



Fourth Swedish National Pension Fund – Background

History

The Fourth Swedish National Pension Fund was founded in 1974.

Investment goals

The Fourth Swedish National Pension Fund is an independent government institution charged with managing assets to provide the maximum benefit for the income-based retirement pension system. The Fund's overall investment risk should be low. At the chosen risk level, Fund assets should be invested so as to secure a high long-term return.

Board of Directors

The Fourth Swedish National Pension Fund's Board of Directors consists of nine full members, all appointed by the government.

Investment rules

The Fund's investment rules, which have been approved by parliament and apply to the First, Second, Third and Fourth Swedish National Pension Funds, took force on 1 January 2001 and are as follows:

- Investments are permitted in all forms of capital market instruments that are listed and liquid.
- At least 30% of the Fund's assets must be invested in fixed income securities with low credit and liquidity risk.
- From 2001, the Fund was entitled to expose up to 15% of its assets to currency risk. Thereafter it was entitled to increase this proportion by 5% per annum up to a specified long-term maximum of 40%.
- No more than 10% of the Fund's assets may be exposed to a single issuer or group of issuers with mutual links.
- Holdings of listed Swedish equities may not exceed 2% of the market's capitalisation.
- The Fund may own shares corresponding to no more than 10% of the voting capital in any single listed company.
- No more than 5% of the fund's assets may be invested in unlisted securities. Such investments must be made indirectly via venture capital firms or similar channels.
- At least 10% of the Fund's assets must be managed by external asset managers.

Information

For further information, visit our website at www.ap4.se, where the following documents and materials are available:

- Annual and half-year reports from recent years
- The Fund's main published documents e.g. the Corporate Governance Policy
- Presentation of the new National Pension Funds
- The Fund's Asset Liability Modelling Analysis 2003

Special information:

- The reallocation of Sweden's National Pension Funds in 2000, see Annual Report 2000.

Annual reports and other reports may also be ordered directly from the Fourth Swedish National Pension Fund.

For more information about Sweden's National Pension Scheme, see the Swedish National Insurance Board's website, www.rfv.se

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2003 in Brief

- The Fund's market value net income totalled SEK 19.3 billion (-23.0).
- Fund capital, calculated at market value and after adjustment for transfers, rose from SEK 113.6 billion to SEK 135.5 billion. The change in fund capital consists of net income, net payments of SEK 2.1 billion from the national pension scheme and transfers of SEK 0.4 billion from Special Asset Management funds.
- The total return on investment assets in 2003 amounted to 17.0%, compared to 18.0% for the benchmark index.
- The return on the Swedish equity portfolio totalled 32.9%, an underperformance of 1.3 percentage units against the reference index.
- The return on the global equity portfolio was 9.2%, compared to 10.2% for the reference index.
- Fixed income asset management posted a return of 4.8%, outperforming the reference index by 0.5%.
- A comprehensive ALM analysis was performed, as planned, during the year. This resulted in changes to the strategic portfolio.



President's Comments

The Fourth Swedish National Pension Fund has been operating for 30 years now, the last three of which have been within the context of the new retirement pension scheme. In 2003, fund capital increased from SEK 113.6 billion to SEK 135.5 billion, calculated at market value and after net disbursements to the national pension scheme and transfers from special asset management funds operations, totally SEK 2.6 billion. Net income totalled SEK 19.3 billion, including unrealized changes in value, and the total return on the Fund's investment assets was 17.0%, compared to 18.0% for the Fund's benchmark index.

An initial observation is that the market value of fund capital at year-end for the first time exceeded the fund capital that was allocated to the Fund in conjunction with the reform of the pension system at the end of 2000. This is encouraging, of course. Nevertheless, one must remember that the recovery only represented about one third of the capital loss sustained by the Fund in the preceding two years, allowing for capital injections and the alternative loss of return on fund capital. What is indeed encouraging is that the national pension scheme rewards long-term investment strategies. The national pension funds continue to purchase equities when prices are falling and therefore retain a large weighting in equities when the markets recover. When such a recovery is rapid and robust, as was the case last year, the Funds are better situated than life insurance companies, which for solvency reasons may find it difficult to increase their exposure to equities. The Fund's good absolute return in 2003 thus offset a large proportion of the capital loss inflicted by the unique share price falls on world stock markets during the two previous years.

When assessing the relative return for 2003, one must bear in mind that the Fund's holding in AP Fastigheter is not included in the reference index, and also that the investments initiated in private equity have not yet borne fruit. Taking this into consideration, the underperformance against the index was only a few tenths of a percentage point. The most positive news of the year was that fixed income asset management outperformed its reference index by a half a percentage point, which should be regarded as an excellent performance considering the low market levels that prevailed during the year. A couple of the Fund's external equity managers also performed very creditably. However, internal

equity management did not really reach its goals during the year, though in my eyes the underperformance on the equity side is more excusable than it would usually be. The Fund favoured large, financially stable companies – so-called safe bets – in its equity selection. This ought to have been a wise strategy after three years of stock market declines since confidence as a rule takes a long time to rebuild. In fact, the reverse trend held sway on stock markets. On NASDAQ, where many companies at an early development stage or with no meaningful profitability are listed, all shares priced at less than five dollars rose an average of 80% during the year. An equivalent pattern was noted in Sweden.

The Fund's most important internal project for this year was a new ALM analysis. The conclusions of this process resulted in the development of a new investment strategy and did not differ substantially from previous analyses. However, a more detailed methodology provided valuable insights into the functioning of the pension system. The analysis is presented in detail later in this annual report and I confine my remarks here to a few personal reflections.

The analysis added further weight to the arguments in favour of retaining a high weighting in equities over the long term. The pension system benefits not only from the higher expected return offered by equities; the higher volatility of equities compared to other instruments is also valuable. This volatility is beneficial during years like 2003 when stock markets recover after a protracted slump, and will perhaps be especially valuable in the future because it is highly likely that pensions will experience short periods of automatic balancing. This is when pensions over the course of a year or so cannot be increased in line with real wage growth. In such cases, the greater volatility of equities enables the pension system to recover and stabilise faster. This argument also supports the Fund's motives for investing a relatively large share of its assets in Swedish equities, since Swedish equities are expected to have both a higher return and higher volatility than the MSCI world average.

The historical variation in the rate of labour participation was also incorporated in the simulations contained in the analysis. In this context, it is important to note that the pension system is more dependent on a high rate of labour participation, especially over the short term, than previous



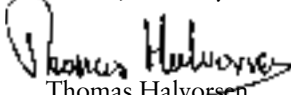
analyses have suggested. This naturally stems from the fact that 90 percent of pension system assets arise from contributions paid by the working population, while the buffer funds only account for one-tenth of total assets. Increases in the working population and the amount of time spent in work benefit the stability of the system. Equally, it is important to avoid deep and protracted falls in employment. Since pensions are an issue that affects large voter groups, I believe they will become an important component of Swedish economic debate and perhaps also play a role in future wage rounds.

A separate chapter in this annual report describes developments in the area of corporate governance over the last decade. It illustrates developments from the Fund's perspective, but we also seek to show how all the large Swedish financial institutions have improved their policies in this field in recent years. Regrettably, institutions have found it difficult to get their message across in the public debate and have instead been accused of being faceless and unwilling to shoulder responsibility. The real picture is quite the opposite. Representatives of the institutions appear far more often in the media today compared to a decade ago. Considerable resources are invested in corporate governance, especially in the nomination processes that precede annual general meetings. Sweden is probably the international leader in terms of breadth of engagement in corporate governance, and this bodes well for the future. At the same time, one

must be self-critical enough to acknowledge that financially-oriented shareholders, like shareholders in general, cannot always get things right. It is perhaps worth considering that controlling shareholders with long-term industrial holdings have been caught up in several of the most widely publicised Swedish business scandals of recent years.

The section on corporate governance makes the key point that an increasing spotlight is likely to fall on the role of corporate boards. Swedish corporate legislation stands up well to international comparison and some well-intentioned people are currently developing a code of best conduct that will further strengthen the work and role of corporate boards in Sweden. I also believe that institutions with a stated long-term approach will find ways to expand the role of corporate governance by nominating officials or other associates on a limited basis for board memberships, as the Fourth Swedish National Pension Fund does. This would make governance more transparent and aid the personal development of the individuals concerned as well as give them practical insight into the division of responsibility between shareholders, board and company management.

Stockholm, February 2004


Thomas Halvorsen

Asset Liability Modelling Analysis

Equities favourable for the national pension scheme

The Fourth Swedish National Pension Fund conducted a new asset liability modelling analysis in 2003. Based on Sweden's pension liabilities, the analysis aimed to determine a long-term strategic portfolio ¹⁾ best suited to secure future pension disbursements.

The Fund was assisted in this exercise by ORTEC, a Dutch consultancy firm. The analysis modelled Sweden's pension liabilities at the cohort level. The Fund simulated the link between pensions and different economic variables in thousands of future scenarios. Simulating the future with detailed pensions data and extended economic series had not been done before.

The project resulted in the Fund drawing some unexpected and important conclusions. These naturally had a bearing on the Fund's strategic portfolio as well as implications for the national pension scheme as a whole.

