



Andra AP-fonden
Second Swedish National Pension Fund - AP2

Annual Report 2006

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Unless otherwise stated, the portfolio assets referred to in this report are "allocated exposures". In addition to booked fair values, these also refer to allocated (but not yet invested) liquidity for the specific class of asset, and the liquid funds held as collateral for positions already taken in derivative instruments. Classes of asset, derivative instruments and liquid funds are reported individually in the balance sheet at their fair values.

All monetary amounts are expressed in Swedish kronor and abbreviated as SEK k (thousand), SEK million or SEK m (million) and SEK billion or SEK bn (thousand million).

A presentation of the Second AP Fund 2006/2007 is available as a separate publication.

Financial review

This is the Second AP Fund

The capital assets invested in Sweden's publicly financed national pension system are managed by five "buffer funds", which invest these assets in the capital markets.

The joint investment regulations, which are identical for the First to Fourth Swedish National Pension Funds, permit investment in several different classes of asset and on different markets.

The Second Swedish National Pension Fund/AP2*, located in Gothenburg, started operations on January 1st, 2001. Since then, it has progressively developed and implemented its objectives, strategies and infrastructure, and is today a globally oriented portfolio management organisation.

The Board of the Second AP Fund is appointed by the Swedish Government. Each director is appointed to further the Fund's management goals, according to his/her individual competence.

The Second AP Fund is determined to be a leading pension manager with regard to return on investment, staff, inventiveness, efficiency and the respect of its peers.

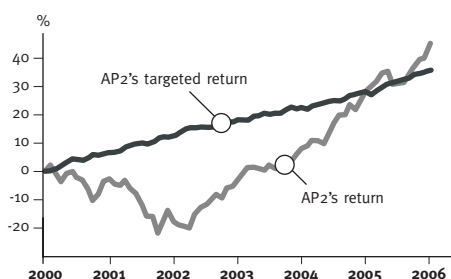
It will achieve this by means of efficient, professional and long-term portfolio management, featuring an effective utilisation of financial risk. This will ensure the maximum performance of Swedish pension assets under Fund management, to maximise future pension benefits.

* The Second AP Fund is officially translated as the Second Swedish National Pension Fund/AP2 in body text, for convenience, that is shortened to the Second AP Fund and, in some cases, AP2.

2006 in brief

- Since its inception, and including net profit for the twelve months ending December 31st 2006, the Second AP Fund has posted an annual average return on investment (ROI) of 6.3 percent. This exceeds the ROI average considered essential for the Fund to fulfil its long-term responsibilities within the Swedish pension system.

Accumulated return



- The Fund's capital assets totalled SEK 216.8 billion as per December 31st 2006, an increase of SEK 26.2 billion compared with the preceding year. During the year, the Fund reported a net inflow of SEK 1.7 billion. Net profit for the year totalled SEK 24.5 billion.

- The Fund posted a return of 13 percent on the total portfolio, before commission fees and operating expenses. If these expenses are included, the portfolio generated a return of 12.8 percent.

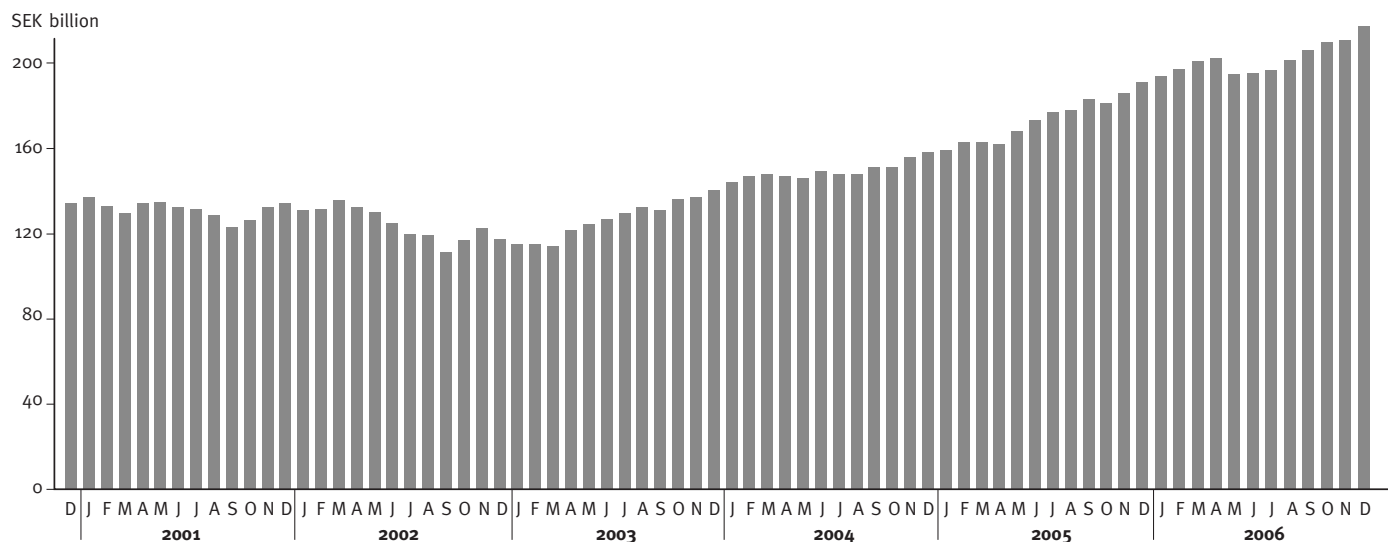
- The Fund posted a relative return of 0.2 percent for market-listed assets, before commission fees and operating expenses, for 2006. All asset classes

noted a positive relative return. This return is primarily attributable to the successful in-house and external management of the Fund's portfolio of foreign equities.

- The solid growth in fund capital may be attributed primarily to the maintenance of a high allocation of equities, in conjunction with limited foreign currency exposure, which was 11.7 percent as per December 31st 2006.

- The portion of the Fund's total portfolio managed in accordance with quantitative models has grown from 11 to 31 percent.

Performance of capital assets since inauguration January 1st 2001, SEK billion



The Second AP Fund posted a solid result for 2006. A bullish year on stock markets and relatively high exposure on the Swedish equities market, in conjunction with low exposure in foreign currencies, have jointly contributed to the high return of 13.0 percent. The Fund's relative return on invested assets amounted to 0.2 percent.

The Fund reported total capital assets, including inflows, of SEK 216.8 billion – an increase of SEK 26.2 billion since the start of the year. The net result was SEK 24.5 billion.

The Second AP Fund in 2006

The Second AP Fund's reported assets at year-end totalled SEK 216.8 billion, an increase of SEK 26.2 billion on 2005. The Fund's return on the total portfolio, excluding commission costs and operating expenses, amounted to 13.0 percent.

As per December 31st 2006, the Second AP Fund's capital assets were allocated as follows: 59.6 percent equities, 35.7 percent fixed-income assets and 4.7 percent alternative investments. The Fund's portfolio was thereby somewhat over-weighted in alternative investments compared with the strategic portfolio. At year-end 2006, the Fund's portfolio assets were broadly exposed on the global market, featuring a well-diversified risk.

Key events of the year

The task of enhancing the efficiency of Fund operations continues. The programme initiated in 2004 has led to a number of improvements, including a sharp reduction in the number of external mandates and placement of a larger share of the Swedish and global equities portfolio under in-house management. A total of seven external mandates were terminated during 2006, and 83 percent of the Fund's total assets are now under in-house management.

The share of the Fund's portfolio of equities managed according to quantitative models has risen from 17 to 47 percent. Quantitative management differs from "traditional" management in that the entire investment process is expressed in terms of mathematical models and statistical relationships. Its starting point is theme-based strategies and calculations for risk and transactional costs.

As of 2007, a new management organisation has been introduced, which comprises four units. These are Swedish Management, Global Management, Quantitative Management and External Management. This new management organisation is intended to establish a clearer division of portfolio responsibilities, to create greater opportunities for adopting positions between asset classes and to define the distinction between absolute and relative management more clearly. During

the autumn, work at several of the Fund's units was affected by preparations in the run-up to the launch of the new organisation.

Two projects have been implemented in the cost efficiency sphere. The first has involved a comparison of the Fund's level of costs and operational efficiency with similar companies and organisations of comparable size. The study has shown that the Fund's level of costs is normal when considered in relation to the size, geographical distribution and degree of active management of its assets. The second project has involved an analysis of indirect and direct transaction costs. Here again, the Second AP Fund does well in comparison with an international benchmark group of similar organisations.

The Fund's strategic portfolio takes into account both the liability and assets side of the pension system, illuminating potential alternative scenarios. Broadly speaking, the portfolio has retained the same balance between equities and fixed-income instruments. This strategic portfolio aims to generate an annualised long-term real return in excess of 5 percent. The 2007 portfolio features a currency exposure of 11.0 percent.

The Fund continues the task of creating a geographically well-diversified portfolio in asset class private-equity funds. During the year, the Fund has reviewed a large number of investment proposals, both Swedish and global. New investment commitments have been made in four funds.

By acquiring half of Vasakronan's participating interest in real estate company Norrporten, the Second AP Fund became a 50-percent joint owner of the company. As a consequence of the transaction, the Fund's exposure in unlisted real estate companies is 3.8 percent.

The Fund continues to develop its role as an institutional investor. During 2006, the Fund was represented on 16 election committees. Internal processes concerning environmental and ethical issues have been strengthened. A Joint Ethical Committee has been established in collaboration with the First, Third and Fourth AP Funds.

Eva Halvarsson took up her appointment as CEO in February 2006.

Net result for the year

The Fund's return on total portfolio, excluding combined costs (commission costs and operating expenses), amounted to 13.0 percent. The relative return on market-listed assets, excluding combined costs, amounted to 0.2 percent, outperforming the Fund's benchmark portfolio.

Inflows for the year amounted to SEK 1.7 billion, of which SEK 1.6 billion in net payments from Försäkringskassan (The Swedish Social Insurance Administration). The remaining inflows pertain to dividends from the "Liquidation Fund" and "Special Management Fund", which are managed by the First Swedish National Pension Fund (Första AP The Fund) and Fourth Swedish National Pension Fund (Fjärde AP The Fund) respectively. The net result for the year amounted to SEK 24.5 billion.

Operating income comprises dividends, net interest income, net return on all assets, exchange gains/losses and commission costs.

The Fund's commission costs include fixed external portfolio-management fees and custodial expenses, amounting to SEK 164 billion. Performance-based charges for externally managed portfolios are included in the net result reported for each asset class.

The Fund's operating expenses amount to SEK 129 million, including personnel and other administration expenses. Total expenses include provisions for VAT payments totalling SEK 1 million.

Total expenses in relation to the Fund's average total capital assets for the year, or administrative expenses ratio, amounted to 0.15 percent. The administrative expenses ratio for funds under external management, including custodial expenses, in relation to the average actual value of fund capital during the year, was 0.08 percent.

The work of the board

The Second AP Fund's board of directors comprises nine members in all, appointed by the Swedish Government. During 2006, Eva Fernvall Markstedt resigned her seat on the board and a new member, Lillemor Smedenvall, was appointed. The Fund's

Chairman, Gunnar Larsson, served as acting CEO during the period October 31st 2005 until February 13th 2006. Eva Halvarsson took up her appointment as CEO in February 2006.

The board met on nine occasions in 2006, one of which was a long meeting on strategy. The Fund's economic development and results were presented and discussed at all these meetings. As well as considering the Fund's day-to-day asset management activities, the board devoted a considerable amount of time to issues of strategic importance to the Fund.

During the year, the board approved a new operations plan for 2007, the half-year and year-end accounts and a budget for the Fund's business activities. The Fund's auditors presented their report on the year's operations in conjunction with the board's approval of the year-end accounts. As well as the above, the board discussed and addressed several questions of principle arising from the Fund's operational activities, such as the various standpoints adopted on governance issues.

The Fund's CEO also participates in board meetings, as well as other members of staff, as required. Other persons may also be asked to attend meetings, as needed, such as the Fund's auditors or external partners.

An appraisal of the board's work was initiated at the end of 2006 and will be completed early in 2007.

Audit

The auditors of the Second AP Fund, Anders Bäckström (KPMG) and Göran Jacobsson (PricewaterhouseCoopers) have been appointed by the Ministry of Finance for the period 2005 to year-end 2007. Anders Bäckström is also responsible for coordinating the audits of all the AP funds. This year's audit comprises an examination of a number of areas common to all Sweden's AP funds, dealing mainly with questions concerning systems for the prevention and detection of fraud, as well as a number of accounting issues. The auditors have also examined in-house routines and financial control functions. Any observations made concerning the audit are presented to the board of directors by the auditors in person, as well as in writing.

Ministry of Finance appraisal of Second AP Fund

During the year, the Ministry of Finance conducted its usual annual appraisal of the performance and business operations of the AP funds, which has been presented to the Riksdag (Swedish Parliament), and which is here presented in summary. Among other topics, the appraisal notes that this is the first time it has been possible to appraise the activities of the AP funds over a five-year period. The appraisal notes that the long-term result posted by the First to Fourth AP funds was positive, even when adjusted for inflation and compared with the income index, which determines the indexation of the income-based pension system's liabilities. In all key respects, the strategic decisions made by the boards have contributed to the funds' long-term results.

The study concludes that the strategic decisions made by the Second AP Fund have generated the greatest values, while confirming that the Fund's performance since the second half of 2001 has, after costs, exceeded the benchmark index by only a small margin. The Ministry of Finance notes that future results must be excellent, if the board's targeted relative return is to be attained.

A policy for the governance and appraisal of the AP funds was attached to the document published in 2005, and for the first time now forms the basis of this latest

appraisal of AP fund operations. Since it is the boards of directors that have full and undivided responsibility for the operations of these funds, it is essential that these boards identify and maintain a clear distinction between the roles and responsibilities of the boards and the funds' executive managements. The Swedish Government needs to be more explicit by monitoring appointments to the boards of the AP funds better. For instance, by ensuring that new board members are given a relevant introduction by the principal, in addition to the requisite introduction given by the funds themselves. The appraisal of AP fund operations can first and foremost be improved by focusing on their long-term results, in the light of the strategic decisions taken by their boards of directors and their executive managements. The Swedish Government's policy for the governance and performance appraisal of the AP funds forms the basis for an ongoing and broader dialogue with the funds' boards of directors.

