



Andra AP-fonden
Second Swedish National Pension Fund - AP2

Half-year report

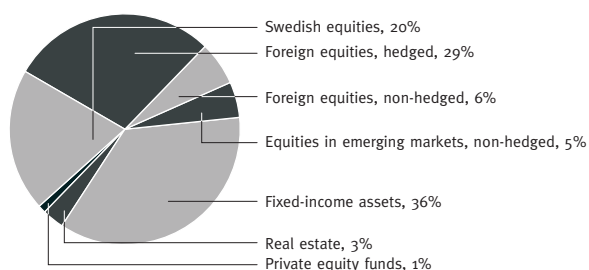
January 1 – June 30 2007

Strong performance

The Second Swedish National Pension Fund/AP2's (hereafter named as "the Second AP Fund") selection of strategic portfolio and its portfolio of Swedish equities, which outperformed index, have been the key factors in its strong performance during the first half of 2007. Additional measures have been taken to develop and further enhance the efficient management of assets.

- The Fund's capital assets amounted to SEK 232.8 billion as per June 30th 2007, corresponding to an increase since January 1st of SEK 16 billion, including inflows. The result for the report period was SEK 15.1 billion.
- The Fund's total portfolio, excluding expenses, showed a return of 7.0 percent for the six months ending June 30th 2007. The benchmark portfolio noted a corresponding return of 6.3 percent. Return on assets less commission costs and operating expenses amounted to 6.9 percent.
- The level of currency exposure was 11 percent as per June 30th 2007.
- The 0.5 percent relative return against index noted for the Fund's market-listed portfolio, excluding expenses, is mainly attributable to the performance of the Fund's Swedish OSX portfolio, the Volvo share performing especially well.
- The task of enhancing and developing the Fund's operational efficiency continues. 78 percent of Fund assets are under in-house management. The Second AP Fund has initiated a joint benchmarking project in association with other leading international pension funds, focused on efficiency and growth.
- In the spring of 2007, the UN agency UNEPFI (The United Nations Environment Programme Finance Initiative) cited the Second AP Fund as a leading role model for sustainability issues within the finance sector. A Corporate Governance Report is published separately.

New strategic portfolio for 2007



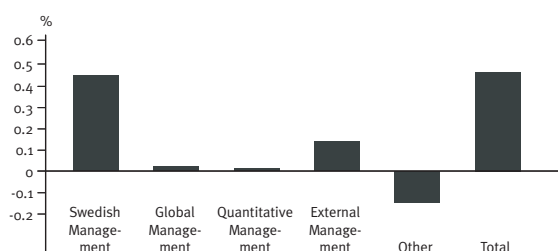
Unless otherwise stated, the portfolio assets referred to in this report are allocated exposures. In addition to booked market values, these also refer to allocated (not yet invested) capital for the specific class of asset, and other assets held as collateral for positions already taken in derivative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

Introduction of new asset management model

To improve prospects of generating a relative return against index, the Second AP Fund introduced a new asset management model, as of January 2007. The model involves the assignment of portfolio responsibilities to different investment teams – Swedish Management, Global Management, Quantitative Management and External Management. Portfolio managers within each team will have access to many investment opportunities in several asset classes. This working approach also establishes a clear distinction between “beta” investments (return generated through exposure to a specific market) and “alpha” investments (return generated by outperforming the benchmark portfolio). Risk is concentrated to a number of active mandates. Quantitative portfolio management, as well as playing an important role in terms of broad “beta” management, is also clearly committed to outperforming index.

Experience from this first six months has been positive. Several of the mandates permitted to adopt a higher level of risk have posted a high relative return against index.

