

- The Fourth National Swedish Pension Fund's investment assets had a total market value of SEK 144 billion on 30 June 2004.
- The Fund's assets generated a total return of 5.5% in the first half of 2004.
- The Fund's net profit for the period totalled SEK 7.4 billion.

**INTERIM REPORT**  
January – June  
**2004**

## Interim Report January – June 2004

### Economic conditions

Growth in the OECD area as a whole was good in the first half of the year but was nevertheless patchy. The US and Japanese economies were growing at an estimated annualised rate of 5% and 4.5% at the end of June. Continental European economies continued to perform weakly, with growth estimated at 2% in the same period.

Industrial production showed a healthy increase and at the end of May was growing at an annualised rate of 6%. This is considerably faster than the long-term trend in the OECD area.

Weak employment growth in the US in the first few months of the year contributed to increasing uncertainty about economic prospects. However, the overall picture for the first quarter looked more normal compared to previous cycles following a sharp rise in employment in March. As a result, hopes rose that the US economy would continue to perform well.

The Japanese economy continued to outperform expectations, with stable employment and strong household optimism helping consumption to grow faster than expected. Rising investment and net export growth also had a positive impact on economic growth in the first half. Previous recoveries in Japan in the 1990s have proven short-lived and overly dependent on the world economy.

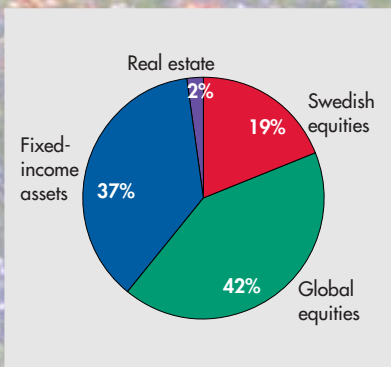
It remains to be seen if this current recovery turns out to be purely cyclical or more structural – and thus more sustainable – in character.

In the rest of Asia growth forecasts were also revised sharply upwards in the first half. Global economic growth is now expected to reach about 4% in 2004.

The healthy growth rate and a stronger labour market in the US, combined with clear signs of an upturn in inflation, prompted the US Federal Reserve to adjust monetary policy and the benchmark US interest rate was raised in June from 1% to 1.25%, the first increase for four years. The Bank of England also raised UK interest rates on three occasions in the first half, lifting the base rate by 0.75 percentage points to 4.5%. The ECB kept interest rates unchanged during the period. In Sweden, inflation fell considerably more than the Riksbank had predicted and the labour market was weaker than expected. The bank therefore twice cut its main interest rate – by a total of 0.75 percentage points to 2%. As of 30 June the rate was at the same level as in the eurozone.

Long-term interest rates rose slightly in the US and the UK during the period. In the rest of Europe they were relatively unchanged as the market has taken the view that rates are likely to remain stable. Rates fell somewhat in Sweden, however.

### Strategic portfolio 2004



### Allocation of investment assets

Asset category	Market value, SEK million 30-06-2004	Share, % 30-06-2004	Share, % 31-12-2003	Share, % 30-06-2003	Strategic portfolio 2004, %
Swedish equity portfolio	28,694	19.9	20.1	20.3	19.0
Global equity portfolio	61,471	42.6	42.5	43.1	42.0
Fixed income portfolio	51,092	35.4	35.0	33.9	37.0
Real estate	2,956	2.1	2.4	2.7	2.0
Investment assets	144,213	100.0	100.0	100.0	100.0

## Return and risk

Asset category	Return, %						Volatility, % Full year Portfolio	Active risk, % Full year Portfolio
	2004 Jan – June		2003 Jan – June		2003 Full year			
	Portfolio	Index	Portfolio	Index	Portfolio	Index		
Swedish equity portfolio	10.8	12.3	10.7	10.9	32.9	34.2	16.0	2.3
Global equity portfolio	8.7	8.1	2.0	2.3	9.2	10.2	13.8	1.5
Fixed income portfolio	2.3	1.6	4.2	4.2	4.8	4.3	2.8	0.7
Real estate	8.7	8.7	-3.3	–	-4.7	–	–	–
Investment assets	5.5	5.5	6.7	7.2	17.0	18.0	6.7	1.1

The first half of 2004 was marked by a continued rebound in the global economy. It is likely that the pace of growth has peaked and will slow somewhat in the second half. Financial markets were characterised by growing concerns that monetary policy would follow a more neutral course at the same time as growth slowed. The policy tightening in China and rising oil prices also contributed to the prevailing uncertainty over economic developments.