Five-year review	02-12-31	03-12-31	04-12-31	05-12-31	06-12-31
Fund capital, SEK m	117 090	140 350	158 120	190 593	216 775
Net inflows from Försäkringskassan/Swedish Social Insurance Administration and liquidation/special funds, SEK m	5 002	2 567	1 651	2 905	1 676
Net profit for the year, SEK m	-21 405	20 693	16 119	29 568	24 506
Return on total portfolio per annum, before commission costs and operating expenses, %	-15.3	17.8	11.6	18.7	13.0
Return on total portfolio per annum, after commission costs and operating expenses, %	-15.4	17.7	11.4	18.5	12.8
Relative return per annum on listed assets before commission costs and operating expenses, %*	-0.4	-0.5	-0.6	0.2	0.2
Active risk ex post	1.0	0.6	0.5	0.5	0.7
FX exposure, %	7	8	10	11	12
Under active (incl. enhanced) management, %	62	89	90	90	93
Under external management (incl. investments in private-equity companies), %	38	45	37	28	17
Expense ratio, incl. commission costs, %	0.16	0.18	0.22	0.16	0.15
Expense ratio, excl. commission costs, %	0.11	0.09	0.08	0.07	0.06

An adjustment for the change in accounting principle for performance-based fees has been made in the 2004 figures for the income statement, although not for historical key ratios.

* Relative return refers to the difference in return between a portfolio and its benchmark index.

Financial market trends in 2006

2006 was the fourth consecutive year in which the world's financial markets posted high gains. Returns on equities, bonds and most other asset categories, as well as commodities, were fuelled by a market that enjoyed plenty of liquidity and quite favourable fundamentals. The equities markets in the USA and Europe grew by more than 10 percent, while emerging markets noted even stronger growth. In China, the domestic equities market grew by more than 100 percent, after lagging behind a broad global index for the past eight years. The Swedish equities market yet again demonstrated its sensitivity to global market trends and climbed by almost 25 percent during the year.

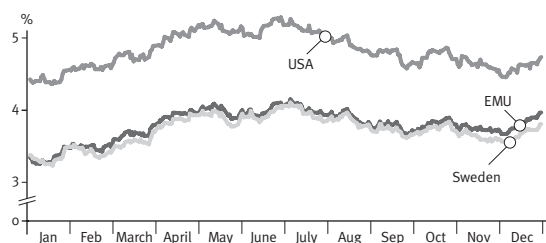
The global financial system continued to exhibit strong liquidity, in spite of the tighter monetary policies introduced by leading central banks. The US Federal Reserve continued to raise key interest rates until the late summer, when there was a pause in rate hikes. The European Central Bank raised interest rates four times and even Japan's Central Bank terminated a zero-rate interest policy that had lasted several years, by introducing its first rate hike.

The financial markets' appetite for risk remained high last year. Long rates are still relatively low and various classes of credit-risk premium stay depressed. Pricing of options on the US equities market mirrored an extremely low level of risk, the lowest in more than 13 years and close to the all-time low recorded at the end of 1993.

Last year, the greatest challenge was experienced in May and June, when global equities markets fell sharply. This was fuelled by anxiety over the threat of rising inflation, which in a worst-case scenario might have coincided with a sharper decline in the economy. For a short time, this led to a marked aversion to risk on world markets. This decline revealed itself, at least for the time being, to be more in the nature of a market correction than the start of a more persistently negative trend. When the Fed suspended its rate hikes in August, oil prices fell back from the very high levels that had been established during the summer and geopolitical worries calmed. The scene was set for a strong market recovery during the second half. Major events such as the North Korean nuclear test, continuing tensions in the Middle East and the collapse of the Amaranth hedge fund failed to gain a hold on financial markets.

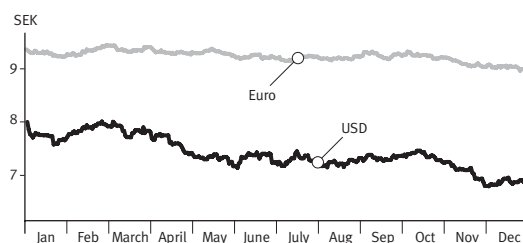
Once again, the equities markets benefited from the relatively favourable general economic prospects. An especially important factor was the continued and surprisingly strong growth in corporate profits. This favourable trend was further fuelled by the implementation of many major corporate deals during the year. One important question that emerged towards the end of the year was whether the US economy could look forward to a soft landing in 2007, or whether a sharper decline was on the cards. The rate of growth halved during 2006. The recession affecting the real estate and construction industry was a major contributing factor, but

10-year bond rates, 2006 (Source EcoWin)



Compared to growth and inflation, bond interest rates still seem low.

The Swedish krona against the euro and US dollar, 2006 (Source EcoWin)



The Swedish krona strengthened during the year, thanks to a strong economy and a balance-of-payments surplus.

for the time being any general tendency to spread to other parts of the US economy remained limited. Growth in other parts of the global economy seemed to be strong, not least because the domestic economies of Europe, Japan and the developing countries were fuelling increased demand, giving US exports a welcome boost.

The decline in the US dollar rate, which weakened further during the late autumn, also contributed to the turnaround of the global economy. This decline was encouraged by speculation about imminent cuts in US interest rates and expectations that several central banks were likely to diversify their foreign exchange reserves, moving away from a high concentration of US dollars. In this context, the weak performance of the Japanese yen was a key factor affecting FX markets in 2006.

The combination of a strong global economy and favourably low interest rates has led to a large number of corporate acquisitions and disposals. The private-equity funds have played a significant role in these transactions. The past year has seen continued vigorous M&A activity, in both Europe and North America. It is per-

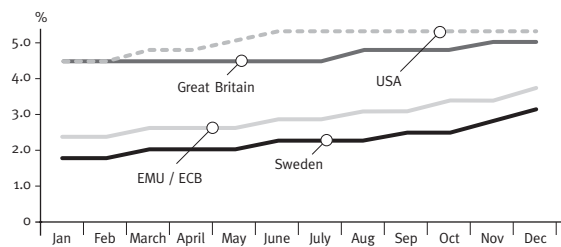
haps worth noting, however, that the number of transactions is tending to decline, although there is a strong tendency for their average size to increase.

The Swedish real estate market has continued to perform well, as indicated by reduced vacancy levels and the potential for increased rents. In the real estate sector, both prices and the actual number of transactions rose during the year.

Index growth in Swedish kronor and local currencies, 2006

	SEK, %	Local currency, %
Dow Jones	2.3	16.3
Nasdaq	-4.5	9.5
STOXX 50	6.1	10.4
Nikkei	-7.9	6.9
OMX 19.5	19.5	

Official key rates, 2006 (Source EcoWin)



The graph shows changes in the official key rates during 2006.

The Fund's total portfolio

Distribution of Fund assets

The Fund's total capital assets of SEK 216.8 billion, as per December 31st 2006, were distributed as follows:

- listed equities totalling SEK 129.2 billion, of which SEK 43.5 billion in Swedish equities and SEK 85.7 billion in foreign equities
- fixed-income securities, including liquidity, totalling SEK 77.4 billion
- holdings in unlisted real-estate equities, including subordinated debenture loans, totalling SEK 8.3 billion
- holdings in private-equity funds totalling SEK 1.9 billion, including liquidity (outstanding investment commitments of SEK 4.6 billion).

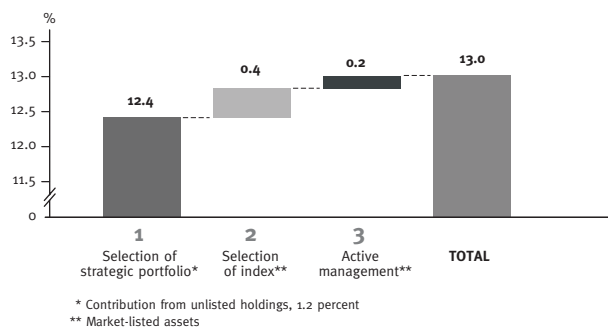
During the year, an average of 23 percent of the Fund's assets were under external management, active and passive. These external asset managers have been chosen after a stringent process of analysis and evaluation, in accordance with the regulations governing the procurement of services by public authorities. Mandates have been awarded to a number of Swedish and international asset managers (see Note 4, page 30).

Three-stage value creation

To provide a more comprehensive picture of the Fund's value-creation strategy, the "three-stage value creation" concept was introduced in conjunction with the publication of the six-month interim report for 2005. The three stages involve the following: selection of strategic portfolio, selection of benchmark index and active asset management. The Fund considers the selection of index an integral part of the investment process, whereby an investment universe is defined for in-house and external management of its assets.

Rather than rely on more conventional broad-based indices, the Second AP Fund has selected specialised indices for its fixed-income securities from which, for example, Asian bonds are excluded, and for its portfolio management where, among other things, regional weightings have been adjusted. Fundamental indexing forms a new aspect of the process for selecting a benchmark index. In the case of the Fund itself, the selection of strategic portfolio and benchmark index has made a positive contribution to the Fund's result since the active selection of indices was introduced in 2003. The Fund's

accumulated relative return has also made a positive contribution to the result since its introduction.



In 2006, the selection of strategic portfolio generated 12.4 percent, and the benchmark index 0.4 percent. Active management produced a positive relative return of 0.2 percent.

Risk utilisation 2005

In 2006, the Fund's relative utilisation of risk increased. The level of active risk (ex post) for the Fund's market-listed assets was 0.7 percent at year-end, excluding commission and operating expenses, an increase on the preceding year. As a result of the Fund's core/satellite strategy, active risk is concentrated to a few mandates, including the external GTAA (Global Tactical Asset Allocation) mandates. The variation between these different categories of assets is, however, considerable. The level of active risk reported for Swedish and foreign equities was 2.9 and 1.0 percent respectively.

Volatility for the Fund's total and strategic portfolios, expressed as the annualised standard deviation of return on assets, increased during the year, from 4.8 and 4.7 percent to 7.4 and 7.7 percent. The Fund reported a Sharpe ratio of 1.21 and a positive information ratio of 0.27 for 2006.

Return on investment

The solid growth in the Fund's capital assets in 2006 was primarily attributable to the retention of a high share of equities in the portfolio, at a time when the Swedish stock market, like leading stock markets in other parts of the world, were reporting substantial up-swings. A relatively high degree of exposure in Swedish equities has made a positive contribution to the Fund's

pleasing performance. The Fund's relatively limited exposure in foreign currency, in conjunction with a stronger Swedish krona during the year, especially in relation to the US dollar, has also had a highly beneficial effect on the net result.

The Second AP Fund's return on the total portfolio (listed and unlisted holdings) amounted to 13.0 percent for 2006, excluding commission costs and operating expenses. The performance-based portion of management costs for the discretionary external management of listed assets has been charged against this return. The Fund reports a relative return of 0.2 percent on market-listed assets, excluding expenses, for 2006.

The Fund's positive relative return is primarily attributable to the successful in-house and external management of foreign equities. The external GTAA mandates have had a negative effect on relative return for the year.

Changes of exposure in derivative instruments

In compliance with the guidelines approved in the business plan for 2006, the Fund has utilised derivative instruments to secure more effective management of assets, to reduce transaction costs and cut risk. During 2006, derivative instruments have mainly be used in the following areas:

- currency derivatives for handling the Fund's FX exposure, forwards and options.
- stock derivatives – especially standardised share futures – for effective rebalancing of the portfolio and when adopting positions in connection with tactical asset allocation.
- interest rate derivatives – mainly in the form of standardised bond futures – for rebalancing, tactical asset allocation and management of the Fund's interest rate risk. Limited utilisation of interest rate options to posi-

tion the Fund in terms of interest risk.

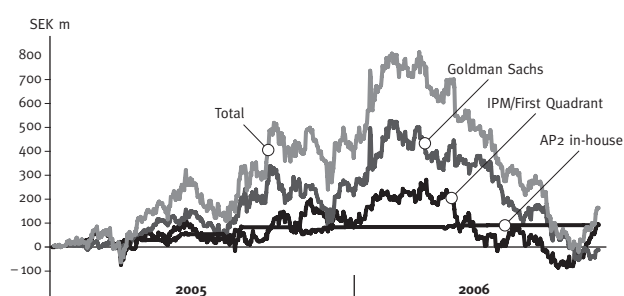
- within the framework of the Fund's GTAA (Global Tactical Asset Allocation) mandates, positions have been adopted with the aid of derivative instruments. The mandates are allowed to act with the help of short and long positions in permitted asset classes. However, the mandates may not adopt a net long position.

Exposure in derivative instruments is followed up and analysed on an ongoing basis, as for other investment instruments.

Tactical allocation

Two external and one in-house mandate have been active within the framework of the Fund's tactical allocation during 2006. The Fund's GTAA mandates are based on an investment process where several positions are driven by different investment themes, where positions are taken between different national and regional segments on the global equities and bond markets. Similarly, large numbers of tactical positions are taken on global FX markets. The two external mandates account for a significant portion of the Fund's active risk utilisation, and thereby have a considerable impact on the relative return.

Result of GTAA mandates since inception



Risk-adjusted return for total portfolio, valued by year

	2001		2002		2003		2004		2005		2006	
	AP2	Strategic portfolio	AP2	Strategic portfolio	AP2	Strategic portfolio	AP2	Strategic portfolio	AP2	Strategic portfolio	AP2	Strategic portfolio
Return, %	-3.2	-5.4	-15.3	-15.7	17.8	18.5	11.6	12.0	18.7	17.8	13.0	11.8
Standard deviation, %	9.7	10.2	13.0	13.1	8.6	8.6	5.8	5.7	4.8	4.7	7.4	7.7
Active risk ex post, %	1.7	-	1.0	-	0.6*	-	0.5*	-	0.5*	-	0.7	-
Information ratio	1.0	-	0.5	-	neg	-	neg	-	0.3	-	0.3	-
Sharpe ratio	neg	-	neg	-	1.7	-	1.6	-	3.4	-	1.2	-

* Total market-listed portfolio, excluding commission costs and operating expenses.