Attribution relative return, listed assets, by investment team %



Swedish Management

Active management of the Swedish portfolio is conducted in both equities and fixed-income securities. The managed assets have contributed 0.46 percent to the Fund’s relative return. All equity and fixed-income portfolios report a favourable relative return for the first half of the year. The OSX portfolio’s fine relative performance (7.1%) has made a major contribution to this result, which in its turn derived from the Volvo share’s outstanding performance. The OSX portfolio comprises Swedish holdings where the Fund adopts a more active role, as investor

and/or on the basis of thematic growth trends. The portfolio is benchmarked against an in-house designed equally weighted OSX index.

Global Management

Global Management comprises the in-house management of equities and fixed-income investments outside Sweden. The need to establish routines for governing placement of investments resulted in a low level of activity during the first half of the year. Management of the portfolio contributed 0.01 percent to the Fund’s relative return.

Quantitative Management

Quantitative Management is playing an increasingly important role in the Fund’s activities. This unit manages Swedish and global equities, as well as passively and semi-actively managed Swedish fixed-income assets. The resources available to the Quantitative Management team have been enhanced during the report period. In-house quantitative management has performed well, especially the portfolio focused on European investments, although products managed as per fundamental index underperformed.

External Management

External portfolio managers are employed for market sectors, asset classes or strategies where they are expected to contribute to the relative return on Fund assets. 22 percent of Fund assets are under external management. Assets under external management have contributed 0.13 percent to the Fund’s relative return.

Other

As a consequence of implementing a new management strategy, “rebalancing” and “hedge-matching” effects are reported in a new way. Rebalancing effects arise when Fund portfolios are re-weighted against benchmark index, and hedge-matching effects arise when hedging instruments do not precisely match the Fund’s selected benchmark. This has resulted in a negative contribution of – 0.13 percent during the report period.

Focus on greater efficiency continues

The Second AP Fund has a true long-term return requirement of 5 percent, after expenses, of which 0.5 percent is the Fund's targeted relative return. This requirement is determined in light of the anticipated development of the Swedish national pension system and in terms of what will be necessary if the Second AP Fund is to meet its share of obligations in funding Sweden's future pensions. With a current real interest rate at between 1.5 and 2 percent, it is crucial that the Fund find classes of asset and investment strategies capable of generating a higher return, yet with a balanced risk. Exposure to such high-yield classes of asset often involves higher management costs. Private equity funds, where the best fund managers have posted solid returns over an extended period, compared to other asset classes, are just one example.

In 2005, the Second AP Fund initiated collaboration with Cost Effectiveness Measurement Inc (CEM), a Canadian company with many years experience of analysing pension funds similar in kind to the Second AP Fund. This collaboration is designed to generate valuable comparative data for ongoing analysis of the Fund's efficiency in terms of asset

management focus and resource utilisation. The graph below shows the Second AP Fund's earnings growth (relative return) in relation to actual costs (relative added cost) over the period 2004–2006. This analysis is based on a comparison with internationally active pension funds of similar size.

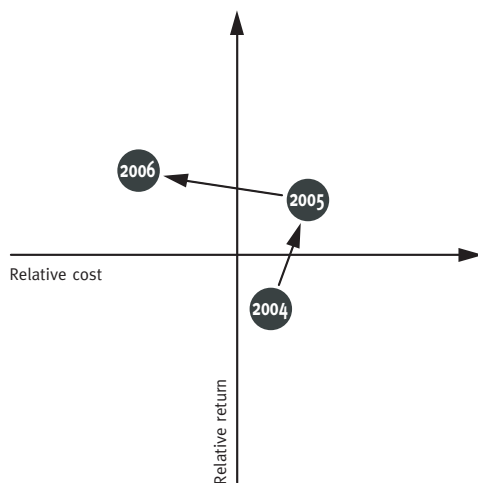
During the period the Second AP Fund has implemented a number of measures that have had the desired effect. An analysis of the efficiency of the Fund's operations in 2006 clearly demonstrates a significant improvement compared with the reference group (see below graph).

In association with a number of leading international pension funds, the Second AP Fund is engaged in an in-depth cross-comparative process during 2007.

