



Andra AP-fonden
Second Swedish National Pension Fund - AP2

Annual Report

2008

Financial review

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This is the Second AP Fund

Global fund manager

The Second Swedish National Pension Fund/AP2* manages national pension reserve assets and is one of five 'buffer' funds within the national income-based pension system, with a global investment portfolio.

Based in Gothenburg

The Second AP Fund was established in 2001 and is based in Gothenburg. The Board of Directors is appointed by the Swedish Government.

Future pensions – an important task

The Second AP Fund's overall goal is to optimize the Swedish pension assets under management.

Innovative workplace

The Second AP Fund is a young, innovative organization, with a strong team spirit, alert to its responsibilities. This promotes a stimulating work environment.

Long-term investment horizon

The Second AP Fund conducts long-term investment of assets based on efficient risk management, supported by analytical models developed in-house.

Sustainable development

Part of the Second AP Fund's mission, within the broader context of its role as a value-generating fund manager, is to promote sustainable development by addressing environmental and ethical issues.

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 2008/2009 is available as a separate publication.

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

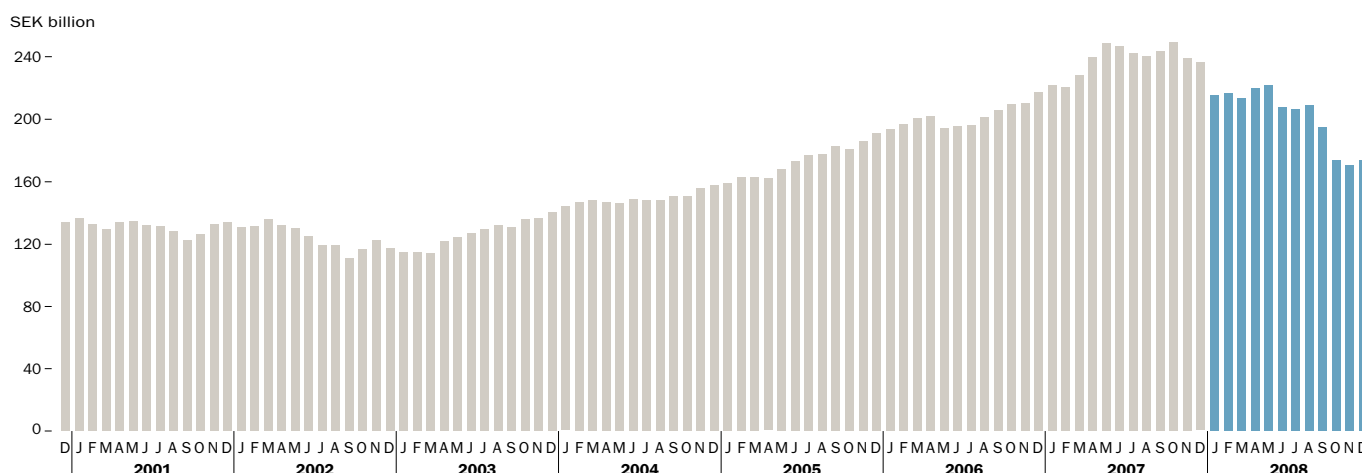
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2008 in brief

- The Fund had total assets of SEK 173.3 billion under management as per December 31st 2008, a decline of SEK 54.2 billion compared with the preceding year. During the year, the Fund reported a net inflow of SEK 0.9 billion. The net result for the year was SEK -55.1 billion. This sharp decline in assets under management was primarily attributable to the sharp decline of the world's stock markets in 2008.
- The Fund posted a return of -24.0 percent on the total portfolio, excluding commission fees and operating expenses. After expenses the portfolio generated a return of -24.1 percent.
- The Fund posted a relative return of -1.8 percent for market-quoted assets, excluding commission fees and operating expenses. The weak result may be attributed to a number of the Fund's equity mandates and some investment products that were poorly positioned in the extreme turbulence that affected the financial market in the autumn. As a result of the financial crisis, almost all active investment mandates, both internally and externally managed, underperformed simultaneously.
- To limit risk in the portfolio, a number of decisions were taken in the autumn. These included decisions to reduce risk in the equities portfolios managed in-house. Furthermore, the size of the Fund's positions in fixed-income and foreign-exchange markets was reduced. A number of investment strategies were terminated completely.
- The Fund's return on unquoted investments in private equity funds and real estate was -1.9 percent.
- The Fund's low exposure in foreign currencies (12 percent) meant that the depreciation of the Swedish krona had a negative impact on the total return.
- AP Fastigheter, in which the Second AP Fund has a 25-percent interest, acquired the real-estate company Vasakronan in the autumn. This increased the Fund's exposure to real estate by 2 percentage points. The new company, which has taken the name Vasakronan, is by far the largest real-estate company in Sweden.

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



The Fund reported total capital assets, including inflows, of SEK 173.3 billion – a decline of SEK 54.2 billion since the start of the year. The net result was SEK -55.1 billion.

The Second AP Fund in 2008

The Second AP Fund's reported assets at year-end totalled SEK 173.3 billion, a decline of SEK 54.2 billion compared with 2007. The Fund's return on the total portfolio, excluding commission costs and operating expenses, amounted to -24.0 percent.

As per December 31st 2008, the Second AP Fund's capital assets were allocated as follows: 57.6 percent equities, 33.0 percent fixed-income securities and 9.4 percent alternative investments. The Fund's portfolio was thereby somewhat over-weighted in alternative investments compared with the strategic portfolio. This over-weighting derives from the Fund's unquoted real-estate holdings (Vasakronan and Norrporten).

The Fund's activities during 2008 are reviewed partly in this formal annual report, as well as in a separate and less formal publication entitled "The Second AP Fund 2008/2009". The annual report contains the financial review, the income statement, balance sheet and notes. The less formal publication features the CEO's comments on fund performance over the year, together with a number of in-depth analyses.

Net result for the year

The Fund's return on total portfolio, excluding combined costs (commission costs and operating expenses), amounted to -24.0 percent. The relative return on quoted assets, excluding combined costs, amounted to -1.8 percent. The weak result may be attributed to a number of the Fund's equity mandates and some investment products that were poorly positioned in the extreme turbulence that affected the financial market in the autumn. As a result of the financial crisis, almost all active investment mandates, both internally and externally managed, underperformed simultaneously.

Inflows for the year amounted to SEK 0.9 billion, of which SEK 0.8 billion in net payments from Försäkringskassan (The National Social Insurance Board). The remaining inflows pertain to dividends from the 'Special Management Fund', managed by the Fourth Swedish National Pension Fund. The net result for the year amounted to SEK -55.1 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 171 million. Performance-based charges for externally managed portfolios, amounting to SEK 83 million, are included in the net result reported for each asset class.

The Fund's operating expenses amount to SEK 159 million, including personnel and other administration expenses.

Key events of the year

The autumn of 2008 witnessed one of the severest financial crises experienced since the 1930s. A more detailed review of financial market movements in 2008 is given in the next full-page spread. Briefly, the crisis was triggered by anxiety about access to credit within the global banking system. This led to a lack of confidence in major sectors of the financial system, which in turn affected the market valuation of all assets classes. The Second AP Fund's portfolio consists largely of equities and it was therefore seriously affected by the sharp decline on global stock markets.

Given the turbulence on financial markets, a number of decisions were taken during the year to limit the risk in the portfolio. These included a decision in the autumn to reduce risk in equity portfolios managed in-house. Furthermore, the Fund's positions in fixed-income and foreign-exchange markets were reduced. A number of investment strategies were terminated completely. In spite of these measures, the market value of the portfolio noted a sharp decline.

AP Fastigheter, which is owned by the four "buffer funds", acquired the real-estate company Vasakronan, thereby forming by far the largest real-estate company in Sweden. The acquisition represents an important element in the long-term development of the Second AP Fund's unquoted real-estate portfolio. The Vasakronan deal has increased the Fund's exposure in real estate by 2 percentage points.

During the year, the Fund has reviewed its portfolio-management focus. A new strategy has been developed to promote a clearer focus, featuring greater simplicity and flexibility. This involves a reduction in the degree of active management and a concentration on fewer areas. In particular, in-house portfolios of actively-managed global equities have been reduced. A new organizational structure has been implemented as of January 1st 2009. This change has involved some personnel cutbacks, reducing in-house asset management costs by just under 10 percent annually.

Other

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

The focus on cost efficiency measures has continued during the year. The Fund's level of costs and operational efficiency has been compared with similar companies and organizations of comparable size. The study indicates that the Fund's level of costs is normal, with a good standard of operational efficiency, given the size of the assets under management, their geographical distribution and the degree of active management.

New rebalancing routines were introduced during the spring. In the new rebalancing process, the portfolio is rebalanced within certain bands. This process requires less-frequent rebalancing and makes the portfolio less sensitive to market swings.

The Fund continues to develop its role as an institutional investor. During 2008, the Fund was represented on 13 nomination committees. The Fund has also published a separate Corporate Governance Report. The Second AP Fund hosted the spring conference of the International Corporate Governance Network in Gothenburg, where more than 200 delegates from some 20 countries gathered to discuss the latest corporate governance issues.

The Joint Ethical Council, established in 2007 in collaboration with the First, Third and Fourth AP Funds, published its first annual report in 2008.

Key events after the close of the report period

The real economic situation has continued to deteriorate in early 2009. A sharp slowdown in private consumption, rapidly shrinking industrial production and declining export figures are clear indicators of a weakening global economy. The prospects for financial markets remain highly uncertain.

| Five-year review | 04-12-31 | 05-12-31 | 06-12-31 | 07-12-31 | 08-12-31 |
|---|----------|----------|----------|----------|----------|
| Fund capital, SEK m | 158,120 | 190,593 | 216,775 | 227 512 | 173,338 |
| Net inflow, SEK m | 1,651 | 2,905 | 1,676 | 2 019 | 884 |
| Net profit for the year, SEK m | 16,119 | 29,568 | 24,506 | 8 718 | -55,058 |
| Return on total portfolio per annum, before commission costs and operating expenses, % | 11.6 | 18.7 | 13.0 | 4.2 | -24.0 |
| Return on total portfolio per annum, after commission costs and operating expenses, % | 11.4 | 18.5 | 12.8 | 4.0 | -24.1 |
| Relative return per annum on quoted assets before commission costs and operating expenses, %* | -0.6 | 0.2 | 0.2 | -0.4 | -1.8 |
| Active risk ex post | 0.5 | 0.5 | 0.7 | 0.7 | 1.0 |
| FX exposure, % | 10 | 11 | 12 | 11 | 12 |
| Under active (incl. enhanced) management, % | 90 | 90 | 93 | 96 | 99 |
| Under external management (incl. investments in private equity companies), % | 37 | 28 | 17 | 24 | 22 |
| Expense ratio, incl. commission costs, % | 0.22 | 0.16 | 0.15 | 0.13 | 0.16 |
| Expense ratio, excl. commission costs, % | 0.08 | 0.07 | 0.06 | 0.06 | 0.08 |

An adjustment for the change in accounting principle for performance-based fees has been made in the 2004 figures for the income statement.

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

Financial market trends 2008

The drama of September 2008 will go down in economic history. The global financial system was on the verge of collapse. The catalyst was the US authorities' declaration that they would be unable to bail out investment bank Lehman Brothers. The greatest US bankruptcy on record was a fact. It caused a total crisis of confidence in financial markets when few dared lending money to anyone, but just held on tight to their liquid assets.

To unravel the worst knots, the central banks of several countries carried out a coordinated programme that involved injecting gigantic amounts of capital into the system. Several financial institutes were de facto nationalized or came under partial State control. In no time at all, all major US investment banks disappeared from the scene, either going bankrupt, being acquired by other banks or becoming ordinary banks as a way to qualify for loans from the Federal Reserve.

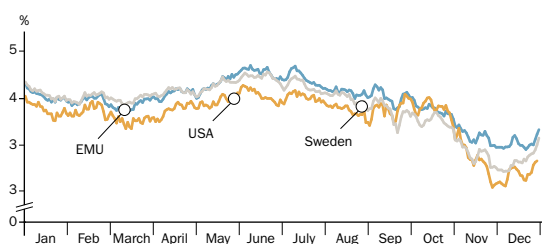
This tumult almost brought the economy to a complete stop, first in the USA, but soon in many other parts of the world. The banks neither could nor would grant new credit. Families, who had seen the value of their homes shrink during the year, increased their savings and slashed their consumption. Companies were hard hit as demand vanished. This applied especially to manufacturers of major consumer items such as cars. The central banks continued with the support measures. By year-end 2008, the Federal Reserve had slashed the base rate almost to zero and dramatically expanded its lending and guarantees to the private sector. All this financial uncertainty forced a flight of capital to more secure investments. America's S&P 500 index fell by a staggering 40 percent during two intensive months in the autumn and in some countries, such as the USA, Germany and Sweden, the long-term rates on government bonds fell to their lowest ever recorded levels.

The year consequently ended in a very subdued mood, even though tentative signs of the stabilization of financial markets could be discerned towards the turn of the year.

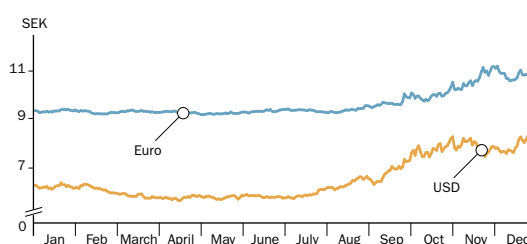
Even so, throughout the year, the global economic cycle continued to be highly unpredictable. Admittedly, the US economy showed clear signs of weakening towards the close of 2007. Yet it was much later, in December 2008 – and after multiple revisions of the available statistics – that it was confirmed that the US had actually entered recession in December 2007. The weakening economy manifested itself especially strongly in the labour market. This all contributed to the sharp decline of market and interest rates during the first few months of last year.

This was followed by a period of stabilization during the winter and spring months, even featuring a recovery in market and interest rates, especially in April and May. A contributory factor was that the global economy actually developed fairly positively during the first half of the year. US financial policy was redirected in a clearly expansive form, which helped to get the economy fairly well up to speed. Elsewhere, growth remained strong at the start of the year. This was true of Japan, the eurozone and a number of emerging markets, led by China. The rate of growth was so strong that oil and other commodity prices skyrocketed. This fuelled consumer inflation to well above central bank targets, causing the European central banks in particular to implement tight monetary policies, which stayed in place until the autumn months. The ECB (European Central Bank) did not raise the base rate until August. Sweden's Riksbank raised the base rate twice, in August and early September – just weeks before Lehman Brothers declared bankruptcy.

10-year bond rates, 2008 (Source: EcoWin)



The Swedish krona against the euro and US dollar, 2008
(Source: EcoWin)



However, the global economy levelled out towards the middle of the year, almost slipping into slight negative growth during the third quarter. The collapse started in September, and all countries found themselves being dragged into the economic decline through their international trade and financial channels. Official polls of households and companies made since December point to the deepest state of pessimism ever recorded (since statistics have been collected, which in the case of US industrial order bookings dates back some 60 years).

The price of oil rose from just under USD 100 per barrel at the start of the year to a record high of USD 145 per barrel, only to fall to barely USD 40 per barrel. Many other commodity prices rode the same roller coaster. Emerging market equities were dramatically affected by these fluctuations in commodity prices, since commodity producers comprise a significant portion of these markets. When the price of oil fell, it triggered a sharp fall in emerging market equities. Consumer inflation was strongly affected by the volatility of commodity prices. Inflation rose for a long time, but many parts of the world noted a distinct decline towards the end of the year, in some cases falling below the targets set by central banks.

In response to the events of September and the inflation turnaround, the European central banks eventually aligned themselves with the Federal Reserve's previously almost unique implementation of interest cuts. A number of emerging markets also followed suit.

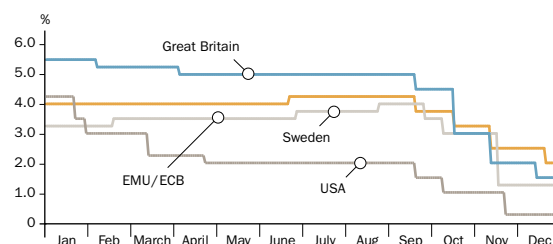
The general state of uncertainty and reduced differentials in interest rates had a major impact on the currency market. The Japanese yen appreciated most in value, followed by the US dollar and the euro. Smaller currencies such as the Swedish krona weakened notably. Anxiety about the overall market situation placed a number of small countries in extremely difficult situations, when capital rapidly sought safer investments. Iceland and several other countries could only be propped up after being granted comprehensive loan guarantees from the International Monetary Fund (IMF).

The development of the Swedish economy and inflation in many respects reflected events in the international arena. This was equally the case in the Swedish financial market. Equity prices started to fall a bit earlier and they fell somewhat lower, compared to global equity benchmarks. Sweden's Riksbank lowered the base rate a bit late, but really pulled out the stops when it did. Bond rates fell further than in many other parts of the world.

Index growth in Swedish kronor and local currencies, 2008

| | SEK, % | Local currency, % |
|-----------|--------|-------------------|
| Dow Jones | -20.0 | -33.8 |
| Nasdaq | -29.8 | -41.9 |
| STOXX 50 | -35.4 | -44.3 |
| Nikkei | -12.4 | -42.1 |
| OMX | -38.8 | -38.8 |

Official key rates, 2008 (Source: EcoWin)



Strategic asset allocation

The composition of the Second AP Fund's strategic portfolio features the combination of asset classes that the Fund deems will yield the best long-term return in the form of systematic exposure to risk premiums on the markets. Allocation within the strategic portfolio is relatively stable and has been adjusted on only a few occasions since 2001.