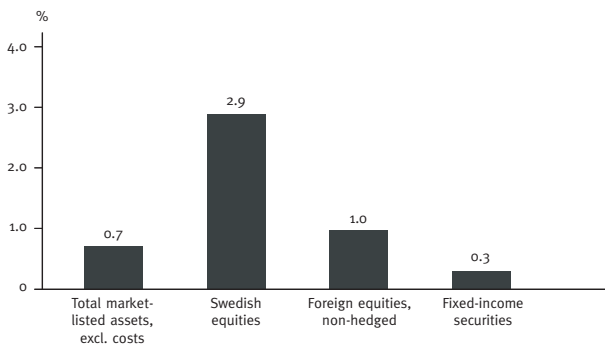
Tactical allocation within the two external mandates has had a negative impact on the Fund's relative return, although these GTAA mandates have made a positive contribution since their inception. The in-house mandate, although exercised to only a limited extent, posted a positive result.

Listed and unlisted assets

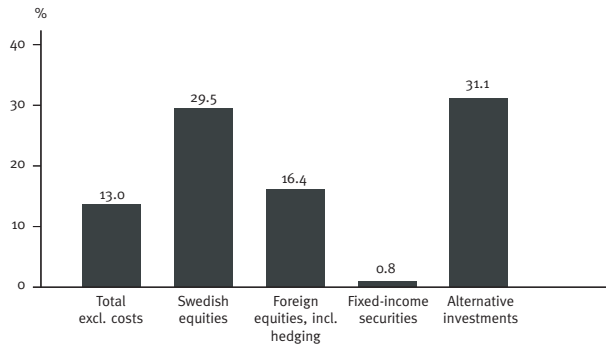
The Fund's portfolio features assets of varying liquidity. The greater part of the Fund's assets are appraised and quoted daily, and are therefore considered to be liquid. Liquid assets comprise equities, bonds, derivative instruments and FX. Non-liquid assets are valued at longer periodicity and consist of real estate and private-equity funds. To ensure that the ongoing monitoring and analysis of return and risk provides a true and accurate picture, all assets should be valued on the same occasions

and at the same periodicity, which at present is not possible. The Fund's reported return shall thereby always consist of the return generated on both parts of the portfolio. Relative return, however, is measured against the performance of the market-quoted portfolio. The Fund's variable costs for external portfolio management – commonly referred to as performance-based fees – are included in both instances. The Fund's commission costs and operating expenses for 2006 are excluded, as per the appraisal model used by the Ministry of Finance.

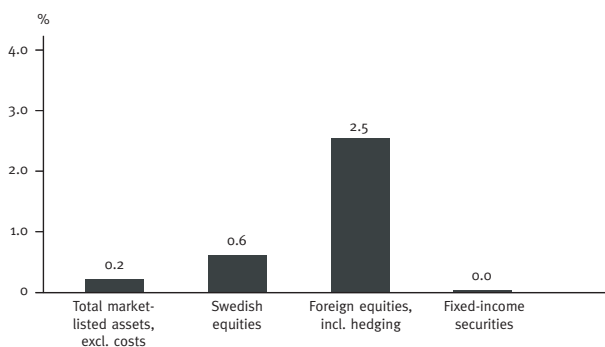
Active risk by asset class, 2006



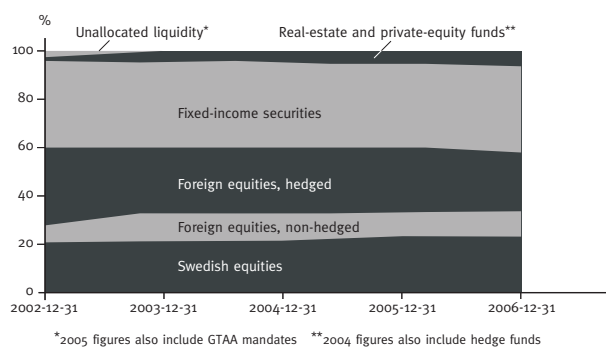
Absolute return by asset class, 2006



Relative return by asset class, 2006



Exposure 2002-2006



Strategic asset allocation

The Second AP Fund's board of directors conducts an annual in-house evaluation of the focus chosen for the Fund's portfolio management policy. This process includes an ongoing review of the latest ALM (Asset Liability Modelling) study, which forms the basis of the board of directors' decision concerning the composition of the Fund's strategic portfolio. In 2001, during its first six months of operation, the Fund conducted a comprehensive reallocation of assets, involving the divestment of fixed-income instruments and purchase of foreign equities.

In 2002, on completion of the ALM study, and despite the market situation, the Fund's board of directors decided to continue to pursue its long-term asset allocation strategy, which involved maintaining a high proportion of equities. The adjustments made to the 2003 strategic portfolio represented a fine-tuning of asset class distribution on different markets and some changes in portfolio management style. The changes in the strategic asset allocation for 2004 were relatively minor. Alternative Investments became a new asset class comprising asset groups Real Estate, Private Equity Funds and Hedge Funds, and was expanded to comprise 5 percent of the Fund's total assets. Consequently, asset classes Equities and Fixed Income Securities shrank by 1 percent each.

The strategic portfolio for 2005 retained the same relative overall distribution of assets as for the preceding year, namely 59 percent equities, 36 percent fixed-income instruments and 5 percent alternative investments. Changes involved an increase in the degree of currency exposure (8 to 9 percent) and the adaptation of the Fund's hedging strategy to individual currencies. At the

end of the first six months of the year, the strategic portfolio was adjusted, the allocation to hedge funds being cut from 1 percent to zero. At the same time, the allocation to global equities was increased by 1 percent.

The new model for Asset Liability Modelling (ALM), developed in association with Fraunhofer Chalmers Research Centre for Industrial Mathematics, increases the Fund's opportunities for developing its strategic portfolio and asset allocation. One concrete result of this new ALM activity was to raise the Fund's target for real return on investment, as of 2005, from 3.5 to 4.5 percent.

In the Fund's strategic portfolio for 2006, the following changes were made to asset class fixed-income securities:

- Swedish inflation-linked bonds 2 percent, a reduction of 3 percent.
- Swedish nominal government bonds 19 percent, an increase of 3 percent.
- The option was created to invest up to 3 percent in asset class government bonds in emerging markets.

The following changes were introduced for equities-related asset classes:

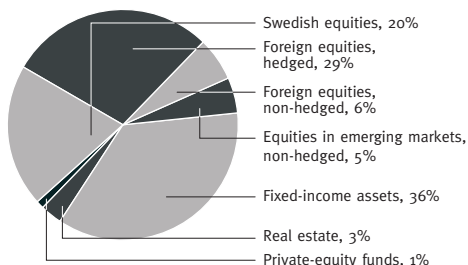
- Equities in emerging markets 5 percent, an increase of 2 percent.
- Foreign equities 35 percent, a reduction of 2 percent.

Since July 1st 2006, the management approach adopted for the Second AP Fund's portfolio of North American equities has been fundamental indexing. Fundamental indexing focuses on increasing future return in relation to portfolio risk.

Benchmark index for strategic portfolio, 2006

Part-portfolio	Index
Equities	
Sweden	67% SBX "Stockholm Stock Exchange Benchmark Index" 23% OSX "Unweighted Sweden Index" 10% CSRX "Carnegie Small Cap Return Index"
Europe	MSCI Europe
North America	85% MSCI North America 15% RAFI North America
Japan	MSCI Japan
Asia excl. Japan	MSCI Pacific excl. Japan
Emerging markets	MSCI Emerging Markets
Real estate	SFIX Svenskt Fastighetssindex
Private-equity funds	11% per annum
Fixed-income assets	
Swedish nominal fixed-income securities	SHB Swedish All Bond
Inflation-linked bonds	SHB Index Linked
Foreign government bonds	Lehman Brothers Govt 1000 x Asia
Foreign credit bonds	Lehman Brothers Cred 1000 x Asia

New strategic portfolio for 2007



As of February 1st 2007, fundamental indexing will also be used to manage a quarter of the Fund's portfolio of Swedish equities.

Fundamental indexing replaces traditional or cap-weighted fundamental portfolios. In cap-weighted portfolios, the stock market's valuation of individual asset classes has a significant impact on the relative allocation of equities within the portfolio. In fundamentally weighted portfolios, the "fundamental" structure is determined by the size of the individual portfolio companies in the "real" economy (net profits, dividends, sales and book values). In practice, this means a reduction in the portfolio's concentration on relatively highly valued equities (and therefore rated for a relatively modest future return) and an increase in the portion of lower valued equities. Historically, this type of fundamental portfolio has generated a higher return at a lower risk compared to a traditional cap-weighted index. This difference has proved especially significant during periods when market environments have been highly speculative, featuring grossly inflated valuations, as was the case around the start of the new millennium.

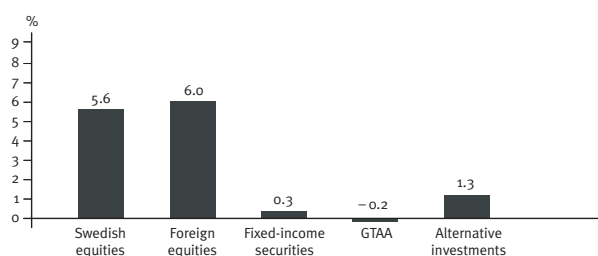
Apart from the above, no other changes were made to the strategic portfolio for 2007.

Consequently, the assets in the 2007 strategic portfolio are allocated as follows: 60 percent equities, 36 percent fixed-income assets and 4 percent alternative investments.

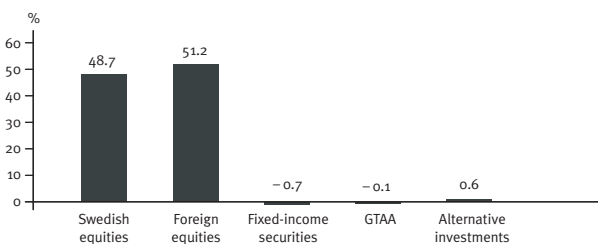
Concerning the target established for long-term absolute return, the Fund's 0.5 percent target for relative return will be included in the 5.0 percent target for total return as of 2007. This means that the real target return of 4.5 percent still applies, and that the relative target return is included in the overall target for return on assets.

If the Second AP Fund and the other buffer funds succeed in achieving this target, and economic development in Sweden coincides with the Second AP Fund's predictions, there is every chance that the pension system – and specifically the national retirement pension – will perform as intended, without serious disruptions.

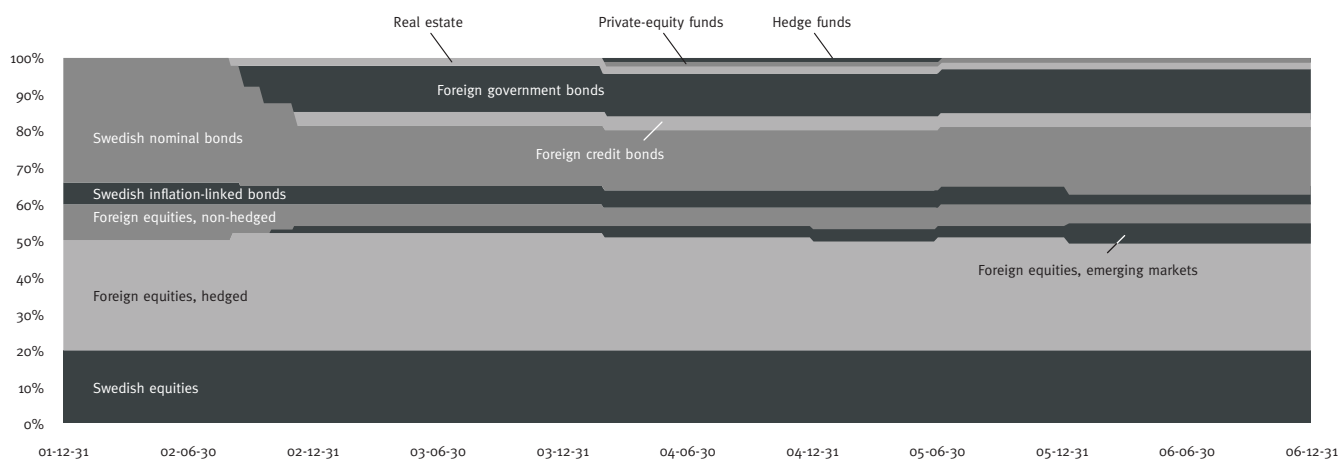
Attribution, total portfolio
Absolute return incl. alternative investments



Attribution of risk, absolute risk



Changes in composition of strategic portfolio 2002-2006



Asset class development

Composition of strategic portfolio, exposure and return as per Dec 31 2006

Asset class	Strategic portfolio, %	Exposure, %	Exposed value, SEK billion	Return AP2, %	Return on benchmark-portfolio, %	Active risk ex post*, %
Swedish equities	20	20.1	43.5	29.5	28.9	2.9
Foreign equities	40	39.5	85.7	16.4	13.9	1.0
Fixed-income assets, including liquidity and accumulated interest	36	35.7	77.4	0.8	0.8	0.3
Total listed assets, excluding commissions and operating expenses				12.2	12.0	0.7
Alternative investments	4	4.7	10.2	31.1	6.9	
Total Fund capital, excluding commissions and operating expenses	100.0	100.0	216.8	13.0	11.8	

* Historic outcome, 12 months rolling

There were significant changes in portfolio management focus towards the end of 2004. The majority of external mandates have been terminated and 83 percent of the Fund's assets are now under in-house management.

A "core/satellite" strategy is being applied to portfolio management, where a greater proportion of active risk is allocated to the global external mandates. The in-house mandates are increasingly managed according to the core strategy with the support of quantitative analysis. This is known as "enhanced management", where maximum risk may not exceed 2 percent. The Fund's in-house active management of Swedish and foreign equities has focused on a limited number of portfolios with clearly-defined risk mandates.