An initial and gratifying conclusion was that the reformed national pension scheme is relatively robust, assuming normal economic growth and inflation trends. Average pensions will grow at roughly the same pace as average wages, in spite of heavy pressures in 2010-2045.

Less encouraging was the conclusion that pensions will in all probability have to be adjusted somewhat through balancing on a number of occasions between now and 2045. However, the balancing mechanism will also ensure that the system stabilises.

A third conclusion is that swings in the rate of labour participation ²⁾ are of crucial importance for whether pensions will grow at the same rate as real wages. The selection of assets by the Funds is less significant for the stability of the system except in highly pessimistic economic scenarios.

There are reasons why the rate of labour participation determines pensions growth. The "Life Insurance Company of Sweden" consists of accumulated pension liabilities that are to be funded through two assets: pension contributions received on a pay-as-you-go basis by people in work, and the National Pension Funds' investment assets. Pension contributions account for 92% of national pension assets and their value follows wage inflation. Any fall in the rate of labour participation has a nine times greater effect on the system than an equivalent drop in the value of the assets of the National Pension Funds. The AP Funds' assets account for just 8% of total national pension scheme assets. (See chart, Financial Status of the National Pension Scheme, p.17).

Against this background, it is not surprising that the Fund's latest asset liability modelling analysis recommends that a high proportion of investment assets – about 60% – should continue to be held in equities. This recommendation is based on the assumption that the return on equities will exceed the return on bonds by 2.5 percentage units. It is also a logical consequence of the fact that the system is 90% funded by pension contributions, for which the return is similar to that of an index-linked bond, i.e. it follows inflation.

The discovery that equity market volatility can benefit the pension system was more surprising since volatile share prices are usually regarded as a negative risk factor. In the "Life Insurance Company of Sweden", the National Swedish Pension Funds' equity investments enable the pension system to rebalance relatively fast if the rate of labour participation declines over a period of years. The equity market's large swings and low or negative covariance with the of labour participation are the factors that are beneficial to the pension system.

¹⁾ The analysis assumes that all National Pension Funds invest in the same way.

²⁾ The rate of labour participation is defined as the percentage of persons aged 16-64 with an annual income exceeding SEK 39,300.

Objectives and risk factors

Establishing a long-term investment strategy requires decision-making criteria in the form of objectives to be reached within a given level of limited risk. In the latest ALM analysis, the Fund decided that objectives and risk should be defined in terms of pension liabilities.

Pensions should keep pace with average wage development. When “Life Insurance Company of Sweden” assets fall too far, pensions are adjusted downward via a method known as balancing. When balancing occurs, pensions will grow more slowly than average wages. The ALM analysis measured the future growth of pension liabilities without balancing and compared the outcome to a scenario in which occurrences of balancing are likely. The model estimates the anticipated (i.e. the average) balancing effect in 2,500 future scenarios. The difference between pension liabilities with balancing and without balancing is defined as the liability gap.

The aim is to ensure that the average balancing effect is zero. The Fund’s strategic portfolio should be composed so as to minimise expected future balancing of pensions.

The most serious future risk within the pension system is of large balancing owing to a highly negative Swedish economic performance. The Fund has therefore studied the worst-case scenarios in order to analyse how the composition of the strategic portfolio would affect balancing in extreme circumstances. The measure for this is called 1% liability at risk, which refers to the average balancing effect in the worst 1% of economic scenarios.

Rate of labour participation – main risk factor

As in the Fund’s previous ALM analyses, the returns on different asset categories, and figures for inflation and real wages

Goals and Risk Factors for Choice of the Strategic Portfolio

Objective	Median Liability Gap	The expected effect of automatic balancing should be as low as possible.	Is zero when the system is in balance. Negative numbers express downward adjustments of pension liabilities, expressed as % on average.
Risk	Liability at risk	The expected downward adjustment of pension liabilities in the worst 1% of scenarios.	The negative number expresses the average downward adjustment in the worst 1% of all scenarios, expressed as % on average.

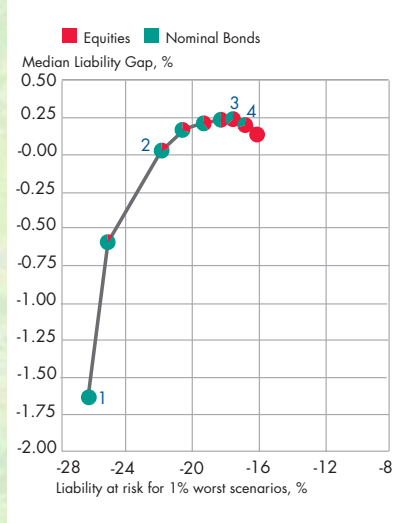
were allowed to vary on a random basis. A new element in the 2003 analysis was that simulations of future scenarios also included a stochastic (randomly variable) rate of labour participation. The simulations were based on 32 years of historic data from 1970 onwards.

The Fund’s simulations clearly demonstrated that the rate of labour participation would have a major impact on the pension system’s state in the course of the next 40 years. The analysis also showed that even small changes in the rate of labour participation would have a big impact on real pension growth. Sensitivity analyses of demographic variables indicate that the effect of a low birth rate will only be felt after 2030 and

Expected Returns and Risk Premiums

Return, %		Risk Premiums, %		Return, %
Real interest rates 2.75	+	Expected inflation 2.25	=	Index-linked bonds 5.00
Index-linked bonds 5.00	+	Inflation risk premium 0.25	=	Nominal bonds 5.25
Nominal bonds 5.25	-	Maturity premium 1.50	=	Treasury bills 3.75
Nominal bonds 5.25	+	Credit risk premium 0.50	=	Credit bonds 5.75
Nominal bonds 5.25	+	Equity risk premium 2.50	=	Equities 7.75

Objectives and Risk Factors (40 years)



Outcomes over 40-year Horizon

Chart number (see chart above)	Share of equities %	Expected balancing 40 years, %	Expected balancing for 1% worst-case scenarios, %
1	0.0	-1.65	-26.5
2	20.0	0.00	-22.5
3	62.5	+0.25	-17.0
4	70.0	+0.21	-16.6

that the major impact of increased life expectancy will not occur until after 2050.

Macroeconomic assumptions

As a basis for assessing future returns and risk, the Fund studied a range of academic studies, counterparties' analyses and historical return data. The analysis of the difference between the expected return on equities and bonds is based on three reference points: ex ante models of expected dividend growth, ex post analysis of historical return, and questionnaire-based surveys. The assumptions relating to the expected return on asset categories are summarised in Expected Returns and Risk Premiums (table, previous page).

Growth in real pension-entitled income was estimated at 1.7% per annum, in line with the National Social Insurance Board's projections.

High equity weighting provides higher pensions

The simulations tested different proportions of equities and bonds. According to Swedish national pension fund legislation, bonds must comprise a minimum of 30% of the portfolio. For comparison purposes, however, a portfolio solely comprised of equities was also tested.

For the Fund's investment horizon of 40 years, it became clear that portfolios

containing more than 20% equities met the goal of avoiding automatic balancing on average. In the most pessimistic scenarios, however, pensions fell sharply when the proportion of equities fell below 70% (see chart, Objective and Risk Factors in the Long Term, summarized in figures in the table to the left).

It could be viewed as surprising that a high proportion of equities results in lower risk. Yet high expected returns and volatility are the pension system's only chance of recovery when automatic balancing occurs, for example, due to a fall in the rate of labour participation. In contrast to the rules that regulate insurance companies, the National Pension Funds retain their equity weightings during periods of heavy market falls or gains. This enables them to purchase equities that have fallen in price or sell when they have risen.

As part of the ALM analysis, the Fund experimented with a five-year investment horizon based on the premise that short-term asset market swings such as those seen in recent years would affect pensions. The portfolio with an equity weighting of 62.5% or more produced smaller balancing effects at a constant or lower risk than portfolios with a lower equity weighting. Thus, the original conclusion of the ALM analysis applies equally to the short term as it does to the long term.

The Fund also studied the role of index-linked bonds as guarantors of pension value. Index-linked bonds have a negative effect over the long term because the expected return is less than the return on fixed income bonds.

A variety of currency strategies were also tested in the simulations. These included total currency exposure and different currency baskets. The analysis showed that currency strategy is of limited importance, both in the short term and long

term. It was also noted that the Fund's present currency strategy, which is based on the share of imports in Swedish consumption, was as effective as other tested strategies.

Limited diversification effect

A separate analysis was conducted to examine how the portfolio reacts to diversification, for instance in emerging markets, high-yielding bonds, private equity and hedge funds. The results showed that increasing the current level of diversification would add limited value, indicating that a high expected return is of primary importance in the current system. Thus, the Fund should add new asset categories to its strategic portfolio only if it believes the asset will generate a significantly higher return than equities over a 40-year time frame and that the asset is capable of constituting a significant part of the strategic portfolio (e.g. 2% or more).

High Swedish equity weighting

There are several reasons for being overweight in Swedish equities relative to the world market. First, the Fund ought to have specialist expertise in Swedish equity research that enables it to outperform the index over the long term. Second, Swedish equities do not need to be hedged against currency swings, which reduces asset management costs. Management of global equities is also more expensive for other reasons, such as higher costs for external asset managers and generally higher transaction costs.

