds. These Special Funds comprise claims that do not meet requirements for a listing on a stock exchange or other regulated market, and which are not issued for public trading. These assets are managed by the First and Fourth AP Funds, and funds from these are distributed on a quarterly basis to the four buffer funds.

The net result for the year is SEK -5 005 million. The Fund's total assets are worth SEK 133 493 million, a decline of SEK 482 million since January 1st 2001.

Valuation and accounting principles

Accounting and valuation principles

The annual report has been prepared in accordance with the “Act concerning National Pension Funds (2000:192)” and implemented in line with generally accepted accounting principles. In conformity with the current regulations applying to comparable financial companies and institutions, the buffer funds have drafted and implemented joint accounting and valuation principles.

Transaction-date accounting

Transactions on the money and bond-market, equities market and currency market are reported in the balance sheet on the transaction date, which is to say the date on which the significant rights and thereby risks are transferred between parties. The claim on or debt to the other party, between transaction date and settlement day, is reported gross under “Other assets” or “Other liabilities”.

Foreign exchange

Assets and liabilities in foreign currency are reported at the closing day rate. Changes in the value of assets and liabilities in foreign currency are separated into that part attributable to the change in value of the asset or liability, and that part attributable to the change in the exchange rate. Both realised and unrealised changes in value arising from changes in exchange rates are reported under “Exchange gain/loss, net”.

Equities and participations

Equities and participations are calculated at their true value. In the case of equities listed on an authorised exchange, this normally means the latest price paid in local currency on the final trading day of

the year: otherwise, the latest bid rate. Equities are reported under the market where they were acquired. The average exchange rate method has been applied in calculating capital gains and losses. Unlisted holdings, apart from unlisted Swedish shares in property companies, are valued in accordance with EVCA principles. Explained simply, this means that the investment is valued at acquisition cost, until such time as a partial sale or of a new issue with an independent third party at a higher value – or until some event that in a marked and lasting manner may be presumed to reduce its value. Valuation of holdings in unlisted Swedish shares in property companies is based on a market valuation of the company’s real-estate portfolio at year-end.

Bonds and other fixed-income assets

Bonds and other fixed-income assets are calculated at their true value. The market worth of fixed-income securities is normally determined by the latest bid rate on the final trading day of the year: otherwise, the bid rate for the preceding day.

Premiums and discounts are not accrual accounted over the security’s remaining term. Interest income for the period derives exclusively from the interest estimated and received on coupons.

With effect from January 1st 2002, the Second AP Fund will accrual account premiums and discounts over the security’s remaining term and thereby value it at the accrued acquisition value.

Buy-backs

In a true buy-back transaction, also known as a repurchase agreement, the asset is still reported in the balance sheet and the payment received is reported as a liability. The sold security is reported as a pledged asset among memorandum items in the balance sheet. The difference between spot payment and forward rate is accrual accounted over the term and reported as interest.

Derivatives

Derivative instruments are calculated at their true value. Derivative transactions with a positive market value on the balance sheet date are reported as investment assets, while transactions with a negative market value are reported as liabilities.

Equipment

Investments in equipment, with in-house developed and externally-purchased software, are booked on current account.

Asset-management expenses

“Asset-management expenses” refers to the Fund’s external asset management expenses and comes under operating expenses. These expenses include Swedish VAT.

Items entered directly against Fund capital

Contributions to and disbursements from the pension system, as well as transfers from the Special Funds, owned jointly by the four buffer funds, are entered directly against Fund capital.

Notes to the income statement and balance sheet

Amounts in SEK million

January–December 2001

January–June 2001

NOTE 1 Net interest income/expense

Interest income

Bonds and other fixed-income securities	3 574	1 934
Other interest income	221	113
Total	3 795	2 047

Interest expenses

Bonds and other fixed-income securities	—	—
Other interest expenses	– 20	–4
Total	– 20	–4

Net interest income/expense	3 775	2 043
------------------------------------	--------------	--------------

NOTE 2 Capital gains/losses, net

January–December 2001

January–June 2001

Equities and participations

Listed	– 1 771	– 374
Unlisted	—	—
Bonds and other fixed-income securities	– 334	– 263
Derivatives	– 1 813	– 181
Total	– 3 918	– 818

NOTE 3 Unrealised changes in value

January–December 2001

January–June 2001

Unrealised change in value, net

Equities and participations

Listed	– 5 894	– 5 739
Unlisted	129	91
Bonds and other fixed-income securities	– 633	– 1 014
Derivatives	1	– 218
Unrealised changes in value, net	– 6 397	– 6 880

Amounts in SEK million

January–December 2001

January–June 2001

NOTE 4 Personnel costs

Salaries and remuneration

Board and CEO	3	1
Other employees	12	3
Bonuses (The Second AP Fund has no bonus programme)	—	—
	15	4
Payroll overhead	7	2
of which pension premium to CEO	0	0
of which pension costs for other employees	2	0
Total	22	6

The salary paid to the CEO in 2001 amounted to a gross sum of SEK 2 144 404.

