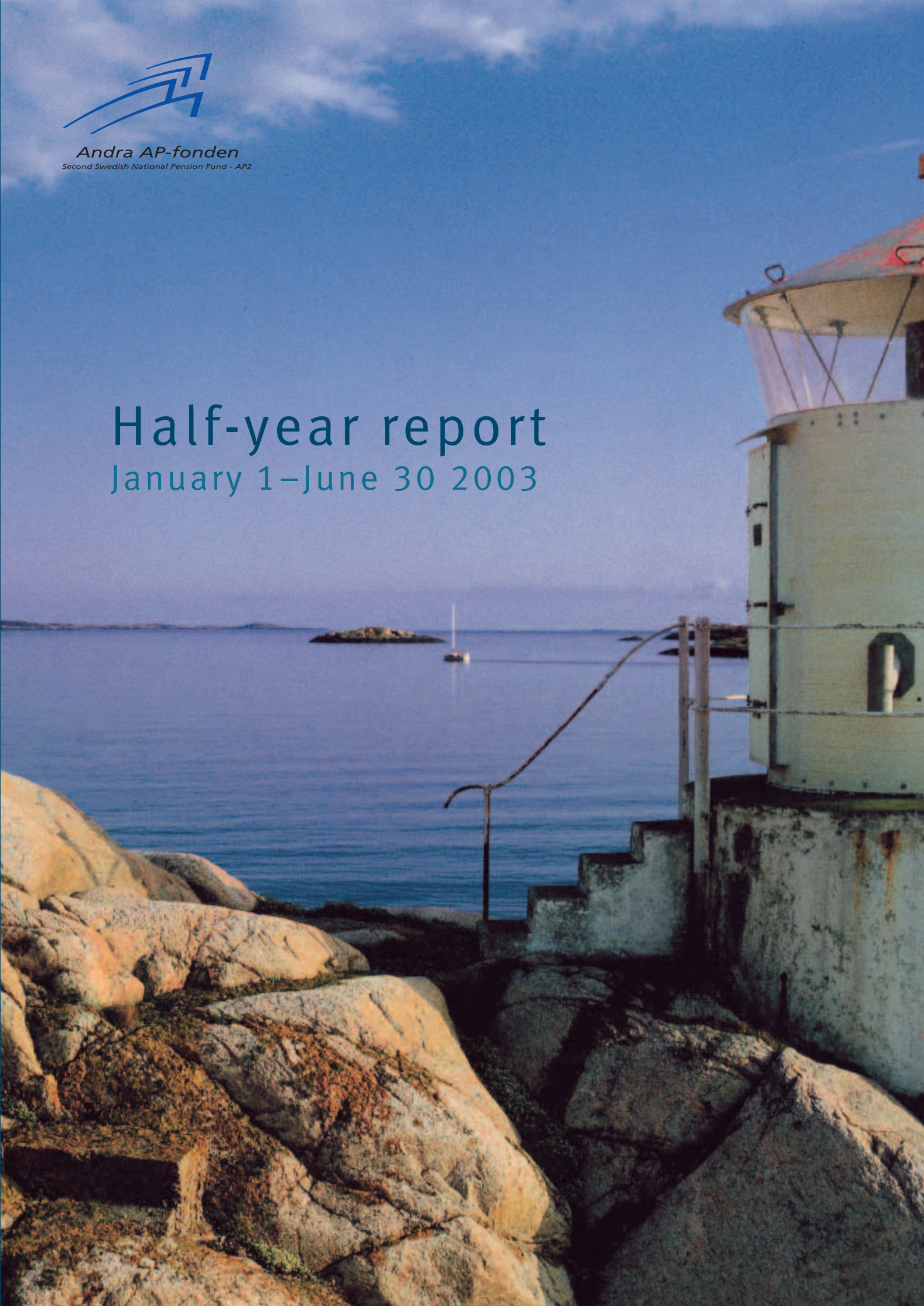




Andra AP-fonden
Second Swedish National Pension Fund - AP2

Half-year report

January 1–June 30 2003



Long-term strategy creates b

The return on the Second Swedish National Pension Fund/AP2's invested assets for the six months ending June 30th, adjusted for inflow, amounted to 7.0 percent. Combined pension assets under Fund management at the close of this period amounted to SEK 126.7 billion, an increase of SEK 9.6 billion since year-end 2002.