Lastly, the Fund's size in the Swedish equity market means it is active in corporate governance. Successful corporate governance ought to increase the chance of achieving an excess return in Swedish equities. It should also be stressed that the Swedish equity market's higher market risk should result in a higher expected return than from global equities.

Fixed income portfolio

Based on qualitative analysis, the Fund decided to continue investing a relatively large share of its portfolio in Swedish bonds. For currency-hedged global bonds, the analysis showed that diversification into global bonds has only a marginally positive effect on return, and that it also costs more due to hedging activities. The spread between currencies (USD, EUR and GBP) was chosen in the light of the liquidity premium and in order to spread credit risks. Japanese bonds, which up to 2003 had accounted for 10% of the bond portfolio, were deemed to have limited potential and were therefore removed from the strategic portfolio.

The Fund assumed that non-sovereign bonds offer a higher return than sovereign bonds and that this higher return corresponds to a premium for credit risk and lower liquidity. The high 15% weighting for non-sovereign bonds in the strategic portfolio was thus considered to be justified.

Real estate

Real estate was not included in the strategic portfolio drawn up in 2000 because property holdings were not considered to offer a higher risk-adjusted return. The 2003 ALM reconfirmed this conclusion. However, the Fund's holding in AP Fastigheter accounts for some 2% of the total portfolio and the Fund decided to make the strategic portfolio more representative of total investment assets by adding add real estate to it.

Market valuation

The ALM analysis of return on assets and portfolio performance is based on the different markets being in equilibrium at the time of investment. The Swedish National Pension Funds have bitter experience of how important this condition is, having invested in their strategic portfolios just as equity markets were at their



peak in 2001. By the same token, the equities purchased during the market slump helped the funds to a substantial recovery in 2003 when markets rebounded.

A valuation of the various asset categories was performed in September 2003, at the end of the ALM project. The risk premium for Swedish and global equities was judged to be close to its long-term equilibrium level of 2.5%. Bonds were seen as being somewhat overvalued, but not enough to warrant adjustment of the fixed income component of the strategic portfolio. The Fund anticipated a certain strengthening of the Swedish krona but the currency strategy target of 30% exposure was not changed.

The Fund's strategic portfolio

The ALM analysis yielded a number of interesting conclusions. A high average portfolio return is necessary to compensate for future annual deficits in the national pension scheme. A fall in the rate of labour participation is the biggest single risk facing the pension system, as it would cause large changes in the value of the system's assets.

Based on the ALM analysis, the Fund concluded that a high average weighting in equities of 60-70% over the long term would minimise the effect of automatic balancing within the Swedish pension system, particularly in the event of a

lower rate of labour participation. The Fund arrived at the same conclusion in 2000, but this was based on a more qualitative analysis in which the higher return generated by equities was the decisive factor. Naturally, the latest conclusions are based on an assumed positive risk premium for equities relative to bonds – a factor that was also assumed in 2000.

However, the ALM preference for equities was also conditioned by the historically negative covariance between the rate of labour participation and equity markets. Even assuming zero covariance, equities retain their attractiveness because of the role played by their volatility in assisting a recovery within the pension system. So beneficial is this volatility that a higher weighting in equities results in a lower risk of balancing even when returns between equities and bonds are deemed to be equal.

Based on the above results, the Fund decided to leave its high weighting in equities unchanged. Also, the Fund decided that the fixed-income asset weighting should not be less than 37% of the total strategic portfolio in order to create scope for tactical asset allocation and at the same time maintain a good margin of compliance with the minimum 30% weighting stipulated in legislation. The Fund therefore elected to invest 63% of the strategic portfolio in equities, whether listed or unlisted.

At the same time, the strategic portfolio should reflect the Fund's de facto investment assets. The addition of AP Fastigheter to the benchmark index means the equity weighting must be somewhat lower than stated in the strategic goals. The chart, left, shows the Fund's strategic portfolio for 2004. It is this portfolio that the Fund deems best suited to guarantee the long-term health of the Swedish pension system.

Fourth Swedish National Pension Fund's Strategic Portfolio, from January 2004

Asset category	Portfolio weighting, %	Change, %
Global equities	42.0	-0.5
Swedish equities	19.0	-1.0
Real estate	2.0	+2.0
Sovereign bonds	22.0	+0.1
Non-sovereign bonds	15.0	-0.6

Corporate Governance in Practice

Corporate governance today is a large and growing part of executive management activities at the Fourth Swedish National Pension Fund. We are active on a variety of levels. First, we conduct thorough preparations in advance of decisions to be taken at annual general meetings, particularly where these relate to board nomination. Second, we undertake special governance activities in connection with e.g. takeovers and major strategic deals at companies where we are among the larger shareholders. Third, we play an active role in general stock market governance, e.g. efforts to develop and uphold good ethical standards.

These activities have developed in a short space of time. Although the Fund drew up its first corporate governance policy back in the mid-1980s, it is fair to say that Swedish financial institutions have become alert and active exercisers of corporate governance largely during the last decade. Even after the reform of the pension system at the end of 2000, the Fund remains one of the largest players on the Swedish equity market. Here we identify some of the milestones that have shaped the development of corporate governance among large Swedish financial institutions.

The abortive Volvo-Renault merger

The failed merger between Volvo and Renault can rightfully be described as the launch pad for corporate governance among Swedish financial institutions. In December 1993, Pehr Gyllenhammar, Volvo's executive chairman and dominant personality, resigned after it emerged that a proposed merger with Renault lacked the support of shareholders and executive management. The entire Volvo board also stepped down, and the Nordic region's largest industrial company suddenly found itself deprived of its corporate leadership.

Aside from Renault, Volvo lacked a controlling shareholder. The Fourth Swedish National Pension Fund, with 7.5% of the voting capital, was the largest single shareholder. As a result, a handful of Swedish financial institutions with little experience of corporate governance found themselves responsible for nominating a new board to develop a new strategy for the company based on shareholders' wishes. This responsibility had to be discharged quickly and amid intense media interest. The institutions negotiated this situation through unprecedented co-operation. Two months later, a new board was chosen at an extraordinary meeting of shareholders. The way financial institutions handled this test of governance won respect, not just among Volvo shareholders and the wider public, but among other groups of shareholders as well.

Many of the experiences of those intensive weeks have served as reference points for institutions' continued work with governance issues. Among the lessons was the importance of finding the right chairman of the board – a person with the necessary expertise, experience, commitment and, importantly, availability. Only once a chairman has been designated is it possible to address properly the task of finding other directors who can work with the chairman as an effective team. Another imperative was to scrutinise all proposals in the light of the company's best interests – an approach that made it easier to circumvent vested interests.

Institutions' involvement in the nomination process at Volvo in 1993/94 also heralded the start of clear and improved nomination processes among Swedish



From Dagens Nyheter, 21 Dec. 1993



From *Dagens Industri*, 30 April and 11 May 1994

corporations in general. Volvo became the first company whose shareholders voted to institute a nomination committee elected by the AGM. Shareholders in other companies gradually adopted a slightly more informal process. This new order encountered initial opposition from established power structures, but the way institutions handled the Volvo situation showed that the Swedish corporate governance map had fundamentally changed. Today, virtually all Swedish corporations have detailed and transparent nomination processes, with a clear “mailbox” for all shareholders who wish to make their voices heard.

During the course of their collaboration over Volvo/Renault, Swedish institutions became acquainted with each other in a new way and managed in trying circumstances to develop work methods and decision-making processes that proved capable of resolving a difficult situation. For instance, it has now become customary for a corporation’s largest institutional shareholders to assume the prime responsibility for corporate governance. A climate of mutual understanding and

respect has become embedded, which obviously facilitates future collaboration. In contrast to the usual picture painted in the media, institutional shareholders are actually rather different in terms of their background, organisational form, investment rules, etc.

Different governance roles

Institutions invested great management effort at the highest level to solve the governance issues arising from the Volvo/Renault affair. This was especially so at the Fourth Swedish National Pension Fund, which had the largest individual responsibility. The effort involved could be justified, externally and internally, owing to Volvo’s large size and the fact that it constituted a large share of the portfolios held by the institutions that assumed responsibility for its governance.

However, institutions face difficult decisions regarding how much management time to devote to corporate governance issues in companies with only a small weighting in their portfolios. The deep recent crisis in the IT industry provided many examples of this. Non-financial shareholders with controlling interests are in a different position since they usually have only a few companies to focus on.

The Fund was first confronted with this dilemma when the Wallenberg business empire in the mid-1990s sold a controlling stake in Haldex (then Garphyttan) on the open market to a range of buyers. The Fund became the company’s largest shareholder, with 7.9% of the voting capital. Following the sale, the Haldex board took the natural step of stepping down at the forthcoming AGM. As the largest shareholder, the Fund took responsibility for proposing new directors. However, the Fund’s holding in Haldex amounted to less than 1% of its total portfolio, raising the dilemma of how much management time should be invested in the gov-

ernance issue. In other words, how should the Fund balance its portfolio responsibility against its responsibility to the company? The Fund has always handled corporate governance matters at senior management level and the core of its philosophy is that a board should be able to draw on the larger shareholders and that governance should be addressed at the appropriate level – regardless of a company’s size. The Haldex case exposed the practical considerations underpinning the Fund’s firm belief that financial institutions cannot replace private or non-financial controlling shareholders. Financial institutions have a different governance role, a fact highlighted by the legal restrictions on voting capital. Nevertheless, they do have a role to play in governance, and they need to pursue and develop this role. The Fund aims to be a responsible financial shareholder and continues to develop its activities in this area.