Pensions

The CEO is guaranteed retirement pension benefits in line with the retirement benefit agreement between BAO (The Employers' Organisation of the Swedish Banking Institutions) and Finansförbundet (The Union of Financial Sector Employees), known as the bank plan – but with the following supplementary clauses. The Fund and the CEO may both exercise the right to give notice with a retirement pension, as of the start of the month in which the CEO reaches the age of 60 years. The pension benefit shall in this instance correspond to 70 percent of the salary received at the time of retirement, and shall be paid until age 65.

The retirement benefit agreement between BAO (The Employers' Organisation of the Swedish Banking Institutions) and Finansförbundet (The Union of Financial Sector Employees) also applies to other senior executives.

Severance-pay agreement

Where the contract of employment is terminated by the Fund, the CEO is entitled to a severance payment equivalent to two years' salary, less income from a new appointment. Other senior executives are not entitled to any severance pay.

Loans to senior executives

No loans are provided to senior executives.

Average number of employees

The number of employees at the close of the financial year totalled 28, of whom 13 women. The average number of employees for the full twelve months of 2001 was nine women and six men.

Notes

Amounts in SEK million

January–December 2001

January–June 2001

NOTE 5 Other expenses

"Other costs" includes fees to auditors amounting to SEK 6 million (SEK 2 million).

Audit assignments

KPMG	1.25	0.00
PriceWaterhouseCoopers	0.05	0.00
Other assignments		
KPMG	4.58	2.00
PriceWaterhouseCoopers	0.20	0.00
Total	6.08	2.00

Amounts in SEK million	Dec. 31 st 2001		Jan. 1 st 2001	
	Market-value	Acquisition-value	Market-value	Acquisition-value

NOTE 6 Listed equities ¹⁾

Swedish equities	27 746	32 786	32 864	32 864
Foreign equities	49 997	50 760	3 440	3 440
Total listed equities and participations	77 743	83 546	36 304	36 304

¹⁾ 1) For list of shareholdings, see page 60

Amounts in SEK million	Dec. 31 st 2001				
	No. of equities	Participating Capital	Votes	Market-value	Acquisition value

NOTE 7 Unlisted equities and participations

Associated companies		Corp. reg.				
AP-fastigheter AB	556061-4603	10 000 000	25%	25%	3 789	3 660
NS-Holding AB	556594-3999	1 000 799	33%	33%	293	293
Total associated companies					4 082	3 953

Other unlisted holdings

Swedish equities		Corp. reg.				
and participations						
Swedestart Life Science KB	969675-2337	—	5%	5%	2	2
Swedestart Tech KB	969674-7725	—	3%	3%	3	3
EQT Northern Europe KB	969670-3405	—	1%	1%	52	52
Total, other unlisted holdings					57	57

Total unlisted equities and participations					4 139	4 010
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Amounts in SEK million	Dec. 31 st 2001		Jan. 1 st 2001	
	Market-value	Acquisition-value	Market-value	Acquisition-value
NOTE 8 Bonds and other fixed-income securities				
Swedish State	35 422	35 961	63 619	63 619
Swedish municipalities	12	12	15	15
Swedish housing finance institutes	6 369	6 431	18 612	18 612
Other Swedish issuers				
Finance companies	413	415	2 542	2 542
Non-finance companies*	2 414	2 437	3 349	3 349
Foreign states	151	151	151	151
Other foreign issuers	3 391	3 335	869	869
Total	48 172	48 742	89 157	89 157
Index-linked bonds	10 012	10 101	9 771	9 771
Other bonds	29 278	29 977	53 372	53 372
Treasury bills	5 264	5 102	15 034	15 034
Certificates	150	150	10 553	10 553
Index-linked funds	2 528	2 466	—	—
Other instruments*	940	946	427	427
Total	48 172	48 742	89 157	89 157

* Including convertible debenture loans to associated companies totalling SEK 585 million.

Amounts in SEK million	Dec. 31 st 2001	
	Face value*	Unrealised change in value Positive Negative
NOTE 9 Derivatives		
Currency-related instruments		
Forward contracts	134 707	544 – 153
Total	134 707	544 – 153
of which cleared	0	
Equities-related instruments		
Forward contracts	5 273	41 – 64
Total	5 273	41 – 64
of which cleared	5 273	
Total derivatives		585 – 217

* Face value refers to the number of contracts multiplied by the contract amount for the derivative instruments. A total 66 515 million of the above currency-related instruments are forward contracts purchased and 68 193 million are forward contracts sold.