Swedish equities have performed best, generating an absolute return on investment of 11.1 percent, while foreign equities noted 7.2 percent.

Generally speaking, the Fund's asset management activities have generated a favourable return on investment, equalling or surpassing the reference index for the various classes of asset. Overall, the Fund has generated a relative return of 0.1 percent on invested assets, excluding operating expenses and real estate.

- The Fund's fixed-income portfolio has generated a return of 4.8 percent, in parity with the reference index. Its estimated worth, including liquidity, amounted to SEK 45.8 billion on June 30th 2003.
- The return on the portfolio of Swedish equities amounted to 11.1 percent, exceeding index by 0.2 percent. By the close of the first six months, the portfolio of Swedish equities was worth SEK 25.5 billion.
- The portfolio of global equities generated a return of 7.2 percent, amounting to SEK 50.8 billion by the end of the period, exceeding the reference index by 0.1 percent.

- The Fund's exposure in foreign currency amounted to approximately 7.5 percent, corresponding to SEK 9.5 billion of its combined assets.
- The Second Swedish National Pension Fund/AP2's investments in unlisted real estate holdings, consisting of a 25-percent stake in AP-Fastigheter and a 33-percent stake in Norrporten, have performed well. Their combined worth amounted to SEK 4.3 billion at the close of the report period.
- Business area Alternative Investments (unlisted equities managed via funds) is still in the build-up phase, and decisions about future investments have been taken during the first six months, including decisions about the venture capital funds EQT and Amaranth.
- As a significant institutional investor, the Second Swedish National Pension Fund/AP2 has focused and clarified its position and response in relation to various corporate governance issues.

Consistent strategy has led to a substantial recovery

The favourable result of the Second Swedish National Pension Fund/AP2's asset management activities during the first half of 2003 may largely be attributed to the maintenance of a consistent strategic focus, involving a relatively high ratio of equities in the asset portfolio. The favourable trend noted by several of the world's stock exchanges, the positive results of the Fund's fixed-income management activities and the high ratio of hedged foreign equities have combined to enable the Fund to regain a significant portion of the earlier decline noted in the value of its assets. The gain of approximately 11 percent posted by the Swedish stock market by the end of the first half has had a notably favourable impact on the growth of its pension assets. However, it is important to emphasise that the value of the Fund's assets can vary substantially dur-

Portfolio as per June 30th 2003 (%)

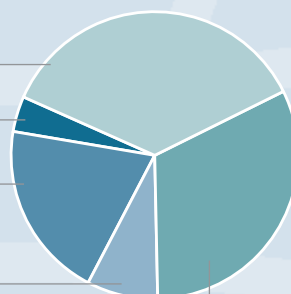
Fixed-income assets, incl. liquidity (36%)

Real estate, incl. alternative investments (4%)

Swedish equities (20%)

Foreign equities, non-hedged (8%)

Foreign equities, hedged (32%)



asis for a solid return

ing a single quarter or half year, depending on developments in the various financial markets. Although this can have a major impact on the Fund's combined capital in the short term, its investment focus is extremely long term, with the goal of achieving maximum growth between the years 2010 and 2015. With this in mind, combined with the fact that numerous historical yield analyses have demonstrated that equities generally produce a better return than other classes of asset, the Fund's strategic investment focus has remained unchanged in the past six months, despite an occasionally highly turbulent stock market.

Economic trends: international and in Sweden

The start of 2003 saw continuing and genuine uncertainty about the global economy and the geopolitical situation. This was also mirrored by the performance of the world's stock markets, which noted a substantial decline up to the beginning of March.

The removal of uncertainty regarding the progress of the war in Iraq and the fact that the SARS epidemic proved less dramatic than many had feared provided a basis for increased investor confidence in the world's stock markets. Clear indicators of a global economic recovery also encouraged a more favourable attitude to the stock market in general. This cautious optimism was further encouraged by the fact that many reports posted results that exceeded expectations. These favourable expectations have been further strengthened by continuing extremely low interest levels in both the USA and Europe. Several analysts therefore predict the likelihood of a continuing if modest upswing in the global economy during the rest of the year, fuelled first and foremost by growth in the USA. Most of the

major stock markets have posted vigorous and consistent rallies since the beginning of March.

Even so, economic growth in several European countries, especially Germany, failed to keep up. During the spring, the European Central Bank (ECB) dropped its base rate to historically low levels. In spite of indications suggesting a stabilisation of the European economy, most analysts anticipate further cuts in the base rate during the autumn.