Swedish equities	2002	2003	2004	2005	2006
Exposed value, SEK billion	22.8	28.4	32.8	40.8	43.5
Absolute return, %	-36.7	34.4	19.0	36.6	29.5
Relative return, %	-0.9	-1.6	-1.2	-2.9	0.6
SIXRX, %	-	34.2	20.8	36.3	28.1
Active management, %	100	100	94	100	100
External management, %	50	56	27	18	10

The Swedish equities portfolio is subject to long-term appraisal based on a combination of three separate elements, each assigned its own benchmark index. The portfolio comprises a cap-weighted element (67 percent), benchmarked against the SBX index; an equally weighted element (23 percent), benchmarked against the OSX index, and a cap-weighted small cap element (10 percent), benchmarked against the CSRX.

During the year, the portfolio's share of equities under quantitative management has risen from 7 percent to 47 percent.

Most of the active risk is limited to the "special holdings" portfolio, into which holdings of a more long-term and strategic nature have been gathered. The portfolio was assigned a more precise management mandate during the year.

The Stockholm Stock Exchange saw its market worth rise by 25.4 percent (SBX) in 2006, a bullishness that was particularly marked in materials and consumer staples. On the other hand, companies in the IT sector noted a rise of only 2.8 percent.

The market value of the Swedish equities portfolio, of which 90 percent was under in-house management, was SEK 43.5 billion as per December 31st 2006. Holdings were well diversified among large exchange-listed companies. The greater part of the portfolio has been under active/enhanced management throughout the year, with limited active risk. The active level of risk assigned to these Swedish mandates, measured as tracking error, was 2.9 percent. The Fund's Swedish equities holdings have performed well in 2006, noting a 29.5 percent return against the 28.9 percent noted for the benchmark index.

Largest Swedish holdings

The Fund's five single largest Swedish holdings by worth, in the total equities portfolio, were Volvo (3.7 percent), Ericsson (3.2 percent), Nordea (2.1 percent), Meda (1.6 percent) and H&M (1.5 percent).

Foreign equities	2002	2003	2004	2005	2006
Exposed value, SEK billion	46.1	56.7	63.8	77.5	85.7
Absolute return, %	-24.9	22.5	11.5	22.9	16.4
Relative return, %	0.3	-1.0	-0.3	2.0	2.5
MSCI AC World, %	-	22.6	10.6	20.0	13.0
Active management, %	37	78	80	82	89
External management, %	64	82	77	53	27

Some 89 percent of the Fund's holdings in foreign equities are under active management, distributed according to the geographical regions North America, Europe and Asia/Pacific, as well as in emerging markets and via global mandates. The external global mandates account for the greater part of the utilisation of active risk. Foreign equities under in-house management totalled SEK 63.1 billion, corresponding to 73 percent of the total foreign

equities portfolio. The implementation of quantitative methods for the management of in-house portfolios was completed during the year. This means that all management of the Fund's North American assets is now handled in-house, based on fundamental indexing or the Fund's own quantitative investment models. Mandates in Japan, Asia (excluding Japan) and Europe are also being managed quantitatively. By year-end 2006, the portfolio of European equities was under in-house management, according to fundamental models.

The level of active risk for the Fund's foreign holdings is 1.0 percent.

The market value of the foreign equities portfolio amounted to SEK 85.7 billion at year-end. In line with the Fund's strategic asset allocation policy, the degree of market exposure in the USA was less than what would normally be justified, given the North American equity market's cap weighting, favouring European, Japanese and Pacific stocks, as well as emerging markets. The portfolio of foreign equities has yielded a return of 16.4 percent compared with an MSCI World index, hedged and regionally adjusted by the Fund, which generated a return of 13.9 percent for the same period. For the same period, the broad-based MSCI World index posted a return of 13.0 percent. This solid relative return may be attributed primarily to the successful management of external global mandates and the performance of European securities selected by the Fund's in-house portfolio managers.

Largest foreign holdings

At the end of the year, the five single largest foreign holdings in the Second AP Fund's total portfolio were Exxon Mobil (0.7 percent), General Electric (0.6 percent), BP (0.6 percent), Nestlé (0.5 percent) and GlaxoSmithKline (0.5 percent).

Fixed-income and FX	2002	2003	2004	2005	2006
Exposed value including liquidity, SEK billion	43.4	50.4	54.6	65.1	77.4
Absolute return, %	8.9	5.3	7.3	4.3	0.8
Relative return, %	0.0	-0.1	-0.3	0.0	0.0
Active management, %	88	98	94	93	91
External management, %	9	10	8	8	10

Management of the Fund's fixed-income securities and foreign exchange assets is based on broad management of Swedish and global bonds. The Fund's in-house management shall focus on areas where it is able to conduct index-linked management at low cost, or on active management of assets in areas where it sees

opportunities for outperforming its own benchmark index. It shall also focus on external mandates with higher risk and higher potential returns, as well as specialised in-house mandates.

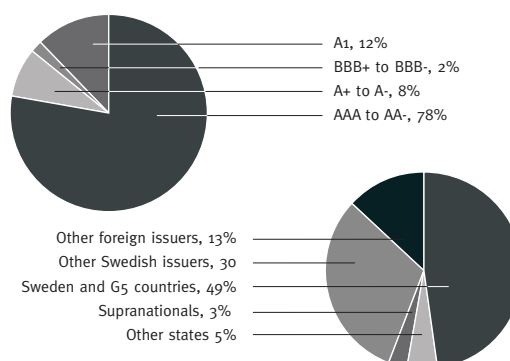
Performance has been somewhat better than index and has benefited from the fact that the Fund was positioned for rising long-term interest rates. The return on the fixed-income portfolio was 0.8 percent. This return includes change in value during the year, net of interest and net of FX transactions. External management of credit bonds has proved successful, while in-house management of the same has been burdened by a disproportionately high share of high-quality credit bonds. The implementation of a quantitatively managed fixed-income portfolio should be completed during 2007.

As per December 31st 2006, the duration of the portfolio was 4.2 years, a reduction compared to the preceding year. National issuers accounted for 54 percent of the fixed-income portfolio. As per December 31st 2006, 78 percent of the portfolio was placed in fixed-income securities, rated from AA- to triple A (AAA). At year-end 2006, nominal and inflation-linked government bonds accounted for 62 percent of the total value of the fixed-income portfolio.

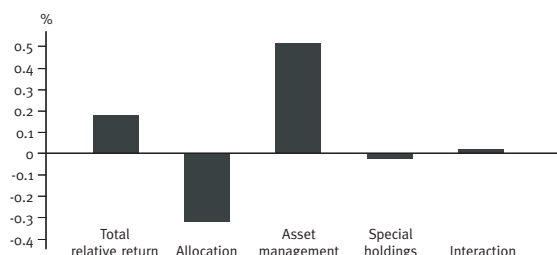
The Fund has been engaged to only a limited degree in active foreign exchange trading, where forward positions are taken to benefit from anticipated movement in the relative values of foreign currencies. The management of these assets had a favourable impact on the Fund's overall return.

The market worth of the Fund's fixed-income instruments as per December 31st 2006, including liquidity, amounted to SEK 77.4 billion. The fixed-income portfolio consists mainly of nominal and inflation-linked Swedish bonds, as well as internationally traded government securities and corporate bonds. Foreign fixed-income holdings totalled SEK 35.6 billion.

Issuers



Attribution relative return, listed assets



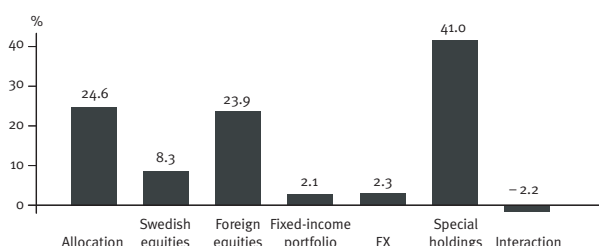
Alternative investments

The Fund has gathered its investments in asset groups real estate and private-equity funds, which account for 4.7 percent of the Fund's total capital, under asset class Alternative Investments. Real estate, corresponding to 3.8 percent of the Fund's total capital assets, accounts for the largest share of Alternative Investments, with private-equity funds accounting for approximately 0.9 percent of the Fund's investments. Alternative Investments noted a 31.1-percent return on investment.

Private-equity funds

The law requires that Swedish AP funds may only invest in unlisted equities indirectly, via private-equity funds, mutual funds or their equivalent. The strategy adopted

Risk attribution – tracking error



by the Second Swedish National Pension Fund/AP2 is to create a geographically well-diversified portfolio of private-equity funds.

During the year, the Fund has made commitments concerning investment in four new funds. These are TPG Partners V (SEK 351 m), Thomas H Lee Fund VI (SEK 252 m), Magenta (SEK 186 m) and Carlyle Europe Partners III (SEK 451 m). In conjunction with the undertakings made in previous years, this brought the Fund's total investment commitment to SEK 6.9 billion. Actual investments to date total SEK 2 390 million, including management expenses, of which SEK 1 061 million in 2006. This corresponded to a fair value of SEK 1 822 million. Private-equity funds noted a 26.5-percent return on investment.

Investments and commitments, private-equity funds, SEK million

Fund	2001-2005			2006			Total		
	Investment*	Exit**	Commitment	Investment*	Exit**	Commitment	Investment*	Exit**	Commitment
EQT Northern Europe KB (EQT III)	160	31	181	44			160	75	181
Swedestart Life Science KB	13	1	25	3			16	1	25
Swedestart Tech KB	13	3	25	2			15	3	25
Carnegie Biotech Bridge Fund	50		50				50		50
Nordic Capital V L.P.	359	3	454	69	81		428	84	454
EQT Mezzanine L.P.	127		272	55	71		182	71	272
Cevian Capital L.P.	286	12	681	207			286	219	307
Pathway Private Equity Fund IX, LLC	184	5	1 118	303	20		487	25	1 118
CVC European Equity Partners IV, L.P.	32		335	119	55		151	55	335
Carlyle Riverstone Renewable Energy Infrastructure Fund I			159	17	17				159
Carlyle Riverstone Global Energy Fund III			239	36			36		239
Pathway Private Equity Fund IXB			1 990	107			107		1 990
Nordic Capital VI L.P.			469	178			178		469
Thomas H Lee Equity Fund VI, L.P.				60	252		60		252
TPG Partners V, L.P.				36	351		36		351
Magenta				19	186		19		186
Carlyle Europe Partners III L.P.					451				451
Total	1 224		5 998	1 004	1 240		2 228		6 864
Fair value, total							1 822		

* Investment excluding commission for unlisted assets

** Acquisition value of underlying portfolio companies sold

*** Cevian Capital, in conjunction with the establishment of its new fund Cevian II, in which the Second AP Fund has not invested, and at its own instigation, has terminated the investment period in the first fund. The Second AP Fund's investment commitment to Cevian Capital has been reduced by EUR 41 million, which will not be utilised for further investment. The remaining investments in Cevian's first fund are Metso and Intrum Justitia.

Fees paid for the management of unlisted assets, where reimbursement is permitted prior to profit sharing and is deemed likely, are capitalized and reported as a receivable below other assets in the balance sheet. See also the Fund's accounting and valuation principles, page 28.

Since the Fund's inception, a total of SEK 165 million has been paid out in the form of management fees for Fund investments in private-equity funds. Of this sum, SEK 79 million has been written off directly.

Management fees paid as per December 31st 2006, amounting to SEK 31 million, are reported in the balance sheet as "Other receivables".

Real estate

Unlisted real-estate holdings, comprising a 25-percent participation in AP Fastigheter and a 50-percent participation in NS Holding AB (Norrporten), are managed in-house by the Second AP Fund.

Unlisted real-estate holdings Dec 31st 2006

AP Fastigheter Holding AB, amounts in SEK m

Equities	
Acquisition value	721
Valuation	1 725
(of which affecting operating result 2006: 786)	
Fair value as per Dec 31st 2006	2 446
Total dividend 2001-2006	1 036
(of which in 2006: 319)	

Promissory note loan, incl. accrued interest

Promissory note loan, incl. accrued interest per Dec 31st 2006	2 181
Total interest income 2001-2006	520
(of which in 2006: 181)	

NS Holding AB, amounts in SEK m

Equities	
Acquisition value	811
Valuation	1 184
(of which affecting operating result in 2006: 578)	
Fair value as per Dec 31st 2006	1 995

Subordinated debenture loans incl. accrued interest

Subordinated debenture loans incl. accrued interest as per Dec 31st 2006	1 654
Total interest income 2001-2006	570
(of which in 2006: 171)	

Andra & Sjätte Fastigheter AB, amounts in SEK m

Equities	
Acquisition value	1
Fair value as per Dec 31st 2006	1

The Second AP Fund's investments in real estate are designed to generate a solid direct return on investment and contribute to a satisfactory diversification of risk in the total portfolio.

AP Fastigheter is owned jointly by the First to Fourth Swedish National Pension (AP) funds and has a concentrated and attractively located portfolio of real-estate holdings in the Stockholm, Gothenburg and Uppsala areas. The company owns and manages some 175 properties, totalling about 2 million square metres of floor space, at a combined estimated market value of SEK 35 billion.

Norrporten is owned jointly (50/50) by the Second AP Fund and the Sixth AP Fund. During the year, Vasakronan's interest in the company was acquired jointly by the Second AP Fund and the Sixth AP Fund, in equal shares. The company continued its strategic expansion during the year and has invested in a number of substantial properties in Copenhagen. The sale of a number of properties in Kristianstad was completed during 2006. Norrporten owns and manages some 160 properties, totalling approximately 1.1 million square metres of floor space. These properties have a combined estimated market value in the region of SEK 14.8 billion.

The Norrporten holdings have developed strongly, with a SEK 578 million increase in market value and interest income from debenture loans of SEK 171 million.

The Fund's holdings in AP Fastigheter have also noted an increase in market value, of SEK 786 million, dividends received of SEK 319 million and interest income from debenture loans of SEK 181 million.