Currency-related instruments consist of currency forwards and currency swaps.

Notes

Amounts in SEK million

NOTE10 Cash and bank balances

	Dec. 31 st 2001	Jan. 1 st 2001
Cash and bank balances	1 259	2 678
Guarantees provided for forward trading	657	—
Total	1 916	2 678

NOTE11 Prepaid expenses and accrued income

	Dec. 31 st 2001	Jan. 1 st 2001
Prepaid expenses	1	0
Interest income accrued	1 188	2 186
Refund receivable/coupon tax	4	0
Total	1 193	2 186

NOTE12 Fund capital

	Dec. 31 st 2001	Jan. 1 st 2001
Opening fund capital	133 975	133 975
Gross amount for RFV flows		
Pension contributions received from RFV*	39 203	
Disbursements to RFV**	-36 141	
Surplus	3 062	—
Transferred from Special Funds		
From First AP Fund	1 408	—
From Fourth AP Fund	53	—
Net result for the year	- 5 005	—
Total	133 493	133 975

* Transfer of retirement pension contributions.

**Disbursement of supplementary pension benefits, including administration payments of SEK 250 million.
For information about the assets which remain under management by the two Special Funds, please refer to the annual reports published by the First and Fourth AP Funds.

NOTE13 Deferred income and accrued expenses

	Dec. 31 st 2001	Jan. 1 st 2001
Asset management fees	13	0
Other accrued expenses	20	10
Total	33	10

NOTE14 Obligations

	Dec. 31 st 2001	Jan. 1 st 2001
Obligations concerning future payments		
Investment obligations, unlisted holdings	180	—
Total	180	—

NOTE15 Currency exposure

See table on page 43.

Rating profile	Fixed income portfolio Dec. 31 st 2001
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NOTE16 Risk distribution, %

Swedish State	79
A1, AAA – A–	20
A2, BBB+ – BBB–	0
G5	0
Other states included in MSCI World SDI	0
Supranationals: AAA – AA–	1
Other foreign issuers officially registered in countries included in MSCI World SDI	0
Securities rated BB+, BBB, BBB–	0
Total	100

Risk measurements and other key ratios Definition

NOTE17 Risk definitions

Absolute return on investment	Return on portfolio = R_p
Absolute risk	Volatility = standard deviation for return on portfolio
Risk-adjusted absolute return	Sharpe ratio = $\frac{R_p - R_f}{\sigma_p}$
	Where R_f = risk-free interest and σ_p = standard deviation for return on portfolio
Relative return	Surplus return = $R_p - R_l$
	Where R_l = return against index
Tracking Error	Standard deviation relative to return = σ_{p-l}
Risk-adjusted relative return	Information ratio = $\frac{R_p - R_l}{\sigma_{p-l}}$

Other key ratios	Dec. 31 st 2001
Average Fund capital, SEK million	133 282
Share of asset management costs, %	–0.14



Göteborg, February 8th 2002

Kurth Augustson

Gunnar Larsson
Chairman

Bo Dockered

Cecilia Kragsterman

Clas Nykvist

Anne-Marie Pålsson

Lilian Ringsand

Roland Svensson

Ylva Thörn

Lars Idermark
CEO

Auditors' report

Auditors' report for the Second AP Fund (Corp. reg.: 857209-0606)

We have examined the annual report, the accounting records and the administration of the Second AP Fund by the Board of Directors for the financial year 2001. The Board is responsible for the accounting records and administration. Our duty is to state our opinion with respect to the annual report and the administration, based on the results of our audit.

Our examination has been conducted in accordance with generally accepted auditing standards in Sweden. This means that we have planned and conducted the audit in such a manner as to satisfy ourselves, beyond reasonable doubt, that the annual report contains no significant errors. An audit comprises the examination of selected supporting documentation for the figures and other information presented in the accounting records. An audit further comprises an evaluation of the accounting principles and of the application of these same principles by the Board, as well as evaluating the data accumulated in the annual report.

The annual report has been prepared in accordance with the Swedish Act concerning National Pension Funds, and therefore provides a true and fair picture of the Second AP Fund's net result and financial position in accordance with generally accepted auditing standards in Sweden.

Our audit has given no reason to qualify our approval of the annual report, of the enclosed income statements and balance sheets, of the accounting or inventory of the Fund's assets or any other aspect of its administration.