Opinion-forming as a tool

The first public shareholder dispute about corporate pay in a listed Swedish company occurred back in 1994 and concerned synthetic options to some 200 top managers at Skanska. Synthetic options at that time were practically unheard of as a financial instrument on the Swedish stock market and were a matter for the board rather than the AGM. However, Skanska’s plans became public and stirred debate.

Critics, led as usual by the Swedish Shareholders’ Association, focused on the fact that the company’s most senior managers stood to gain more than SEK 200 million in the space of just a few years providing the Skanska share performed in line with expectations.

Skanska’s then chairman, Percy Barnevik, mounted a public defence. In a much-discussed article in *Dagens Industri*, he

argued that options, as opposed to other incentive programmes, aim to reward long-term performance and help ensure that corporate managements and shareholders have clear mutual goals. Barnevik also highlighted the trend in the United States, claiming that the price of the options was of secondary importance. Instead, he said, the main issue was whether the option programme was in the interests of the company's long-term development – and that issue had been answered affirmatively by Skanska's board.

Those outside the board remained unconvinced. Like Volvo, Skanska lacked a dominant shareholder at that time. Six institutional shareholders, with a combined holding of less than 20%, instead wrote to the Swedish Securities Council requesting a general inquiry into synthetic options and asking for general guidelines to be published. The Fund's President openly criticised Skanska's board in the media and urged it to withdraw the proposal in the light of legal uncertainties and the patently low pricing of the options.

Shortly afterwards, the proposal was withdrawn. What was particularly noteworthy about this episode was that the debate was conducted partly in public. Decisions on governance issues are usually discussed outside the media spotlight, an approach that journalists are reluctant to endorse. From the Fund's perspective, the events relating to the Skanska share options programme were in no way exceptional. Indeed, the corporate governance policy formulated by the Fund's board in the 1980s identified public debate as one of several ways to protect the Fund's interests as a shareholder.

Joint guidelines

Collaboration between institutions on governance entered a new phase a couple of years ago. Many institutions had

by then drawn up governance policies, and co-operation between them was finely tuned. The key principle then, as now, was that the largest shareholders in a corporation should meet in good time before the AGM to prepare agenda items, in particular the election of the board. Co-operation has been on an ad hoc basis depending on each company's shareholder profile.

There has been no lack of shared problems. The downside of the stock market rally during the 1990s was the arrival in Sweden of the US concept of shareholder value. By the end of the 1990s, the proliferation of incentive schemes and their growing complexity was making it increasingly difficult for shareholders to evaluate whether or not they were justified from a shareholder's perspective.

It is true that shareholders in Sweden are better able than their US counterparts to block questionable options programmes. But despite the existence of legislation, such as the so-called Leo Act, it has often proven difficult and time-consuming to resist board proposals of share-related incentive programmes for senior managers. That shareholders typically receive little time to plough through complicated briefs has not helped matters. Together with two other Swedish institutions, the Fund invested much time in late 1999 in trying to restrain Skandia's first board-approved incentive programme. This first tug of war resulted in Skandia's board being forced to cancel an extraordinary shareholders' meeting and instead propose a much scaled-down scheme to the AGM. This proposal was adopted but was nonetheless so far-reaching by Swedish standards that a series of institutions felt obliged to formally register their dissent so as not to create a future precedent. The Skandia board's own argument relating to the company's special competitive situation in the US was cited in this



From Affärsvärlden, 4 June 2003

regard. For the sake of clarity, it should be noted that it was two earlier incentive programmes approved at AGM level that resulted in the payment of exorbitant bonuses which ultimately led to the resignation of Skandia's top managers and the board.

In an attempt to tackle this unsatisfactory trend the largest institutions formed a committee in the autumn of 2000 to develop common guidelines on disclosure relating to incentive programmes. Though the remit was basically confined to information disclosure, there was no guarantee the initiative would succeed. However it did, and Sweden's eight largest institutions in March 2001 were able to publish their "Guidelines for disclosure to shareholders of incentive programmes in corporations". This initiative led the Swedish Securities Council – the "judicial" authority among the Swedish stock market's self-regulatory bodies – in January 2002 to replace earlier statements with a new declaration broadly in line with the institutions' guidelines.

Ethics in focus

Extraordinary events were often the driving force in the development of Swedish corporate governance during its first decade. For instance, the withdrawal of a takeover bid for Perstorp, a listed

company, in the autumn of 2000 served as the prelude to Swedish financial institutions making progress in the development and implementation ethical standards of on the Swedish stock market.

When venture capital company Industri Kapital (IK) surprisingly withdrew a public offer for Perstorp, a number of large financial institutions felt obliged to ensure that the stock market was governed by effective and fair rules that were also respected. Swedish institutions are seldom involved in legal disputes relating to corporate governance, but nevertheless great efforts were made in this case to demonstrate that IK had failed to comply with the rules. This led ultimately to an amicable settlement resulting in a new public offer for Perstorp.

During the legal battle over the withdrawn bid, the Swedish Securities Council urged the Swedish Industry and Commerce Stock Exchange Committee (the stock market's self-regulatory body) to review its recommendations on public takeover bids. Financial institutions were at that point not represented on the committee and only at a late stage received a draft of the proposed changes from the committee's working group. The institutions that had been involved in the legal battle with IK were highly negative to this draft.

As a result, the committee rewrote the recommendations. The new guidelines, which entered force in the autumn of 2003, involved a comprehensive tightening of the old rules and extended them to new areas, e.g. a prospective buyer's ability to obtain due diligence of a takeover target. However, the most important change was probably the extension of the ambit of the regulations beyond Swedish corporations to include all parties (e.g. venture capital firms) seeking to purchase companies on the Swedish stock exchange.

Another important and gratifying by-product of the IK/Perstorp battle was that financial institutions were offered seats on the boards of the Swedish Industry and Commerce Stock Exchange Committee and the Swedish Securities Council.

Shareholders' group for regulation issues

In their latest initiative to promote effective self-regulation of the Swedish stock market, financial institutions in September 2003 founded the Institutional Shareholders' Association for Regulation Issues on the Swedish Stock Market. The unwieldy name was chosen consciously to underline that this particular collaboration is limited to issues of regulation. The institutions will continue to act autonomously in governance matters relating to individual companies. As of 2004, the new association also supervises the Swedish Industry and Commerce Stock Exchange Committee and Swedish Securities Council. These two bodies have in the space of a few years expanded their supervisory management from two organisations to nine in order to increase their legitimacy in an era when the role of large shareholders has changed and during which scandals have hit confidence in the Swedish corporate sphere. Eleven institutions are members of the new shareholders' association: Alecta, AMF Pension, the First Swedish National Pension Fund, the Second Swedish National Pension Fund, the Third Swedish National Pension Fund, the Fourth Swedish National Pension Fund, Handelsbanken Fonder, Nordea Fonder, Robur, SEB Fonder and Skandia Liv. These institutions' combined portfolios account for 20% of the Swedish stock market.

Main results

The milestone events described above highlight the development of Swedish corporate governance in the last decade. The most important results are summarised below:

- Financial institutions, the fastest growing and now largest shareholder group, are beginning to recognise their governance role and have gained the acceptance of other shareholder groups.
- Nomination processes are transparent and rigorous in virtually all corporations.
- Boards are smaller, which usually equates with greater effectiveness. It is now unusual for the board of a Swedish corporation to have more than nine members elected by the AGM.
- Boards also have more independent members unaffiliated to controlling shareholders. This process has been catalysed by the election of foreign directors to the boards of many larger companies – an initiative spearheaded primarily by non-institutional interests.
- A mandatory framework is in place for the participation of financial institutions in the self-regulation of the Swedish stock market.

One disappointment is the continued low number of female directors, though a significant improvement has been observed in the past year, particularly among the largest companies. However, improvements have been far slower than foreseen in the early 1990s when efforts to rectify the low representation of women on boards got under way.

Key future issues

Further increasing female representation on corporate boards remains an important task now that institutional corporate governance has entered its second decade.

Other considerations relate largely to the role of corporate boards and their work. The institutionalisation and internationalisation of capital has changed the role of shareholders insofar as the balance of power between them, the board and executive management has been altered. The key question today in many large companies is how nomination committees should put together effective boards that not only can lead from the top but can also resist the demands of executive management when shareholder interests are not adequately represented, and indeed in some cases where large shareholders have no board presence. The most publicised domestic corporate scandals of recent years have exposed astonishing greed and flawed incentive schemes, both invariably stemming from weak boards unable to resist the overtures of top managers.

A range of measures will doubtless be needed over the long term to redress the crisis in confidence in Swedish business that these scandals have caused. An important step will be to find ways of developing and improving the role of company boards. New legislation in the US has accelerated the creation of audit and remuneration committees among Swedish corporations. The Fourth Swedish National Pension Fund, in common with other Swedish institutions, has sought to encourage this trend by introducing requirements for chairmen to introduce systematic and continuous evaluation programmes to monitor board work. In latest corporate governance policy review, the Fund added a provision stating that

time and resources should also be assigned for training of board members and for appropriate introductory courses for new directors.