At year-end 2008, the portfolio comprised the following asset classes:

- Swedish Equities
- Foreign Equities
- Emerging Market Equities
- Fixed-Income Securities
- Real Estate
- Private Equity

The composition of the strategic portfolio is appraised and finalized each year by the Second AP Fund board. This appraisal is based on an ALM (Asset Liability Modelling) study.

Stable portfolio over the long term

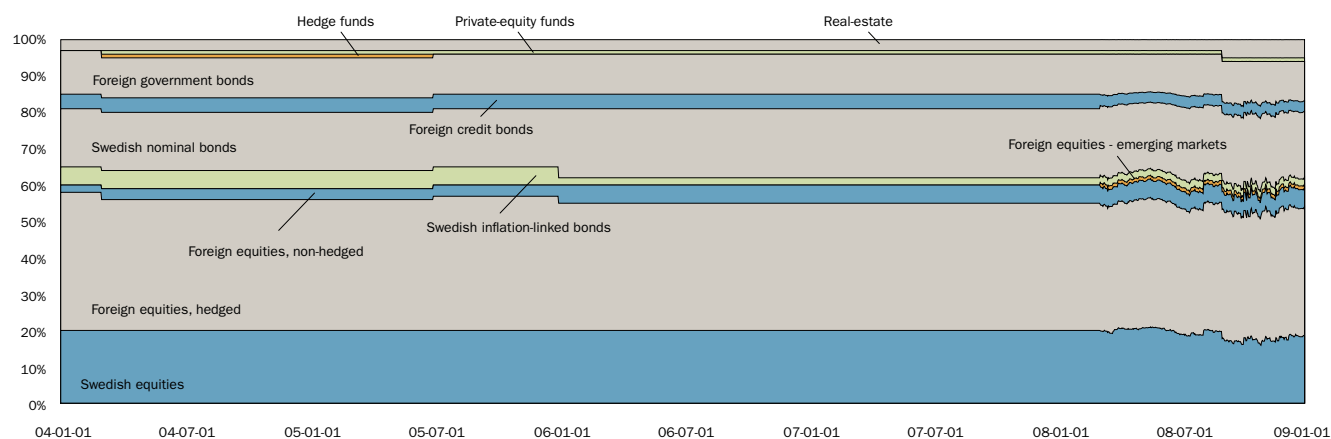
The changes made in the portfolio's composition over the years have consisted mainly of the inclusion of Alternative Investments (real-estate and private-equity funds) and the fact that hedge funds formed part of the portfolio for a time, only to be removed later. The targeted return has also been adjusted on one occasion, and is currently five percent.

Another change is an increase in alternative indexing at the expense of traditional cap-weighted fundamental portfolios. In the long term, this is expected to lead to better risk diversification and a higher return.

Benchmark index for strategic portfolio, 2008

| Part-portfolio | Index |
|---|--|
| Equities | |
| Sweden | SBX "Stockholm Stock Exchange Benchmark Index" RAFI Sweden OSX "Unweighted Sweden Index" CSRX "Carnegie Small Cap Return Index" |
| Foreign equities | MSCI GDP FTSE RAFI Global MSCI World |
| Emerging markets | MSCI Emerging Markets |
| Real Estate | SFIX Svenskt Fastighetsindex |
| Private Equity | 11% per annum |
| Fixed-income securities | |
| Swedish nominal fixed-income securities | SHB Swedish All Bond |
| Inflation-linked bonds | SHB Index Linked |
| Foreign government bonds | Lehman GA Govt 1000 x Japan |
| Foreign credit bonds | Lehman GA Cred 1000 x Japan |
| Government bonds in emerging markets | JPM EMBIGD |

Changes in composition of strategic portfolio 2004-2008



Long-term approach part of the mission

The composition of the strategic portfolio can be linked to the Second AP Fund's Investment Beliefs (the "cornerstones" of the Fund's investment strategy) in several ways. For instance, long-term risk is compensated by a risk premium that varies over time, due to market inefficiencies.

Another basic assumption of the strategy is that the stock market tends to mean-revert over the long term. This means that the risk incurred by long-term investors is less than their short-term counterparts. The risks associated with short-term and unpredictable stock market swings are reduced, as they tend to cancel each other out over time. Since the Second AP Fund is by its very nature a long-term investor, this is one justification for a high proportion of equities in the strategic portfolio.

Substantial exposure in equities

The Fund's substantial stock-market exposure must be seen in light of the fact that the AP Funds account for a relatively limited share of the pension system's overall assets. At year-end 2007, the combined assets of the four buffer funds (the First to Fourth AP Funds) jointly accounted for just over 10 percent of total national pension assets. Since the outstanding 90 percent is not exposed to financial market risk, total stock market exposure is a mere 7 percent.

The mix of both Swedish and foreign equities, including equities in emerging markets, contributes to a further diversification of risk in the portfolio. However, in pace with accelerating globalization, the diversification of risk between different markets is reduced, as correlation between equities markets increases not only during negative market trends. Nevertheless, correlation between emerging market equities and those in the OECD area is expected to be less.

Different forms of risk diversification

The main diversification of risk within the strategic portfolio takes the form of the overall division between equities and bonds. So long as inflation is reasonably low and stable in the long term, correlation between these two asset classes is expected to be very low. Investments in alternative assets such as real estate and infrastructure funds, and to a certain extent private-equity, represent a further substantial diversification of risk. In a normally functioning financial market, these assets are deemed to possess a lower correlation with equities and bonds.

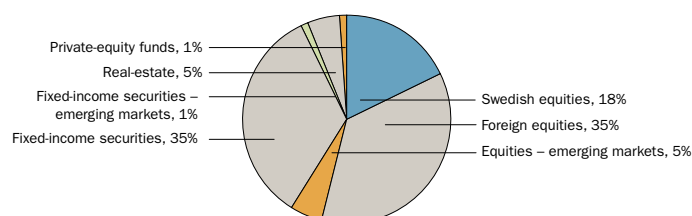
Effects of strategic allocation and selection of index

A number of different elements contribute to the Fund's value creation and capital growth. The primary contributing factor is the selection of the strategic portfolio and its allocation in terms of exposure to equity and fixed-income markets. The choice of benchmark index and its distribution between regions and sectors is also important. The Fund considers choice of index to be part of the investment process, where the index determines an investment universe for in-house and external portfolio management. Instead of the more traditional broad indices, the Second AP Fund has chosen more specialised indices based on non-market cap weighting where, for instance, regional and sector weightings are different. Such alternative indices are designed to improve portfolio diversification and return over the long term. Active management is the third stage of this value generating process, aimed at producing a return that outperforms the Fund's benchmark portfolio.

When appraising the performance of its chosen indices, the Second AP Fund uses the broad, traditional and more commonly employed benchmark indices as its yardstick. In comparing the performance of its Swedish equities index, for example, the Fund employs the SIX RX as its norm. The Fund's Swedish index has underperformed against the SIX RX, and has therefore made a negative contribution to the result. The appraisal includes the effects of implementing floating weightings and a change in hedging method.

In 2008, the selected benchmark index contributed -2.2 percent to the result, while relative return on investment was -1.8 percent.

Strategic portfolio 2008



Structure and staff

At year-end 2008, the Fund numbered 55 full-time staff (of which 21 women). Both the average age and median age of Fund employees is 40 years, featuring an age range from 26 to 63 years.

There was some turnover of personnel during the year. Three members of staff left the Fund, and ten new recruits joined. As a consequence of restructuring conducted prior to 2009, a further three staff members have left the Fund since the close of the report period.

Absenteeism due to ill health was low: 0.6 percent.

A performance assessment system was developed during 2007 and linked to an incentive scheme that came into effect on January 1st 2008.

The system entitles each employee to receive a bonus equivalent to two weeks' salary if the Fund achieves its over-performance target (0.5 percent) and a further bonus equivalent to two weeks' salary if he/she achieves his/her personal goals. Those responsible for the Fund's active return are entitled to a maximum bonus equivalent to two months' salary in rolling payments (the system is presented on the Fund's website at www.ap2.se). Since the overall result for 2008 is negative, and the Fund has not achieved its targets, no rolling payments will be made. The incentive scheme remains unchanged for 2009.

The Fund's total portfolio

Distribution of fund assets

At year-end 2008, the Fund's total assets were SEK 173.3 billion, a decrease of SEK 54.2 billion over the year. These assets were distributed as follows:

- quoted equities totalling SEK 99.7 billion, of which SEK 30.8 billion in Swedish equities and SEK 68.9 billion in foreign equities
- fixed-income securities, including liquidity, totalling SEK 57.3 billion
- holdings in unquoted real-estate equities, including subordinated debenture loans, totalling SEK 11.1 billion
- holdings in private-equity funds totalling SEK 5.2 billion, including liquidity (outstanding investment commitments of SEK 8.4 billion)

The decline in fund assets under management is attributable to a net result of SEK -55 058 million and net flows of SEK 831 million within the national pension system. During the year, these net flows consisted partly of premium contributions and pension disbursements, amounting to a net of SEK 983 million, and partly of expenses incurred for administering the pension system, charged against fund assets in an amount of SEK 152 million.

To this must be added capital totalling SEK 53 million from the Fourth AP Fund's Special Management Fund. In this Special Management Fund, the Fourth AP Fund manages unquoted securities for progressive liquidation. The remaining assets were redistributed to the buffer funds in December 2008.

Valuation principles for quoted and unquoted assets

Quoted assets – principles

Most of the Fund's assets, 91 percent, are quoted assets. This means that they are traded on an active market, at rates that represent actual and regularly implemented market transactions. The Fund's quoted assets are considered to be liquid assets, and are appraised and quoted daily. These liquid assets comprise equities, bonds, derivative instruments and foreign exchange. During periods when the market lacks the liquidity for quoted securities, an appraisal involves an increased element of subjectivity. Such market conditions can lead to dramatic differences in bid and offer rates, which may even vary considerably from one market player to another. In such situations, the Second AP Fund is conservative in its valuation approach.

If a security is to be deregistered, attention is paid to the market rate quoted on alternative markets. Each individual security must be appraised separately.

Quoted assets, 2008

During 2008, the market situation demanded an increased element of subjectivity in the appraisal of certain equities and bonds.

As far as possible, holdings have been valued at officially quoted rates, while others have been valued subjectively. The Fund adopts a conservative approach when valuing assets.

In cases where a quoted holding has been deregistered, the Fund has valued the asset at zero (such as equities in D. Carnegie & Co).

During the year, the Fund has sustained limited realized losses in conjunction with the failure of a number of issuers, leading to their subsequent deregistration. The term 'issuer' refers to market players that issue securities on a quoted or unquoted market. Realized losses pertaining to the write-down of market values to zero have been charged against the Fund's net result and may be attributed to a small number of issuers.

Where rating levels have fallen below investment grade or in cases where fixed-income securities possess notably limited liquidity, the Fund has chosen to gather such holdings in a portfolio specifically intended for gradual divestment. This portfolio includes a minor bond interest in Glitnir Bank. During the year, the Second AP Fund has had no direct exposure to subprime loans.

Unquoted assets – principles

For assets which lack an active market, several appraisal techniques may be adopted to determine true value at a specific valuation date. This value is deemed to correspond to the market rate at which a trade between knowledgeable and mutually independent parties can be conducted. In the case of the Second AP Fund, these unquoted assets consist of real estate (6 percent of the total portfolio), private-equity funds (3 percent of the total portfolio), derivative instruments and some short-term fixed-income instruments.

The appraisal technique chosen means that real-estate and private-equity funds are appraised at a lower periodicity than quoted assets, and based on generally accepted principles for establishing true value.

Private-equity funds are appraised in compliance with the principles established by EVCA (the European Private Equity & Venture Capital Association) or comparable valuation principles, that are common to the entire industry and based on recognized methods. The valuation of holdings is based on the latest interim reports from the respective private-equity funds. Interim reports are normally received within 90 days from the close of the quarter. This means that a valuation of the Fund's holdings at year-end derives from a valuation of the private-equity funds as per September 30th, adjusted for inflows/outflows during the fourth quarter. The Second AP Fund has applied this valuation method consistently, ever since the Fund's formation.

For unquoted derivatives, known as OTC derivatives, valuation is based either on theoretical modelling or on a valuation provided by an external party. Where the Fund's holdings in foreign exchange contracts and interest swaps are concerned, the valuation is based on theoretical modelling, where at present the only subjective elements are the interest curves selected and the method used to calculate and estimate future values (interpolation and extrapolation). In the case of OTC derivatives, valuations are determined exclusively by external parties, with no subjective input from the Fund.

Fund capital performance, 2008

| | SEK million |
|-------------------------------------|----------------|
| Fund capital brought forward | 227,512 |
| Pension contributions received | 50,785 |
| Pension disbursements | -49,802 |
| Administration contribution | -152 |
| Special Management Fund | 53 |
| Net result for the year | -55,058 |
| Fund capital carried forward | 173,338 |

Composition of strategic portfolio, exposure and return as per December 31 2008

| Asset class | Strategic portfolio, % | Exposure, % | Exposed value, billion | Return AP2, % | benchmark-portfolio, % | Active risk ex post*, % |
|---|------------------------|--------------|------------------------|---------------|------------------------|-------------------------|
| Swedish equities | 18.4 | 17.8 | 30.8 | -42.0 | -40.3 | 1.9 |
| Foreign equities | 40.8 | 39.8 | 68.9 | -29.5 | -28.3 | 2.0 |
| Fixed-income securities, including liquidity and accrued interest | 34.8 | 33.0 | 57.3 | 16.6 | 17.9 | 0.5 |
| Total quoted assets, excluding commission costs and operating expenses | | | | -25.4 | -23.6 | 1.0 |
| Alternative investments | 6.0 | 9.4 | 16.3 | -1.9 | 6.5** | |
| Total fund capital, excluding commission costs and operating expenses | 100.0 | 100.0 | 173.3 | -24.0 | -22.2 | |

* Historical outcome, 12 months rolling.

** SFIX, Svenskt Fastighetsindex, estimated by AP2 at 5%.

Unquoted assets, 2008

At the close of 2008, the Fund's portfolio still contained a few outstanding structured OTC derivatives.

In compliance with the Second AP Fund's established principles for the appraisal of private-equity funds, the valuation of these assets is based on the latest interim reports, resulting in a three-month time-lag in the end-of-year figures. A number of write-downs have occurred during the third quarter that have affected the Fund's holdings and had a negative impact on the net result. Given the continued decline noted by public equities markets during the fourth quarter of 2008, further declines in the value of the Fund's holdings in private-equity funds are anticipated. The effect on the net result will be known during the first quarter of 2009, based on the finalized year-end results posted by the private-equity funds' individual portfolio companies. The result will consequently be reported in the Fund's six-month interim report for 2009. In light of the fact that the Second AP Fund's holdings in private-equity funds are long-term and constitute no more than 3 percent of the total portfolio, the Fund has elected to retain the valuation principles that have been instrumental from the start. In view of the fact that the valuation of this market lags behind, further write-downs may be implemented during the spring of 2009. A further possible write-down of 10 percentage points would affect the Fund's net result in an amount of approximately SEK 540 million.

Reported return

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 occasion and at the same periodicity. The Fund's holdings in market and unquoted assets feature different periodicities and frequencies in valuation data.

The Fund's reported return shall therefore consist of the return generated on quoted assets, valued on the basis of daily quoted share prices, and the return on unquoted assets, valued using the generally accepted models applied to respective market instruments/assets. Relative return, however, is measured against the performance of the market-quoted portfolio. In both instances, this includes the Fund's variable costs for external portfolio management, commonly referred to as performance-based fees. The Fund's commission costs and operating expenses for 2008 are excluded, as per the appraisal model used by the Swedish Ministry of Finance.

Net result for the year

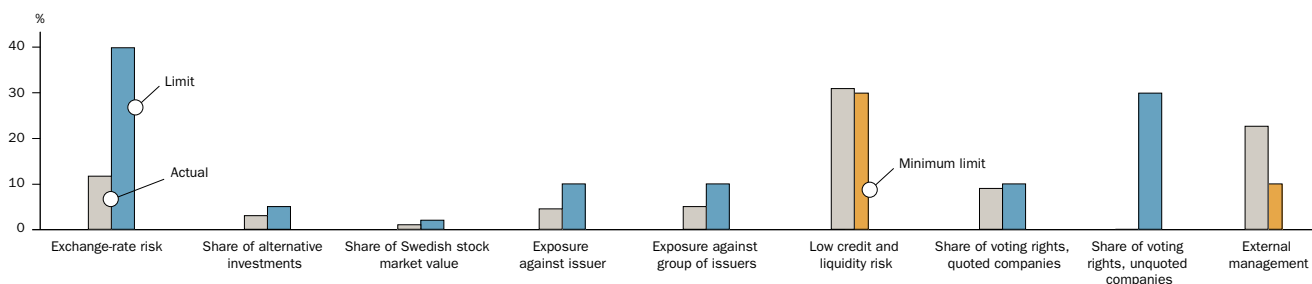
Operating income

Operating income for the year amounted to SEK -54 899 million. This comprised net interest income, dividends received, net return per asset class, foreign exchange gains/losses and net commission costs. The largest negative item – the net result on quoted equities and participations – comprises both gains realized on the sale of equities as well as unrealized changes in the value of the stock portfolio on December 31st 2008.

A management charge of SEK 83 million was made against operating income for performance-based fees paid to external portfolio managers. This cost, incurred when an external portfolio manager generates a return over and above the agreed target, has a direct impact on the net result reported for each asset class, as per current accounting principles.