In 2006, a project was initiated to further improve the efficiency of the Fund's transaction processes, involving a detailed analysis of direct and indirect transaction costs. Once again, the Fund will be basing its results on comparable international data. A new study of transaction costs was conducted during the first half of 2007.

Both these comparative projects form part of the Fund's efforts to develop its own key ratios for measuring efficiency.

Towards greater cost efficiency



The CEM study demonstrates that the Second AP Fund has improved its position.

Financial review

The Fund reports combined assets of SEK 232.8 billion, including net inflows, for the first half of 2007, an increase of SEK 16 billion during the period. The increase may be attributed to the Fund's net result of SEK 15.1 billion, external capital flows in the form of net payments from the national pension system amounting to SEK 826 million, and to the transfer of capital totalling SEK 108 million from the liquidation and special management funds.

The Fund's capital assets have now attained the highest level since its foundation in 2001. Excluding inflows received since its inauguration, the Fund's capital assets have increased by SEK 79.6 billion. All in all, the Fund reports a total return of 7.0 percent, excluding costs, for the six months ending June 30th 2007. A return of 6.9 percent, excluding costs, was noted for the market-listed portfolio. The Fund's benchmark portfolio, excluding unlisted assets, generated a return of 6.4 percent, resulting in a positive relative return equivalent to 0.5 percent.

The net result for the first six months of 2007 amounted to SEK 15 075 million. This comprised operating income including commissions paid, less operating expenses. Operating income comprises net interest income, dividends received and a net result for respective asset classes totalling SEK 15 427 million, together with exchange losses of SEK -200 million. Operating income also includes commission costs of SEK 86 million, of which fees paid to external fund managers accounted for SEK 77 million and custodial costs SEK 9 million. Operating expenses in the form of personnel and other administration

expenses have been charged against Fund earnings in an amount of SEK 66 million.

During the first six months, 22 percent of Fund assets were managed externally. All these mandates involved active or "enhanced" management. External management includes investment in private equity funds.

As per June 30th, 11 percent of the Fund's combined assets were exposed in foreign currency. Exchange losses for the first half amounted to SEK -0.8 billion, including interest gains/losses on currency futures, and are primarily attributable to transactions in USD, GBP and Euro.

Calculated on a rolling twelve-month historical basis, the Fund's active risk was 0.6 percent, compared with 0.7 percent for the same period in 2006. Risk utilisation levels of 2.2 and 1.2 percent are reported for Swedish and foreign equities respectively, on a rolling twelve-month basis. The level of active risk for fixed income assets was 0.3 percent. The Fund's information ratio for the corresponding period was positive, at 1.3. Volatility for the overall portfolio was 6.5 percent.

Growth in Fund capital, first half 2007, SEK million

Fund capital at start of period		216 775
Pension contributions received	23 891	
Pension disbursements made	-22 965	
Remuneration for administration	-100	826
Transferred from liquidation and special management funds	108	
Net result for the period		15 075
Fund capital at close of period		232 784

Key ratios	June 30th 2007	2006	2005	2004	2003
Fund capital, SEK million	232 784	216 775	190 593	158 120	140 350
Inflows, SEK million	934	1 676	2 905	1 651	2 567
Share of asset management costs, excluding commission costs, over the year, %	0.06	0.06	0.07	0.08	0.09
Share of asset management costs, including commission costs, over the year, %	0.14	0.15	0.16	0.22	0.18
Net result for the period, SEK million	15 075	24 506	29 568	16 119	20 693
Return on total portfolio, excluding costs, %	7.0	13	18.7	11.6	17.8
Return on total portfolio, including costs, %	6.9	12.8	18.5	11.4	17.7
Relative return on listed assets, excluding costs, %	0.5	0.2	0.2	-0.6	-0.5
Currency exposure, %	11	12	11	10	8
Active risk, ex post, %	0.6	0.7	0.5	0.5	0.6
Share of active management (incl. enhanced), %	94	93	90	90	89
Share of external management (incl. investments in private equity funds), %	22	17	28	37	45

Distribution and growth of Fund assets

Swedish equities

The market value of the portfolio of Swedish equities amounted to SEK 46.1 billion, including investments in Swedish unit trusts totalling SEK 3.1 billion. Seven percent of these holdings were placed under external management. The 14.7 percent return generated in the first six months resulted in a positive relative return of 1.9 percent against benchmark. This was primarily attributable to the Fund's OSX portfolio, which outperformed its benchmark index by 7.1 percent.