Yet corporate governance policies, no matter how well drafted, are no panacea. The challenge is to back up our words with actions, to implement corporate governance policies through nomination work, at AGMs, and through active opinion-forming, etc. Swedish financial institutions over the last decade have learnt that active management of

governance issues costs time and money. Demands on both are ever-increasing. However, if the efforts made so far can restore confidence in the Swedish corporate sector and bring greater effectiveness to the work of company boards then the time and money will have been well spent.



From Svenska Dagbladet, 22 November 2002

Corporate Governance in 2003

The Fourth Swedish National Pension Fund's corporate governance activities in 2003 covered a range of categories:

■ Nomination processes prior to annual general meetings

1. Participation in nomination committees elected by AGMs. The Fund's President chaired such committees at FöreningsSparbanken and Volvo and was also involved in nomination processes at Swedish Match and SSAB.
2. Participation in so-called informal nomination committees, e.g. at Handelsbanken, Industrivärden and SCA.
3. Participation in informal communications between institutional shareholders in specific issues, e.g. the crisis at Skandia.

■ Participation at annual general meetings

Annual general meetings are the primary forum for shareholders. Where it holds a significant shareholding in a company, the Fund aims to participate in and exercise its voting rights at the AGM. The Fund was in 2003 represented at approximately 40 AGMs, at which it often had responsibility for proposing motions allied to nomination processes.

■ Joint initiatives

The Fund convened an informal group of Sweden's 11 largest financial institutions. With the help of external legal expertise, the group prompted the Swedish Industry and Commerce Stock Exchange Committee to revise completely its key takeover rules. The revised rules came into effect in September 2003.

The Fund, together with Alecta and Robur, has had a seat on the committee's board for the past year or so. From that platform, the Fund's Deputy Managing Director in 2003 led efforts to form an association of institutional shareholders that could assume a supervisory role on the Swedish Industry and Commerce Stock Exchange Committee and Swedish Securities Council. As mentioned on the preceding pages, these efforts led to the formation of the Institutional Shareholders' Association for Regulation Issues on the Swedish Stock Market. From the start of 2004 the association became the new supervisory authority for the committee and council. The institutions' motive here is to strengthen and develop self-regulation of the Swedish stock market.

■ Special governance initiatives

The Fund financed and participated in projects run by the Swedish Centre for Business and Policy Studies to promote greater female representation on corporate boards. At the end of the year the Fund also wrote to chairmen of portfolio management companies (mostly small-sized) with no female directors urging them to redouble their efforts in this area and offering to provide ideas.

The Fund also served as an active sounding board and source of funding for the good governance guidelines compiled by the Swedish corporate board association StyrelseAkademien.

■ Board representation

In contrast to many other financial institutions, the Fund's governance policy allows it in limited circumstances to nominate its own officials for corporate directorships. This approach strikes a balance between governance considerations in individual companies and the Fund's overarching task of generating a return on investment, which can be negatively affected by rigidities associated with board representation.

The Fund's President has for several years held directorships at Electrolux and Beijer Alma. A number of the Fund's own board members are on the boards of other Swedish corporations, and in at least one case the individual was proposed directly by the Fund.

■ Revised governance policy

The Fund's corporate governance policy is assessed annually. In December 2003 the board implemented the following changes:

More restrictive drafting of incentive schemes. The Fund does not oppose such programmes but wishes to ensure they are better balanced. An explicit clause was adopted stating that long-term and short-term schemes should contain a ceiling and should not be included in pension entitlement assessments.

The board also tightened the formulation relating to the formal client relationship between shareholders and auditors. The revised policy now states: "It is of central importance that audits are evaluated continuously from a shareholder perspective."

The board also decided that the Fund will forthwith strive to ensure that new directors undergo a thorough introductory programme and that time and money is assigned for continuous training of all board members.

Asset Management

As part of the reform of Sweden’s pension system in 2000, the Fourth Swedish National Pension Fund received a new asset management mandate, new investment rules and a new portfolio. In 2003 the Fund performed a new detailed ALM analysis, which is described on pages 6-10. The following section explains the context and composition of the Fund’s strategic portfolio and also details active return targets, risk mandates and the investment philosophy.

Asset liability modelling

Together with the First, Second, Third and Sixth Swedish National Pension Funds, the Fund acts as a buffer fund for a national pension scheme in which those in employment pay for current pension disbursements. The buffer funds correspond to a limited part (approx. 8%) of total pension liabilities (see chart, Financial Status of the National Pension Scheme).

The main risks of disequilibrium in the pension system are an unfavourable trend in the number of people in work and, in the long term, in demographic variables such as immigration, birth rates and average life expectancy. Low growth and a weak return from the buffer funds constitute further risks. In the event that the national pension scheme does not develop favourably, pension disbursements will be reduced via the so-called automatic balancing mechanism.

In the course of the next few decades pension disbursements will substantially exceed pension contributions. Not until about 2040 is this imbalance expected to be redressed. Against this background, the aim of the buffer funds is to counterbalance the deficits that will arise from 2010 according to forecasts by the Swedish Social Insurance Board (see chart, Net Contributions as a Percentage of the Contribution Base).

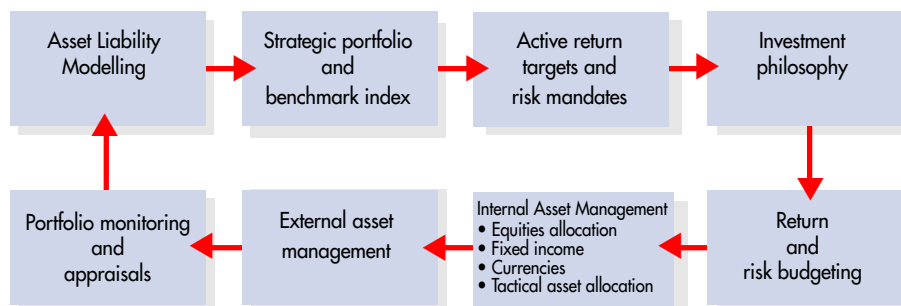
Strategic portfolio and benchmark index

The Fund’s asset liability modelling analysis formed the basis for the following strategic portfolio structure for 2004: 61% equities (19% Swedish and 42% global), 37% bonds and 2% real estate (see chart, next page).

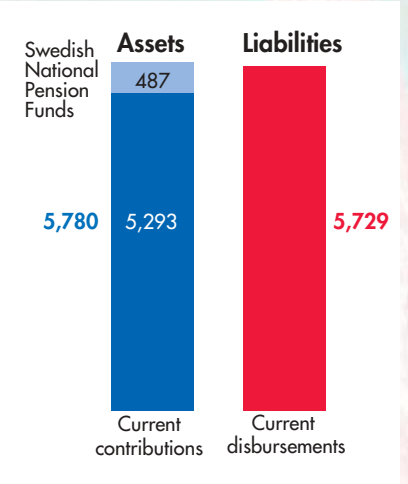
For bonds, currency exposure for 2004 is: 45% SEK, 30% USD, 15% EUR, and 10% GBP (see chart, next page). The Fund opted to invest a relatively high share of the fixed income portfolio in non-sovereign bonds with a high credit rating since these offer a higher expected return than sovereign bonds.

The Fund’s currency strategy is based on the portfolio’s currency exposure being spread between Sweden’s key import currencies. The US dollar weighting was increased to reflect Sweden’s dollar-based raw material imports. The rationale is that an import-weighted currency spread

Asset Management Process

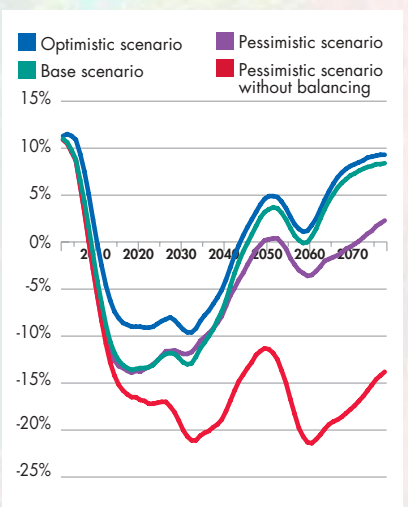


Financial Status of the National Pension Scheme 2002, SEK billion



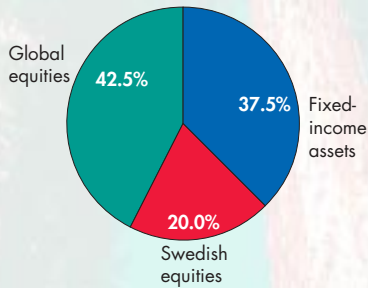
Source: National Pension Scheme Annual Report 2002

Net Contributions as a Percentage of the Contribution Base

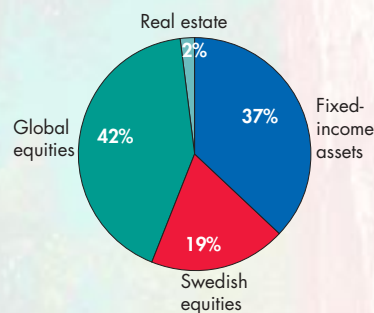


Source: National Pension Scheme Annual Report 2002

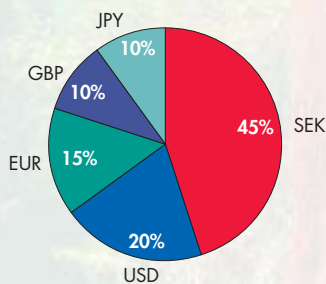
Strategic Portfolio, 2003



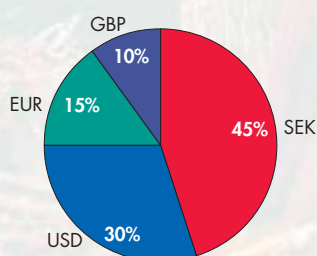
Strategic Portfolio, 2004



Currency Exposure of Reference Index, Fixed Income Portfolio, 2003



Currency Exposure of Reference Index, Fixed Income Portfolio, 2004



will better safeguard the buying power of tomorrow's pensioners because Swedish retail prices are partly influenced by import currency swings.