Commission expenses pertaining to fixed fees of SEK 156 million to external portfolio managers, as well as custodial expenses of SEK 15 million, were charged against operating income.

Limits as per investment regulations



Operating expenses

Operating expenses totalled SEK 159 million. Reported as a ratio of average fund capital over the twelve months, this corresponds to a cost level (management fees excluding commission expenses) of 0.08 percent, a marginal increase on previous years, deriving from a combination of lower average fund capital and a slight increase in operating expenses.

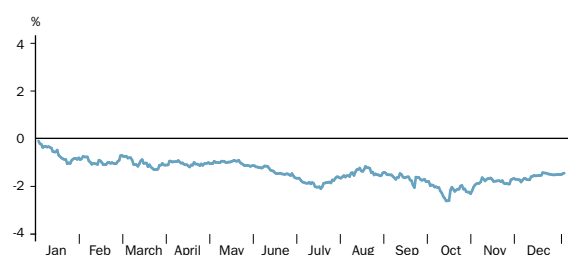
If commission expenses are included, this results in a fund management cost equivalent to 0.16 percent of total capital. For an assessment of the Fund's cost efficiency compared with other pension funds, see section entitled 'Resource allocation', on page 26.

Return

The Fund posted a return of -24.0 percent on its total portfolio (quoted and unquoted holdings) in 2008, before commission fees and operating expenses. The performance-based element of the fees paid for the discretionary external mandates of quoted assets has been charged against this return. The sharp decline in fund capital is mainly attributable to the dramatic decline of the world's stock markets in 2008.

The reported relative return on quoted assets, before commission fees and operating expenses, amounted to -1.8 percent for the year. The weak result may be attributed to a number of the Fund's equity mandates and some investment products that were poorly positioned in the extreme turbulence that affected the financial market in the autumn. As a result of the financial crisis, almost all active investment mandates, both internally and externally managed, underperformed simultaneously.

Sharpe ratio, 2008



Risk analysis 2008

Market risk

The Fund's active risk utilization has increased during 2008 as a consequence of the sharply increased volatility of the markets compared to the preceding year. VIX (implicit volatility for S&P 500 index options) has been at historically high levels of around 80 percent. The active level of risk, ex post, for the Fund's quoted assets amounted to 1.0 percent at year-end, excluding commission fees and operating expenses. Active risk is concentrated to a number of different mandates, including externally-managed global equity mandates, internally managed Swedish equities and a number of equity mandates focused on emerging markets. The variation in risk utilization between the different asset classes is considerable. The levels of active risk reported for Swedish and foreign equities were 1.9 and 2.0 percent respectively.

The Fund's total and strategic portfolios noted sharp increases in volatility during the year, rising from 8.7 and 8.7 percent to 19.1 and 19.2 percent. This increase in volatility derives mainly from Swedish equities, although also fuelled by the increased volatility of foreign equities. The Fund reported negative Sharpe and information ratios for 2008.

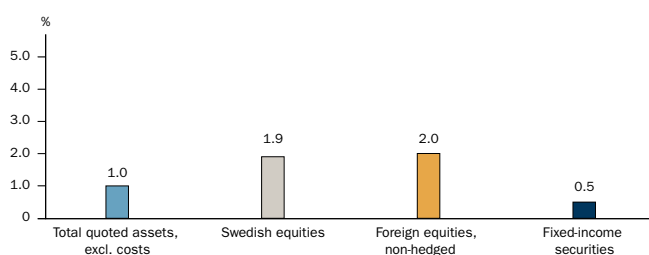
A review of limits stipulated by the Fund's investment regulations shows that risk utilization was well within the defined parameters.

Credit risk

Credit risk refers to the risk of loss arising from a creditor's failure to fulfil a credit commitment. In light of the financial crisis, where one of the factors that triggered it was the problematic (sub-prime) loans issued by US banks, the issue of credit risk has risen to the top of fund managers' agendas too.

The credit risk may be defined in terms of issuer risk, counterparty risk, liquidation risk and concentration risk. Credit risk is limited by requiring rating categories as well as exposure and liquidation limits. A large part of the Second

Active risk by asset class, 2008 (tracking error, ex post)



AP Fund's credit risk is defined as counterparty risk. The Fund's counterparty risk is monitored and analysed on a daily basis. Approval as a counterparty to the Second AP Fund requires a form of credit check, based partly on officially available data and partly on subjective assessments. The starting point for such an assessment is the purpose and nature of the business relationship and, consequently, the extent and possible impact of the corresponding exposure. This type of check is used when approving a new counterparty, as well as part of the ongoing monitoring of current business relationships. The idea is to complement credit ratings with a number of other factors, to provide as comprehensive a picture of the counterparty as possible.

Issuer risk is defined as the risk that an issuer may become insolvent and therefore unable to honour its commitments. The creditworthiness of issuers may even cause losses long before a declaration of bankruptcy. A decline in an issuer's creditworthiness normally leads to a decline in the market value of the fixed-income instruments and other securities associated with the issuer. Issuer risk is limited by credit-risk limits, for individual issuers and groups of issuers, classified

by rating. The autumn's financial crisis has led to increased focus on the monitoring and analysis of the Fund's main market exposure and its exposure in specific sectors. The joint exposure in equities and fixed-income securities is monitored. The analysis is then complemented with data on changed credit ratings and market development of holdings. During 2008, the Fund realized a limited number of losses due to the failure of issuers, resulting in a number of deregistrations.

Losses realized in conjunction with the write-down of values to zero have been charged against the Fund's earnings, and may be attributed to a limited number of issuers.

A major review of the Fund's regulations and management of credit risk will be conducted during 2009, to further refine current processes.

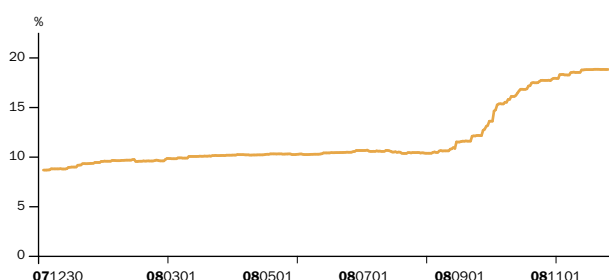
The starting point for credit risk in the Fund's portfolio is the interest rate index determined for the strategic portfolio. This comparative index is used to determine the parameters for permitted deviations, in the form of credit risk limits per rating category. Limits and other restrictions are also established to determine the permitted level of exposure.

Risk adjusted return for total portfolio, valued by year

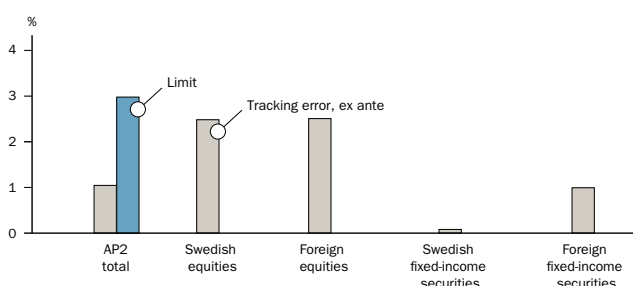
| | 2002 | | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | | 2008 | |
|------------------------|-------|---------------------|------|---------------------|------|---------------------|------|---------------------|------|---------------------|------|---------------------|-------|---------------------|
| | AP2 | Strategic portfolio | AP2 | Strategic portfolio | AP2 | Strategic portfolio | AP2 | Strategic portfolio | AP2 | Strategic portfolio | AP2 | Strategic portfolio | AP2 | Strategic portfolio |
| Return, % | -15.3 | -15.7 | 17.8 | 18.5 | 11.6 | 12.0 | 18.7 | 17.8 | 13.0 | 11.8 | 4.2 | 4.2 | -24.0 | -22.2 |
| Standard deviation, % | 13.0 | 13.1 | 8.6 | 8.6 | 5.8 | 5.7 | 4.8 | 4.7 | 7.4 | 7.7 | 8.7 | 8.7 | 19.1 | 19.2 |
| Active risk ex post, % | 1.0 | - | 0.6* | - | 0.5* | - | 0.5* | - | 0.7* | - | 0.7* | - | 1.0 | - |
| Information ratio | 0.5 | - | neg | - | neg | - | 0.3 | - | 0.3 | - | neg | - | neg | - |
| Sharpe ratio | neg | - | 1.7 | - | 1.6 | - | 3.4 | - | 1.2 | - | neg | - | neg | - |

* Total quoted portfolio, excluding commission costs and operating expenses

Volatility, portfolio of quoted assets 2008



Risk limits, active risk



Portfolio of quoted assets, 2008

The following section reviews return per asset class, while active return is controlled, measured and presented per investment team under Active Management.

Swedish equities

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---------------------------------|------|------|------|------|------|-------|
| Exposed value, SEK billion | 28.4 | 32.8 | 40.8 | 43.5 | 45.0 | 30.8 |
| Absolute return, % | 34.4 | 19.0 | 36.6 | 29.5 | -3.1 | -42.0 |
| Relative return, % | -1.6 | -1.2 | -2.9 | 0.6 | -0.5 | -1.7 |
| SIXRX, % | 34.2 | 20.8 | 36.3 | 28.1 | -2.6 | -39.1 |
| Share of active managem., % 100 | 94 | 100 | 100 | 100 | 100 | 100 |
| Share of ext. managem., % | 56 | 27 | 18 | 10 | 6 | 7 |
| Active risk ex post, % | 1.3 | 1.3 | 1.6 | 2.9 | 1.9 | 1.9 |

The Swedish equities portfolio is subject to long-term appraisal based on a combination of four separate elements, each assigned its own benchmark index. The total index at year-end consisted of a cap-weighted element (26 percent), benchmarked against the SBX index; an equally-weighted element (36 percent), benchmarked against the OSX index; a cap-weighted small cap element (11 percent), benchmarked against the CSRX index, and a fundamental index (27 percent).

In all, the management of Swedish equities has generated an absolute return of -42.0 percent against a benchmark index of -40.3 percent.

Swedish equities, managed by the Fund's Swedish equity team and Quantitative department, as well as by external small cap funds, noted a combined market value of SEK 30.8 billion as per December 31st 2008.

The majority of the portfolio has been under active/enhanced management throughout the year. The active level of risk assigned to these Swedish mandates, measured as tracking-error, amounted to 1.9 percent.

The majority of this active risk relates to the portfolio where the Fund's response is based on topical growth trends and/or active governance.

Foreign equities

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|-----------------------------|------|------|------|------|------|-------|
| Exposed value, SEK billion | 56.7 | 63.8 | 77.5 | 85.7 | 89.6 | 68.9 |
| Absolute return, % | 22.5 | 11.5 | 22.9 | 16.4 | 8.3 | -29.5 |
| Relative return, % | -1.0 | -0.3 | 2.0 | 2.5 | 0.3 | -1.2 |
| MSCI AC World, % | 22.6 | 10.6 | 20.0 | 13.0 | 7.2 | -27.1 |
| Share of active managem., % | 78 | 80 | 82 | 89 | 92 | 92 |
| Share of ext. managem., % | 82 | 77 | 53 | 27 | 39 | 27.7 |
| Active risk ex post, % | 1.3 | 0.9 | 0.7 | 1.0 | 1.7 | 2.0 |

The Fund's holdings in foreign equities are matched against a cap weighted share with the MSCI World benchmark index (17 percent), a BNP-weighted share with the MSCI GDP benchmark index (48 percent), a benchmark for emerging markets (13 percent) and a fundamental index (22 percent).

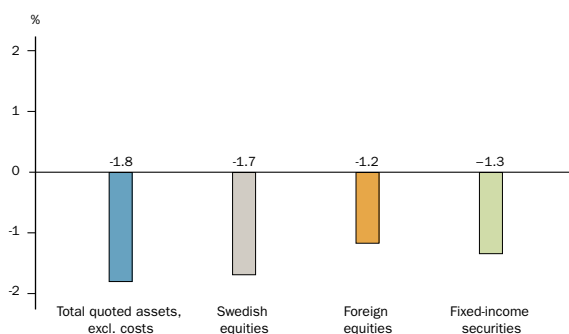
In line with the Fund's strategic asset allocation policy, investment has focused on European, Japanese and Pacific stocks and emerging markets, although its market exposure in the US might seem less than justified, given the North American equity market's cap weighting.

Management of foreign equities has generated a combined absolute return of -29.5 percent during the year, compared with the benchmark index, which generated -28.3 percent. During the same period, the broad-based MSCI AC World index generated a return of -27.1 percent.

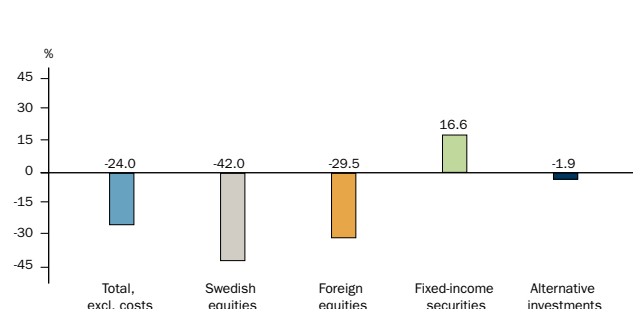
Foreign equities were managed in-house by the Global Alpha team and the Quantitative team, as well as under a number of external mandates, focused on global management and the management of equities in emerging markets.

As per December 31st 2008, the combined market value of the Fund's holdings in foreign equities totalled SEK 68.9 billion, 92 percent of which was under active management. The level of active risk assigned to foreign holdings is 2.0 percent.

Relative return per asset class, 2008



Absolute return per asset class, 2008



Swedish and foreign fixed-income securities

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|--|------|------|------|------|------|------|
| Exposed value including liquidity, SEK billion | 50.4 | 54.6 | 65.1 | 77.4 | 80.6 | 57.3 |
| Absolute return, % | 5.3 | 7.3 | 4.3 | 0.8 | 2.5 | 16.6 |
| Relative return, % | -0.1 | -0.3 | 0.0 | 0.0 | -0.2 | -1.3 |
| Share of active managem., % | 98 | 94 | 93 | 91 | 99 | 100 |
| Share of ext. managem., % | 10 | 8 | 8 | 10 | 15 | 20 |
| Aktiv risk ex post, % | 0.2 | 0.2 | 0.4 | 0.3 | 0.2 | 0.5 |

Management of the Fund's fixed income securities and foreign exchange assets, conducted in-house as well as externally, is based on broad management of Swedish and global bonds. The Fund's in-house management focuses 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. An additional quantitatively managed fixed-income mandate was implemented during the year. The Fund will also focus on external mandates with higher risk and higher potential returns, as well as specialised in-house mandates. The fixed income portfolio primarily consists of Swedish nominal and inflation-linked bonds, benchmarked against the SHB index, and internationally traded government securities and credit bonds, benchmarked against the Lehman index. The market value of the Fund's fixed income holdings, including liquidity, totalled SEK 57.3 billion as per December 31st 2008. Foreign fixed-income holdings totalled SEK 29.1 billion.

The management of fixed-income securities in 2008 generated a return of 16.6 percent, thereby underperforming the return posted by the benchmark index by 1.3 percent. The relative result has been negatively affected by external credit market and emerging market mandates.

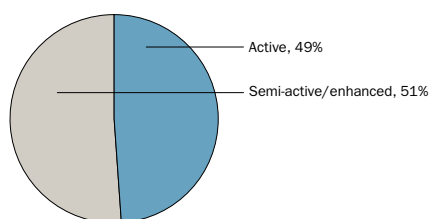
As per December 31st 2008, the duration of the portfolio was 5.0 years, an increase compared to the preceding year. National issuers accounted for 37 percent of the fixed-income portfolio. As per December 31st 2008, 71 percent of the portfolio was placed in fixed-income securities, rated from AA- to triple A (AAA). Swedish mortgage bonds accounted for 31 percent of the portfolio's total market value.

Only two of the holdings in the Fund's portfolio of fixed-income securities were rated below investment grade. These holdings will be divested as soon as an opportunity presents itself.

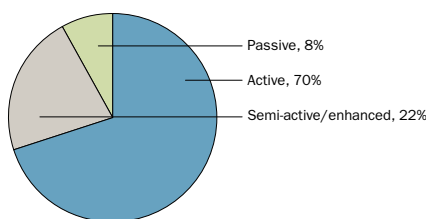
FX trading

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 has had a favourable impact on the Fund's overall return.

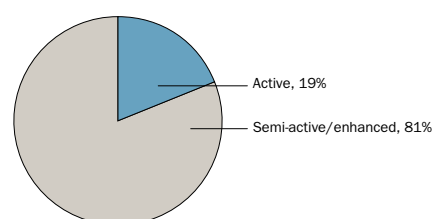
Management style, Swedish equities



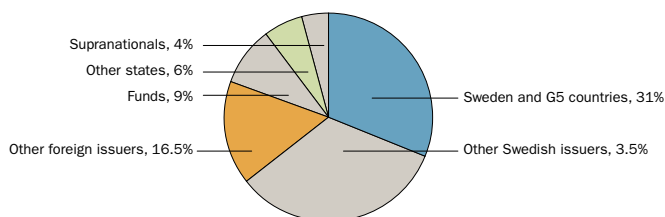
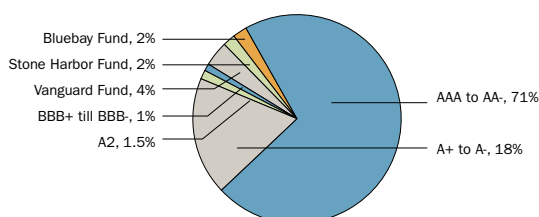
Management style, foreign equities



Management style, fixed-income securities



Issuers



Alternative Investments 2008

The Fund has gathered its investments in asset groups Real Estate and Private Equity Funds, which account for 9.5 percent of the Fund's total capital, under asset class Alternative Investments. Real estate, corresponding to 6.4 percent of the Fund's total capital assets, accounts for the largest share of Alternative Investments, with private equity funds accounting for approximately 3.1 percent of the Fund's investments. Alternative Investments noted a return of -1.9 percent on investment.