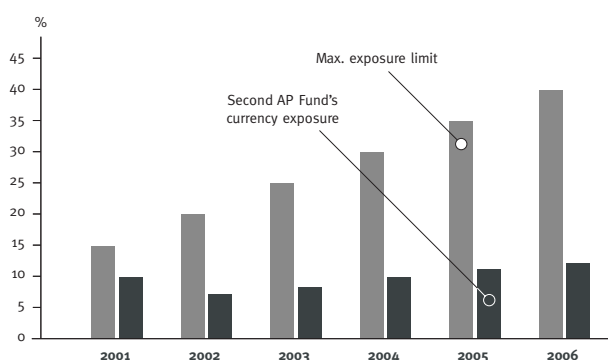
The market values of the portfolios of real estate held by AP Fastigheter and Norrporten, including debenture loans, were reported as SEK 4 628 million and SEK 3 649 million respectively.

FX exposure

At year-end 2006, 11.7 percent of the Fund's assets were exposed in foreign currency, a slight increase compared with the strategic portfolio but significantly lower than the 40 percent maximum set for the Fund's currency exposure. Assets exposed in foreign currency, found main-

ly in the foreign fixed-income and equities portfolios, have been hedged by means of forward exchange contracts. The following graph shows the Fund's currency exposure since its inception in 2001, compared with the statutory limit.

Statutory exposure limit, compared with the Second AP Fund's currency exposure, 2001-2006



Currency exposure

Dec 31st 2006, equivalent in SEK million	USD	GBP	EUR	JPY	Other	Total
Equities and participations	38 580	10 210	18 602	6 353	10 323	84 068
Bonds and other fixed-income securities	9 485	1 960	13 042	0	1 264	25 751
Other assets and liabilities, net	549	192	909	169	321	2 140
Derivative instruments, excl. FX derivatives	18	-5	-140	85	16	-26
FX derivatives	-39 450	-8 360	-22 078	-6 244	-10 434	-86 566
Currency exposure, net	9 182	3 997	10 335	363	1 490	25 367

Currency exposure reported as per the Fund's true management of FX risk, which means that it is based on local currency at the trading location, and not the currency pertaining at the company's registered office.

External portfolio management

The Second AP Fund manages a certain proportion of its total portfolio assets with the assistance of external managers. During the year, the Fund's external portfolio management has been concentrated to a few fund managers with an active style of asset management, in line with the Fund's new investment strategy. As per December 31st 2006, 17 percent of the Fund's assets were under external management. 100 percent of all assets under external mandates were managed actively.

Contract negotiation and selection criteria

The Fund's selection process involves a number of pre-determined selection criteria, such as investment style, analytical quality, organisational structure, staffing and yield history. Qualitative and quantitative factors are subjected to thorough analysis, both during the negotia-

tions and, if selected, during ongoing portfolio management.

Cost of external management

An average of 23 percent of the Fund's assets were under external management in 2006. The amount of assets under active external management amounted on average to 87 percent. The degree of active risk accepted, and selection of market, to a great extent determine the cost of managing assets. The Fund's external management mandates, excluding alternative investments, have been focused both on increasing the level of active risk and the result in 2006. The cost of placing market-listed assets under external management is partly fixed and partly performance-based. In 2006, the fixed cost was SEK 141 million and the variable performance-

Income and expenses, external management, listed assets, SEK million

	Active and enhanced mandates	Passive mandates	Total listed assets
Income, gross	2 687	-341	2 346
Deduction, performance-based fees	-41		-41
Net	2 646	-341	2 305
Fixed management fees	-139	-2	-141
Net contribution	2 507	-343	2 164
Capital assets under management as per Dec. 31st 2006, excluding overlay mandate	34 201	0	34 201

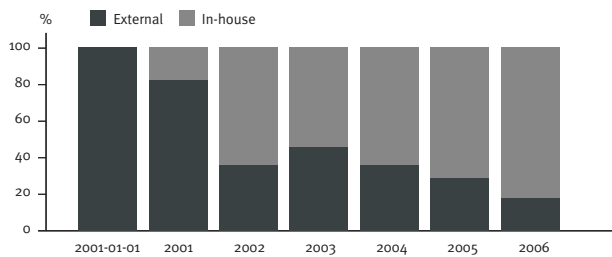
Income and expenses, external management, unlisted assets, SEK million

	Unlisted assets
Income, gross	292
Repayment of management fees in conjunction with profitable exit	38
Management fees reported as commission expense	-7
Net contribution	323
Receivables in form of management fees, unlisted assets	31
Capital assets under management, as per Dec. 31st 2006:	
Invested, fair value	1 822
Original commitment	6 864

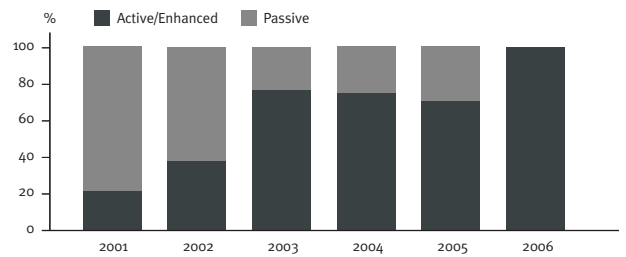
based element totalled SEK 41 million. If management fees for alternative investments are included, this brings the Fund's combined fixed costs for external management to SEK 148 million. This is equivalent to 0.28 percent of the average capital assets under external management during 2006. The Fund compares the ongoing cost for external management of capital assets with those for similar market players. Among other

aspects, a fair and just comparison must take into account the volume of assets under management, the degree of in-house management and the style of management chosen in terms of active versus passive, equities versus fixed-income securities and varying amounts of unlisted asset classes. Current external portfolio managers are listed in Note 4.

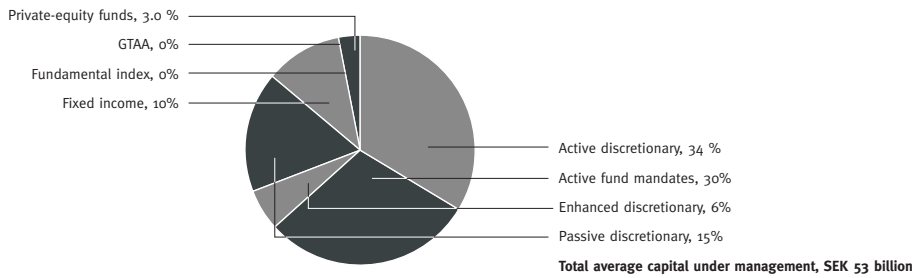
Relative distribution between in-house and external management



External management, passive/active management style

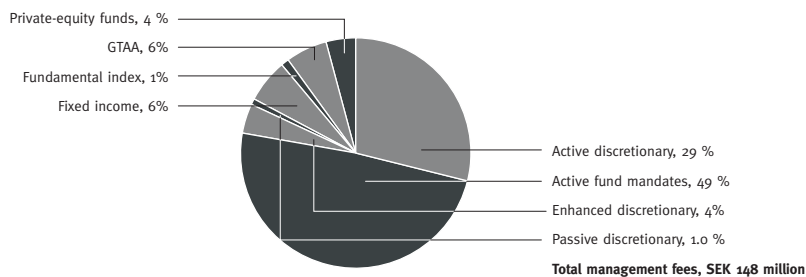


Capital assets under management, by management style



GTAA mandates have no allocated capital, as the mandates exposure is in the form of derivatives.

Management fees, by management style



Management mandates

Equity mandates	Style	ROI, %	Under/over-performance against index, %
-----------------	-------	--------	---

Europe

SAM	Active	14.5	-0.4
AP2 in-house	Enhanced	16.3	1.3

North America

AP2 in-house, RAFI-index*	Enhanced	7.5	0.8
AP2 in-house	Enhanced	-0.5	0.7

Japan

AP2 in-house	Enhanced	-8.5	0.2
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Emerging markets

AiG Global	Active	15.8	2.2
Legg Mason	Active	16.7	3.1
Merrill Lynch	Enhanced	11.6	-2.0
Genesis	Active	11.8	-1.9
Pictet	Active	12.3	-1.4
StateStreet	Active	13.9	0.3

Global equity mandates

MFS	Active	8.6	5.3
Carnegie	Active	8.1	4.9
AP2 in-house*	Active	2.7	0.0
Franklin Templeton	Active	9.4	6.2

Pacific, excluding Japan

AP2 in-house	Enhanced	14.9	1.3
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Swedish OSX mandates

AP2 in-house Special Holdings	Active	36.7	1.2
Enter Select Focus	Active	37.7	2.2

Swedish SBX mandates

AP2 in-house Quantportfolio	Enhanced	25.4	0.0
AP2 in-house	Active	25.2	-0.2

Swedish CSX mandates, small caps

AP2 in-house	Active	37.6	0.1
SEB Sverige	Active	36.1	-1.5
SEB Sverige ChansRisk	Active	38.3	0.8
Carlson Sverige	Active	41.7	4.1
Robur	Active	37.5	-0.0
Lannebo	Active	40.2	2.7
Handelsbanken	Active	39.9	2.4

* Has not been under management during the entire 12 months.

Fixed-income mandates	Style	ROI, %	Under/over-performance against index, %
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Swedish nominal fixed-income mandates

AP2 in-house Quantportfolio*	Passive	1.3	0.0
AP2 in-house	Active	-0.4	0.0

Swedish inflation-linked mandates

AP2 in-house	Enhanced	2.5	0.0
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Global management/fixed-income

Rogge	Active	-7.1	-0.4
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Global management/government securities

AP2 in-house	Active	0.0	0.2
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Global management/credit

AP2 in-house	Active	0.0	-0.7
Franklin Templeton	Active	-6.7	0.6

GTAA mandates	Style	Return, SEK m
IPM/First Quadrant	Active	-48
AP2 in-house	Active	23
Goldman Sachs	Active	-253

* Has not been under management during the entire 12 months.

Follow-up, analysis and control

As a large and internationally active asset manager, with several asset management assignments delegated to external fund managers, the Second AP Fund is subject to stringent demands in terms of its ability to analyse, follow up and monitor portfolio performance. This applies as much to individual mandates as to the portfolio as a whole. The Fund monitors, evaluates and analyses holdings on a daily basis, whether the assets are managed externally or in-house.

Reports on exposure, yields and risk utilisation are generated on a daily, weekly and monthly basis. Complete balance sheets and income statements are prepared on a monthly basis, together with whole range of relevant economic analyses.

Risk management

The Fund's level of risk utilisation for 2005 was within the specified parameters. Follow-up of investment regulations, limits and financial risks is handled on a daily basis. Operative management is conducted so that the anticipated active risk for the entire exchange-listed portfolio shall not exceed three percent. In the same way, individual limits for anticipated active risk are set for each asset class.

The Fund's absolute and relative risk is monitored and analysed, for the total portfolio, per asset class and per mandate. Absolute risk is monitored with the help of the Sharpe ratio and volatility measurements. Relative risk is measured in terms of anticipated active risk and information ratio.

During 2006, the Sharpe ratio (twelve-month rolling) was positive and noted 1.21 at year-end. The market-listed portfolio's volatility increased during the year from 4.8 to 7.4 percent, while the twelve-month rolling information ratio was 0.27.

A new risk system was procured and implemented in 2006. This risk system enables both historic and forward analysis and monitoring of the Fund's combined market risk. These risk calculations are based on Value at Risk (VaR).

The system permits advanced simulation for calculating alternative risk outcomes by means of stress tests and scenario analyses.

Attribution analyses

One way the Fund assesses portfolio performance is by conducting attribution analyses. These analyses are conducted in several dimensions, for both absolute and relative return, as well as for the level of risk utilisation. The

analysis defines the extent to which the portfolio has contributed to return and risk utilisation.

Return attribution is employed partly to clarify the differences in return between the Fund's portfolio of assets and the strategic benchmark portfolio, and partly to explain the contribution to absolute return on investment. The analytical process is conducted at several levels: for the total portfolio, between and within each asset class and at the portfolio level. The contribution made, in terms of individual securities as well as sectors, regions and currencies, is analysed at each level. In 2006, the portfolio of foreign equities was the largest positive contributor to relative return. In the case of foreign equities, the greater part of this contribution derives from the Fund's in-house European mandates and the external global mandates. The GTAA mandates were the single largest negative contributor.

Risk attribution for 2006 shows that adopted active risk was concentrated to allocation and special holdings.

Attribution analysis of relative return, %

Relative return	0.2
Allocation team including management of rebalancing, forwards, over/under cash-backing and GTAA mandates	-0.3
Swedish equities including securities selection and allocation between partial-index	0.0
Foreign equities including securities selection by region and emerging market allocation	0.5
Fixed-income portfolio including securities selection, cash management and allocation between partial-index	0.1
FX including allocated degree of hedging, FX-trading and securities selection of FX-hedge	-0.1
Interaction	0.0

Systems environment

Right from the start, the Second AP Fund invested in an advanced IT platform and in a fully integrated Front/Middle/Back Office portfolio management system. Since its implementation, this system has been progressively expanded and upgraded with additional functions, to meet the increasingly demanding and constantly changing performance requirements. The system has been designed to provide a high degree of automation and to optimise business processes, whether initiated by the Fund's in-house portfolio managers or by external managers. To satisfy the additional requirements deriving from cooperation with external managers, the basic system was complemented with a web-based system for the import of external managers' trades. External managers are responsible for the entire business process within the parameters of their respective mandates, from execution to settlement and reporting.

During the autumn of 2006, work on installation of the “Data Warehouse” solution was initiated. This application enables easier and more comprehensive information management, as well as offering improved accessibility to the underlying systems.

Strategic IT security

IT security is one of the Fund’s priority sectors. The level of preparedness is high in areas such as continuity and disruption planning. The Fund’s most business critical systems are secured in the event of crisis or catastrophe. The technical solution is designed to ensure that the most business-critical systems can be brought back on line as soon as the Fund’s executive management has reached such a decision. The system’s present functionality has therefore been built out to provide external access (a reserve site), offering full redundancy for the Fund’s central IT system. This back-up system can be accessed without compromising the Fund’s current stringent data security standards.