Gothenburg, February 8th 2002.

Per-Olof Akteus
Authorised Public Accountant
Appointed by
the Swedish Government

Pål Wingren
Authorised Public Accountant
Appointed by
the Swedish Government

Board of Directors and Executive Management



Cecilia Kragsterman

Senior Vice President and Head of Business Unit Global Business Development at Skandia. Former Chief Executive Officer of Skandia-Link. Member of the London Business School Regional Advisory Board. B. Sc. (Econ.) Born 1960.

Bo Dockered

Vice Chairman

Chairman of the boards of AB Trav and Galopp, Sveaskog AB, Lernia AB, The Swedish University of Agricultural Sciences, The Popular Movement Council "Hela Sverige ska leva!", Beridna Högvakten (The Royal Swedish Horse Guard) and Nationella Stiftelsen för Håsthållningens Främjande (Swedish Horse Council Foundation). Honorary Doctor of Agronomy (Dr.h.c. Agronomy) and farmer. Born 1941.

Gunnar Larsson

Chairman

Chairman of The Swedish Sports Confederation. Chairman of the boards of Systembolaget AB, Tholin & Larsson-Gruppen AB and GöteborgsOperan. Member of several boards, including Castellum AB. Former authorised public accountant and Municipal Commissioner for Gothenburg. Born 1940.

Lars Idermark

CEO

Member of the boards of AP-fastigheter AB, Södra Skogsägarna, Södra Cell, Dimension AB and Swedish Meats. Born 1957.

The board of the Second AP Fund comprises nine members, appointed by the Swedish Government. The members of the board have been appointed on the basis of their ability to contribute to the efficient management of the Fund's assets. The board met on eight occasions during the year. A new fund, the Second AP Fund, initially lacked an organisation. The board has therefore played an active role – especially during the first half of the year – in the build-up of the Fund. Work has focused mainly on determining the composition of the reference portfolio, on strategic allocation and investment activities (based on the results of the ALM study) and on the Fund's organisation, budget and business focus. The board has also finalised a number of fundamental business policy documents, such as the Fund's corporate governance policy.



Anne-Marie Pålsson

Senior Lecturer in Economics at the University of Lund. Member of The Royal Swedish Academy of Engineering Sciences. Working member of The Royal College of Forestry and Agriculture. Member of several boards, including The Swedish Shareholders' Association. Advisor to the Government Commission on Securities Funds. Born 1951.

Clas Nykvist

Controller, Swedish Building Workers' Union. Member of several boards, including Folksam Spar AB. Born 1948.

Ylva Thörn

President, Swedish Municipal Workers' Union. Member of several boards, including LO (The Swedish Trade Union Confederation), Riksborgen and The Public Services International. Assistant nurse. Born 1954.

Roland Svensson

President and CEO of Coop Norden AB. Chairman of the boards of KP Pension & Försäkring and The Cooperative Employers' Association (KFO), as well as of the Swedish National Museum of Art. Degree of law, Uppsala University. Born 1941.



The Second AP Fund's executive management (from left): Martin Jonasson, General Counsel, born 1964; Margaretha Veres, Personal Assistant to the CEO, born 1945; Lennart Jonsson, Head of Communications and Corporate Governance, born 1952; Lars Idermark, CEO, born 1957; Petter Odhnoff, CIO, born 1956, and Lena Smeby-Udesen, CFO, born 1961.



Lilian Ringsand

Senior Deputy Chairman of Sif (Swedish Union of Clerical and Technical Employees in Industry) and TCO (Swedish Confederation of Professional Employees). Member of the board of the Authority for Advanced Industrial Training. Research engineer at Boliden Mineral. Born 1942.

Kurth Augustson

Former president of SCA Mölnlycke AB and AB Marabou. Member of several boards, including Cloetta Fazer AB, Pergo AB, Royal Scandinavia A/S and Oy Paulig. B. Econ. Born 1944.

Auditors

Per-Olof Akteus

*Authorised Public Accountant
KPMG*

Pål Wingren

*Authorised Public Accountant
PriceWaterhouseCoopers*

Equities

The following table of Second AP Fund shareholdings lists the thirty largest Swedish and foreign holdings by worth, as at December 31st 2001. A complete list of the Second AP Fund's Swedish holdings at year-end 2001 may be found on the Fund's website at www.ap2.se