Private-equity funds

The law requires that Swedish AP funds may only invest in unquoted equities indirectly, via private equity funds, mutual funds or their equivalent. The strategy adopted 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 seven new funds operated by fund managers identified earlier, who have now established new funds. These new investments, in Nordic Capital VII, TPG VI, Riverstone/Carlyle Global Energy and Power Fund IV, Riverstone/Carlyle Renewable and Alternative Energy Fund II, Generation Climate Solutions Fund, CVCV and Pathway IXC (fund-in-fund), total SEK 4.5 billion.

In conjunction with the undertakings made in previous years, this brought the Fund's total investment commitment to SEK 14.9 billion. Actual investments to date total SEK 4.8 billion, including management fees, of which SEK 1.7 billion in 2008. The market value of these investments totalled SEK 5.4 billion, excluding currency hedging. Investment in private-equity funds noted a return of -9.1 percent for the year.

Private-equity funds are appraised in accordance with the principles established by EVCA (the European Private Equity & Venture Capital Association) or comparable valuation principles, that are common to the entire industry and based on recognized methods. The valuation of holdings is based on the latest interim reports from the respective private-equity funds. Interim reports are normally received within 90 days from the close of the quarter. This means that a valuation of the Fund's holdings at year-end derives from a valuation of the private-equity funds as per September 30th, adjusted for inflows/outflows during the fourth quarter. These valuation principles are described on page 11.

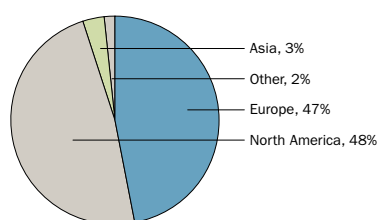
Fees paid for the management of unquoted assets, where reimbursement is permitted prior to profit sharing and is deemed likely, are reported as part of the acquisition value of such assets. See also the Fund's accounting and valuation principles, page 34.

Since the Fund's inception, a total of SEK 355 million has been paid out in the form of management fees for fund investments in private-equity funds. Of this sum, SEK 91 million has been accounted for as expenses.

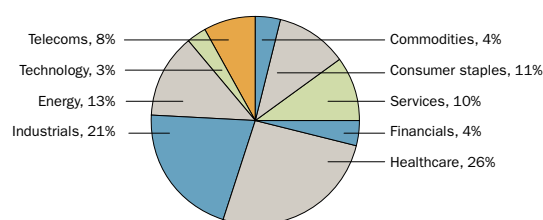
Investments and commitments, private-equity funds, by investment style

| Fund | Vintage year | Venture capital | Buy out | Special situations | Other | FX | Original investment commitments in agreed FX | Acquisition value SEK m |
|---|--------------|-----------------|---------|--------------------|-------|-----|--|-------------------------|
| Mature funds | | | | | | | | |
| EQT Northern Europe KB (EQT III) | 2001 | | X | | | EUR | 20,000,000 | 46 |
| Swedestart Life Science KB | 2001 | X | | | | SEK | 25,000,000 | 19 |
| Swedestart Tech KB | 2001 | X | | | | SEK | 25,000,000 | 11 |
| Carnegie Fund II BiotechBridge | 2002 | X | | | | EUR | 5,488,173 | 44 |
| Nordic Capital V | 2003 | | X | | | EUR | 50,000,000 | 373 |
| EQT Expansion Capital I | 2003 | | | | X | EUR | 30,000,000 | 138 |
| Cevian Capital | 2003 | | | | X | EUR | 33,802,735 | 44 |
| CVC European Equity Partners IV | 2005 | | X | | | EUR | 35,500,000 | 218 |
| Nordic Capital VI | 2005 | | X | | | EUR | 50,000,000 | 454 |
| Immature funds | | | | | | | | |
| Pathway Private Equity Fund IX | 2004 | X | X | X | | USD | 150,000,000 | 799 |
| Carlyle/Riverstone Renewable Energy Infrastructure Fund I | 2005 | | | | X | USD | 20,000,000 | 105 |
| Carlyle/Riverstone Global Energy and Power Fund III | 2005 | | | | X | USD | 30,000,000 | 174 |
| Pathway Private Equity Fund IXB | 2005 | X | X | X | | USD | 250,000,000 | 765 |
| Thomas H Lee Equity Fund VI | 2006 | | X | | | USD | 35,000,000 | 121 |
| TPG Partners V | 2006 | | X | | | USD | 45,000,000 | 241 |
| Magenta | 2006 | | X | | | EUR | 3,273,648 | 0 |
| Carlyle Europe Partners III | 2006 | | X | | | EUR | 50,000,000 | 148 |
| TPG Star | 2007 | X | | | | USD | 50,000,000 | 80 |
| TPG Credit | 2007 | | | X | | USD | 30,000,000 | 181 |
| Sun Capital V | 2007 | | | X | | USD | 26,000,000 | 37 |
| Lyceum II | 2007 | | X | | | GBP | 25,000,000 | 22 |
| Resolute Fund II | 2007 | | X | | | USD | 50,000,000 | 72 |
| New Mountain Partners III | 2007 | | X | | | USD | 50,000,000 | 67 |
| Mid Europa Fund III | 2007 | | X | | | EUR | 50,000,000 | 103 |
| TCV VII | 2007 | X | | | | USD | 25,000,000 | 9 |
| TPG Asia | 2007 | | X | | | USD | 50,000,000 | 52 |
| Riverstone/Carlyle Renewable & Alternative Energy Fund II | 2008 | | | | X | USD | 50,000,000 | 59 |
| Riverstone/Carlyle Global Energy and Power Fund IV | 2008 | | | | X | USD | 50,000,000 | 94 |
| CVC European Equity Partners V | 2008 | | X | | | EUR | 50,000,000 | 58 |
| Generation Climate Solutions Fund | 2008 | | | | X | USD | 33,000,000 | 70 |
| Nordic Capital VII | 2008 | | X | | | USD | 50,000,000 | 91 |
| TPG Partners VI | 2008 | | X | | | USD | 50,000,000 | 15 |
| Pathway Private Equity Fund IXC | 2008 | x | x | x | | USD | 250,000,000 | 124 |
| Total acquisition value | | | | | | | | 4,834 |
| Fair value, total | | | | | | | | 5,388 |

Holdings in private-equity funds, geographical distribution



Holdings in private-equity funds, by sector



Real-estate

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

The objective of the Second AP Fund's investments in real estate is to generate a solid long-term return on investment and contribute to a satisfactory diversification of risk in the total portfolio. In 2008, AP Fastigheter acquired Vasakronan from the Swedish State. At the time of the acquisition, Vasakronan's real-estate portfolio was estimated to be worth SEK 41.1 billion. The new company, which has assumed the name Vasakronan, is by far the largest real-estate company in Sweden.

Vasakronan, which is owned jointly by the First to Fourth Swedish National Pension (AP) Funds, has a concentrated and attractively located portfolio of real-estate holdings in the Stockholm, Gothenburg, Öresund and Uppsala areas. Subsequent to the acquisition of Vasakronan, the company owns and manages about 300 properties, totalling some 3.4 million square metres of floor space. The Fund's holding in Vasakronan depreciated by SEK 853 million in value (the properties having been affected by net write-downs of approximately 2 percent), while yielding a dividend of SEK 319 million and interest gains on debenture and promissory note loans of SEK 268 million.

Norrporten is owned jointly (50/50) by the Second AP Fund and the Sixth AP Fund. The company continued its strategic expansion during the year and has started construction of two properties in Hamburg, while continuing its expansion through acquisition and the construction of new buildings in Copenhagen. The company continues to develop its portfolio of real estate in Sweden, with the purchase and sale of individual properties.

Norrporten owns and manages some 136 properties, totalling approximately 1 million square metres of floor space.

The Norrporten holdings have developed favourably in 2008, with a SEK 68 million gain in market value and interest income on debenture loans amounting to SEK 207 million.

The market values of the real-estate portfolios held by Vasakronan and Norrporten, including promissory notes and debenture loans, amounted to SEK 6 958 million and SEK 4 175 million respectively.

The combined return on the Fund's unquoted real-estate holdings was 0.7 percent, of which Vasakronan accounted for -2.7 percent and Norrporten 7 percent.

Unquoted real-estate holdings Dec 31st 2008

AP Fastigheter Holding AB, amounts in SEK m

| | |
|--|--------------|
| Equities | |
| Acquisition value | 1,221 |
| Valuation | 1,262 |
| (of which affecting operating result 2008: -853) | |
| Fair value as per Dec 31st 2008 | 2,483 |
| Total dividend 2001-2008 | 1,674 |
| (of which in 2008: 319) | |

Debenture and promissory note loans, incl. accrued interest

| | |
|--|------------|
| Debenture and promissory note loans, | |
| incl. accrued interest per Dec 31st 2008 | 4,475 |
| Total interest income 2001-2008 | 970 |
| (of which in 2008: 268) | |

NS Holding AB, amounts in SEK m

| | |
|---|--------------|
| Equities | |
| Acquisition value | 811 |
| Valuation | 1,397 |
| (of which affecting operating result in 2008: 68) | |
| Fair value as per Dec 31st 2008 | 2,208 |

Subordinated debenture loans incl. accrued interest

| | |
|---|------------|
| Subordinated debenture loans | |
| incl. accrued interest as per Dec 31st 2008 | 1,967 |
| Total interest income 2001-2008 | 967 |
| (of which in 2008: 207) | |

Andra & Sjötte Fastigheter AB, amounts in SEK m

| | |
|--|----------|
| Equities | |
| Acquisition value | 2 |
| Fair value as per Dec 31st 2008 | 0 |

Active asset management

During 2008, the Second AP Fund's portfolio management model was based on an organization of separate investment teams, which offered respective teams many investment opportunities in several asset classes. This resulted in less diversification than anticipated.

It seems likely that the highly demanding markets of recent years are going to be around for some time. For this reason, the Fund has consolidated its expertise in different portfolio management areas and created a simpler and more transparent asset management organization, with a view to securing future success. The new organization was introduced at the turn of the year.

The Fund will be engaged in fewer in-house mandates and has lowered its level of ambition in terms of the active in-house management of portfolios of global equities. Effective January 1st 2009, portfolio management will be organized as follows: Equities Management, Fixed-Income Management, Quantitative Management, External Mandates and Strategic Exposure & Trading. In addition to this, one forum will be created to determine decisions relating to tactical allocation and another to determine decisions about larger and more long-term deviations from the strategic portfolio.

Swedish Alpha

During the year, active management was conducted in both Swedish equities and fixed-income securities. Active management of Swedish assets contributed -0.5 percent to the Fund's relative return. As a consequence of the selection of certain securities, approximately half of the negative contribution to the Fund's result was attributable to the concentrated portfolio of Swedish equities. Holdings in Lindab and Clas Ohlsson, for example, seriously underperformed against index, due to the rapid economic downturn.

The other negative impact on the Fund's result derived mainly from the group's investments in fixed-income securities, where positions for lower interest rates on mortgage bonds vis-à-vis government bonds developed negatively during the second half of the year.

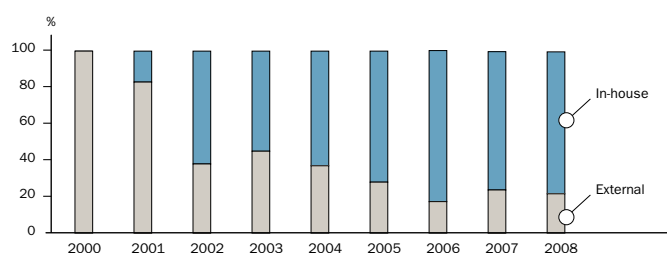
Global Alpha

Global asset management in 2008 comprised the in-house management of equity, fixed-income and FX mandates. Management of these assets contributed -0.5 percent to the Fund's relative return. This result is primarily attributable to the negative contribution made by OTC products, and from both long-term and short-term equity mandates. The concentrated global equities portfolio lost a large part of its value on equities that could not be divested because of limited market liquidity during the autumn, with a weak and turbulent stock market. Trading in fixed-income instruments and FX generated a slight positive contribution to the result.

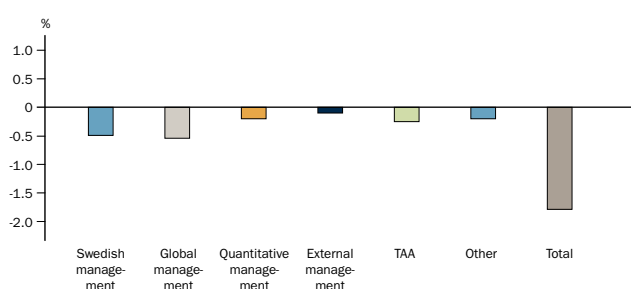
Tactical Asset Allocation

In-house management of global fixed-income securities
The active in-house management of global fixed-income securities was handled by the Fund's tactical asset allocation investment team during 2008. This active management achieved an overperformance (excluding FX hedging) of 0.4 percent relative to the Fund's benchmark index. The greater part of this positive active return derived from positions taken to benefit from falling global interest rates, although with the emphasis on falling US and British interest rates compared with the rest of the world. Positioning for a steeper yield curve in the USA and eurozone also made a positive contribution to the result.

Relative distribution, in-house and external management



Attribution of relative returns on quoted assets, per investment team, %



A certain negative impact on the result derived from increased credit spreads on mortgage bonds and supranational bonds (issued by the European Investment Bank, the World Bank and others), a consequence of the increased availability of State-guaranteed bonds issued by banks.

OTC products

Exposure to the difference between implicit and realized volatility in the equities market produced a negative result of just over SEK 500 million. The position saw its value decline sharply in connection with high realized volatility during the turbulence experienced by the stock market in autumn 2008.

TAA and exposure management

Over the whole year, tactical positions and rebalancing made a negative contribution of -0.1 percent to the Fund's total relative return. This is attributable in its entirety to the first two months of the year (-0.3 percent), when the Fund had fixed reference weights. During the rest of the year, management of these assets contributed 0.2 percent to the rebalancing of the Fund's portfolio.

A positive contribution to the result derives from tactical deviations in equity weightings and conscious deviations between the Swedish and foreign equities markets. Underweighting in equities in emerging markets also made a positive contribution, while overweighting corporate bonds and emerging market bonds made a negative contribution.

Quantitative Strategies

Quantitative Strategies focuses on Swedish and global equities, Swedish and global fixed-income securities, both semi-active and passive. The non-Swedish equity portfolio was restructured in March 2008, whereby the regionally-based portfolios of equities were merged with two global portfolios. The in-house quantitative team made a negative contribution of -0.2 percent to the Fund's relative return. The majority of this negative contribution derives from the global GDP-weighted portfolio and from the fundamental-weighted portfolio of Swedish equities.

The exclusion of Wal-Mart as an investment alternative made for ethical reasons has had a negative impact on the team's relative result. Foreign regional equities mandates have contributed positively, while the Swedish fixed-income mandate has developed in line with benchmark.

External Management

Some of the Second AP Fund's assets are managed with the assistance of external managers. External managers are employed in sectors, asset classes or strategies where they are deemed capable of making a positive contribution to relative return, or in areas where the Second AP Fund lacks the necessary resources for in-house management.

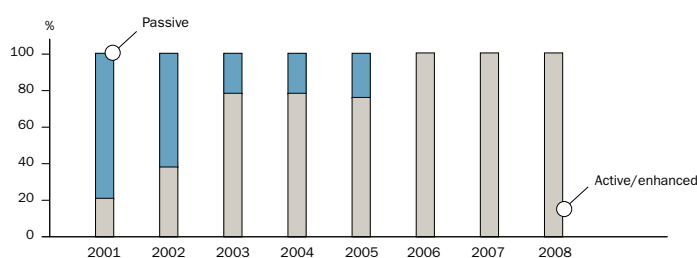
As at December 31st 2008, 22 percent of the Fund's assets were outsourced to external managers – all employing an active management style.

During 2008, three external mandates have been active within the framework of the Fund's tactical allocation. The Fund's GTAA (Global Tactical Asset Allocation) mandates are based on an investment process in which several positions are driven by different investment themes, where positions are taken between different segments, countries and regions on the global equities and bond market. Similarly, large numbers of tactical positions are taken on global FX markets. These three external mandates account for a significant portion of the Fund's active risk utilization, and have contributed SEK 400 million to relative return.

During 2008, a new portfolio was established that may contain a number of minor investments in less proven investment areas, or mandates handled by managers with an innovative approach. An initial investment was made in this portfolio during the year.

Assets under external management have made a negative contribution of -0.1 percent till the Fund's relative return.

External management, passive/active management style



Contract negotiation and selection criteria

When selecting external portfolio managers, the Fund utilizes a number of predetermined selection criteria, such as investment style, analytical quality, organisational structure, staffing and historic performance. Qualitative and quantitative factors are subjected to thorough analysis, both during the negotiations and, if selected, during ongoing portfolio management.