The five single largest holdings by market value in the Fund's portfolio of Swedish equities were Volvo (4.9 percent), Ericsson (2.3 percent), Nordea (1.7 percent), H&M (1.3 percent) and Meda (1.3 percent).

Swedish equities	June 30th 2007	2006	2005	2004	2003
Exposed value, SEK billion	46.1	43.5	40.8	32.8	28.4
Absolute return, %	14.7	29.5	36.6	19.0	34.4
Relative return, %	1.9	0.6	-2.9	-1.2	-1.6
SIXRX, %	13.5	28.1	36.3	20.8	34.2
Active management, %	100	100	100	94	100
External management, %	7	10	18	27	56

Foreign equities

The market value of the portfolio of foreign equities totalled SEK 92.3 billion. Of these holdings, 36 percent were managed under external mandates. The return on holdings in foreign equities was 10.1 percent, including foreign exchange gains/losses, resulting in a positive relative return of 0.1 percent compared to the benchmark portfolio. As per June 30th, the Fund's five single largest holdings by market value in foreign equities were Nestlé (0.7 percent), Total (0.7 percent), Exxon (0.7 percent), General Electric (0.7 percent), and E.ON (0.6 percent).

Foreign equities	June 30th 2007	2006	2005	2004	2003
Exposed value, SEK billion	92.3	85.7	77.5	63.8	56.7
Absolute return, %	10.1	16.4	22.9	11.5	22.5
Relative return, %	0.1	2.5	2.0	-0.3	-1.0
MSCI AC World, %	9.7	13.0	20.0	10.6	22.6
Active management, %	93	89	82	80	78
External management, %	36	27	53	77	82

Fixed-income securities

The market value of the Fund's fixed income holdings, including liquidity, amounted to SEK 83.5 billion by June 30th. Of this sum, foreign fixed-income holdings, comprising government bonds, credit bonds and funds, totalled SEK 40.4 billion.

The return on fixed-income securities was -0.8 percent, consistent with the return noted for the benchmark portfolio.

Fixed-income securities	June 30th 2007	2006	2005	2004	2003
Exposed value including liquidity, SEK billion	83.5	77.4	65.1	54.6	50.4
Absolute return, %	-0.8	0.8	4.3	7.3	5.3
Relative return, %	0.0	0.0	0.0	-0.3	-0.1
Active management, %	90	91	93	94	98
External management, %	15	10	8	8	10

Alternative Investments

Asset class Alternative Investments comprises the Fund's investments in private equity funds and unlisted real-estate holdings.

Asset class Alternative Investments posted a return of 8.5 percent.

Private equity funds

The Second AP Fund noted a 5.8 percent return on its investments in private equity funds. During the first six months of the year, real investments have been made in private equity funds to a combined total of SEK 537 million. The Fund's total investment commitments amount to SEK 8.6 billion, distributed among 23 funds. Of this sum, SEK 2.9 billion has already been invested. These funds' long-term growth strategies for their portfolio companies are generating tangible results. During the report period, the portfolio companies have developed well and a number of sales have been completed.

Real estate

The Fund's exposure in real estate consists of its portfolio of listed shares and holdings in the unlisted real-estate companies Norrporten (50 percent) and AP Fastigheter (25 percent).