Economic development in Sweden has been affected by increased uncertainty about State finances compared to the preceding year, partly a consequence of rising unemployment. The uncertainty expressed by companies about growth prospects has also been notable, even though a more optimistic mood has emerged during the latter part of the summer.

” **Most of the major stock markets have posted vigorous and consistent rallies since the beginning of March** ”

The difficulty of predicting the outcome of Sweden's autumn referendum on membership of the EMU is further fuelling this uncertainty. The Fund's own view is that the global economy will stage a modest recovery during the latter half of this year and in 2004. Nevertheless, the relatively mild economic decline noted in 2001 and 2002 is likely to lead to a more subdued recovery than might otherwise be expected. The actual rate of growth is likely to continue to fall behind true growth potential during the coming quarter, which will help sustain the threat of deflation. This in turn may also lead to an extended period of low interest rates and the pursuit of relaxed monetary policies by central banks.

Fund capital by class of asset

Amounts in SEK billion	June 30 th 2003	June 30 th 2002	Dec. 31 st 2002
Swedish equities	25.5	23.5	22.8
Foreign equities, hedged	41.3	39.5	39.3
Foreign equities, non-hedged	9.5	9.6	6.8
Fixed-income assets	45.9	47.1	43.4
Real estate, incl. alternative investments	4.5	4.6	4.8
Total	126.7	124.3	117.1

The portfolio assets referred to in this report are allocated exposures. In addition to booked market 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 market values.

The stock market rallies of the past few months have derived from an enhanced interest in high-risk stocks and greater optimism about general economic prospects and the ability of companies to generate increased profits. It is therefore important that this stock market recovery should be consolidated during the autumn, to prevent a reversal. This phase of a stock market recovery normally leads to more gradual growth in market rates than that noted during the first six months of the year. These factors increase the risk that the world's stock markets could suffer from a reversal during the autumn. The interaction between economic growth, the formulation of monetary policy and stock market trends will also have a major impact on continued interest market growth, a sector that proved more volatile than world stock markets during the summer.

Asset management

The Fund's in-house team, in cooperation with carefully selected external partners, manages assets that consist mainly of Swedish and foreign equities and fixed-income portfolios. The actual composition of the assets that comprise the portfolio is determined by a "strategic reference portfolio", approved annually by the Board of Directors, which is formulated to satisfy the Fund's long-term commitments in the best possible way. The performance of the strategic reference portfolio is matched on an ongoing basis against the reference index, with a more thorough evaluation every three years. The objective is to generate an annual surplus yield of 0.5 percent over the long term, relative to the reference portfolio, based on an investment horizon of ten to fifteen years. Since it started, the Fund has averaged a surplus return on invested assets of approximately 0.9 percent per year.

During the first six months of the year, the Fund has made a net investment of just over SEK 3 billion in equities. This is implemented with a view to managing inflows and to re-balance the portfolio, to achieve the required distribution between different classes of asset in each instance.

When seen in the context of the Swedish Stock Exchange's relative size in international terms (it accounts for less than one percent of the market), the Fund's investments in the Swedish stock market are clearly over-represented – almost

a third of the share portfolio consists of Swedish equities. Seen in terms of the Fund's role in Swedish society, however, this is both natural and reasonable, given the fact that the Swedish National Pension Funds are an integral part of the Swedish economy as a whole. In strict asset management terms, however, this involves substantial exposure on a small market. In its asset management strategy, the Fund has therefore striven to reduce dependence on the favourable performance of shares in a limited number of large and index-heavy corporate equities in its portfolio of Swedish shares. In a move to secure a higher share of "absolute return", and to diversify risk, the Fund has established a more refined and differentiated share portfolio. The strategic reference portfolio for Swedish equities is now distributed as follows: 70 percent market-value weighted equities, 20 percent equally-weighted equities (where the 50 largest companies are accorded the same weighting, regardless of actual market worth) and 10 percent equities in small Swedish companies. The management of equities in small Swedish companies is handled entirely via unit trusts.