Cost of external management

The degree of active risk accepted, and selection of market, to a great extent determine the cost of managing assets. During the year, the Fund's externally managed capital has been under active management. The cost is partly fixed and partly performance-based. In 2008, the fixed cost was SEK 151 million and the variable performance-based element totalled SEK 83 million. If management fees for alternative investments are included, this brings the Fund's combined fixed costs for external management to SEK 156 million. This is equivalent to 0.21 percent of the average capital assets under external management during 2008. The Fund compares the ongoing cost for external management of capital assets with those for similar market players. The Second AP Fund's current external portfolio managers are quoted in Note 4.

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

| | Unquoted assets |
|---|-----------------|
| Income, gross | 387 |
| Management fees reported as part of the acquisition value | 100 |
| Management fees reported as commission expense | -5 |
| Net contribution | 482 |
| Capital assets under management, market value 2008-12-31 | 5,388 |
| Invested capital, 2008-12-31 | 4,834 |
| Investment commitment, 2008-12-31 | 14,867 |

Other

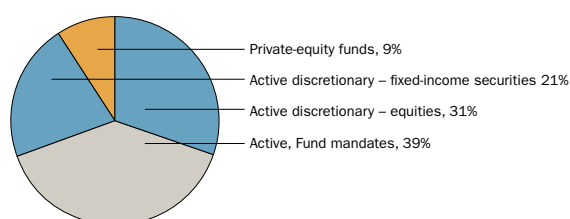
The most important contribution to this item derives from effects arising from rebalancing the total portfolio. The effects analysed are the rebalancing of asset classes, the maintenance of exposure, the allocation to sub-indices in the respective asset classes, the effect of FX hedging and the management of rebalancing instruments.

In all, the above contributed -0.2 percent to the relative return.

A new model, introduced in the spring of 2008, means that portfolio weightings are now free-floating within certain specified intervals and where rebalancing is first initiated on occasions when these intervals are broken. Experience of the new model is positive, and it has significantly reduced rebalancing costs. During the autumn, bands for rebalancing FX have been introduced.

Assets under external management, by management style

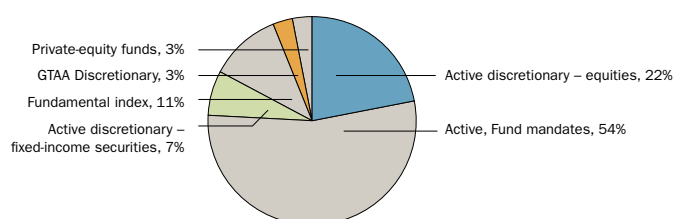
Total average assets under management: SEK 45 billion



GTAA mandates have no allocated capital, as these mandates are exposed in the form of derivative instruments.

Management fees, by management style

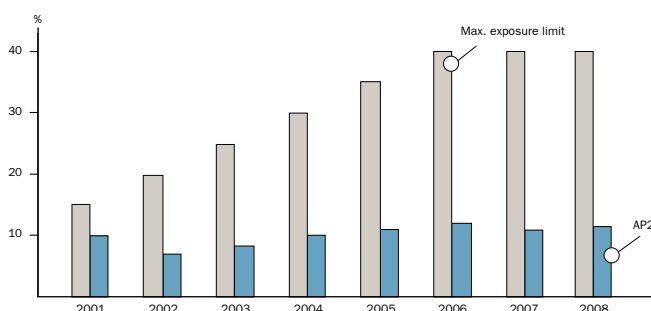
Total fund manager fees: SEK 156 million



FX exposure

At year-end, the Fund's currency exposure amounted to 12 percent. This relatively low level of exposure during the first part of the year was favourable, especially with respect to holdings quoted in US dollars. The Swedish krona also remained strong against the pound, reflecting the performance of the euro. During the autumn, however, the krona fell sharply in value against the US-dollar, the euro and the yen. The Fund reports a positive foreign exchange gain for the full twelve months of SEK 2 044 million. Combined foreign exchange gains, including interest gains/losses on forward exchange contracts, total SEK 2 795 million.

Statutory exposure limit, compared with the Second AP Fund's currency exposure, 2001-2008



Currency exposure

| Dec. 31st 2008, equivalent in SEK million | USD | GBP | EUR | JPY | CHF | Other | Total |
|---|--------------|------------|--------------|-------------|--------------|------------|---------------|
| Equities and participations | 29,640 | 4,773 | 18,933 | 6,255 | 2,524 | 3,465 | 65,590 |
| Bonds and other fixed-income securities | 11,624 | 775 | 11,819 | 0 | 0 | 1,454 | 25,672 |
| Other assets and liabilities, net | 225 | 129 | 237 | 92 | 118 | 428 | 1,229 |
| Derivative instruments excl. FX derivatives | 5,080 | -4 | -473 | 14 | -2 | 14 | 4,629 |
| FX derivatives | -37,444 | -4,974 | -22,035 | -6,633 | -469 | -5,003 | -76,558 |
| Currency exposure, net | 9,125 | 699 | 8,481 | -272 | 2,171 | 358 | 20,562 |

Currency exposure is 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.

Derivative instruments

According to the guidelines established in the Fund's business plan for 2008, derivative instruments may be used to improve the effectiveness of portfolio management, create added value, reduce risk and to hedge the Fund's portfolios. Forward contracts may only be issued if secured by a holding in the same asset class. During the year, derivative instruments have been employed especially in the following areas:

- FX derivatives for managing the Fund's currency exposure, forward contracts and options.
- Equity derivatives – mainly in the form of standardized equity futures – for effective rebalancing of the portfolio and when adopting a position in tactical asset allocation.
- Interest-rate derivatives – mainly standardized interest-rate forwards and interest rate swaps – for rebalancing, tactical asset allocation and for management of the Fund's interest risk. Limited use of interest-rate options, to position the Fund against interest risk.

- Structured derivatives, not exposed to one single asset class, such as volatility swaps and dividend forwards. Derivatives are used to generate relative return and focus on beta neutrality.

Within the frame work of the Fund's GTAA mandates, positions are adopted with the assistance of derivative instruments. The mandates are authorized to act with the assistance of short and long positions in the permitted asset classes. However, the mandates do not permit the adoption of a long net position.

Exposure in derivative instruments is reviewed and analysed on an ongoing basis, as with other types of instrument. Equity and interest-rate derivatives are preferably traded in the form of market-quoted standardized products. Trading in the FX market's derivative instruments is not standardized, creating possible credit and delivery risks for the Fund in trading with other parties. The board of directors approves and sets limits for counterparty risks when the Fund uses non-standardized products. In the case of OTC trading, the Fund requires standardized contracts, such as ISDA contracts. Some equity derivatives have been traded OTC, with a Swedish bank as counterparty.

Mandates in quoted securities and funds

| Equity mandates | Style | ROI, % | Under/over-performance against index, % |
|---|----------|--------|---|
| Europe | | | |
| AP2 in-house | Enhanced | -10.4 | 0.3 |
| North America | | | |
| AP2 in-house, RAFI-index* | Enhanced | -7.8 | -0.4 |
| AP2 in-house | Enhanced | -8.2 | 0.0 |
| Japan | | | |
| AP2 in-house* | Enhanced | -8.2 | 0.1 |
| Emerging markets | | | |
| AiG Global, fund | Active | -44.3 | -1.4 |
| Merrill Lynch, fund* | Enhanced | -22.3 | 0.3 |
| Genesis, fund | Active | -38.0 | 5.0 |
| State Street, fund | Active | -49.5 | -6.6 |
| AP2 in-house* | Passive | -24.8 | 0.2 |
| Global equity mandates | | | |
| MFS | Active | -18.5 | 8.5 |
| Carnegie | Active | -30.3 | -3.3 |
| Franklin Templeton | Active | -31.0 | -4.0 |
| Generation, fund | Active | -17.4 | 9.6 |
| AP2 in-house, RAFI-index IPM* | Active | -14.4 | 2.8 |
| AP2 in-house, RAFI-index* | Active | -16.9 | 0.3 |
| AP2 in-house, MSCI GDP* | Enhanced | -17.1 | -1.2 |
| AP2 in-house, MSCI GDP* | Passive | -13.4 | 0.2 |
| Fokus AP2 | Active | -62.3 | -41.5 |
| Pacific, excluding Japan | | | |
| AP2 in-house* | Enhanced | -11.0 | 0.1 |
| Swedish OSX mandates | | | |
| AP2 in-house, Quantportfolio | Enhanced | -37.9 | 0.4 |
| AP2 in-house, Quantportfolio | Passive | -34.9 | 0.4 |
| Swedish SBX mandatee | | | |
| Fokus 1 AP2 | Active | -40.1 | -4.1 |
| Fokus 2 AP2 | Active | -28.9 | 4.7 |
| AP2 in-house, Quantportfolio* | Enhanced | -8.2 | -0.1 |
| AP2 in-house, Quantportfolio* | Passive | -16.1 | 0.1 |
| Swedish RAFI mandate | | | |
| AP2 in-house, Quantportfolio | Enhanced | -40.3 | -0.7 |
| Swedish CSX mandates, small caps | | | |
| SEB Sverige ChansRisk, fund | Active | -43.5 | 0.9 |
| Carlson Sverige Small Caps, fund | Active | -40.8 | 3.6 |
| Robur Small Caps, fund | Active | -43.2 | 1.2 |
| Lannebo Small Caps, fund | Active | -36.2 | 8.2 |
| Handelsbanken Small Caps, fund | Active | -42.4 | 2.0 |
| AP2 in-house | Active | -45.8 | -1.4 |

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

| Fixed-income mandates | Style | ROI, % | Under/over-performance against index, % |
|--|----------|--------|---|
| Swedish nominal fixed-income mandates | | | |
| AP2 in-house, Quantportfolio | Enhanced | 11.9 | 0.0 |
| Swedish inflation-linked mandates | | | |
| AP2 in-house, Quantportfolio | Passive | 6.1 | 0.0 |
| Global management/fixed income | | | |
| Rogge | Active | 23.2 | -1.2 |
| Global management/government securities | | | |
| AP2 in-house | Active | 27.5 | 0.4 |
| Global management/credit | | | |
| Franklin Templeton* | Active | 1.1 | -9.3 |
| Vanguard, fund | Active | 14.4 | -1.6 |
| Stone Harbor, fund* | Active | -0.3 | -4.7 |
| Emerging markets | | | |
| Bluebay, fund* | Active | -3.7 | -16.4 |
| Stone Harbor, fund* | Active | -0.4 | -13.1 |
| GTAA mandates | | | |
| | Style | | Return, SEK m |
| IPM/First Quadrant | Active | | 315.7 |
| Bridgewater, fund | Active | | 91.4 |
| Barclays, fund | Active | | 24.4 |

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

Business support in a changing world

At the Second AP Fund, responsibility for review, analysis and control lies with Business Support. Activities concerning portfolios managed in-house and under external mandates, as well as interaction between the Fund's portfolios, are subject to daily analysis. The Fund's external reporting comprises annual and half-year reports, while risk utilization and return are analysed in-house on a daily basis.

In the case of the Fund's strategic allocation activities, the review process is linked to the asset class, with reference to the strategic portfolio and its related benchmark index. The Second AP Fund's portfolio structure derives from the Business Plan's strategic portfolio and its quoted and unquoted asset classes. Appraisal of the combined management of quoted and unquoted assets is conducted in reference to the strategic portfolio and the individual asset classes are evaluated against their respective benchmark indices.

Analysis and provision of reports on the ongoing management of the portfolio shall be conducted in a comparable manner, irrespective of management style or whether the mandate is under in-house or external management. Since the Second AP Fund's benchmark is expressed in asset classes, analysis and reporting is conducted for both asset class and investment team. The current management structure places demands on contribution analyses in percentage as well as monetary terms. Follow-up and support is also conducted via meetings and highly accessible systems support, via the Fund's data warehouse.

Risk management

The Second AP Fund's risk management team conducts risk control and risk analysis of the Fund's market-quoted assets, as well as acting in an advisory capacity to the Fund's executive and portfolio management. The team's responsibilities also include stress test analyses and monitoring of operative risk.

To achieve a solid return on assets under management, a certain degree of risk must be accepted. It is important, however, to ensure that the risk taken is calculated in advance and monitored afterwards. Follow-up of investment regulations, limits and financial risks is handled on a daily basis. The Fund's absolute and relative risk is monitored and analysed. 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.

Attribution analysis

The reports and analyses generated in-house are designed to support the decision-making process by promoting an understanding of the factors and positions that have contributed to portfolio performance and determined the level of risk utilized.

Attribution analysis is therefore an important and central part of the evaluation process. The analysis aims to clarify how and where performance is generated in relation to the Fund's risk utilization, both in terms of absolute and relative risk. It is conducted in several dimensions, for both absolute and relative return, as well as for the level of risk utilisation.

Performance 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.

To adjust follow-up in line with management strategy and the clearly defined targets expressed in monetary terms per investment team, the attribution process is now the same, whether the mandate has a benchmark or not. Consequently, the Fund requires that monitoring and analysis of in-house/external mandates, as well as mandates featuring 'beta' and even strictly 'alpha' elements, satisfy the same requirements.

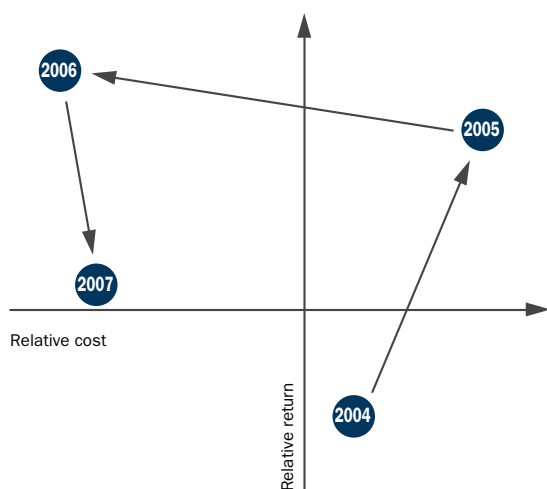
Resource allocation

The Fund's allocation of human resources and costs is subject to ongoing analysis. These analyses are intended to evaluate resource utilization in relation to results, in pursuit of still greater efficiency.

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 2005, the Fund initiated cooperation with Cost Effectiveness Measurement Inc (CEM), a Canadian company with many years experience of analysing pension funds similar to the Second AP Fund. This cooperation is intended to provide relevant ongoing comparative data that can be used to benchmark 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.

A comprehensive analysis of the Fund's performance in 2007 was conducted during the year, demonstrating that the Fund has maintained a normal level of costs, with cost-efficient management. The graph below shows the Fund's income growth (relative return) in relation to actual costs (relative added cost) over the period 2004-2007, illustrating the improvement in the Fund's position, compared to its benchmark group.

Cost efficiency comparison



CEM's study shows how the Second AP Fund's position changed during the years.

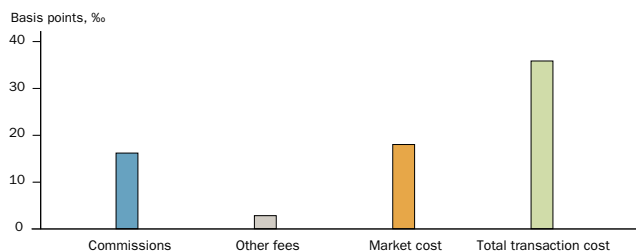
Transaction costs

One key area to monitor is transaction costs, direct as well as indirect. Direct costs refer to commissions, clearing costs and taxes. These are monitored from a number of different perspectives, such as the distribution between parties and the levels agreed. Indirect costs provide a means to measure and gain an idea of trading efficiency. This monitoring process, which is ongoing and conducted at regular intervals, involves what is known as a TCA analysis (Trade Cost Analysis). This compares the Fund's direct and indirect transaction costs with a large group of comparable funds, to match its performance against a relevant benchmark.

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, commission is reported as a deductible item under the net result for quoted equities and participations.

Commission fees paid in 2008 totalled SEK 101 million (SEK 105 million). Of this total, 11 percent is attributable to commission fees for external management, the remainder to costs relating to the Fund's in-house portfolio management. Costs amounted to 0.06 percent of the total trading volume.

TCA analysis sample



The following five counterparties have received commissions corresponding to 60 percent of commission payments (in alphabetical order): Carnegie, Citigroup, Goldman Sachs, SEB and SHB.

Securities loan programme

Like other market players in the field of long-term asset management, the Second AP Fund operates a securities loan programme. Lending focuses mainly on foreign equities and is provided to counterparties with high credit ratings who provide collateral equivalent to approximately 105 percent of the market value of the securities in question. Loans and collateral are administered by the Second AP Fund's custodial bank. These collateral securities are administered by the custodial bank according to a low risk profile. No credit losses have been sustained in conjunction with the securities pledged.

Total income from securities loans amounted to SEK 90 million for the year. This income made a positive contribution to the Fund's relative return of 0.05 percentage points.

The income generated by this loan programme is reported as an interest gain in the income statement.

Key indicators

To further enhance the efficiency of its operations, the Second AP Fund has developed a model to monitor key indicators. The intention is to create better decision data for improved operational control. A number of key indicators have been defined and target values have been monitored during 2008. Follow-up and evaluation is conducted on a monthly basis and includes return, costs and level of risk utilized.

Systems environment and IT security

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.

IT security is one of the Fund's strategic priorities. The level of preparedness is high and commitment to continuity and disruption planning is an ongoing process. The technology is designed to ensure that the Fund's most business-critical systems can immediately be brought on line in the event of crisis or catastrophe. These systems are duplicated (fully redundant), offering external access via a 'reserve site', while maintaining stringent data security standards.