Second AP Fund's 30 largest Swedish shareholdings

Name	No. of equities	Share (%) of capital	Share (%) of voting rights	Market value SEK k	Sector
Ericsson B	79 694 814	1.13	0.34	4 542 604	Telecommunications
Ericsson A	2 191 000			128 174	Telecommunications
Hennes & Mauritz B	9 948 739	1.20	0.58	2 158 876	Consumer staples
AstraZeneca*	4 212 739			2 026 327	Healthcare
Nordea	23 861 022	0.80	0.80	1 324 287	Finance
Skandia	13 640 501	1.33	1.33	1 036 678	Finance
Telia	21 173 937	0.71	0.71	988 823	Telecommunications
SEB C	342 000	1.45	1.47	28 386	Finance
SEB A	9 904 229			945 854	Finance
Handelsbanken B	526 500	0.91	0.91	76 869	Finance
Handelsbanken A	5 928 052			912 920	Finance
Tele2 B	2 069 114	1.46	0.59	782 125	Telecommunications
Tele2 A	38 860			13 446	Telecommunications
Assa B	4 976 357	1.41	0.95	751 430	Industry
Nokia*	2 702 945			721 686	Telecommunications
Securitas B	3 419 945	0.96	0.67	680 569	Services
SCA B	2 058 253	1.36	1.93	590 719	Raw materials
SCA A	1 073 438			301 636	Raw materials
Volvo B	1 455 556	1.11	2.13	256 178	Industry
Volvo A	3 456 857			585 937	Industry
Electrolux B	3 716 380	1.01	0.81	581 613	Consumer staples
Sandvik	2 526 753	0.98	0.98	567 259	Industry
FöreningsSparbanken	4 011 450	0.76	0.76	521 488	Finance
Atlas B	188 500	1.06	1.40	41 564	Industry
Atlas A	2 042 564			478 981	Industry
Stora Enso R*	3 315 300			440 935	Raw materials
Europolitan	5 481 173	1.34	1.34	383 682	Telecommunications
Investor B	3 185 769	0.74	0.79	364 771	Finance
Investor A	2 509 675			286 103	Finance
ABB*	2 812 236			284 036	Industry
MTG B	1 228 225	1.72	0.48	283 720	Media and entertainment
Skanska B	3 934 629	0.94	0.53	269 522	Industry
SKF B	1 145 619	1.39	0.98	235 998	Industry
SKF A	432 750			80 924	Industry
JM B	1 022 650	3.05	2.80	224 983	Industry
Castellum	2 019 302	4.70	4.70	219 094	Finance

Second AP Fund's 30 largest foreign shareholdings*

Name	No. of equities	Market-value, SEK k	Sector
General Electric Corp	2 906 301	1 221 888	Industry
Microsoft Corp	1 395 418	969 735	Information technology
Citigroup Inc	1 555 730	823 790	Finance
Exxon Mobil Corp	1 993 474	821 800	Energy
Pfizer Inc	1 891 012	790 471	Healthcare
International Business Machines Corp	531 442	674 312	Information technology
Intel Corp	2 010 575	663 291	Information technology
Vodafone Airtouch	20 974 885	575 591	Telecommunication services
Johnson & Johnson	916 066	567 907	Healthcare
Bp Amoco Plc	6 679 651	544 553	Energy
Wal-Mart Stores Inc	893 386	539 321	Consumer discretionary
American International Group Inc	627 944	523 003	Finance
GlaxoSmithKline Plc	1 937 135	509 554	Healthcare
AOL Time Warner	1 281 816	431 612	Consumer discretionary
Cisco Systems Inc	2 212 190	420 246	Information technology
Merck & Co Inc	677 551	417 910	Healthcare
SBC Communications	994 799	408 745	Telecommunication services
Verizon Com	797 025	396 792	Telecommunication services
Nokia Oy A	1 449 305	392 017	Telecommunications
Home Depot Inc	665 663	356 183	Consumer discretionary
Novartis N	925 828	350 968	Healthcare
Royal Dutch Petroleum	646 891	343 788	Industry
Tyco International	543 301	335 675	Industry
Coca-Cola Company	658 031	325 455	Consumer staples
Procter & Gamble Corp	388 310	322 317	Consumer staples
HSBC Holding	2 603 284	320 333	Finance
Phillip Morris	648 867	312 074	Consumer staples
Bristol-Myers Squibb Corp	576 658	308 497	Healthcare
Bank of America Corp	462 765	305 576	Finance
Total Fina	203 293	304 561	Energy

*Share of capital and voting rights for shareholdings listed principally on foreign exchanges in no case exceeds 0.3% and is therefore not reported.

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**Andra
AP-fonden**

Second Swedish National Pension Fund - AP2



Andra AP-fonden, P.O.Box 11155, SE-404 24 Göteborg, Phone +46 31 704 29 00, Fax +46 31 704 29 99, www.ap2.se