Highlights of the first half

During the spring of 2003, the Swedish Government submitted its customary evaluation of the management and operation of the Swedish National Pension Funds to the Swedish Parliament. Among other things, the report noted that the combined losses incurred by the First to Fourth Swedish National Pension Funds in 2002, which derived from a rapid increase in the Funds' relative investment in equities, provide grounds for criticism. At the same time, the Swedish Government has stressed that this criticism may be applied in varying degrees to the capital market as a whole, and that the negative stock market trend arose from factors that were extremely difficult to predict in early 2001, when the Funds' long-term investment strategies were finalised. In a specific reference to the Second Swedish National Pension Fund, the Government highlights the new model implemented for the composition of the Swedish equities portfolio, describing it as "innovative".

During the spring, the Fund has continued to develop and implement its strategy of managing a significant proportion of its assets by co-opting the expertise of external investment

Composition of reference portfolio

	Reference portfolio, %	Permitted interval, %
Swedish equities ¹⁾	20	15–25
Foreign equities, hedged	32	20–40
Foreign equities, non-hedged	6	4–17
Foreign equities, growth markets	2	0–3
Swedish nominal fixed-income instruments	16	10–25
Swedish real fixed-income instruments	5	2–8
Foreign nominal fixed-income instruments	16	10–25
Real estate	3	0–15
Alternative investments (unlisted)	0	0–5

1) Consists of SBX (70%), equally-weighted OSX (20%) and Carnegie Small Cap Index (10%).

managers. The plan is to become a highly competent “manager of managers”.

At the close of 2002, the Fund signed a contract making State Street its global custodian. The appropriate routines and systems have been successfully implemented during the spring. By the start of August, the Fund had also completed negotiations concerning a number of external asset management mandates, Swedish as well as international. Procurement of these services signified the culmination of a comprehensive evaluation process. Furthermore, as a major shareholder in a number of Swedish and foreign companies, the Fund has devoted considerable resources to questions concerning corporate governance issues. It is one of the first Swedish institutions to have introduced, on a trial basis, a system for voting at the AGMs of foreign companies. During the spring, the Fund has exercised its voting rights in some 50 of its most important holdings. In Sweden, the Fund has initiated a statistical study to determine the extent to which the number of women elected to the boards of publicly quoted companies is increasing, which has aroused considerable interest. In particular, the Fund has been constantly engaged in evaluation and decision-making pertaining to various AGM resolutions. It has participated in more than 40 Swedish annual general meetings during the spring.

Financial review

The Fund reports capital assets amounting to SEK 126.7 billion for the period, including net inflows of SEK 1.4 billion. Liquid assets total SEK 2.5 billion. The return on invested assets for the first six months amounted to 7.0 percent, producing a positive relative yield of 0.1 percent against the reference index, excluding operating expenses and unlisted real-estate holdings. The Fund’s operating expenses corresponded to –0.1 percent of invested capital.

Dividends received totalled SEK 1.3 billion, while the result posted for share-related assets was SEK –1.6 billion. The Fund reported net interest income of SEK 1.5 billion, the result realised on fixed-income investments, including derivative instruments, amounting to SEK 0.3 billion. The positions

taken by the Fund in derivative instruments are fully hedged by liquid assets, avoiding any impact on the balance sheet total which might otherwise arise from the leverage effect. Unrealised changes in value amounted to a net of SEK 7.9 billion. The increase in the value of the assets is primarily attributable to share-related assets.

Net income for the first six months amounted to SEK 8.2 billion. This sum comprises dividends, net interest income, foreign exchange gains, realised and unrealised changes in value and operating expenses.

Operating expenses include expenses for externally managed assets in an amount of SEK 34 million, corresponding to 36 percent of the Fund’s total operating expense. Since its inception, the Fund has implemented a clearly defined strategy of delegating a significant proportion of its assets to external managers, to diversify risk and increase the return on investment. In all, 41 percent of the Fund’s market-listed assets are under external management. Foreign currency exposure at the close of the first half amounted to 7.5 percent of total assets. This reduced foreign currency exposure, relative to the reference portfolio, has made a positive contribution to the relative return on investment. The Fund has maintained

“ Since its inception, the Fund has implemented a clearly defined strategy of delegating a significant proportion of its assets to external managers... ”

a limited level of active risk. Since the start of the year, the Fund’s active risk (i.e. the amount of deviation from the agreed reference index) amounted to 0.7 percent.

Distribution and growth of Fund capital

The Fund’s assets as per June 30th 2003 amount to SEK 76.3 billion in listed equities, of which SEK 25.5 billion in Swedish equities and SEK 50.8 billion in foreign equities. Fixed income assets amounted to SEK 45.8 billion. Holdings in unlisted shares in real estate, including subordinated debentures, and alternative investments, amounted to SEK 4.3 billion and SEK 196 million respectively.