### Investment assets

The Fund's strategic portfolio was adjusted at year-end. As a result, real estate, which in the past has remained outside the portfolio, was included in the portfolio and given a 2% weighting. The weighting of Swedish equities in the portfolio dropped to 19%, while the weighting in global equities fell to 42%. In addition, the weighting of fixed income assets fell to 37%. The share of real estate in the strategic portfolio corresponds broadly to the securities that the Fund holds in AP Fastigheter Holding AB.

The global bond and equity markets generated low returns in the first half. However, the Swedish equity market performed considerably better than international equity markets.

The positive trend set by equity markets during the major part of 2003 was broken in the first half of 2004. At the beginning of the year the continued economic recovery and surprisingly good growth in corporate earnings meant investors remained willing to take risks.

However, equity markets began to run out of steam at the end of the first quarter. Rising concerns about an expected adjustment of monetary policy had a negative impact on investors. Several other factors also contributed to reduced appetite for risk among investors during the second quarter: an expected slowdown in growth in the second half; uncertainty over economic developments in China; and rising oil prices.

The net market value of the Fund's total investment assets amounted to SEK 144,213 million at 30 June.

### Total return

The Fund's investment assets generated a return of 5.5% (6.7) during the period, which was marginally higher than the benchmark index.

The return relative to the Fund's benchmark index benefited from an outperformance of the fixed income and global equity portfolios. However, the performance of the Swedish equity portfolio had a negative effect on relative return.

### Swedish equity portfolio

The market value of the Swedish equity portfolio (including private equity holdings of SEK 342 million) totalled SEK 28,694 million on 30 June. The five largest holdings are shown in the adjoining table.

The Swedish equity portfolio posted a return of 10.8%, an underperformance of 1.5 percentage points against the SIX Return Index. This underperformance

was primarily attributable to the portfolio being underweight in the information technology sector.

The return on private equity was -0.1%, which had a negative impact on the return on the Swedish equity portfolio of 0.1 percentage points.

### Global equity portfolio

The market value of the global equity portfolio stood at SEK 61,471 million on 30 June. Of this, SEK 16,976 million was externally managed funds under semi-active mandates and SEK 14,403 million was externally managed under active mandates.

Two investments in externally managed funds were made in the first half. Almost SEK 5 billion was invested in a global equity fund and just over SEK 4 billion in a quantitatively managed equity fund focused on the financial sector.

The return on the global equity portfolio, excluding foreign exchange forward contracts, totalled 8.7%, which was 0.6

### Swedish equity portfolio's largest investments at 30-06-2004

Company	Market value SEK million	Share of portfolio, %
Ericsson	3,991	13.9
Nordea	2,241	7.8
Hennes & Mauritz	2,195	7.6
SHB	1,803	6.3
AstraZeneca	1,258	4.4
Total	11,488	40.0

percentage points higher than the reference index. The internally managed portfolio generated a return of 7.9% and outperformed the reference index by 0.5 percentage points. The outperformance was due chiefly to the selection of stocks. The Fund's external mandates also contributed to the global equity portfolio's outperformance.

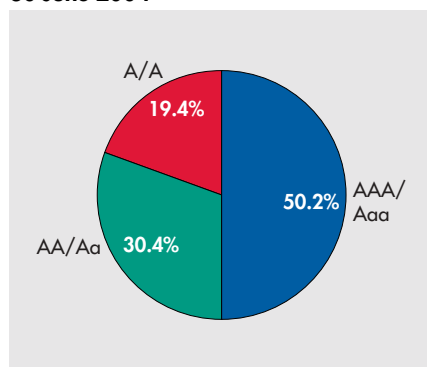
### *Fixed income portfolio*

The fixed income portfolio, including liquid assets, had a market value of SEK 51,092 million on 30 June.

The portfolio reported a return of 2.3% and outperformed the reference index by 0.7 percentage points. This outperformance was mainly attributable to the Fund's early foresight in predicting that the Riksbank would cut interest rates during the spring. This, combined with expectations of generally higher global bond yields, resulted in the Fund positioning itself for a steeper yield curve in Sweden and remaining considerably overweight in Swedish bonds relative both to German and UK bonds.

A breakdown of the Fund's bond holdings by rating category is shown in the table below.

**Bond holdings by rating class at 30 June 2004**



### *Currencies*

From the beginning of the year the Fund adopted a more active approach to currency management which will involve it henceforth taking more active positions in currencies other than the Swedish krona. This changed in approach produced a positive contribution to the Fund's relative return during the first half.

The Fund increased its strategic currency exposure during the period, and at 30 June currency exposure corresponded to 19.1% of total assets, compared to 18.5% at the start of the year.

### *Real estate*

The Fund's real estate holdings consist of shares and notes receivable in AP Fastigheter Holding AB. The market value of the portfolio at the half-year end amounted to SEK 2,956 million (of which SEK 889 million was in shares and SEK 2,067 million was in notes receivable). The return was 8.7%.