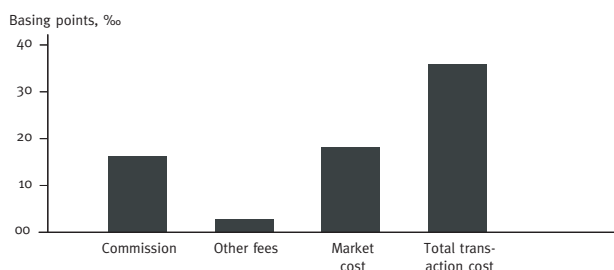
Focus on efficiency continues

The Second AP Fund strives for and conducts cost-efficient fund management that has been analysed and authenticated by internationally respected firms of market analysts. In 2006 as in the preceding year, a comprehensive analysis of the Fund’s asset management was carried out by the Canadian firm, Cost Effectiveness Measurement Inc. (CEM). The purpose of this analysis was to develop relevant comparative data to assess the Fund’s asset management performance, taking into account the volume of capital under management, its allocation by asset class and degree of active management, as well as the portfolio’s geographic spread. This analysis, which is based on the years 2001–2005, was presented in the autumn and confirms that the Second AP Fund’s costs are normal and that its asset management is cost efficient.

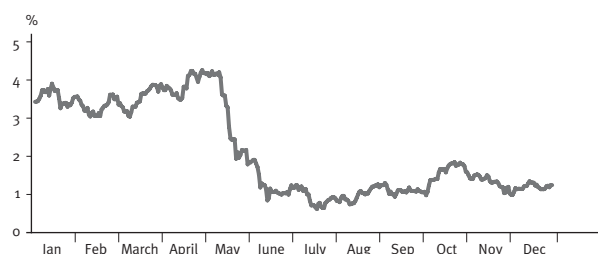
The Fund continues to strive for greater efficiency by exploiting alternative sources of revenue that, while

not increasing the Fund’s exposure to market fluctuation, nevertheless make a positive contribution to its active return on investment. One example is the implementation of measures to reduce the Fund’s transaction costs and the negative effects of foreign currency trades. In this area, the Fund implemented a project in 2006 to measure both direct and indirect trading costs, a process referred to as transaction cost analysis. The study confirms that the Fund’s in-house transaction costs are low when matched against an international benchmark index.

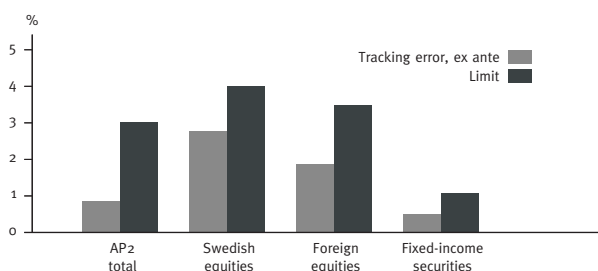
Transaction cost analysis, example



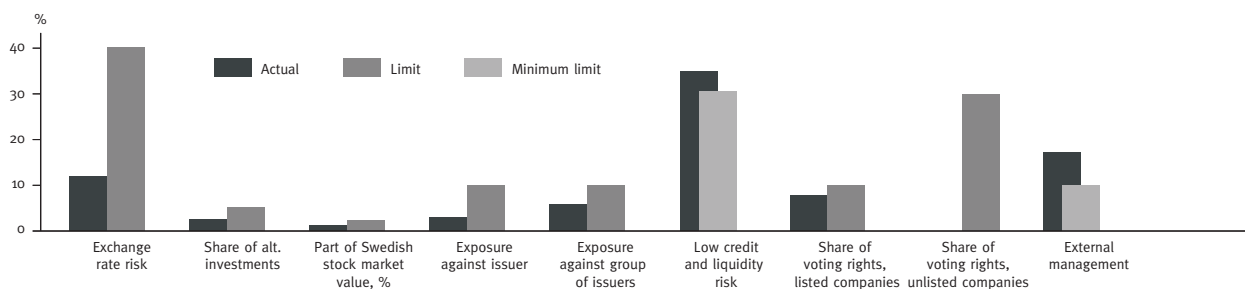
Sharpe ratio



Risk limits, active risk



Limit as per investment regulations



To complement its current analytical tools, the Fund will in future add a new dimension in the form of a more detailed picture of costs at the mandate level. This will place risk-adjusted return in relation to the Fund's costs. It is hoped that these more powerful analytical tools will promote transparency and know-how, thereby

increasing opportunities to respond more efficiently.

In 2006, the Fund initiated a securities loan programme, focused mainly on its holdings in global equities. During the year, the programme generated income totalling SEK 42 million.

Commission

Commission (a brokering commission) is paid on purchase and sale of equities and participations. When buying and selling other asset categories, the transaction cost is limited strictly to the difference between the buy and sell rate, known as the "spread". To establish comparability between different asset categories, the commission is reported as a deductible item under the net result for listed equities and participations.

Commission fees paid in 2006 totalled SEK 126 million (SEK 109 million). The sum includes the cost of

adaptation to the Fund's new asset management organisation. Of these costs, 27 percent derives from commissions paid to the Fund's external managers, the remainder to the Fund's in-house portfolio management organisation. Costs amounted to 0.02 percent of the total trading volume.

The following five counterparts have received commissions corresponding to 50 percent of commission payments (in alphabetical order): Carnegie, Citigroup, Goldman Sachs, SEB and Svenska Handelsbanken.

Tax

As a government agency, the Second AP Fund is exempt from tax. Nor is the Fund subject to VAT.

During the year, provisions for VAT amounting to SEK 3 million were resolved.

Structure and staff

As of 2007, a new management organisation has been introduced, which comprises four units. These are Swedish Management, Global Management, Quantitative Management and External Management. This new management organisation is intended to establish a clearer division of portfolio responsibilities, to create greater opportunities for adopting positions between asset classes and to define the distinction between absolute and relative management more clearly. Work at several of the Fund's units has been affected by preparations during the run-up to the launch of the new organisation.

At year-end 2006, the Fund numbered 53 full-time staff (of which 18 women), with one additional em-

ployee on a project basis. The average age of Fund employees is 38 years, with a median age of 37 years and an age spread from 25 to 61 years.

Members of staff, whose professional experience averages 17 years, represent five different nationalities.

The Fund's rate of personnel turnover is low. During 2006, one employee left and four new employees joined the Fund. Absenteeism due to ill health was low: 0.67 percent.

A major programme was launched during the year designed to establish a common code of values for the Fund's staff. This programme is intended to strengthen the Fund's team spirit, enhance leadership qualities and boost staff motivation.

Corporate governance

The Second AP Fund's involvement in corporate governance issues is intended to contribute to value creation within the Fund. Active governance and the Fund's commitment to governance issues aim to improve prospects for a higher long-term return on assets under management.

During 2006, the Second AP Fund exercised its voting rights at the AGMs of 50 listed Swedish companies. In three instances, the Fund voted against proposals presented by the boards to their AGMs. At the Tele2 AGM, the board asked the meeting to grant a proxy to cover the costs of a failed options programme. The Second AP Fund felt that the AGM had been supplied with insufficient information to approve such a decision. At the Securitas AGM, the Second AP Fund voted against a proposal to distribute shares in the company's subsidiaries, due to the board's decision to retain the same share structure of "A" (preferred stock) and "B" (non-preferred stock) shares in the companies to be spun off. At the Swedish Match AGM, the Second AP Fund voted against raising directors' fees, against new principles governing the remuneration paid to executive management and against the incentive programme. At the Electrolux AGM, the Second AP Fund refrained from tabling its own proposal concerning the company's plans for a distribution of shares in Husqvarna, after Electrolux' principal owner, Investor, had initiated a programme to strengthen the rights of Husqvarna's "B"-class shareholders.

In the past year, the Second AP Fund has exercised its voting rights at the AGMs of 50 of its largest holdings in listed foreign companies. Timeout was taken during the year to ensure that the decision data for voting was of sufficiently high quality.

The Fund has also been represented on the nomination committees of 16 companies prior to their 2006 AGMs (Artimplant, Capio, Electrolux, Haldex, Handelsbanken, Husqvarna, Karo Bio, Meda, Oriflame, Pergo, Proact, Sardus, Skandia, Volvo, Vitrolife and Wedins).

The Second AP Fund, in company with some 30 other major international institutional investors, has signed the United Nations' initiative on Principles for Responsible Investment (PRI). The Fund has continued its dialogue with its largest Swedish shareholdings as regards ethical and environmental issues. Analyses of corporate governance issues have been integrated into the "corporate governance log". Specific analyses of

almost 20 of the Fund's major shareholdings have been made at corporate level.

The Second AP Fund has also participated in the Carbon Disclosure Project, an initiative whereby some 100 major fund managers place demands on the world's largest exchange-listed companies regarding their position on a number of "greenhouse" issues.

Together with the First, Third and Fourth AP Funds, the Second AP Fund has procured a joint "screening-service" to monitor environmental and ethical issues relating to the funds' foreign shareholdings. The four funds have also decided to instigate a Joint Ethical Council, to supervise the screening process and to conduct a dialogue with the companies in question.

In August, the Fund's board of directors decided to exclude Wal-Mart from its investment sphere. The background to this decision is the Second AP Fund's response to claims concerning Wal-Mart's infringement of human rights with respect to labour conditions.

Since 2003, the Second AP Fund has written letters, voted at AGMs and participated in an investor group, all with a view to influencing the company. In spite of this, the company has failed to make any statement concerning a change in its attitude to workers' rights.

The Second AP Fund publishes a separate corporate governance report in conjunction with the publication of its six-month interim report.

Income statement

Amounts in SEK million	Note	January-December 2006	January-December 2005
Operating income			
Net interest income	1	893	1 696
Dividends received		3 440	2 696
Net result, listed equities and participations	2,4	22 070	22 421
Net result, unlisted equities and participations	3	1 743	1 249
Net result, fixed-income assets		-1 362	532
Net result, derivative instruments		-38	-565
Net result, exchange gain/loss		-1 947	1 822
Commission expenses, net	4	-164	-160
Total operating income		24 635	29 691
Operating expenses			
Personnel expenses	5	-74	-70
Other administration expenses	6	-55	-53
Total operating expenses		-129	-123
NET RESULT FOR THE YEAR		24 506	29 568

Balance sheet

Amounts in SEK million	Note	Dec. 31 2006	Dec. 31 2005
ASSETS			
Equities and participations			
Listed	7	128 673	120 591
Unlisted	8	6 234	4 012
Bonds and other			
Fixed-income assets	9	75 442	62 230
Derivative instruments	10	3 087	1 247
Cash and bank balances		2 142	2 141
Other assets	11	488	188
Prepaid expenses and accrued income	12	1 722	1 470
TOTAL ASSETS		217 788	191 879
FUND CAPITAL AND LIABILITIES			
Liabilities			
Derivative instruments	10	485	821
Other liabilities	13	211	84
Accrued expenses and deferred income	14	317	381
Total liabilities		1 013	1 286
Fund capital			
	15		
Fund capital at beginning of year		190 593	158 120
Net payments to the national pension system		1 568	2 312
Transferred from special management fund and liquidation fund		108	593
Net profit for the year		24 506	29 568
Total fund capital		216 775	190 593
TOTAL FUND CAPITAL AND LIABILITIES		217 788	191 879
Memorandum items			
Other assets pledged	16	5 999	1 942
Investment commitments	17	4 604	4 669

Accounting and valuation principles

The annual report shall be 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 First – Fourth AP 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 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 “Net result, exchange gain/loss”.

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.

Unlisted holdings are valued in accordance with EVCA or equivalent principles. Generally speaking, holdings shall be assigned a fair value, based on a conservative and consistent estimate.

Bonds and other fixed-income securities

Bonds and other fixed-income assets are calculated at their net realisable value. The net realisable value 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.

Net capital gains/losses derive from the difference between the average accrued acquisition value and the market value. The accrued acquisition value is the net present value of future payments, where the discount rate is the compound interest at the time of acquisition. This means that acquired premiums or discounts are accrual accounted over the security's remaining term, or until the next adjustment in the interest rate. Changes in the accrued acquisition value are reported as interest income.

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.

Derivative instruments

Derivative instruments are calculated at their true value, based on market price at year-end. Derivative contracts 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. The difference arising between the forward rate and the spot rate on exchange forwards is straight-line accounted over the term of the forward contract, and is reported as interest.

Securities lending

Securities on loan remain in the balance sheet and are disclosed as assets pledged under "Memorandum items". Premiums received and accrued are reported as interest income.

Items entered directly against Fund capital

Contributions to and disbursements from the pension system, as well as transfers from the Special Management Fund and Liquidation Fund, owned jointly by the First – Fourth AP Funds, are entered directly against Fund capital.

Performance based fees to external portfolio managers

The performance-based fee, which is only paid out if the portfolio manager attains a return on investment in excess of the agreed level, is reported under net result per asset class in the income statement.

Commission costs

Commission costs are reported in the income statement as a deduction under operating income. These comprise direct transaction costs such as custodial fees and fixed fees to external portfolio managers.

Fees paid for the external management of unlisted assets, where reimbursement is permitted prior to profit sharing and is deemed likely, are reported as a receivable below other assets in the balance sheet.

Operating expenses

All expenses incurred, excluding brokerage commissions, performance-based fees to external portfolio managers and commission costs, are reported under operating expenses.

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

Due to the fact that the Second AP Fund is exempt from VAT, not being considered a commercial operation, it lacks the right to recover VAT payments made. VAT paid and for which provision has been made in the accounts is reported together with the respective cost item.

Income tax

The AP Funds are exempt from all income tax on investments in Sweden. Tax liability on investments outside Sweden varies from country to country.

Notes to the income statement and balance sheet

NOTE 1 Net interest income/expense

Amounts in SEK million	January-December 2006	January-December 2005
Interest income		
Bonds and other fixed-income assets	3 044	2 486
Derivative instruments	967	541
Other interest income	112	41
Total interest income	4 123	3 068
Interest expenses		
Derivative instruments	-2 904	-1 301
Other interest expenses	-326	-71
Total interest expenses	-3 230	-1 372
Net interest income/expense	893	1 696

NOTE 2 Net result, listed equities and participations

Amounts in SEK million	January-December 2006	January-December 2005
Gross earnings, listed equities and participations	22 221	22 545
Less brokerage commission	-126	-109
Less performance-based fees	-25	-15
Net result, unlisted equities and participations	22 070	22 421

NOTE 3 Net result, unlisted equities and participations

Amounts in SEK million	January-December 2006	January-December 2005
Capital gains, net	379	134
Unrealised changes in value	1 364	1 115
Net result, unlisted equities and participations	1 743	1 249

NOTE 4 Commission expenses

Amounts in SEK million	January-December 2006	January-December 2005
External portfolio management fees, listed assets	141	138
External portfolio management fees, unlisted assets	7	7
Other commission expenses, including custodial expenses	16	15
Total commission expenses	164	160

Commission expenses do not include performance-based expenses. During the year, performance-based expenses amounted to SEK 41 million (SEK 90 million) and reduce the net gain for respective asset classes. External portfolio management fees for unlisted assets are reported under commission expenses in so far as the contracts do not permit repayment prior to profit sharing in conjunction with future profitable exits.