Return in relation to index, January–June 2003

Second AP Fund		Reference index*	
Total return	7.0%	Total index ¹⁾	7.1%
Swedish equities	11.1%	Swedish share index ²⁾	10.9%
Foreign equities, hedged	7.2%	Foreign share index, hedged ³⁾	7.1%
Foreign equities, non-hedged	2.6%	Foreign share index, non-hedged ⁴⁾	2.5%
Fixed-income instruments	4.8%	Fixed-income index ⁵⁾	4.8%

1) Composed of 20% Sweden Index, 40% Global Index, 37% Fixed Income Index.

2) Composed of 70% SBX, 20% OSX and 10% CSX.

3) Composed of 6.75% MSCI Developed Markets North America Net USD, 36.0% MSCI Developed Markets North America Net Local, 6.0% MSCI Developed Markets Europe Net USD, 32% MSCI Developed Markets Europe Net Local, 1.5% MSCI Developed Markets Japan Net USD, 8.0% MSCI Developed Markets Japan Net Local, 0.75% MSCI Developed Markets Pacific ex Japan Net USD, 4.0% MSCI Developed Markets Pacific ex Japan Net Local and 5.0% MSCI Emerging Markets Free Net USD translated into SEK.

4) Composed of 42.75% MSCI Developed Markets North America Net USD, 38.0% MSCI Developed Markets Europe Net USD, 9.5% MSCI Developed Markets Japan Net USD, 4.75% MSCI Developed Markets Pacific ex Japan Net USD, and 5.0% MSCI Emerging Markets Free Net USD translated to SEK.

5) Composed of 43.2% SHB Swedish All Bond, 13.5% SHB Swedish Index Linked, 32.4% Lehman GA Govt 1000 x Asia 100% Hedged and 10.8% Lehman GA Cred 1000 x Asia 100% Hedged translated to SEK.

* Real estate is included in the Fund’s reference index but is measured for the full twelve-month period only.

Swedish equities

The market value of assets in the Swedish equities portfolio amounted to SEK 25.5 billion, of which SEK 3.3 billion in Swedish unit trusts. Approximately 51 percent of these holdings have been under the management of external investment managers. At the close of the first half, the portfolio of Swedish equities was marginally overweighted in the “raw materials” and “telecom” sectors, and underweighted in “healthcare” and “IT”. During the report period, temporary overweighting in the “finance” sector has generated a positive relative return.

The return for the first half year amounted to 11.1 percent, which produced a positive relative return of 0.2 percent compared with the reference index. The Fund’s five single largest Swedish holdings in its overall equity portfolio were AstraZeneca (2.3 percent), Ericsson (2.0 percent), H&M (1.9 percent), SHB (1.9 percent) and Nordea (1.7 percent).

Foreign equities

The market value of assets in the foreign equities portfolio amounted to SEK 50.8 billion, of which SEK 1.6 billion in foreign unit trusts. Approximately 69 percent of these holdings have been under the management of external investment managers. A limited number of external mandates have been terminated during the report period, while other existing mandates have been extended and modified, to promote more active management of Fund assets. By the close of the first half, the foreign equities portfolio was marginally overweighted in the “consumer staples” och “telecom” sectors, and underweighted in the “finance” and “industrial” sectors. Foreign equities generated a 7.2 percent return on investment, producing a positive relative return compared with the 0.1 percent noted by the reference index. At the close of the first half, the Fund’s five single largest foreign holdings in its overall equity portfolio were Pfizer (0.9 percent), General Electric (0.8 percent), Nokia (0.8 percent), Microsoft (0.7 percent) och ExxonMobile (0.7 percent).

Fixed-income assets

The market value of the Fund’s fixed-income holdings, including liquidity, amounted to SEK 45.8 billion, of which SEK 1.7 billion in fixed-income funds. During this period, virtually all fixed-income holdings have been managed in-house. At the close of the period, foreign fixed-income holdings amounted to SEK 19.9 billion, consisting of government bonds, promissory notes and funds. These fixed-income assets generated a return of 4.8 percent on invested capital, which was consistent with the reference index.

Alternative investments

During the first half of the year, the Fund signed undertakings with EQT and Amaranth, amounting to a combined

value of SEK 961 million. The Fund’s total alternative investment commitments amount to SEK 1.7 billion, distributed among seven funds. Actual investments account for SEK 204 million of this total.