Operational risks

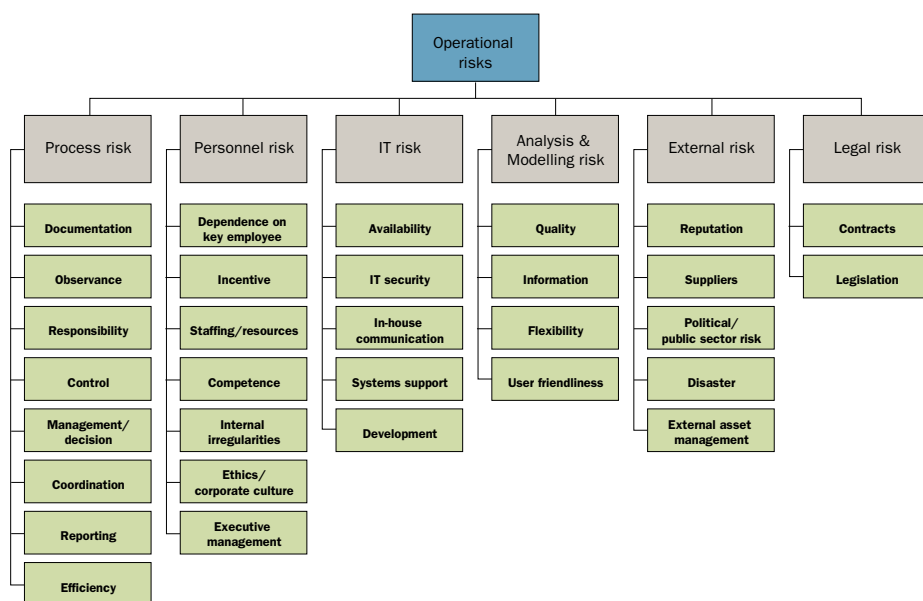
A study was conducted in 2004 to determine the potential operational risks faced by the Fund. Generally speaking, the study showed that the Fund's level of risk was low and that staff possessed a high awareness of operational risks. Since then, the Fund has conducted an ongoing programme focused on improvements and the development of more advanced processes.

In 2008, work started on determining a methodology and developing a special process to address operational risks, with a view to increasing the level of know-how and to promote qualitative preventive strategies. The Fund's operational risks have been defined and categorized in the form of a 'risk tree'.

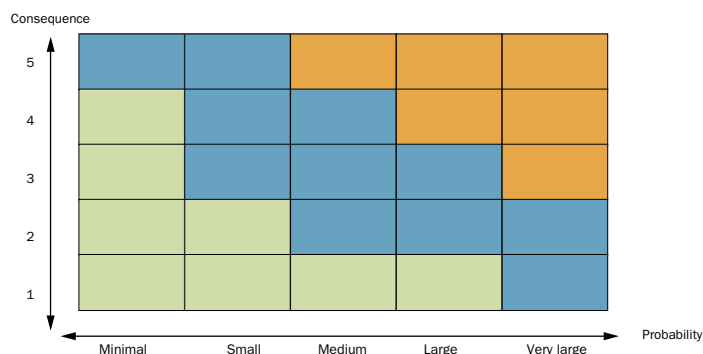
Potential risks have been identified and assessed in workshops, in which staff and senior managers from all departments have been involved. A number of interviews have also been conducted with individual members of staff. Operational risks have been determined with regard to the likely occurrence of specific events and their possible consequences. The results have been compiled in a risk matrix, where they are awarded priority ratings and then passed to the appropriate units for processing.

The project, which was implemented and completed during the year, will be followed by annual reviews and ongoing improvements. The process, which is carried out on an annual basis, comprises four steps: Identify, Evaluate, Control & Resolve and Report.

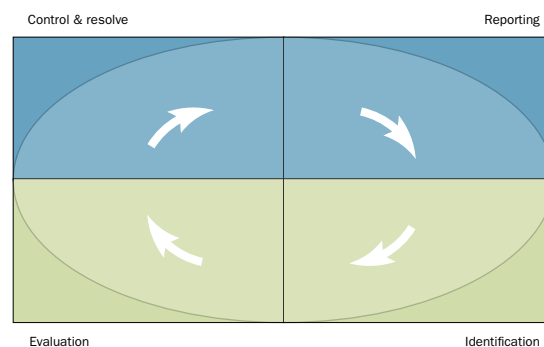
The Second AP Fund's 'risk tree' for operational risks



The Second AP Fund's risk matrix



Overall process, operational risks



Corporate governance

Voting at Swedish AGMs in 2008

During 2008, the Second AP Fund exercised its voting rights at the AGMs of 51 quoted Swedish companies. The Fund voted against board proposals at three of these AGMs.

The Second AP Fund voted against discharging the board of directors that had been active until September 2007 in D. Carnegie & Co (Carnegie) from liability. This was primarily to ensure that options remained open for possible future actions for damages against members of the board. The board that was active until December 2008 investigated the likelihood of successfully pursuing a claim against the old board, and reached the conclusion that this would not be the case.

Subsequent to the Swedish National Debt Office's takeover of Carnegie's subsidiaries as collateral in November 2008, an extraordinary general meeting was convened, partly because a balance sheet had been drawn up for liquidation purposes and partly because the board was no longer complete, following a number of resignations. Prior to the Meeting, the nomination committee worked to nominate a new board based on the previous board's recommendation to continue operating the company and not to place Carnegie in receivership. None of the previous members of the board made themselves available for re-election and, despite intense efforts to recruit suitable candidates, the nomination committee, which was chaired by the Second AP Fund's Carl Rosén, decided against nominating a new board of directors. The representative for Max Matthiessen on the nomination committee, whose own suggestions for board members were approved by the Meeting, protested this decision. The Meeting therefore rejected the Second AP Fund's proposal that an official receiver be appointed to complete the legal procedures initiated by the old board. The Second AP Fund registered its dissent against the selection of a new board.

The Second AP Fund voted against the incentive system operated by Lundin Petroleum, as it was not performance related and had not been treated as a separate item in the notice convening the meeting.

Voting at foreign AGMs in 2008

During the year, the Second AP Fund has exercised its voting rights at the AGMs of 64 foreign companies. The selection was based on the size of the Fund's holding, in connection with the work of the AP Funds' Joint Ethical Committee, or in collaboration with international investors. At the majority of these AGMs, the Fund either voted against board proposals or in favour of proposals submitted by the shareholders.

In cases where the Fund voted against a board's proposals, the motivation was shareholder rights. Concerning the right to elect a board of directors according to the majority principle, the Fund has collaborated with the US pension fund CalPers. Concerning the need for more comprehensive information and the ability to vote on remuneration issues, the Fund has worked closely with America's TIAA-CREF. As for demands for more detailed reporting on environmental issues, the Fund has cooperated with the US investor network CERES. In cases where a board has proposed the appointment of a CEO who is also the chairman of the board, the Fund has voted against the board, in line with the view on shareholder rights adopted by the Swedish market.

Second AP Fund's participation in nomination committees 2008/2009

The Fund has been represented on the nomination committees of thirteen companies: Carnegie, Kungsleden (chairman), Biotage, Castellum, Elekta, Haldex, Hexagon, Intrum Justitia, JM, Lundin Petroleum, Meda, Oriflame and Vostok Gas. The Fund's representative on the Carnegie nomination committee resigned after the AGM in December 2008.

Board composition – women/men

For the first time in ten years, the steady increase in the number of women elected to corporate boards has been broken. According to the Second AP Fund's index, the percentage of women on corporate boards fell from 19.3 to 18.6 percent. The percentage of women in executive management committees remained unchanged at just under 13 percent.

During autumn 2008, the Fund initiated a dialogue with the nomination committees and executive managements of those companies within respective industries featuring the lowest percentage of women in their executive managements and boards of directors.

Protecting shareholders' rights

Review of take-over regulations in Sweden

Näringslivets Börskommitté (NBK), which administers and develops the take-over regulations that are subject to Swedish self-regulation, initiated a review of these regulations in 2008. The Second AP Fund is participating in an NBK reference group on this issue.

Initiative

The Joint Ethical Committee of the National Swedish Pension Funds was established on January 1st 2007, and published its first annual report in the spring of 2008. The Joint Ethical Committee focuses on monitoring and analysing the portfolio holdings of the First to Fourth AP Funds, to ensure that portfolio companies are not party to crimes in contravention of international conventions to which Sweden is a signatory. The Committee has established a process for monitoring all portfolio investments, which involves selecting 10-15 companies that are placed on a 'dialogue list', where the individual AP Fund believes that it may be able to persuade the selected companies to establish routines to preclude new incidents or crimes in contravention of international conventions.

The Second AP Fund is one of the founding signatories of the UN's Principles for Responsible Investment (PRI). Monitoring of the Funds' investments according to these principles was carried out during 2008 and published on the PRI website. The Joint Ethical Committee of the AP Funds has also employed the PRI information forum. Within the framework of PRI, the Second AP Fund has participated in a scheme to persuade additional private-equity companies to add their signatures to the PRI.

Excluded companies

Wal-Mart (human rights in working life) and Singapore Technologies (landmines) had previously already been excluded from the Second AP Fund's investment universe. During the year, the Fund also excluded Alliant Technologies, GenCorp, General Dynamics, Hanwha, L-3 Communications, Lockheed Martin, Poongsan, Raytheon and Textron. All these companies market cluster bombs, in contravention of the Convention on Cluster Munitions, to which Sweden is a signatory. These exclusions were implemented following a recommendation by the Joint Ethical Committee of the AP Funds.

Further information

The Second AP Fund's work on governance issues in 2007/2008 was presented in a separate report published in October 2008. The report may be downloaded from the website (www.ap2.se) or ordered directly from the Fund. The same applies to the Joint Ethical Committee's annual report for 2007, which was published in March 2008.



Environmental programme

The Fund works in a number of different ways to highlight, analyse and resolve environmental challenges encountered in its portfolio management activities. It has therefore been natural to introduce an in-house environmental management system, based on the Gothenburg City environmental certification programme, which gained certification in January 2009. The system applies the same fundamental concepts as implemented by the major ISO 14001 and EMAS standards systems, but is better suited to smaller organizations.

The in-house environmental audit shows that the greatest environmental impact caused by the Second AP Fund's own business activities derives from the consumption of electrical energy (lighting, office equipment and white goods), from manufacturing and waste issues related to computers and screens, from carbon dioxide emissions in conjunction with travel and from the consumption of natural resources in the form of paper and printouts.

In-house goals have been established with the introduction of an updated environmental policy that targets a 20-percent reduction in the consumption of electrical energy and a 10-percent reduction of carbon dioxide emissions in conjunction with business-related travel. All members of staff have participated in an environmental training programme.

Income statement

| Amounts in SEK million | Note | January-December 2008 | January-December 2007 |
|--|------|-----------------------|-----------------------|
| Operating income | | | |
| Net interest income | 1 | 4,497 | 2,583 |
| Dividends received | | 4,230 | 3,609 |
| Net result, quoted equities and participations | 2,4 | -61,367 | 3,574 |
| Net result, unquoted equities and participations | 3 | -1,180 | 755 |
| Net result, fixed-income assets | | 1,722 | -763 |
| Net result, derivative instruments | | -4,674 | -130 |
| Net result, exchange gain/loss | | 2,044 | -609 |
| Commission expenses, net | 4 | -171 | -168 |
| Total operating income | | -54,899 | 8,851 |
| Operating expenses | | | |
| Personnel expenses | 5 | -89 | -72 |
| Other administration expenses | 6 | -70 | -61 |
| Total operating expenses | | -159 | -133 |
| NET RESULT FOR THE YEAR | | -55,058 | 8,718 |

Balance sheet

| Amounts in SEK million | Note | Dec. 31 2008 | Dec. 31 2007 |
|---|------|----------------|----------------|
| ASSETS | | | |
| Equities and participations | | | |
| Quoted | 7 | 88,883 | 131,185 |
| Unquoted | 8 | 10,079 | 8,364 |
| Bonds and other fixed income assets | 9 | 69,713 | 84,927 |
| Derivative instruments | 10 | 10,112 | 857 |
| Cash and bank balances | | 2,362 | 2,453 |
| Other assets | 11 | 411 | 29 |
| Prepaid expenses and accrued income | 12 | 1,487 | 1,896 |
| TOTAL ASSETS | | 183,047 | 229,711 |
| FUND CAPITAL AND LIABILITIES | | | |
| Liabilities | | | |
| Derivative instruments | 10 | 9,497 | 1,938 |
| Other liabilities | 13 | 90 | 46 |
| Accrued expenses and deferred income | 14 | 122 | 215 |
| Total liabilities | | 9,709 | 2,199 |
| Fund capital | | | |
| | 15 | | |
| Fund capital at beginning of year | | 227,512 | 216,775 |
| Net payments to the national pension system | | 831 | 991 |
| Transferred from special management fund and liquidation fund | | 53 | 1,028 |
| Net profit for the year | | -55,058 | 8,718 |
| Total fund capital | | 173,338 | 227,512 |
| TOTAL FUND CAPITAL AND LIABILITIES | | 183,047 | 229,711 |
| Memorandum items | | | |
| Other assets pledged | 16 | 4,390 | 7,659 |
| Investment commitments | 17 | 8,442 | 5,136 |

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, on the understanding that the assets in which the Fund's capital is invested shall be booked at market value. On this basis, the First–Fourth AP Funds have drafted and implemented joint accounting and valuation principles, as applied and summarized below.

Reclassification

As of January 1st 2008, fees paid for the management of unquoted equities and participations, where reimbursement is permitted prior to profit sharing and is deemed likely, are reported as part of the acquisition value of such assets. In previous years, this item has been reported as 'Other assets' in the balance sheet. Comparable figures have been adjusted.

From and including 2008, holdings in the form of mixed funds, featuring derivative instruments that are exposed to several asset classes, are reported under quoted equities and participations in the balance sheet. These funds were previously entered under the item 'Derivative instruments'. Comparable figures have been adjusted.

Transaction-date accounting

Transactions in securities and derivative instruments 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'. Where permitted, net accounting is applied.

Other transactions, especially transactions involving unquoted equities, are reported in the balance sheet as per settlement day, in line with generally accepted market practice.

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 and participations traded on an active market, this normally means the latest price paid in local currency on the final trading day of the year: otherwise, the latest bid rate.

Unquoted holdings in funds are valued as the Second AP Fund's share of the valuation made by the Fund administrator, based on the Fund's combined holdings. This valuation is normally updated once the new valuation has been received and adjusted for eventual cash flows up to the end of the accounting period. The valuation is made in accordance with EVCA or equivalent principles, first and foremost being based on transactions with third parties, although other valuation techniques may also be employed. 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. These premiums or discounts are reported as interest income.

Buy-backs

In a true buy-back transaction, also known as a repurchase agreement, the sold 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 their quoted rates at year-end. In cases where such instruments are not traded on an active market, and where no reliable quoted market rates are available, the instrument shall be valued with the support of generally accepted theoretical models, where input data consists exclusively of observable market data.

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 are reported in the balance sheet at their true value. Collateral received for securities lent consists of securities and cash. The value of securities on loan, together with collateral for these, is entered under 'Memorandum items'. Premiums received are reported as interest income.

In cases where the Second AP Fund has rights of disposal over the securities received as collateral, they are reported in the balance sheet as an asset and a corresponding liability is entered.

Items entered directly against Fund capital

Contributions to and disbursements from the pension system, as well as transfers from the Special Funds owned jointly by the 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 in the income statement under net result per asset class.

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.

Commissions and fees paid for the external management of unquoted assets, where reimbursement is permitted prior to profit sharing and is deemed likely, are reported as part of the acquisition value for respective asset classes 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 and in-house developed and externally purchased software are booked on current account.

Because the Second AP Fund is not considered to be a commercial operation it is exempt from VAT, and therefore not entitled 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 2008 | January-December 2007 |
|-------------------------------------|-----------------------|-----------------------|
| Interest income | | |
| Bonds and other fixed-income assets | 3,757 | 3,748 |
| Derivative instruments | 2,779 | 919 |
| Other interest income | 156 | 118 |
| Total interest income | 6,692 | 4,785 |
| Interest expenses | | |
| Derivative instruments | -2,028 | -1,951 |
| Other interest expenses | -167 | -251 |
| Total interest expenses | -2,195 | -2,202 |
| Net interest income/expense | 4,497 | 2,583 |

NOTE 2 Net result, quoted equities and participations

| Amounts in SEK million | January-December 2008 | January-December 2007 |
|---|-----------------------|-----------------------|
| Gross earnings, quoted equities and participations | -61,266 | 3,679 |
| Less brokerage commission | -101 | -105 |
| Net result, quoted equities and participations | -61,367 | 3,574 |

NOTE 3 Net result, unquoted equities and participations

| Amounts in SEK million | January-December 2008 | January-December 2007 |
|---|-----------------------|-----------------------|
| Capital gains, net | 88 | 138 |
| Unrealized changes in value | -1,268 | 617 |
| Net result, unquoted equities and participations | -1,180 | 755 |

Unrealized changes in value include management fees of SEK 21 million, refunded in 2008.

NOTE 4 Commission expenses

| Amounts in SEK million | January-December 2008 | January-December 2007 |
|---|-----------------------|-----------------------|
| External portfolio management fees, quoted assets | 151 | 145 |
| External portfolio management fees, unquoted assets | 5 | 7 |
| Other commission expenses, including custodial expenses | 15 | 16 |
| Total commission expenses | 171 | 168 |

Commission expenses do not include performance-based expenses. During the year, performance-based expenses amounted to SEK 83 million (SEK 70 million) and reduce the net gain for respective asset classes. External portfolio management fees for unquoted assets are reported under commission expenses so far as the contracts do not permit repayment prior to profit sharing in conjunction with future profitable exits.