Both real-estate investments have developed well during the first half, generating a 9.3 percent return. The reported market value of the Fund's participation in AP Fastigheter amounted to SEK 4.7 billion, while the Norrporten holding was valued at SEK 3.8 billion. During the period, the Fund received SEK 319 million in dividends from AP Fastigheter. The gain in the market value of the shares in Norrporten and AP Fastigheter during the first six months of 2007 amounted to SEK 244 million. The return on investment in AP Fastigheter was approximately 12 percent and, in Norrporten, approximately 6 percent. AP Fastigheter values its portfolio of real estate on a half-yearly basis, while Norrporten values its real estate portfolio once yearly, at year-end.

Tactical asset allocation

Three mandates in the area of Global Tactical Asset Allocation (GTAA) have been capitalised during the first half of the year. The two external fund managers are Goldman Sachs Asset Management and First

Quadrant L.P. – the latter in association with its Swedish partner, Informed Portfolio Management. These mandates require an absolute return on investment and are capitalised with index futures in what is known as an “overlay format”. Thereby separated from the Fund's allocation of capital, they are nevertheless able to utilise a portion of the Fund's active risk.

During the first six months, the three GTAA mandates generated a joint surplus of SEK 64 million.

Commission costs

Commission costs total SEK 86 million for the first half. These costs include external asset management costs of SEK 77 million and custodial costs in an amount of SEK 9 million.

Commission costs do not include performance-linked fees, which are paid when a portfolio manager achieves a return in excess of the agreed target. These are reported as deductions under net result per asset class.

Commissions paid on unlisted assets, for which

Composition of strategic portfolio, exposure and return, as per June 30th 2006

Asset class	Strategic portfolio, %	Exposure, %	Exposed value, SEK billion	Return AP2, %	Return strategic portfolio, %	Active risk ex post*, %
Swedish equities	20	19.8	46.1	14.7	12.8	2.2
Foreign equities	40	39.6	92.3	10.1	10.0	1.2
Fixed-income securities, including liquidity and accrued interest	36	35.9	83.5	-0.8	-0.8	0.3
Total listed assets, excluding commissions and operating expenses				6.9	6.4	0.6
Alternative investments	4	4.7	10.9	8.5	1.3	
Total Fund capital, excluding commissions and operating expenses	100	100	232.8	7.0	6.3	

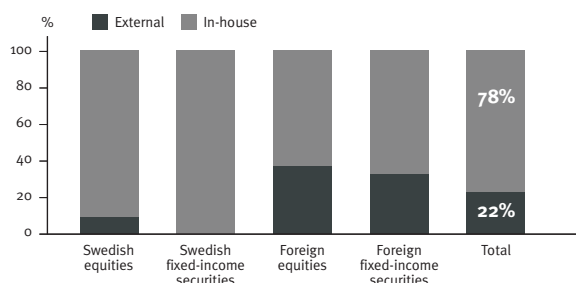
* Historic outcome, 12-month rolling

Fund capital per asset class, SEK billion

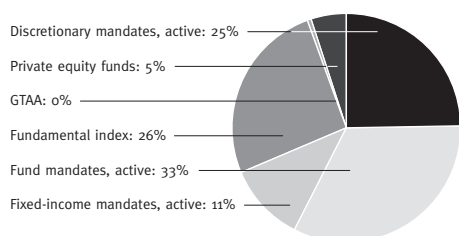
Asset class	Exposed value 2007-06-30	Exposed value 2006-12-31	Exposed value 2005-12-31	Exposed value 2004-12-31	Exposed value 2003-12-31
Swedish equities	46.1	43.5	40.8	32.8	28.4
Foreign equities	92.3	85.7	77.5	63.8	56.7
Fixed-income securities, including liquidity and accrued interest	83.5	77.4	65.1	54.6	50.4
Real estate	*	*	*	*	4.6
Alternative investments	10.9	10.2	7.2	6.9	0.3
Total	232.8	216.8	190.6	158.1	140.4

repayment is approved prior to profit sharing, and which is deemed likely, are reported in the balance sheet as receivables. During the period, advance payments on management fees for unlisted assets have been refunded in an amount totalling SEK 40 million. Of this sum, SEK 35 million has been entered as a receivable in the accounts for the first half.