Real estate

The Fund’s real-estate exposure consists partly of holdings in the listed equities portfolio and partly of holdings in unlisted real-estate companies. The Fund’s unlisted real-estate holdings consist of a 25-percent participation in AP Fastigheter AB and a 33-percent participation in NS-Holding AB (Fastighetsbolaget Norrporten AB). The Fund’s holding in AP Fastigheter has noted steady growth, despite the harsher property market conditions that prevailed during the year, especially in major urban areas. There has been a marginal decline in the market worth of the Norrporten holding, largely a consequence of the geographical distribution of this real estate portfolio. The market value of the portfolio amounted to SEK 3.3 billion (for AP-fastigheter) and SEK 1.0 billion (for Norrporten), including subordinated debentures. During the year, the Fund has received dividends amounting to SEK 175 million from AP-fastigheter and interest income of SEK 37 million on the convertible debenture in Norrporten.

Operating expenses

The Fund’s operating expenses for the first half of 2003 amounted to SEK 95 million, of which SEK 32 million in personnel costs, and SEK 34 million for external asset management services, including the management of listed and unlisted funds. The cost of these external asset management services corresponds to 0.06 percent of the average market value of the Fund’s capital assets, calculated over the full twelve months. Management costs, defined as operating expense in relationship to the average market value, amount to 0.16 percent as calculated for the full year.

Personnel

The Fund numbered 39 permanent employees as per June 30th 2003, as well as a number of project-employed temporary staff.

Valuation and accounting principles

This six-month interim report has been prepared in accordance with the valuation and accounting principles developed jointly by the “buffer” funds. These valuation and accounting principles are defined on page 50 of the 2002 Annual Report of the Second Swedish National Pension Fund/AP2.

Gothenburg, August 28th 2003

Lars Idermark
CEO

Income statement

Amounts in SEK million	June 30 th 2003	June 30 th 2002	Dec. 31 st 2002
Operating income			
Dividends received	1 286	1 196	1 578
Net interest income	1 529	1 493	3 193
Net capital loss	-1 311	-4 349	-12 602
Exchange profit/loss, net	-1 154	-877	-835
Unrealised changes in value	7 919	-10 635	-12 542
Total operating income	8 269	-13 172	-21 208
Operating expenses			
External asset management costs	-34	-21*	-46
Personnel costs	-32	-26	-61
Other asset management costs	-29	-49*	-90
Total operating expenses	-95	-96	-197
Net profit/loss for the period	8 174	-13 268	-21 405

Balance sheet

Amounts in SEK million	June 30 th 2002	June 30 th 2001	Dec. 31 st 2001
ASSETS			
Investment assets			
Shares and participations			
Listed	61 772	60 392	56 906
Unlisted	3 862	3 953	4 131
Bonds and other fixed-income securities	58 434	49 332	51 361
Derivative instruments	665	5 660	1 750
Total investment assets	124 733	119 337	114 148
Receivables and other assets			
Cash and bank balances	2 457	7 307	2 253
Other assets	380	53	240
Prepaid expenses and accrued income	1 048	1 125	1 534
Total receivables and other assets	3 885	8 485	4 027
TOTAL ASSETS	128 618	127 822	118 175
FUND CAPITAL AND LIABILITIES			
Fund capital			
Fund capital at start of year	117 090	133 493	133 493
Net payments to the pension system	1 116	1 163	1 985
Transferred from the special fund and the liquidation fund	275	2 876	3 017
Net profit/loss for the period	8 174	-13 268	-21 405
Total fund capital	126 655	124 264	117 090
Liabilities			
Derivative instruments	1 101	3 258	928
Other liabilities	803	116	28
Prepaid income and accrued expenses	59	184	129
Total current liabilities	1 963	3 558	1 085
TOTAL FUND CAPITAL AND LIABILITIES	128 618	127 822	118 175

* Adjusted for custodial expenses for comparability with the headings used as at December 31st 2002.

This report has not been subject to special examination by the Fund's auditors.

Next report

The financial results for the full twelve months ending December 31st 2003 will be presented in a year-end report of unaudited annual earnings, scheduled for publication in February 5th 2004. The annual report for the financial year 2003 will be published in the spring of 2004.

Cover photo: Björn Edlund, Pixgalleri.com
The cover shows the Berlin Lighthouse at Tjörnekalv, in the county of Bohuslän.