During 2006, a total of SEK 58 million (SEK 42 million) has been paid in management fees for unlisted assets. Of these, a sum of SEK 51 million (SEK 35 million) is deemed likely to be repaid in conjunction with future profitable exits, and has therefore been reported in the balance sheet under "Other assets". During the year, a sum totalling SEK 38 million (SEK 17 million) has been repaid in conjunction with profitable exits.

Distribution of Fund capital between external mandates and in-house portfolio management as per Dec. 31st 2006, (SEK m)

Mandate	Benchmark index	Average capital under management 2006	Market-value per Dec. 31 2006*	% of fund-capital	External management-expense
External discretionary mandates					
Equities mandate					
Active management					
SEB	Swedish equities, terminated	SBX	3 833	-	
Carnegie	Global equities	MSCI World	1 324	1 370	
Franklin Templeton	Global equities	MSCI World	3 308	3 501	
MFS	Global equities	MSCI World	5 498	5 730	
Merrill Lynch	Global equities, terminated	MSCI World	3 268	-	
Martin Currie	Japan - Equities, terminated	MSCI Japan	4 058	-	
Research Affiliates	North America – equities, model portfolio	FTSE RAFI North America	**	**	
Total			21 289	10 601	5 50
Passive management					
State Street Global Advisor UK Ltd	Global equities, terminated	MSCI World	1 532		
Barclays Global Investors Ltd	North America – Equities, terminated	MSCI North America	7 220		
Total			8 752	-	2
Fixed-income mandates					
Active management					
Franklin Templeton	Global credit mandate	Lehman Credit, ex Asia	1 783	2 543	
Rogge	Global aggregated, fixed-income mandate	Lehman Global, ex Asia	3 794	3 677	
Total			5 577	6 220	3 9
GTAA mandates					
Active management					
IPM/First Quadrant and Goldman Sachs					8
Total external discretionary management mandates			35 618	16 821	8 69
Investments in listed external funds					
Unit trusts	as per respective fund		15 673	17 380	
Fixed-income funds	as per respective fund		37	-	
Total investments in listed external funds			15 710	17 380	8 72
Investments in private-equity funds					
Unlisted equities and participations in private-equity funds			1 564	1 822	
Total investments in private-equity funds			1 564	1 822	1 7
TOTAL EXTERNAL CAPITAL ASSETS UNDER MANAGEMENT, AND MANAGEMENT EXPENSES			52 892	36 023	17 148
In-house management mandates					
Listed equities and participations	Equity	SBX, OSX, CSRX, MSCI		101 252	
Fixed-income mandates		SHB		41 719	
		Lehman		29 335	
Cash and bank balances				169	
Unlisted equities in associated companies, incl. subordinated debentures				8 278	
Total capital assets managed in-house				180 753	83
Other assets and liabilities				-1	
TOTAL FUND CAPITAL				216 775	100

* Market value including allocated liquidity, derivative instruments and accrued interest

** Capital under management of in-house organisation based on external fundamental index (model portfolio)

NOTE 5 Personnel costs

Amounts in SEK million	January-December 2005		January-December 2004	
	Men	Women	Men	Women
Average no. of employees	34	18	33	17
No. of employees, Dec. 31*	35	19	29	17
No. of persons in Executive Management Group, Dec. 31	5**	2	3	2
* At year-end 2006, the Fund had 54 employees, of whom 53 full time.				
** Of whom one received compensation on termination of employment.				
Salaries and remuneration				
Chairman of the Board		100		100
CEO		2 598		2 342
Board of Directors, excl. Chairman		425		425
Executive Management Group, excl. CEO ¹⁾		10 686		8 005
Other employees		31 143		30 678
Salaries and remuneration, total		44 952		41 550
<i>1) of which costs incurred in connection with reduction in executive management, excl. CEO</i>		3 321		
Variable remuneration				
CEO		-		-
Executive Management Group, excl. CEO		-		-
Other employees		-		-
Variable remuneration, total		-		-
Remuneration to Members of the Board, in addition to directors' fees				
		-		-
Pension costs (incl. special employer's contribution)				
CEO		887		624
Executive Management Group, excl. CEO ²⁾		2 961		2 065
Other employees		9 007		8 748
Pension costs, total		12 855		11 437
<i>2) of which costs incurred in connection with reduction in executive management, excl. CEO</i>		777		
Payroll overhead				
Chairman		26		32
CEO		843		779
Board of Directors, excl. Chairman		137		138
Executive Management Group, excl. CEO ³⁾		2 347		2 673
Other employees		11 363		10 087
Total payroll overhead		14 716		13 709
<i>3) of which costs incurred in connection with reduction of executive management, excl. CEO</i>		1 081		
Other personnel costs		2 050		3 576
Total personnel costs		74 573		70 272

Costs in connection with personnel reductions

Costs total SEK 5 180 k and pertain to payments made in connection with termination of employment and release from working commitments, incl. severance pay. These personnel reduction costs have been booked as an expense in 2006, but will be paid out in part during 2007.

CEO

In the above table, salary and remuneration to the CEO consists of salary paid to the acting CEO Gunnar Larsson, for the period November 2005 up to and including February 13th 2006, and of salary paid to the present CEO Eva Halvarsson, as of February 14th 2006. Payroll overhead payments for the CEO refers to the same individuals and periods cited above.

Pensions

In the CEO's contract of employment, which runs from February 14th 2006, the Fund undertakes to pay pension benefits and health insurance up to a pensionable age of 65 years, in the form of an annual premium corresponding to 25 percent of the gross salary. Other senior executives come under the terms of the retirement benefit agreement between BAO (The Employers' Organisation of the Swedish Banking Institutions) and Finansförbundet (The Union of Financial Sector Employees).

Severance-pay agreement

Where the contract of employment is terminated by the Fund, the CEO is entitled to a severance payment equivalent to eighteen months' salary, in addition to salary paid during the six-month period of notice, less income from an eventual new appointment. The severance payment is calculated according to the cash monthly salary received at the end of the notice period. Other senior executives are not entitled to severance pay.

Drafting and decision process

Directors' fees are determined by the Swedish Government. The Presiding Committee, which serves as the Fund's remuneration committee, determines the CEO's salary and discusses remuneration for the Fund's executive management.

Other directorships held by Members of the Board

See page 40.

Absence due to illness

In 2006, absence attributable to illness at the Second AP Fund was 0.67 percent, calculated as a percentage of total days lost to illness against total normal working hours for all employees. No Fund employee has been absent due to illness for more than 60 days. Absence due to illness was 0.70 percent for male employees and 0.61 percent for female employees.

NOTE 6 Other administrative expenses

Amounts in SEK million	January-December 2006	January-December 2005
Rental expenses	4	4
IT and computer expenses	26	26
Purchased services	12	7
Other expenses	13	16
Total other administrative expenses	55	53

"Purchased services" includes fees to auditors amounting to SEK 1 million (SEK 2 million).

Audit assignments

KPMG	1.14	1.48
PricewaterhouseCoopers	0.21	0.32
Other assignments		
KPMG	0.09	0.32
PricewaterhouseCoopers		0.02
Total	1.44	2.14

NOTE 7 Listed equities and participations ¹⁾

Amounts in SEK million	Dec. 31st 2006		Dec. 31st 2005	
	Fair value	Acquisition value	Fair value	Acquisition value
Swedish equities	41 846	28 846	40 150	29 696
Foreign equities	69 370	63 461	67 837	61 228
Participations in Swedish funds	4 529	1 566	4 165	1 943
Participations in foreign funds	12 928	7 947	8 439	4 976
Total listed equities and participations	128 673	101 820	120 591	97 843

¹⁾ The 20 largest Swedish and foreign shareholdings, by value, are listed on page 38. A complete list of Swedish holdings may be found on the Fund's website at www.ap2.se

NOTE 8 Unlisted equities and participations

Amounts in SEK million	Corp. reg.	Dec. 31st 2006			Acquisition value
		No. of equities	Participation right, capital %	Participation right, votes %	
Swedish equities and participations					
Andra & Sjötte Fastigheter AB	556694-3022	2 500	50	50	1
AP Fastigheter Holding AB	556650-4196	1 000 000	25	25	721
NS Holding AB	556594-3999	1 819 884	50	50	811
EQT Northern Europe KB (EQT III)	969670-3405		1		85
Swedestart Life Science KB	969675-2337		5		15
Swedestart Tech KB	969674-7725		3		12
Foreign equities and participations					
Carlyle Riverstone Renewable Energy Infrastructure Fund			3		17
Carlyle Riverstone Global Energy and Power Fund			1		36
Carnegie Fund II BiotechBridge			29		45
Cevian Capital L.P.			22		68
CVC European Equity IV © LP			1		96
EQT Mezzanine L.P.			16		111
Magenta			8		19
Nordic Capital V, L.P.			3		345
Nordic Capital VI, L.P.			3		178
Pathway Private Equity Fund IX, LLC			99.5		462
Pathway Private Equity Fund IXB, LLC			99.5		107
Thomas H Lee Equity Fund VI, L.P.			13		60
TPG Partners V, L.P.			0.3		36
Total unlisted equities and participations					3 225
Total fair value					6 234

The fair value reported above corresponds to the fair value under "Unlisted equities and participations" and the management fees reported in the balance sheet under "Other assets". Management fees reported in the balance sheet amounted to SEK 31 million as per December 31st 2006.

NOTE 9 Bonds and other fixed-income assets

Amounts in SEK million	Dec. 31st 2006		Dec. 31st 2005	
	Fair value	Acquisition value	Fair value	Acquisition value
Swedish State	22 356	21 806	20 951	19 346
Swedish municipalities	-	-	-	-
Swedish mortgage institutions	18 570	18 740	1 632	12 535
Other Swedish issuers				
Finance companies	1 635	1 645	156	147
Non-finance companies	3 918	3 356	3 606	3 309
Foreign states	14 283	15 172	14 172	13 662
Other foreign issuers	9 461	10 018	10 713	10 448
Deposits	5 219	5 226	-	-
Total	75 442	75 963	62 230	59 447
Index-linked bonds	3 530	3 024	6 634	5 587
Other bonds	61 274	62 857	52 314	50 894
Treasury bills	500	500	130	129
Commercial paper	1 290	1 289	-	-
Unlisted promissory notes	2 000	2 000	2 000	2 000
Unlisted convertible subordinated debentures	1 629	1 067	994	711
Participations in Swedish index-linked funds	-	-	33	25
Participations in foreign index-linked funds	-	-	125	101
Deposits	5 219	5 226	-	-
Total	75 442	75 963	62 230	59 447

NOTE 10 Derivative instruments

Amounts in SEK million		Face value*	Dec. 31st 2006 Derivative instruments with positive fair value	Derivative instruments with negative fair value
Currency-related instruments				
Options	Held	361	3	2
	Pledged	90	-	1
Forward contracts		133 773	3 012	389
Total		134 224	3 015	392
of which cleared		-		
Equities-related instruments				
Forward contracts		9	71	-
Total		9	71	-
of which cleared		9		
Fixed-income instruments				
Options	Held	1 234	1	-
	Swaps	100	-	1
Forward contracts		23 608	-	92
Total		24 942	1	93
of which cleared		23 608		
Total derivative instruments			3 087	485

* Face value refers to the number of contracts multiplied by the contract amount for the derivative instruments' absolute amount. The amount thereby includes both forward contracts purchased and sold, gross. Refer to page 10 for a description of the types of derivative instrument employed and the risks that can be managed with derivatives.

NOTE 11 Other assets

Amounts in SEK million	Dec. 31st 2006	Dec. 31st 2005
Incoming payments, unsettled transactions	454	168
Incoming payments, management fees for unlisted assets	31	18
Other receivables	3	2
Total	488	188

NOTE 12 Prepaid expenses and accrued income

Amounts in SEK million	Dec. 31st 2006	Dec. 31st 2005
Interest income accrued	1 594	1 353
Refunds	14	11
Dividends accrued	82	81
Other prepaid expenses and accrued income	32	25
Total	1 722	1 470

NOTE 13 Other liabilities

Amounts in SEK million	Dec. 31st 2006	Dec. 31st 2005
Outgoing payments, unsettled transactions	192	78
Accounts payable	17	4
Other liabilities	2	2
Total	211	84

NOTE 14 Accrued expenses and deferred income

Amounts in SEK million	Dec. 31st 2006	Dec. 31st 2005
Management fees	56	130
Accrued interest expenses on currency forwards	237	231
Other accrued expenses	24	20
Total	317	381

NOTE 15 Fund capital

Amounts in SEK million	Dec. 31st 2006	Dec. 31st 2005
Opening fund capital	190 593	158 120
Net inflow to the national pension system		
Incoming pension contributions	45 906	44 883
Transfer of pension entitlements from EU	-	-
Outgoing pension disbursements	-44 033	-42 268
Transfer of pension entitlements to EU	-6	-14
Adjustment of social security contributions re. previous years	0	5
Other adjustments for previous years	-	-
Outgoing administration contribution to the Social Insurance Administration	-299	-294
Total net inflow to the national pension system	1 568	2 312
Transferred from First AP Fund's Liquidation Fund	63	363
Transferred from Fourth AP Fund's Special Management Fund	45	230
Total transferred from Liquidation/Special Management funds	108	593
Net profit for the year	24 506	29 568
Closing fund capital	216 775	190 593
Investment assets, First AP Fund's Liquidation Fund	3 643	3 688
Investment assets, Fourth AP Fund's Special Management Fund	489	472

Copies of the annual reports of the Liquidation Fund and Special Management Fund are available on request from the First and Fourth AP Funds respectively.