In-house and external asset management by asset class, %



Externally managed average capital by management style, as per June 30th 2007, %



No capital is allocated for the GTAA mandates, which are exposed in the form of derivatives. The fundamental index mandate is managed in-house, based on an external fundamental index (model portfolio).

Operating expenses

Operating expenses for the first six months of the year amounted to SEK 66 million, personnel costs accounting for SEK 36 million and other management expenses for the remaining SEK 30 million.

Management expenses are expressed on a yearly basis and are defined both including and excluding commission expenses and in relation to the Fund's average total assets.

During the first half of the year, the Fund's management expenses amounted to 0.14 percent. Excluding commission expenses, management expenses thus accounted for 0.06 percent.

Personnel

As per June 30th 2007, the Fund employed 50 full-time staff. At year-end 2006, the Fund numbered 53 full-time staff, with one project-contracted employee.

Accounting and valuation principles

This half-year report has been prepared in accordance with the accounting and valuation principles developed jointly by Sweden's "buffer" funds. These principles are described on page 28 of the Fund's annual report for 2006.

Fund costs	June 2007	June 2006	Dec 2006
Commission costs	86	82	164
of which			
- external management costs	77	73	148
- custodial costs	9	9	16
Operating expenses	66	65	129
Share of management costs, %*	0.06	0.07	0.06

*Based on operating expenses in relation to average Fund capital

Events subsequent to close of report period

There has been a dramatic increase in the volatility of Swedish and global markets since the close of the report period. This has had a negative impact on the Fund's result.

Forthcoming financial report

The full annual report and operating result for the financial year 2007 will be published in February 2008.

Gothenburg, August 22nd 2007

Eva Halvarsson
CEO

Income statement

SEK million	Jan–June 2007	Jan–June 2006	Jan–Dec 2006
Operating income			
Net interest income	1 141	572	893
Dividends received	2 821	2 663	3 440
Net result, listed equities & participations	12 930	2 861	22 070
Net result, unlisted equities & participations	370	365	1 743
Net result, fixed-income assets	-1 755	-1 771	-1 362
Net result, derivative instruments	-80	-93	-38
Net result, exchange gains	-200	-940	-1 947
Commission expenses	-86	-82	-164
Total operating income	15 141	3 575	24 635
Operating expenses			
Personnel expenses	-36	-38	-74
Other administration expenses	-30	-27	-55
Total operating expenses	-66	-65	-129
NET PROFIT FOR THE PERIOD	15 075	3 510	24 506

Balance sheet

SEK million	Jan–June 2007	Jan–June 2006	Jan–Dec 2006
Assets			
Equities & participations			
- listed	140 761	112 803	128 673
- unlisted	6 960	4 809	6 234
Bonds & other fixed-income securities	98 797	86 454	75 442
Derivative instruments	1 621	2 247	3 087
Cash & bank balances	2 398	2 331	2 142
Other assets	1 165	2 605	488
Prepaid expenses and accrued income	1 632	1 405	1 722
TOTAL ASSETS	253 334	212 654	217 788
Fund capital & liabilities			
Liabilities			
Derivative instruments	831	422	485
Other liabilities	19 456	17 062	211
Deferred income & accrued expenses	263	325	317
Total liabilities	20 550	17 809	1 013
Fund capital			
Opening fund capital	216 775	190 593	190 593
Net inflow to the national pension system	826	659	1 568
Transferred from special & liquidation funds	108	83	108
Net profit for the period	15 075	3 510	24 506
Total Fund capital	232 784	194 845	216 775
TOTAL FUND CAPITAL & LIABILITIES	253 334	212 654	217 788

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



Andra AP-fonden
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