Returns for each asset category are measured against a relevant index: the SIX Return Index for Swedish equities; the MSCI World DNI, converted to Swedish kronor, for global equities; and the Merrill Lynch (hedged) and Handelsbanken Markets Bond Index for global bonds and Swedish bonds respectively. The real estate index consists of the return on AP Fastigheter. The Fund's currency exposure and management thereof is measured against a custom-built index of imported goods (see chart, below).

Active return targets and risk mandates

The Fund's asset management returns are compared to a weighted benchmark index that consists of benchmark indices for the asset categories described above. The Board has set the following targets and risk mandates for the Fund's asset management activities in 2004:

The Fund over a two-year period shall achieve a return that exceeds the chosen benchmark index by 1.35 percentage units. The active risk of the entire portfolio shall not exceed 4.0% on a permanent basis (see chart, next page). The allocation mandates for the strategic portfolio set by the board are +8/-10 percentage units for equities, +10/-7 percentage units for fixed income and +2/-2 for real estate. The Fund's risk-adjusted return, measured as an information ratio, shall on average exceed 0.3.

Investment philosophy

The Fund's investment philosophy aims to deliver constant outperformance against the strategic portfolio's benchmark index. Investment decisions are based on a combination of long-term fundamental analysis and quantitative analysis methods. Research analysis and

portfolio decisions are structured and documented to facilitate continuous monitoring and improvement. Investments in each asset category are based on a long-term analysis that takes account of current market values.

Return and risk allocation

Return targets and risks are assigned to the various asset categories and sub-portfolios. Targets are also assigned to internal and external asset management operations. Management of Swedish equities – an area in which the Fund has extensive experience and where the emphasis is on individual stock selection – is subject to the highest return stipulations and greatest active risk. Risk allocations are adjusted on yearly a basis based on continuous assessments of internal and external asset management operations.

Two-thirds of the global equity portfolio are managed internally. Here, risk mandates and excess return targets have been allocated to global sector portfolios. Higher risk mandates are assigned to sectors that the Fund considers to offer best conditions for active management. Other sectors are assigned lower risk mandates. Risk mandates and excess return targets are also apportioned on a sectoral basis within the global equity portfolio. The remaining 30% of the global equity portfolio is under external management. Here, one-third of the assets are managed with high active risk in Asia and the remainder are managed semi-passively in Europe and North America.

The return target and risk level for the fixed income portfolio is low in comparison to equities. Risks are assigned for tactical asset allocation between equity and fixed income portfolios and between regions within the global equity portfolios. A certain risk margin is also assigned to currency positions.

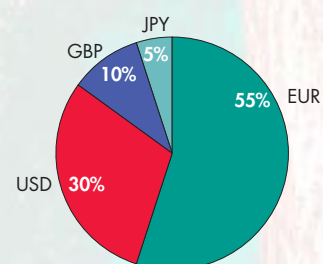
Equities

Internal equity management is conducted via stock selection based on fundamental analysis and valuations made across the various sectors. As of year-end 2002, equity management operations cover North America and Europe. In each sector a selection process is applied to identify a handful of investment alternatives and thereby focus the Fund's research activities and position-taking on a limited number of companies. More extensive internal analyses were conducted in the global sectors, namely finance, consumer-related industries, IT, telecoms and healthcare. Equity management across other sectors is focused more on external analysis and quantitative selection criteria, and involves a lower risk level. In Sweden, particular emphasis is attached to the choice of equities.

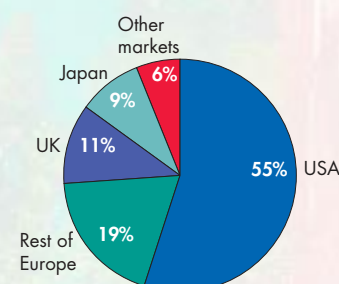
Fixed income & currencies

The Fund takes a global approach to its management of fixed income securities and focuses on four categories of risk: duration, yield curve, country risk and credit risk. The fixed income portfolio is managed as a single entity and consists of investment grade fixed income securities. Fixed income asset management is based on fundamental central bank analysis, quantitative analysis and analysis of market positions. The Fund's interest rate and currency group manages currency exposure for the global equity and fixed income portfolios. Currency positions are adopted predominantly on the basis of macro flow analysis.

Currency Exposure according to Currency Strategy, 2003 and 2004



MSCI World by Country, at 31 December 2003

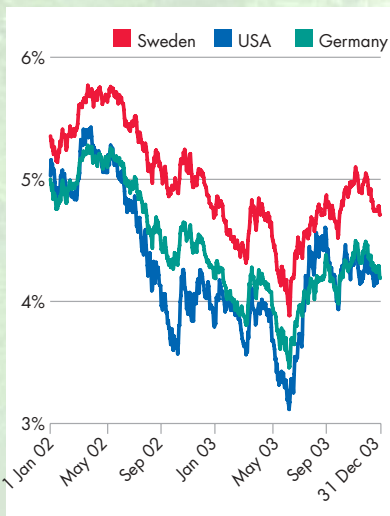


Risk Requirements and Risk Mandates, as of 1 January 2004

Asset category	Reference index	Excess target per year, %	Active risk guideline, %
Swedish equity portfolio	SIX Return Index	1.40	< 6.0
Global equity portfolio	MSCI World DNI (SEK)	0.70	< 4.4
Fixed income portfolio	Handelsbanken Markets Bond Index/Merrill Lynch GBI	0.30	< 1.5
Currency	Customized import basket index	0.07	< 0.5
Unlisted real estate shares	AP Fastigheter	–	–
Investment assets	Index weighting as per normal portfolio	0.70	< 4.0

Macroeconomic Overview

**Ten-year Government Bond Rates
2002-2003**



Source: Ecowin

In last year's annual report, we were able to observe that 2002 was the first year of economic recovery in the current cycle, despite equity market weakness and continued falls in interest rates.

2003 can be described as the year in which the economic recovery in the OECD area took root and became more convincing. Nevertheless, doubts remain. Will the recovery translate into more sustainable growth in 2004 and 2005, or will key indicators start to wane and industrial production and employment fail to bring about the expected improvement in economic growth? Although growth forecasts have been raised, the risk of a setback remains high.

Despite the turbulence of the last two years on financial markets, developments have largely been in line with what one would expect at the relevant stage of the cycle. For the corporate sector, 2002 was a year of falling profits and balance sheet consolidation. Corporate bonds performed well. Consolidation continued, and these efforts gradually bore fruit in the form of sharply higher corporate earnings, particularly in the latter part of the year. Equity markets performed strongly, while long-term interest rates bottomed at the end of the first half and then began to rise. However, rates remain low overall and short-term rates continued to fall in 2003.

The year started badly, with falling orders and industrial production. Uncertainty increased during the spring over the imminent invasion of Iraq, and war fears negatively affected household confidence in the US and in Europe. US corporations cited war concerns as a cause of depleted investment sentiment. Oil prices rose sharply in February and early March to levels that would have impacted growth and corporate earnings negatively had they persisted. The spread of the lung

disease SARS also had a negative effect on consumption, primarily in Asia.

Continued economic weakness in the OECD area during the spring prompted a more expansive economic policy, with interest rate cuts in the US and in Europe. The US also introduced substantial tax cuts.

The uncertainty culminated with the outbreak of war. The rapid gains made by the allies in Iraq and the subsequent cessation of hostilities raised expectations of a recovery in demand in the OECD area. Household confidence levels in the US and Europe rose after the end of the war, and oil prices fell. Thus, a large measure of uncertainty disappeared. The war was over and oil prices had retreated from the high levels that had had an adverse economic effect. Moreover, long-term interest rates fell heavily during the spring and early summer, providing a further spur to the global economy.

Signs of a stabilisation in demand became increasingly evident during the summer and autumn. Key indicators continued to strengthen and by the late autumn were pointing to a strong rise in industrial production during the coming months. The highly important US employment market also stabilised.