### *Other*

At 30 June, fund capital totalled SEK 144,105 million, an increase of SEK 8,599 million since the start of the year. In the first half, fund capital was increased by the net profit of SEK 7,405 million earned during the period, net disbursements from the National Pension Scheme of SEK 1,035 million and SEK 159 million transferred from the Special Asset Management funds administered by the First and Fourth Swedish National Pension Funds on behalf of all the Swedish National Pension Funds.

Operating expenses increased to SEK 134 million, compared to SEK 97 million in the same period last year. The entire increase was due to a SEK 39 million increase in external asset management expenses, of which performance related expenses accounted for SEK 29 million (SEK 1 million). The annually rebased

asset management cost quotient (operating expenses as a proportion of the average value of fund capital) was 0.19% (0.16). Excluding external management mandates the figure was 0.14% (0.15). The number of employees increased from 53 to 54.

The Special Asset Management unit, which is managing the Fund's withdrawal from its private equity holdings, on 30 June held investment assets valued at SEK 890 million.

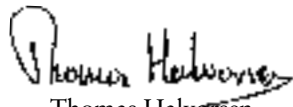
### *President's comments*

The return on investment assets during the first half totalled 5.5%, which is in line with the Fund's benchmark index.

After a weak start to the year the asset management return relative to the benchmark index improved steadily. The relative return from fixed income asset management was highly satisfactory, not just during the period in question but in a longer term perspective too. Our global asset management operations also reported a satisfactory half-year performance – both with regard to internally and externally managed equities. However, the positions taken by the Fund on the Swedish equity market generated an unsatisfactory return in the short run.

The Fund's absolute return benefited from a higher share of Swedish equities in the strategic portfolio during the first half.

Stockholm, 25 August 2004

  
Thomas Halvorsen  
President

## Income Statement

SEK million	30-06-2004	30-06-2003	31-12-2003
<b>Operating income</b>			
Dividends received	1,273	1,334	1,704
Net interest income	1,337	1,365	2,659
Net capital profit/loss	2,104	-4,368	-5,426
Net exchange rate profit/loss	418	-1,103	-2,841
Unrealised changes in value	2,407	10,525	23,454
<b>Total operating income</b>	<b>7,539</b>	<b>7,753</b>	<b>19,550</b>
<b>Operating expenses</b>			
External asset management costs	-60	-21	-69
Personnel expenses	-40	-36	-73
Other operating expenses	-34	-40	-74
<b>Total operating expenses</b>	<b>-134</b>	<b>-97</b>	<b>-216</b>
<b>Net profit for the period</b>	<b>7,405</b>	<b>7,656</b>	<b>19,334</b>

## Balance Sheet

SEK million	30-06-2004	30-06-2003	31-12-2003
<b>ASSETS</b>			
<b>Investment assets</b>			
Shares and participations, listed	89,250	73,767	81,185
Shares and participations, unlisted	1,249	3,477	3,505
Bonds and other interest-bearing assets	51,896	43,467	46,035
Derivatives	1,039	1,773	3,564
<b>Total investment assets</b>	<b>143,434</b>	<b>122,484</b>	<b>134,289</b>
<b>Receivables and other assets</b>			
Cash and bank balances	378	301	398
Other assets	68	113	66
Prepaid expenses and accrued income	1,473	1,146	1,387
<b>Total receivables and other assets</b>	<b>1,919</b>	<b>1,560</b>	<b>1,851</b>
<b>Total assets</b>	<b>145,353</b>	<b>124,044</b>	<b>136,140</b>
<b>FUND CAPITAL AND LIABILITIES</b>			
<b>Fund capital</b>			
Fund capital at start of year	135,506	113,605	113,605
Net disbursements from the National Pension Scheme	1,035	1,116	2,143
Transferred from Special Asset Management funds	159	275	424
Net profit for the period	7,405	7,656	19,334
<b>Total fund capital</b>	<b>144,105</b>	<b>122,652</b>	<b>135,506</b>
<b>Liabilities</b>			
Derivatives	779	877	367
Other liabilities	144	393	26
Deferred income and accrued expenses	325	122	241
<b>Total liabilities</b>	<b>1,248</b>	<b>1,392</b>	<b>634</b>
<b>Total fund capital and liabilities</b>	<b>145,353</b>	<b>124,044</b>	<b>136,140</b>

Accounting and valuation principles and definitions are stated in the Fund's 2003 Annual Report. This interim report has not been examined by the Fund's auditors.



A list of the Fund's holdings of internally managed listed equities at 30/6/2004 is available on the Fund's website or may be obtained by contacting:

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