During 2008, a total of SEK 105 million (SEK 82 million) has been paid in management fees for unquoted assets. Of these, SEK 100 million (SEK 75 million) pertains to agreements concerning repayment of management fees paid prior to profit-sharing on sale of assets. These are reported as part of the asset's acquisition value.

Distribution of Fund capital between external mandates and in-house portfolio management as per Dec. 31st 2008 (SEK million)

| Mandate | | Benchmark index | Average capital under management 2008 | Market-value as per Dec. 31st 2008* | % of fund capital | External management expense |
|--|---|-------------------------|---------------------------------------|-------------------------------------|-------------------|-----------------------------|
| External discretionary mandates | | | | | | |
| Equity mandates | | | | | | |
| Active management | | | | | | |
| Carnegie | Global equities | MSCI World | 3,613 | 2,988 | | |
| Franklin Templeton | Global equities | MSCI World | 4,057 | 3,396 | | |
| MFS | Global equities | MSCI World | 6,109 | 5,645 | | |
| Research Affiliates | Sweden - Equities, model portfolio | FTSE RAFI Sweden | ** | ** | | |
| Research Affiliates | North America – Equities, model portfolio | FTSE RAFI North America | ** | ** | | |
| IPM/Research Affiliates | Global - Equities, model portfolio | FTSE RAFI Global | ** | ** | | |
| IPM/Research Affi., terminated | North America – Equities, model portfolio | FTSE RAFI North America | ** | ** | | |
| Total | | | 13,779 | 12,029 | 7 | 50 |
| Fixed income mandates | | | | | | |
| Active management | | | | | | |
| Franklin Templeton, terminated | Global credit mandate | Lehman Credit, ex Asia | 3,030 | 0 | | |
| Rogge | Global aggregated fixed-income mandate | Lehman Global, ex Asia | 3,947 | 3,733 | | |
| Rogge | Global credit mandate | Lehman Global, ex Asia | 2,698 | 2,738 | | |
| Total | | | 9,675 | 6,511 | 4 | 11 |
| GTAA mandates | | | | | | |
| Active management | | | | | | |
| IPM/First Quadrant and Goldman Sachs | | | | | | 5 |
| Total external discretionary mandates | | | 23,454 | 18,540 | 11 | 66 |
| Investments in quoted external funds | | | | | | |
| Equity funds | | as per respective fund | 11,820 | 7,830 | | |
| Fixed-income funds | | as per respective fund | 4,742 | 5,324 | | |
| GTAA funds | | as per respective fund | 1,184 | 1,772 | | |
| Total investments in quoted external funds | | | 17,746 | 14,926 | 8 | 85 |
| TOTAL QUOTED ASSETS UNDER EXTERNAL MANAGEMENT | | | | | | 151 |
| Investments in private-equity funds | | | | | | |
| Unquoted equities and participations | | | | | | |
| in private-equity funds | Private Equity | | 4,243 | 5,388 | | |
| Total investments in private-equity funds | | | 4,243 | 5,388 | 3 | 5 |
| TOTAL CAPITAL ASSETS UNDER EXTERNAL MANAGEMENT, AND MANAGEMENT EXPENSES | | | 45,443 | 38,854 | 22 | 156 |
| In-house mandates | | | | | | |
| Quoted equities and participations | | Equity | SBX, OSX, CSX, MSCI World | 78,103 | | |
| Fixed-income mandates | | Fixed income | SHB | 39,300 | | |
| | Fixed income | Lehman | | 7,522 | | |
| Cash and bank balances | | | | -1,361 | | |
| Unquoted equities in associated companies, incl. subordinated debentures | | | | 10,920 | | |
| Total capital assets managed in-house | | | | 134,484 | 78 | |
| Other assets and liabilities | | | | 0 | | |
| TOTAL FUND CAPITAL | | | | 173,338 | 100 | |

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

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

NOTE 5 Personnel costs

Amounts in SEK million

| | January-December 2008 | | January-December 2007 | |
|---|-----------------------|---------------|-----------------------|---------------|
| | Men | Women | Men | Women |
| Average no. of employees | 35 | 20 | 33 | 19 |
| No. of employees, Dec. 31* | 34 | 21 | 30 | 19 |
| No. of persons in Executive Management Group, Dec. 31 | 4 | 2 | 4 | 2 |
| *At year-end 2008, the Fund had 55 full-time employees. | | | | |
| Salaries and remuneration | | | | |
| Chairman of the Board | | 100 | | 100 |
| CEO | | 2,734 | | 2,853 |
| Board of Directors, excl. Chairman | | 408 | | 425 |
| Executive Management Group, excl. CEO | | 9,480 | | 9,505 |
| Other employees ¹⁾ | | 37,114 | | 30,564 |
| Salaries and remuneration, total | | 49,836 | | 43,447 |
| ¹⁾ Of which costs incurred in connection with other personnel cutbacks | | 1,224 | | - |
| 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 | | 1,206 | | 896 |
| Executive Management Group, excl. CEO | | 3,385 | | 2,627 |
| Other employees ²⁾ | | 13,717 | | 7,207 |
| Pension costs, total | | 18,308 | | 10,730 |
| ²⁾ Of which costs incurred in connection with other personnel cutbacks | | 397 | | - |
| Payroll overhead | | | | |
| Chairman | | 11 | | 11 |
| CEO | | 914 | | 951 |
| Board of Directors, excl. Chairman | | 109 | | 110 |
| Executive Management Group, excl. CEO | | 3,211 | | 3,137 |
| Other employees ³⁾ | | 12,190 | | 10,087 |
| Total payroll overhead | | 16,435 | | 14,296 |
| ³⁾ Of which costs incurred in connection with other personnel cutbacks | | 397 | | - |
| Other personnel costs | | 4,009 | | 3,207 |
| Total personnel costs | | 88,588 | | 71,680 |

Costs in connection with personnel reductions in 2008 A charge of SEK 2 018 k was booked against personnel costs for the financial year, pertaining to payments made in connection with termination of employment and release from working commitments, incl. severance pay. These personnel reduction costs were booked as an expense in 2008, but will be paid out in part during 2009.

Pensions In the CEO's contract of employment, 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 48.

Absence due to illness In 2008, absence attributable to illness at the Second AP Fund totalled 0.65 percent, calculated as a percentage of total days lost to illness against total normal working hours for all employees. No Fund employee has been off sick for more than 60 days. Absence due to illness was 0.59 percent for male employees and 0.75 percent for female employees.

NOTE 6 Other administrative expenses

| Amounts in SEK million | January-December 2008 | January-December 2007 |
|--|-----------------------|-----------------------|
| Rental expenses | 5 | 6 |
| Information and IT expenses | 38 | 32 |
| Purchased services | 11 | 8 |
| Other expenses | 16 | 15 |
| Total other administrative expenses | 70 | 61 |

“Purchased services” includes fees to auditors amounting to SEK 2 million (SEK 2 million).

Audit assignments

| | | |
|---------------------------------|-------------|-------------|
| Ernst & Young | 1.10 | - |
| KPMG | 0.15 | 1.29 |
| Öhrlings PricewaterhouseCoopers | 0.08 | 0.33 |
| Other assignments | | |
| Ernst & Young | 0.24 | - |
| KPMG | 0.01 | - |
| Öhrlings PricewaterhouseCoopers | - | - |
| Total | 1.58 | 1.62 |

NOTE 7 Quoted equities and participations¹⁾

| Amounts in SEK million | Dec. 31st 2008 | | Dec. 31st 2007 | |
|---|----------------|-------------------|----------------|-------------------|
| | Fair value | Acquisition value | Fair value | Acquisition value |
| Swedish equities | 26,758 | 40,232 | 40,576 | 35,389 |
| Foreign equities | 52,524 | 65,842 | 75,217 | 71,769 |
| Participations in Swedish funds | 1,906 | 1,501 | 2,679 | 951 |
| Participations in foreign funds* | 7,695 | 7,381 | 12,713 | 7,263 |
| Total quoted equities and participations | 88,883 | 114,956 | 131,185 | 115,372 |
| * of which mixed funds, containing derivatives exposed to several asset classes | 1,772 | 1,652 | 219 | 433 |

¹⁾ The 20 largest Swedish and foreign shareholdings, by value, are listed on page 44.

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

Five largest shareholdings on the OMX Stockholm Stock Exchange

| Name | Number | Fair value | Capital, % | Voting rights, % |
|--------------------|------------|------------|------------|------------------|
| Hennes & Mauritz B | 5,014,215 | 1,532 | 0.60 | 0.29 |
| Nordea Bank | 23,852,117 | 1,305 | 0.92 | 0.92 |
| Ericsson B | 21,744,759 | 1,279 | 0.67 | 0.38 |
| TeliaSonera | 28,522,385 | 1,110 | 0.63 | 0.63 |
| Meda A | 19,023,094 | 999 | 6.29 | 6.29 |

Five largest foreign shareholdings

| Name | Number | Fair value |
|------------------|-----------|------------|
| AstraZeneca | 3,654,956 | 1,254 |
| Exxon Mobil Corp | 1,487,032 | 939 |
| ABB Ltd | 5,732,021 | 665 |
| Nestlé | 2,069,381 | 640 |
| Telefonica | 3,264,182 | 569 |

NOTE 8 Unquoted equities and participations

| Amounts in SEK million, Dec. 31st 2008 | Corp. reg. | No. of equities | Participation right, capital, % | Participation right, votes, % | Acquisition value |
|---|-------------|-----------------|---------------------------------|-------------------------------|-------------------|
| Swedish equities and participations | | | | | |
| Andra & Sjötte Fastigheter AB | 556694-3022 | 2,500 | 50 | 50 | 2 |
| AP Fastigheter Holding AB | 556650-4196 | 1,000,000 | 25 | 25 | 1,221 |
| NS Holding AB | 556594-3999 | 1,819,884 | 50 | 50 | 811 |
| EQT Northern Europe KB (EQT III) | 969670-3405 | | 1 | | 46 |
| Swedestart Life Science KB | 969675-2337 | | 5 | | 19 |
| Swedestart Tech KB | 969674-7725 | | 3 | | 11 |
| Foreign equities and participations | | | | | |
| Carlyle Europe partners III | | | 0.9 | | 148 |
| Carlyle Riverstone Renewable Energy Infrastructure Fund I | | | 3 | | 105 |
| Carlyle Riverstone Renewable and Alternative Energy Fund II | | | 2 | | 59 |
| Carlyle Riverstone Global Energy and Power Fund III | | | 0.8 | | 174 |
| Carlyle Riverstone Global Energy and Power Fund IV | | | 0.8 | | 94 |
| Carnegie Fund II BiotechBridge | | | 33 | | 44 |
| Cevian Capital | | | 22 | | 44 |
| CVC European Equity Partners IV | | | 0.6 | | 218 |
| CVC European Equity Partners V | | | 0.5 | | 58 |
| EQT Expansion Capital I | | | 16 | | 138 |
| Generation Climate Solutions Fund | | | 5 | | 70 |
| Lyceum II | | | 10 | | 22 |
| Magenta | | | 7 | | 0 |
| Mid Europa Fund III | | | 3 | | 103 |
| New Mountain Partners III | | | 1 | | 67 |
| Nordic Capital V | | | 3 | | 373 |
| Nordic Capital VI | | | 3 | | 454 |
| Nordic Capital VII | | | 1 | | 91 |
| Pathway Private Equity Fund IX | | | 99.5 | | 799 |
| Pathway Private Equity Fund IXB | | | 99.5 | | 765 |
| Pathway Private Equity Fund IXC | | | 99.5 | | 124 |
| Resolute Fund II | | | 1 | | 72 |
| Sun Capital V | | | 0.4 | | 37 |
| TCV VII | | | 1 | | 9 |
| Thomas H Lee Equity Fund VI | | | 0.6 | | 121 |
| TPG Asia | | | 1 | | 52 |
| TPG Credit | | | 6 | | 181 |
| TPG Partners V | | | 0.3 | | 241 |
| TPG Partners VI | | | 0.3 | | 15 |
| TPG Star | | | 4 | | 80 |
| Total unquoted equities and participations | | | | | 6,868 |
| Total fair value | | | | | 10,079 |

NOT 9 Bonds and other fixed-income securities

| Amounts in SEK million | 2008-12-31 | | 2007-12-31 | |
|--|---------------|-------------------|---------------|-------------------|
| | Fair value | Acquisition value | Fair value | Acquisition value |
| Swedish State | 13,911 | 12,542 | 20,205 | 20,022 |
| Swedish municipalities | 83 | 78 | 76 | 78 |
| Swedish mortgage institutions | 18,175 | 17,526 | 25,861 | 26,107 |
| Other Swedish issuers | | | | |
| Finance companies | 863 | 739 | 667 | 685 |
| Non-finance companies | 6,200 | 5,324 | 3,994 | 3,283 |
| Foreign states | 8,059 | 6,713 | 14,603 | 14,761 |
| Other foreign issuers | 16,666 | 15,419 | 17,021 | 17,824 |
| Deposits | 5,756 | 5,755 | 2,500 | 2,502 |
| Total | 69,713 | 64,096 | 84,927 | 85,262 |
| Inflation-linked bonds | 3,423 | 3,100 | 4,138 | 3,705 |
| Other bonds | 49,017 | 44,837 | 68,490 | 69,867 |
| Commercial papers | - | - | 953 | 953 |
| Unquoted promissory notes | 4,250 | 4,250 | 2,000 | 2,000 |
| Unquoted convertible debentures | 1,942 | 1,067 | 1,777 | 1,067 |
| Participations in Swedish index-linked funds | - | - | - | - |
| Participations in foreign index-linked funds | 5,324 | 5,087 | 5,069 | 5,168 |
| Deposits | 5,757 | 5,755 | 2,500 | 2,502 |
| Total | 69,713 | 64,096 | 84,927 | 85,262 |

NOTE 10 Derivative instruments

| Amounts in SEK million | | Face value* | Dec. 31st 2008 Derivative instruments with positive fair value | Derivative instruments with negative fair value |
|--|---------|----------------|---|---|
| Currency-related instruments | | | | |
| Options | Held | 1,285 | 9 | 8 |
| | Pledged | 385 | 4 | 3 |
| Forward contracts | | 176,208 | 4,930 | 8,922 |
| Total | | 177,878 | 4,943 | 8,933 |
| of which cleared | | 176,208 | | |
| Equities-related instruments | | | | |
| Forward contracts | | 7 | 44 | - |
| Total | | 7 | 44 | |
| of which cleared | | 7 | | |
| Fixed-income instruments | | | | |
| Options | Held | - | - | - |
| | Pledged | 11 | 3 | - |
| Forward contracts | | 15,723 | | 68 |
| Total | | 15,734 | 3 | 68 |
| of which cleared | | 15,723 | - | |
| Other financial instruments | | | | |
| Other instruments | | 7,913 | 5,122 | 496 |
| Total | | 7,913 | 5,122 | 496 |
| of which cleared | | - | | |
| Total derivative instruments | | | 10,112 | 9,497 |
| of which valued according to theoretical modelling | | | 4,943 | 8,933 |

* 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 23 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 2008 | Dec. 31st 2007 |
|---|----------------|----------------|
| Incoming payments, unsettled transactions | 409 | 27 |
| Other receivables | 2 | 2 |
| Total | 411 | 29 |

NOTE 12 Prepaid expenses and accrued income

| Amounts in SEK million | Dec. 31st 2008 | Dec. 31st 2007 |
|---|----------------|----------------|
| Interest income accrued | 1,336 | 1,751 |
| Restitutions | 33 | 22 |
| Dividends accrued | 89 | 91 |
| Other prepaid expenses and accrued income | 29 | 32 |
| Total | 1,487 | 1,896 |

NOTE 13 Other liabilities

| Amounts in SEK million | Dec. 31st 2008 | Dec. 31st 2007 |
|---|----------------|----------------|
| Outgoing payments, unsettled transactions | 83 | 38 |
| Accounts payable | 5 | 6 |
| Other liabilities | 2 | 2 |
| Total | 90 | 46 |

NOTE 14 Deferred income and accrued expenses

| Amounts in SEK million | Dec. 31st 2008 | Dec. 31st 2007 |
|--|----------------|----------------|
| Management fees | 48 | 94 |
| Accrued interest expenses on currency forwards | 51 | 101 |
| Other accrued expenses | 23 | 20 |
| Total | 122 | 215 |

NOTE 15 Fund capital

| Amounts in SEK million | Dec. 31st 2008 | Dec. 31st 2007 |
|--|----------------|----------------|
| Opening Fund capital | 227,512 | 216,775 |
| Net inflows to the national pension system | | |
| Pension contributions received | 50,783 | 47,603 |
| Pension disbursements to National Social Insurance Board/RFV | -49,796 | -46,405 |
| Transfer of pension entitlements to EC | -6 | -8 |
| Adjustment of pension entitlements re. previous years | 2 | 1 |
| Administration contribution to National Social Insurance Board/RFV | -152 | -200 |
| Total payments to the national pension system, net | 831 | 991 |
| Transferred from the First AP Fund's Liquidation Fund | - | 961 |
| Transferred from the Fourth AP Fund's Special Management Fund | 53 | 67 |
| Total transferred from Liquidation/Special Management funds | 53 | 1,028 |
| Net result for the year | -55,058 | 8,718 |
| Closing Fund capital | 173,338 | 227,512 |
| Investment assets, First AP Fund's Liquidation Fund | - | - |
| Investment assets, Fourth AP Fund's Special Management Fund | 2 | 305 |

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 2008 | Dec. 31st 2007 |
|--|----------------|----------------|
| Collateral for futures | 1,164 | 757 |
| Securities on loan for which guarantees have been secured * | | |
| Securities on loan | 3,226 | 6,902 |
| Total | 4,390 | 7,659 |

* Guarantees secured for pledged securities: SEK 3 354 (7 242) million.