Order bookings in US and Japanese corporations were at healthy levels. The increase in demand was largely focused on IT-related sectors, while order levels remained weak in traditional heavy industries. Asia's rising economic importance was brought home to US and European investors during the autumn. Growth in Asia was unexpectedly strong in 2003, above all in China, and Asian economies are expected to account for a substantial share of global demand in 2004. Economists and business analysts are thus paying more attention to developments in this region than in the past.

Overall global economic growth is forecast to be good in 2004, although some economists and investors have reservations about how strong the figure will be. Interest rates are likely to rise this year if market expectations of growth prove correct and financial assets continue to perform as would normally be expected at this stage of the economic cycle.

Fixed income & currencies

Interest rate movements were relatively large during 2003, even if global nominal bond yields at year-end were more or less the same as at the start of the year. The year began with falling interest rates, reflecting a slowing of economic activity linked to the situation in Iraq and the SARS outbreak. At the same time, US inflation dropped substantially. The US central bank, the Federal Reserve, stressed its determination to ensure that the US economy would not be allowed to enter a deflationary spiral like that experienced by Japan since the early 1990s.

The risk of this happening was deemed to be low but the Federal Reserve nevertheless signalled its readiness to use measures other than interest rate cuts to avert deflation. With the Federal Reserve's main interest rate already at the very low level of 1.25%, the bank's statements were interpreted as signalling a readiness to purchase bonds on the open market in order to influence long-term interest rates. This helped push global nominal bond yields to extremely low levels during the spring. In Europe, economic forecasts were also toned down and a number of central banks lowered their interest rates.

The downward trend in rates was broken when the Federal Reserve in June cut its main interest rate to a record low 1.0%. However, it used the occasion to stress that the risk of deflation was small and that it was not considering any extra measures in addition to interest rate man-

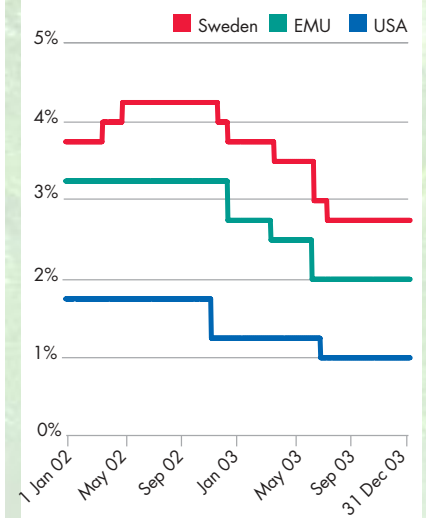
agement. Bond yields responded by entering a period of substantial and rapid growth.

Interest rate increases were further spurred by the publication of key economic data showing quick recoveries in key economies after the end of the Iraq war. When the recovery became more entrenched during the autumn investors began to discount the probability that central banks would reclaim a portion of their earlier monetary stimuli. Thus, the Australian and UK central banks raised interest rates at the start of November by 0.25 percentage points. This drew a line under a two-year period of expansionary monetary policy in the world economy.

Rising corporate earnings and lower levels of corporate debt combined with low short-term interest rates to create a highly favourable climate for non-sovereign bonds in 2003. Relative yields on these bonds fell substantially at the start of the year and generally the best performers were lower-rated corporate bonds, which were particularly hard hit in 2002.

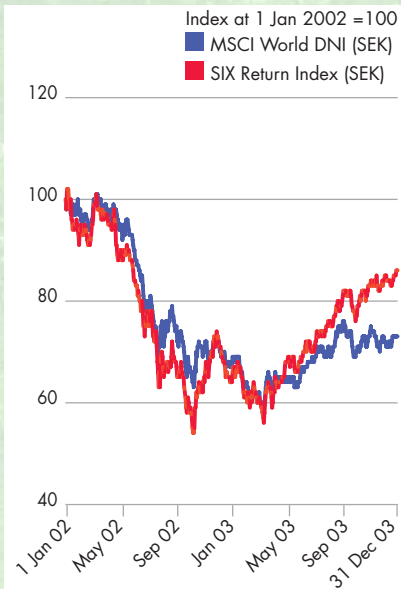
The currency market was characterized by a continued weakening of the US dollar. On a trade-weighted basis, the dollar fell 14%. In 2002 and during the first part of 2003, the dollar's depreciation was primarily against European currencies and the Canadian and Australian dollar. During the second half, it was chiefly against Asian currencies. Asian central banks, led by the Japanese, stepped in and bought dollars to avoid an uncontrolled appreciation of their domestic currencies. A growing share of the US trade deficit arises from trade with Asian countries, and official US statements have signalled that this is seen as problematic. One effect has been growing pressure on China to revalue its currency against the US dollar.

International Benchmark Interest Rates 2002-2003



Source: Ecwin

Equity Market Performance 2002-2003



Source: Datastream

The Swedish krona continued to strengthen during the year. It appreciated significantly against other currencies, in particular the US dollar, but was relatively stable against the euro until the referendum on euro membership held during the autumn. After the referendum, however, the krona also gained against the euro. On a trade-weighted basis the krona rose about 5% in value in 2003.

Equity market

After three years of very weak performance, share prices rose sharply on Swedish and international equity markets in 2003. The year got off to a poor start, however. Weak macroeconomic performance, a perceived risk of deflation and uncertainty caused by the imminent outbreak of war led to a continued fall in equity prices. Nevertheless, the outbreak of war and the rapid advances of the allies were followed by a strong surge on world stock markets. The rally was also driven by falling bond yields and improving economic indicators.

The Swedish stock market rose 34.2% during the year and the MSCI World DNI gained 33.1% in US dollar terms. However, the weakness of the US dollar relative to the krona meant that the world index rose only 10% in kronor terms.

All sectors of the MSCI World DNI posted gains in dollar terms in 2003. Raw materials recorded the best return – 52% – while information technology rose 45%. After two years of falling IT investments, companies in the US in particular increased their spending in this area during 2003. Moreover, strong earnings and a lower risk premium also favoured the sector. Other cyclical sectors also performed well. Weakest was healthcare, which rose 22%. The chart on the following page provides a sectoral picture of returns on the MSCI World DNI in Swedish kronor terms.

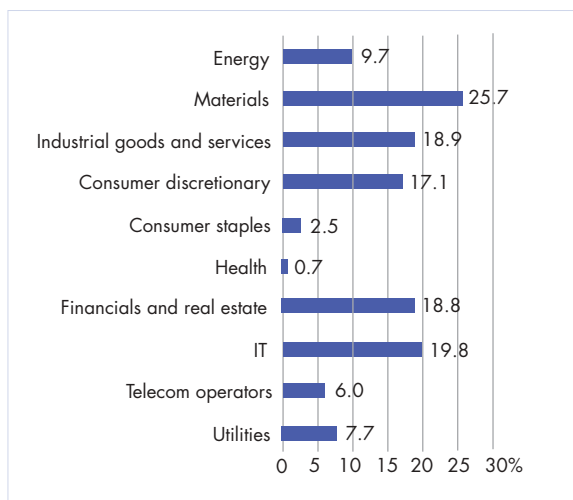
In Sweden, information technology stocks rose 83.1%. The strong performance of shares in Ericsson played a significant part in this upturn, as did a general improvement in investors' appetite for risk. Financial companies also performed well, due largely to a reassessment of the risk level associated with investments in this sector. Defensive sectors such as healthcare and consumer staples performed relatively poorly.

At the start of the year, the overall appetite for risk was low. Three years of falling stock markets had made investors more cautious towards risk, while confidence in the corporate sector was low because of a series of accounting and option scandals. Uncertainty was further fuelled by the equity selloff forced upon pension and insurance companies. When equity markets started to rally, risk premiums fell and those corporations that investors had avoided on the grounds of high risk were the main beneficiaries. As a result, companies with strong finances and low operational risk underperformed the general market. This has led to companies with weak finances being valued at a premium compared to those with a strong financial position. It is our belief that this will not last. Small and medium-sized companies performed relatively better than large companies during the year, which was attributable to the greater appetite for risk and also to the fact that cyclical sectors, where smaller companies are over-represented, posted strong returns.

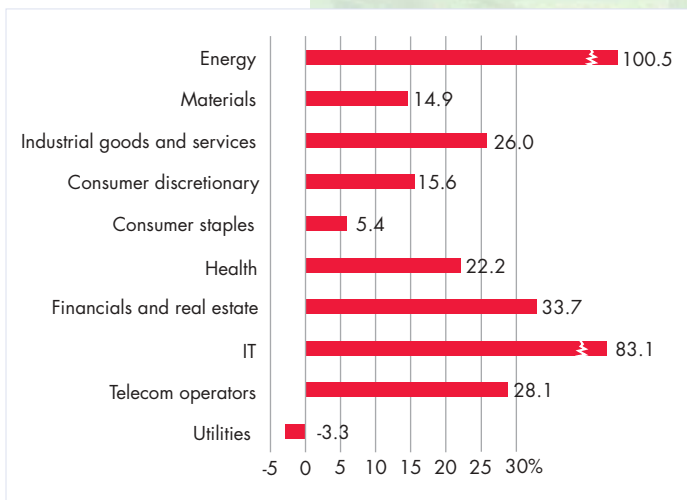
The major fall in the dollar that occurred in 2003 adversely affects European companies in a variety of ways. Those with operations in the US must convert their earnings to European currencies. This reduced the profitability of their US operations by almost 20% last year. European companies are unlikely to be able to adjust prices to compensate for direct

exports to dollar-based economies, which means they risk losing market share to companies whose costs are largely in dollars. For Sweden, this is particularly problematic because the country has a relatively high dependence on exports and the krona has also strengthened against other European currencies. The winners are US corporations, and it is likely that US corporate earnings will continue to develop well thanks to positive currency effects and the expected growth of the domestic economy. Greater uncertainty hangs over corporate earnings growth in Europe owing to the negative impact of currency trends on export growth and margins.