NOTE 16 Other pledged assets

Amounts in SEK million	Dec. 31st 2006	Dec. 31st 2005
Collateral for futures	618	601
Securities on loan for which guarantees have been secured*		
Securities on loan	5 381	1 341
Total	5 999	1 942

* Guarantees secured for pledged securities 5 643 (1 404).

NOTE 17 Commitments

Amounts in SEK million	Dec. 31st 2006	Dec. 31st 2005
Commitments regarding future payments		
Investment commitments, unlisted holdings	4 604	4 669
Total	4 604	4 669

The administration report, income statement, balance sheet and notes for 2006
have been approved by the Board of Directors.

Göteborg, February 7th, 2007

Anders Jansson

Gunnar Larsson
Chairman

Bo Dockered
Deputy Chairman

Märtha Josefsson

Clas Nykvist

Roland Svensson

Eva Persson

Lillemor Smedenvall

Ylva Thörn

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

We have audited the annual accounts, the accounting records and the administration of the board of directors of the Second AP Fund for the financial year 2006. The Fund's Annual Report is included in the printed version of this document on pages 1–37. These accounts and the administration of the Fund and the application of the Swedish National Pensions Act are the responsibility of the board of directors. Our responsibility is to express an opinion on the annual accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors, as well as evaluating the overall presentation of information in the annual accounts. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Swedish National Pensions Act and, thereby, give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts.

In performing this audit, we have found no reason for qualifications regarding the annual accounts, the income statements and balance sheets included therein, the accounting records or the inventory of assets, or otherwise regarding the Fund's management by the board of directors.

We recommend that the income statement and balance sheet be adopted.

Göteborg, February 7th 2007

Anders Bäckström
*Authorised Public Accountant
Appointed by the
Swedish Government*

Göran Jacobsson
*Authorised Public Accountant
Appointed by the
Swedish Government*

Shares, participations and fixed-income securities

The Second AP Fund's 20 largest Swedish shareholdings ¹⁾

Name of company	Share of equity, %	No. of equities	Fair value, SEK m	Share of voting rights, %	Sector
Volvo A	1.81	7 709 745	3 747	4.69	Industrials
Volvo B	0.51	2 152 310	1 015	0.13	Industrials
Ericsson B	0.92	149 123 659	4 123	0.53	IT
Nordea Bank	0.98	25 479 566	2 688	0.98	Financials
Meda A	7.21	7 529 952	2 086	7.21	Healthcare
Hennes & Mauritz B	0.67	5 517 700	1 909	0.32	Consumer Discretionary
SEB A	0.95	6 497 310	1 413	0.98	Financials
Astrazeneca Plc Sek	0.19	3 657 511	1 344	0.19	Healthcare
Swedbank AB A	1.04	5 343 394	1 328	1.04	Financials
SCA B	1.26	2 968 434	1 061	0.52	Materials
SCA A	0.26	618 323	226	1.08	Materials
Atlas Copco A	0.51	3 222 440	741	0.73	Industrials
Atlas Copco B	0.38	2 395 220	532	0.05	Industrials
Sandvik	0.10	12 530 447	1 247	0.10	Industrials
Svenska Handelsbanken A	0.86	5 586 462	1 156	0.86	Financials
TeliaSonera	0.44	19 980 661	1 124	0.44	Telecoms
Investor B	0.78	5 981 991	1 005	0.17	Financials
Investor A	0.05	418 780	70	0.12	Financials
Scania B	0.72	1 430 410	688	0.13	Industrials
Scania A	0.16	320 725	157	0.29	Industrials
Lundin Petroleum	0.96	6 888 746	548	0.96	Energy
Skanska B	1.06	4 585 901	619	0.61	Industrials
Boliden	1.16	3 363 375	592	1.16	Materials
SKF B	0.98	4 449 820	563	0.49	Industrials

The Second AP Fund's 20 largest foreign shareholdings ¹⁾

Name of company	No. of equities	Fair value, SEK m	Sector
Exxon Mobil Corp	1 759 441	916	Energy
General Electric Co	3 070 392	776	Industrials
Bp	9 681 351	742	Energy
Nestle	288 668	700	Consumer Staples
GlaxoSmithKline	3 378 307	617	Healthcare
HSBC Holdings	4 832 094	608	Financials
UBS Namen	1 361 150	564	Financials
Total	1 092 914	544	Energy
Citigroup	1 429 888	541	Financials
Microsoft Corp	2 528 168	513	Information Technology
Bank of America Corp	1 367 278	496	Financials
Johnson & Johnson	1 050 286	471	Healthcare
Roche Holding Genuss	379 418	464	Healthcare
Toyota Motor Corp	994 200	452	Consumer Discretionary
Vodafone Group	23 009 643	443	Telecom Services
Eon	457 903	430	Utilities
Royal Bank Of Scotland	1 492 066	407	Financials
Novartis	990 347	390	Healthcare
Ing Groep	1 237 850	381	Financials
Altria Grp	652 635	380	Consumer Staples

¹⁾ The above table of Second AP Fund shareholdings lists the 20 largest Swedish holdings and 20 largest foreign holdings, by worth. "Swedish shareholdings" also includes companies that have changed their legal domicile after merging with a foreign company, as with AstraZeneca. Share of capital and voting rights for shareholdings listed principally on foreign exchanges in no case exceeds 0.3% and is therefore not reported.

A complete list of the Second AP Fund's Swedish holdings may be found on the Fund's website at www.ap2.se. A complete list of foreign holdings may be ordered from the Second AP Fund.

Second AP Fund holdings in unit trusts

Unit trusts, Swedish	No. of equities, participations	Fair value, SEK m
SHB Småbolagsfond	1 490 041	839
SEB Sverige Småbolagsfond	33 926 015	802
Robur Småbolagsfond Sverige	15 587 327	765
Lannebo Småbolagsfonder	23 052 465	739
Enter Select Focus	302 779	622
Carlson Småbolagsfond	272 088	396
SEB Sverige Småbolag Chans/Risk	3 515 490	366

Unit trusts, foreign	No. of equities, participations	Fair value, SEK m
Merrill Lynch Emerging Markets	24 134 553	2 497
AiG Global Emerging Markets	846 962	2 220
Genesis Emerging Markets	8 963 493	2 085
Pictet Emerging Markets	518 737	2 001
StateStreet Emerging Markets	288 522	1 714
Legg Mason Emerging Markets	512 792	1 271
SAM (Sustainable Asset Management)	768 661	1 063

Second AP Fund holdings in bonds and other fixed-income securities

Swedish nominal bond portfolio, five largest holdings

Bond	Fair value, SEK m
Swedish Government 1043	2 574
Swedish Government 1041	2 356
Swedish Government 1040	2 353
Swedish Government 1045	2 193
Swedish Government 1048	1 683

Swedish index-linked bond portfolio, five largest holdings

Bond	Fair value, SEK m
Swedish Government 3105	1 051
Swedish Government 3104	837
Swedish Government 3102	785
Swedish Government 3101	580
Swedish Government 3106	148

Detailed information about the Second AP Fund's fixed-income securities may be ordered from the Fund.

Global credit portfolio, five largest holdings

Bond	Fair value, SEK m
DB Iboxx Linked Note	561
Kreditanstalt fuer wiederauf 3,5% 2009-07-15	181
Institut Credito Oficial 3,5% 2009-06-30	164
Kreditanstalt fuer wiederauf 5,25% 2009-05-19	139
Kreditanstalt fuer wiederauf 4,5% 2008-12-07	139

Global government bond portfolio, five largest holdings

Bond	Fair value, SEK m
Germany 3.75% 2013-07-04	525
US Treasury Notes 4.625% 2008-02-29	492
France Government 3.75% 2021-04-25	449
France Government 4% 2014-10-25	447
US Treasury Notes 6.25% 2023-08-15	434

Board of Directors



The Board of Directors of the Second AP Fund, December 31st 2006. Members of the Board are appointed by the Swedish Government. They are appointed on the basis of their competence to promote the Fund's management of its portfolio.

Lower row, from left:

Gunnar Larsson

Chairman since 2000.

Chairman of the boards of GöteborgsOperan and Tholin & Larsson-Gruppen AB. Directorships on the boards of Norrporten AB and Andra & Sjätte Fastigheter AB. Former authorised public accountant and Municipal Commissioner for Gothenburg. Born 1940.

Märtha Josefsson

Member of the Board since 2003.

Independent investment consultant. Former Investment Director at DnB Asset Management and Carlson Investment Management AB. Directorships on several boards, including Anoto, Fabege, Ledstiernan, Luxonen, Telelogic, Skandia Funds and Uppsala Nya Tidning. B.A. Born 1947.

Upper row, from left:

Eva Persson

Member of the Board since 2004.

Member of Volvo's executive management, with responsibility for legal affairs, taxation and security, and Secretary to the board of AB Volvo. Directorship on the board of Handelsbanken Region Väst. Board member of the Industry and Commerce Stock Exchange Committee. LL.B. Born 1953.

Roland Svensson

Member of the Board since 2000.

Former President and CEO of Coop Norden AB and KF Ekonomisk förening. Chairman of the Swedish National Museum of Art. Born 1941.

Lillemor Smedenwall

Member of the Board since 2006.

Chairman of Finansförbundet. Born 1950.

Anders Jansson

Member of the Board since 2005.

President and CEO of Stena Metall AB. Formerly president of Volvo Car Finance, head of Global Trading at Handelsbanken Markets, and president of Volvo Group Finance. Born 1957.

Bo Dockered

Vice Chairman since 2000.

Chairman of the boards of AB Trav and Galopp and Sveaskog AB. Honorary Doctor of Agronomy (Dr.h.c. Agronomy) and farmer. Born 1941.

Ylva Thörn

Member of the Board since 2000.

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

Clas Nykvist

Member of the Board since 2000.

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

Executive management



Fund management, Second AP Fund

From left:

Martin Jonasson, General Counsel, born 1964

Tomas Franzén, Chief Investment Strategist (CIS), born 1957

Eva Halvarsson, CEO, born 1962
Directorships on the boards of AP Fastigheter AB, Andra & Sjätte Fastigheter AB

Carl Rosén, Head of Corporate Governance and Communications, born 1959

Poul Winslöv, Chief Investment Officer (CIO), born 1966

Lena Smeby-Udesen, Chief Financial Officer (CFO), born 1961

Auditors

Anders Bäckström,
Authorised Public Accountant, KPMG

Göran Jacobsson,
Authorised Public Accountant, PricewaterhouseCoopers

Definitions

Absolute return on investment

The return generated on a portfolio or portfolios of assets, measured in kronor or percent, of the original invested amount.

Absolute risk

Variation in absolute return. Measured as a standard deviation on absolute return. Also known as “volatility”.

Active/passive management

Active: Where portfolio management may deviate from the benchmark portfolio, to generate an active return. Passive: Where portfolio management exactly matches the benchmark portfolio.

Alpha and Beta

A positive alpha value is the additional return the investor gains as a reward for having taken a greater risk than merely following the market as a whole, via a normal index. A positive alpha return therefore means that the Fund has beaten its index.

Beta simply describes market exposure. Exposure to different markets is determined by the composition of the strategic portfolio.

ALM study

Asset Liability Modelling. An analytical model used to determine the Fund's benchmark portfolio. The study, which is revised on a continual basis, is designed to determine the optimal composition for the different classes of asset under Fund management, to ensure that it satisfies the Fund's long-term commitment to the collective requirements of the Swedish national pension system. The judgements based on this analysis shall take into account demographic change as well general economic trends.

Benchmark index

Index based on the Second AP Fund's strategic portfolio, against which the Fund's management performance is measured.

Discretionary mandate

A mandate that is limited and specific to a single portfolio manager. The alternative to discretionary management is management in a fund, where several managers invest jointly in the same mandate.

Enhanced index mandate

Management of assets at low risk, with a targeted return of between 0.5 and one percent above index.

Information ratio

A gauge of risk-adjusted relative return. Measured as relative return, divided by tracking error/active risk.

Interaction

Interaction is a consequence of the interplay between a strict allocation of assets and a strict choice of securities.

Credit risk and counterpart risk

“Credit risk” refers to the risk that an issuer may become insolvent or be awarded a lower credit rating. “Counterpart risk” refers to the risk that the other party may be unable to meet its business obligations.

Quantitative management

Portfolio management that focuses on exposing incorrect market pricing with the help of a mathematical model.

Liquidity risk

“Liquidity risk” refers to the risk that securities cannot be converted into cash, because of reduced access to or demand from the market, which either precludes the purchase or sale of such securities, or would require their sale at a loss.

Market risk

The market risks most relevant to the Second AP Fund are share-price risk, interest-rate risk and currency risk.

Operational risk

“Operational risk” refers to the risk that an error or stoppage in operations could lead to economic loss or reduced credibility.

Overlay mandate

An active asset management mandate that is separated from the underlying portfolios. In an overlay mandate, forward contracts or other derivative instruments are used instead of underlying equities and bonds. Overlay mandates are normally “long-short” mandates, which do not affect the size of the total portfolio of investments under management. The Fund's GTAA mandates are typical examples of an overlay mandate.

Relative return

The difference in return generated by a portfolio and its benchmark index.

Sharpe ratio

A gauge of risk-adjusted return. Measured as the portfolio's absolute return less risk-free interest, divided by the standard deviation on absolute return.

Strategic portfolio

The Second AP Fund's strategic portfolio is determined annually by the Board of Directors and confirms the Fund's decision on strategic asset allocation. It also serves as the benchmark portfolio in the day-to-day management of the Fund's capital assets.

Tracking error/Active risk

The variation in relative return. Often measured as standard deviation on the relative return.

Fair value

Fair value is defined as the amount for which an asset may be transferred or a debt settled, between parties who are mutually independent and who have a vested interest in completing the transaction. Normally speaking, this means that listed assets are valued at the buying-rate (market value) and that the fair value of unlisted assets is estimated with the help of generally accepted valuation models.



Andra AP-fonden
Second Swedish National Pension Fund - AP2

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