NOTE 17 Commitments

| Amounts in SEK million | Dec. 31st 2008 | Dec. 31st 2007 |
|--|----------------|----------------|
| Commitments regarding future payments | | |
| Investment commitments, unquoted holdings | 8,442 | 5,136 |
| Total | 8,442 | 5,136 |

The administration report, income statement, balance sheet and notes for 2008 have been approved by the Board of Directors.

Gothenburg, February 4th, 2009

Gunnar Larsson
Chairman

Anders Jansson

Roland Svensson

Märtha Josefsson

Clas Nykvist

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 2008. The Fund's Annual Report is included in the printed version of this document on pages 1–43. 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.

Gothenburg, February 4th 2009.

Anna Peyron
Authorised Public Accountant
Appointed by the Swedish Government

Lars Bonnevier
Authorised Public Accountant
Appointed by the Swedish Government

Shares, participations and fixed-income securities

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

| Company name | Share of equity, % | No. of equities | Fair value, SEK m | Share of voting rights, % | Sector |
|-------------------------|--------------------|-----------------|-------------------|---------------------------|------------------------|
| Hennes & Mauritz B | 0.60 | 5,014,215 | 1,531.8 | 0.29 | Consumer discretionary |
| Nordea Bank | 0.92 | 23,852,117 | 1,304.7 | 0.92 | Financials |
| Ericsson B | 0.67 | 21,744,759 | 1,278.6 | 0.38 | IT |
| TeliaSonera | 0.63 | 28,522,385 | 1,109.5 | 0.63 | Telecoms |
| Meda A | 6.29 | 19,023,094 | 998.7 | 6.29 | Healthcare |
| Investor B | 1.09 | 8,426,618 | 985.9 | 0.23 | Financials |
| Svenska Handelsbanken A | 1.17 | 7,290,744 | 918.6 | 1.17 | Financials |
| Volvo A | 0.42 | 8,965,731 | 391.8 | 1.08 | Industrials |
| Volvo B | 0.57 | 12,159,872 | 521.7 | 0.15 | Industrials |
| Atlas Copco A | 0.62 | 7,606,113 | 507.7 | 0.87 | Industrials |
| Atlas Copco B | 0.31 | 3,837,298 | 228.3 | 0.04 | Industrials |
| Scania A | 0.07 | 530,648 | 40.9 | 0.12 | Industrials |
| Scania B | 0.94 | 7,642,388 | 594.2 | 0.17 | Industrials |
| SCA A | 0.05 | 369,940 | 24.8 | 0.22 | Commodities |
| SCA B | 1.25 | 8,919,661 | 595.4 | 0.53 | Commodities |
| Sandvik | 0.10 | 12,525,377 | 613.7 | 0.10 | Industrials |
| Electrolux B | 2.82 | 8,764,602 | 585.0 | 2.23 | Consumer discretionary |
| SKF B | 0.82 | 7,102,906 | 548.7 | 0.79 | Industrials |
| Skanska B | 1.60 | 6,749,113 | 523.1 | 1.08 | Industrials |
| Holmen B | 3.18 | 2,689,795 | 520.5 | 0.93 | Commodities |
| Securitas B | 2.20 | 8,006,648 | 514.4 | 1.55 | Industrials |
| Assa Abloy B | 1.53 | 5,592,737 | 495.0 | 1.03 | Industrials |
| Swedish Match | 1.69 | 4,327,303 | 483.6 | 1.69 | Consumer discretionary |
| Tele2 B | 1.55 | 6,862,436 | 473.5 | 0.88 | Telecoms |

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

| Company name | No. of equities | Fair value, SEK m | Sector |
|----------------------|-----------------|-------------------|------------------|
| AstraZeneca | 4,067,992 | 1,253.9 | Health Care |
| Exxon Mobil Corp | 1,487,032 | 938.8 | Energy |
| ABB Ltd | 5,732,021 | 664.7 | Industrials |
| Nestlé | 2,069,381 | 639.9 | Consumer Staples |
| Telefonica | 3,264,182 | 568.7 | Telecoms |
| Procter & Gamble Co | 1,161,397 | 567.8 | Consumer Staples |
| Total | 1,234,850 | 528.2 | Energy |
| Royal Dutch Shell | 2,458,430 | 498.6 | Energy |
| E. On | 1,582,127 | 494.6 | Utilities |
| Roche Holding Genuss | 377,177 | 457.2 | Health Care |
| Chevron Corp | 750,341 | 438.9 | Energy |
| BP | 7,289,856 | 436.0 | Energy |
| Eni | 2,278,729 | 419.3 | Energy |
| Microsoft Corp | 2,683,229 | 412.5 | IT |
| Johnson & Johnson | 863,809 | 408.7 | Health Care |
| General Electric Co | 3,122,798 | 400.1 | Industrials |
| AT&T | 1,602,185 | 361.1 | Telecoms |
| Pfizer | 2,478,498 | 347.1 | Health Care |
| Siemens | 557,542 | 322.9 | Industrials |
| Novartis | 810,033 | 317.2 | Health Care |

¹⁾ The above table of Second AP Fund shareholdings lists the 30 largest Swedish holdings and 20 largest foreign holdings, by worth.

The Fund's capital shares and voting rights in the foreign companies listed in the above table in no case exceed 0.3%, and are 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 |
|---------------------------------|------------------------------------|----------------------|
| Lannebo Småbolagsfonder | 30,785,045 | 553 |
| Robur Småbolagsfond Sverige | 17,668,279 | 412 |
| SEB Sverige Småbolag Chans/Risk | 3,847,868 | 199 |
| SHB Småbolagsfond | 1,453,125 | 410 |
| Carlson Småbolagsfond | 447,811 | 333 |

| Unit trusts, foreign | No. of equities, participations | Fair value, SEK m |
|-----------------------------------|------------------------------------|----------------------|
| AiG Global Emerging Market | 1,008,549 | 1,925 |
| Genesis Emerging Market | 8,963,493 | 1,609 |
| State Street Emerging Market | 361,333 | 1,428 |
| Stone Harbor Emerging Market Debt | 2,209,782 | 1,352 |
| Bluebay Emerging Market Debt | 2,110,996 | 1,304 |
| Barclays GTAA | 98,695 | 960 |
| Generation Global Equity Fund | 1,050,985 | 871 |
| Bridgewater GTAA | 76,700 | 812 |

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 1041 | 3,194 |
| Swedish Government 1047 | 1,780 |
| Swedish Government 1049 | 1,470 |
| Swedish Government 1051 | 1,293 |
| Swedish Government 1052 | 1,223 |

Swedish inflation-linked bond portfolio, five largest holdings

| Bond | Fair value, SEK m |
|-------------------------|-------------------|
| Swedish Government 3105 | 1,097 |
| Swedish Government 3104 | 938 |
| Swedish Government 3102 | 882 |
| Swedish Government 3106 | 451 |
| Swedish Government 3001 | 66 |

Global credit portfolio, five largest holdings

| Bond | Fair value, SEK m |
|---|-------------------|
| Eksportfinans A/S 5.5% 2017-06-26 | 256 |
| Kreditanstalt für Wiederaufbau 4% 2011-04-08 | 232 |
| Landwirtschaft Rentenbank 4.875% 2014-01-10 | 229 |
| Kreditanstalt für Wiederaufbau 3.75% 2010-02-05 | 229 |
| Eksportfinans A/S 4.375% 2010-09-20 | 186 |

Global government bond portfolio, five largest holdings

| Bond | Fair value, SEK m |
|----------------------------------|-------------------|
| US Treasury Note 7.5% 2016-11-15 | 377 |
| Germany 5.5% 2031-01-04 | 282 |
| Germany 5.625% 2028-01-04 | 266 |
| Germany 4% 2037-01-04 | 194 |
| Portugal 4.95% 2023-10-25 | 182 |

Detailed information about Second AP Fund holdings in fixed income securities may be ordered from the Fund.

Second AP Fund governance report

To comply with the Swedish Code of Corporate Governance, Swedish quoted companies are required to submit a corporate governance report.

The Code is considered to set the tone for what shall be considered good practice for corporate players on the Swedish stock market. This fund governance report has derived inspiration from the Code of Corporate Governance, while also taking into account the special characteristics that apply to the Second AP Fund.

Like the other AP Funds, AP2 is a state agency. Even so, the difference between the AP Funds and other state agencies is considerable. The greatest difference is that the AP Funds enjoy a high degree of independence from the Swedish Government, because their operations are almost exclusively governed by law and the Government thereby has no provision in law to exercise control over them.

The Board

The Board of Directors of the Second AP Fund, which is appointed by the Swedish Government, comprises nine members. Two are appointed in accordance with proposals submitted by organizations that represent employees' interests, two in accordance with proposals submitted by organizations that represent employers' interests. The Chairman and Vice Chairman are appointed by the Government, selected from the members of the Board not put forward by employer or employee organizations. Each director shall be appointed on the basis of his/her individual ability to enhance the management of the Fund. Vice Chairman Bo Dockered resigned his seat on the Board in September 2008. No other changes were made in the composition of the Board during the year.

To date, the Government has chosen to implement twelve month mandate periods for Board Members, whereby current appointments remain in effect until the Fund's balance sheet and income statement for 2008 have been adopted.

The Board has full and undivided responsibility for the operations of the Fund, within the parameters established by the Swedish Parliament concerning the organization of the Fund and management of its assets. In instances where the work of the Board falls outside the terms of the Law Governing the Swedish National Pension Funds, it is governed by the rules of procedure annually adopted by the Board.

Fees and other remuneration paid to Board Members are determined by the Swedish Government. The remuneration paid per annum amounts to SEK 100 000 for the Chairman, SEK 75 000 for the Vice Chairman and SEK 50 000 for the other Members of the Board.

The work of the Board

The Board of the Second AP Fund considers its primary task to be the establishment of operational targets, the recruitment and evaluation of the CEO and the taking of decisions concerning broad strategic issues, such as the composition of the Fund's strategic portfolio. To ensure that the Board's decisions are implemented, that intrinsic risks are managed and that the Fund's operations are in all other respects conducted in an appropriate manner, effective control and follow-up are essential.

During the year, the Board has held six ordinary meetings, one being of greater duration, at which broad strategic issues were addressed, as well as five extraordinary meetings. Issues addressed at these extra meetings included the acquisition of Vasakronan and the Fund's involvement in D. Carnegie & Co. In addition to Board Members, Board meetings may be attended by the Fund's CEO and relevant Fund employees, either in an advisory role as experts, or to submit a report on a given issue. The CEO's performance is evaluated once a year, at a meeting the CEO does not attend. The Board's strategy meeting was held in Copenhagen, and included a visit to ATP.

Fund targets

The Fund's overall target is a real return of at least 5 percent per annum, seen over time, including an active average return of 0.5 percentage units per annum.

New strategic portfolio

A new strategic portfolio has been approved for 2009.

Discussion about performance, governance issues and costs

The Fund's management performance is reviewed at every Board meeting. The Board regularly discusses governance issues, the strategic allocation of assets and investments in private-equity funds.

Cost trends are considered on a quarterly basis, and the Board regularly reverts to the issue of the Fund's cost efficiency. Its annual responsibilities also include decisions concerning the adoption of the end-of-year accounts, the budget, business plan and strategic portfolio.

Attendance

All nine Members attended one of the Board meetings, three of the meetings were attended by eight Members, one by seven Members and five were present at one of the meetings.

Board Committee

The Board has established a Remuneration Committee. The Remuneration Committee consists of the Chairman, the Vice Chairman and the CEO.

The Remuneration Committee is an executive organ of the Board, tasked with considering levels of remuneration for the Fund's executive management. It also serves as a standing committee on incentive programmes for Fund employees. Decisions reached by the Remuneration Committee are submitted for consideration by the Board at its next meeting.

Audit

The Second AP Fund's auditors are appointed by the Government. Currently, responsibility for the audit is shared Anna Peyron and Lars Bonnevier from Ernst & Young, who were appointed on June 18th 2008. Ernst & Young is also tasked with conducting the audits of the other AP Funds, and Anna Peyron has furthermore been appointed to coordinate the audits of all AP Funds.

The appointment applies until adoption of the Fund's income statement and balance sheet for 2008.

The auditors submit an audit report, as well as making an oral report direct to the Board at least once a year. They also submit written reports concerning their audit of the annual accounts and administration, and an oral report to the Ministry of Finance once a year.

The auditors' assignment includes inspection of current business operations, the administration of the Fund, the annual accounts and the annual report. The auditors express their opinion of the annual accounts and administration, based on their audit. This assignment also includes an assessment to determine that the accounts of the Second AP Fund have been prepared in compliance with generally accepted accounting and valuation principles, and that they provide a true and fair picture of the Fund's financial position.

Internal control

The Board has ultimate responsibility for the Fund's internal control. In the Fund's risk policy, the Board has established frameworks and guidelines for the overall allocation of responsibilities, risks, risk limits and routines to monitor and control that such guidelines are observed.

The Risk Management Department ensures that these risk parameters are respected. Implementing this risk control process ensures that the organization, both as a whole and in its individual elements, keeps within the specified limits and observes the restrictions and instruction that apply.

Ongoing internal control of the Fund's financial and operational risks is handled by the Risk Management Department. The Department is organizationally independent of functions that are engaged in active trading decisions.

This risk control process is based on the generation of effective and transparent risk reports and analyses. Reporting to the Fund's executive management is conducted on a daily basis, while regular updates are submitted to the Board at its meetings.

Board of Directors



The Board of Directors of the Second AP Fund, December 31st 2008. 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.

Sitting, 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.

Gunnar Larsson

Chairman since 2000. Chairman of the board of Tholin & Larsson-Gruppen AB. Directorship on the board of Norrporten AB. Former authorised public accountant and Municipal Commissioner for Gothenburg. Born 1940.

Standing, from left:

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.

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 Riksborgen. 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.

Roland Svensson

Member of the Board since 2000. Former President and CEO of Coop Norden AB and KF Ekonomisk förening. Industrial advisor, Accent Equity Partners. Forest owner. Born 1941.

Lillemor Smedenvall

Member of the Board since 2006. Chairman of Finansförbundet. Directorships on the boards of TCO (Confederation of Professional Employees) and Sparinstitutens Pensionskassa (SPK). Born 1950.

Märtha Josefsson

Member of the Board since 2003. Independent investment consultant. Directorships on several boards, including Anoto, Fabège, Luxonen, Opus Group, Skandia Funds, Uppsala Nya Tidning and Öresund. B.A. Born 1947.



Sitting, from left:

Martin Jonasson

General Counsel, born 1964

Carl Rosén

Head of Corporate Governance and Communications, born 1959

Standing, from left:

Johan Held

Chief Investment Officer (CIO), born 1958

Tomas Franzén

Chief Investment Strategist (CIS), born 1957

Eva Halvarsson

CEO, born 1962
Directorships on the boards of Vasakronan AB, Andra & Sjätte Fastigheter AB, Gothenburg University, Börssällskapet and Finanskompetenscentrum.

Lena Smeby-Udesen

Chief Financial Officer (CFO), born 1961

Auditors

Anna Peyron,
Authorised Public Accountant,
Ernst & Young.

Lars Bonnevier,
Authorised Public Accountant,
Ernst & Young.

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.

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 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.

Credit risk and counterparty risk

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

Credit spread

The yield difference arising from the difference in creditworthiness between two otherwise comparable bonds.

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.

Duration

A measure of interest risk that yields an asset-relative change in value with an interest adjustment of one percentage unit.

Enhanced index mandate

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

EVCA

European Private Equity & Venture Capital Association.

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.

Forward contract

A derivative instrument involving a contract to purchase a currency at an agreed future date at a predetermined rate of exchange.

GTAA

Global Tactical Asset Allocation mandate. A mandate that applies a TAA strategy on a global basis.

Implicit volatility

The forecast volatility of an asset class.

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.

Interest swap

A contract between two counterparties, in which one interest flow is exchanged for another. Normally, the undertaking given by one party to pay a fixed rate of interest is exchanged for the other party's undertaking to pay a floating rate of interest.

ISDA contract

International Swaps and Derivatives Association. An ISDA contract is a standard contract for the regulation of trading in derivatives between two counterparties.

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.

MSCI index

An international equities index managed by Morgan Stanley Capital International.

Operative risk

"Operative risk" refers to the risk that an error or stoppage in operations could lead to economic loss or reduced credibility.

Quantitative management

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

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.

SIX RX

Six Return Index: a cap-weighted share index, reflecting average growth on the Stockholm Stock Exchange, including dividends.

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.

TAA

Tactical Asset Allocation. A portfolio management strategy that exploits opportunities for overperformance through temporary deviations from a strategic index.

Tracking error/Active risk

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

Value at Risk, VaR

A measure of risk that indicates the maximum loss, based on a given confidence level, that a portfolio may incur over a given period. VaR is normally calculated at a confidence level of 95 percent, and for a 24-hour time interval.



Andra AP-fonden
Second Swedish National Pension Fund - AP2

The Second AP Fund • P.O. Box 11155 • SE-404 24 Göteborg • Sweden • Visitors: Östra Hamngatan 26-28
Phone +46 31 704 29 00 • Fax +46 31 704 29 99 • www.ap2.se