Performance by Sector in 2003, MSCI World DNI (SEK), %



Performance by Sector in 2003, SIX Return Index (SEK), %



Report of the Board of Directors

The Board of Directors and the President of the Fourth Swedish National Pension Fund hereby present their report for the financial year 1 January 2003 - 31 December 2003 – the Fund's 30th year of operation.

Accounting and valuation principles are described in a separate section.

Operations

Just as last year, 2003 was characterised by major swings on world financial markets. The Swedish and global equity markets both rebounded strongly. The MSCI World DNI index rose 33.1% in US dollar terms. Since the US dollar weakened against the Swedish krona, the increase in krona terms was a more modest 10.2%. The Swedish stock market recorded a 34.2% rise during the year. Nominal bond yields fell to low levels during the year but were relatively unchanged on a year-on-year basis. Exchange rates shifted substantially, with movements dominated by the continued depreciation of the US dollar against the krona and other currencies. The krona rose 5.0% in trade-weighted terms.

Market developments were highly favourable for the Fund owing to its high weighting in equities, particularly Swedish equities. This strategy has been set in order to meet the long-term objective of balancing the various pressures to which the national pension system will be exposed for many years starting in 2010. The Fund reported a market value profit for the year of SEK 19.3 billion (loss: -23.0). Total return on investment assets amounted to 17% (-16.8), while the benchmark index increased 18.0% (-16.3). The Fund did not manage to reach its relative return target for the total portfolio.

The portfolio return (excluding AP Fastigheter, which is not included in the Fund's benchmark index) was 17.6%

(-17.2), compared to the benchmark index return of 18.0% (-16.3). The underperformance in relative terms can thus be ascribed in large measure to the Fund's holding in AP Fastigheter which it inherited as part of the reallocation of assets between the National Pension Funds. The performance of the various sub-portfolios is reported under Investment Assets.

During 2003 the Fund conducted a new, more detailed asset liability modelling. This work took place on a project basis and a number of Fund employees participated. The Board of Directors was also involved, participating in two specially arranged seminars.

The ALM analysis resulted in adoption of a strategic portfolio for 2004 containing 61% equities (42% global and 19% Swedish) and 37% fixed income assets. The Fund allocated 2% of the strategic portfolio to real estate in order to reflect the Fund's holdings in AP Fastigheter. This allows asset management performance to be assessed with greater precision. The aim that 30% of the strategic portfolio should be subject to long-term currency exposure remains in place. This exposure will continue to be apportioned on a weighted import basket basis.

The conclusions of the analysis, as reflected in the Fund's strategic portfolio, did not differ to any great degree from previous analyses. The arguments in favour of retaining a high weighting in equities were further strengthened. The pension system benefits not only from the higher expected returns offered by equities but also from their greater volatility, which actively contributes to enabling the system to recover its equilibrium faster in the event of an automatic balancing.

Efforts continued to strengthen and develop the Fund's internal organisation. One of the year's more important projects was to develop expertise in the Fund's operations and its reporting of position-

taking and return – an exercise that involved all Fund units.

A number of changes were made to the internal asset management investment process. The methods used to produce internal equity research were refined. The number of shareholdings was reduced, which increased the relative size of the Fund's positions and should lead to a higher risk level in equity management. Larger positions were also developed in fixed income asset management.

Also, the Fund reassigned external global equity index management funds totalling some SEK 11 billion to enhanced index management. The aim here was also to increase active risk so as to improve conditions for fulfilment of the Fund's return targets.

An in-depth evaluation of internal asset management operations commenced in the autumn. This included an assessment of the investment philosophy and processes to identify areas of improvement. Efforts to develop the organisation so the Fund reaches its active return targets, both over the short and long term, will continue.

One new employee joined the organisation during the year, taking the year-end total of employees to 53 (52).

Profit for the year

The Fund reported a profit of SEK 19,334 million (loss: -22,981) for 2003.

Operating income totalled SEK 19,550 million (loss: -22,816) and consisted of dividends, interest income, realised and unrealised changes in asset values and net income from foreign exchange activities.

Operating expenses amounted to SEK 216 million (165). The asset management cost quotient (operating expenses as a proportion of the average value of fund capital) amounted to 0.17% (0.13).

This increase was due to a SEK 50 million rise in asset management expenses for external mandates between 2002 and 2003. The asset management cost quotient for the internally managed portfolio was 0.14%.

Commission costs (included under equity acquisition values) for the equity portfolio totalled SEK 102 million (101).

Fund capital at year-end stood at SEK 135,506 million (113,605), an increase of SEK 21,901 (-17,980) from the start of the year. This change consisted of net payments to the pension system (RFV) of SEK 2,143 million (1,984), transfers from special asset management operations of SEK 424 million (3,017) and the profit for the year of SEK 19,334 million (loss: -22,981).

Investment assets

At year-end, the market value of the Fund's investment assets stood at SEK 135,550 million (113,644). Fixed income assets were 2.5 percentage units underweighted compared to against the strategic portfolio, while there was an overweighting in real estate, i.e. AP Fastigheter (see chart, below). The addition of AP Fastigheter to the strategic portfolio at the start of 2004 reduced this overweighting in favour of equities.

Allocation of Investment Assets

Asset type	Market value, SEK million 31-12-2003	Weighting, % 31-12-2003	Market value SEK million 31-12-2002	Weighting, % 31-12-2002	Strategic portfolio, % 2003
Swedish equity portfolio	27,334	20.1	21,989	19.3	20.0
Global equity portfolio	57,616	42.5	46,769	41.2	42.5
Fixed income portfolio	47,379	35.0	41,332	36.4	37.5
Real Estate	3,221	2.4	3,554	3.1	0.0
Investment assets	135,550	100.0	113,644	100.0	100.0

Swedish Equity Portfolio's Five Largest Holdings

Company	Market value SEK million 31-12-2003	Share of Swedish portfolio, %
Nordea	2,706	9.9
Ericsson	2,173	8.0
H&M	2,091	7.6
SHB	2,001	7.3
TeliaSonera	1,798	6.6
Total	10,769	39.4

Return and Risk, 2003

Asset type	Return full year, % Portfolio	Return full year, % Reference index	Volatility full year, % Portfolio	Active risk full year, % Portfolio
Swedish equity portfolio	32.9	34.2	20.7	2.9
Global equity portfolio	9.2	10.2	18.4	1.4
Fixed income portfolio	4.8	4.3	2.7	0.6
Real Estate	-4.7	-	-	-
Investment assets	17.0	18.0	9.0	0.9

Total return

Return on investment assets amounted to 17.0% (-16.8), an underperformance of 1.0% (-0.5) against the benchmark index. Excluding AP Fastigheter, the return on investment assets was 17.6% (-17.2). Currency hedging of the global equity portfolio boosted the absolute return by 5.2 percentage units (3.7).

The very high return on investment assets is explained by the rebound on stock markets. The Fund's strategic portfolio maintains a high weighting in equities and therefore benefited from the market trend.

The return on Swedish equities was excellent, amounting to 32.9% (-36.4). Global equities posted an increase of 9.2% (-35.1). This was lower than for Swedish equities, due largely to the depreciation of the US dollar.

The return on fixed income investments was 4.8% (9.4). An exceptional decline in interest rates was observed in 2002, yielding a strong return, and returns were also good in 2003. Here, the Fund's strong weighting in non-sovereign bonds was a contributory factor.

Currency hedging also made a positive contribution on account of the strengthening of the krona against other currencies. During the year the Fund temporarily suspended its ongoing shift towards

higher currency exposure, a move that also had a positive impact on return. The Fund's currency strategy means the entire fixed interest portfolio is hedged against currency risk, while the global equity portfolio is hedged on a strategic case-by-case basis. The Fund's currency exposure at year-end totalled 18.5% (16.8).

Excluding AP Fastigheter, the relative return on investment assets was -0.4 percentage units (-0.9). The choice of equities in global equity management affected relative performance negatively. Management of Swedish equities also made a negative contribution, while positive contributions were received from two out of three of the active external equity managers. The fixed income portfolio provided the largest positive contribution to relative return.

Risk

Active risk, measured retroactively, was 0.9% (1.4) for investment assets. This drop can be ascribed entirely to reduced market volatility. Overall, the Fund has sought to increase the level of risk within its portfolios.

Swedish equity portfolio

The Swedish equity portfolio had a market value of SEK 27,334 million (21,989) at year-end. The five largest holdings are shown in the adjacent table.

The Swedish equity portfolio posted a return of 32.9% (-36.4), an underperformance of 1.3% (-0.5) against the SIX Return Index, which rose 34.2% (-35.9). This underperformance was primarily attributable to a negative contribution from the choice of equities in large corporations.

At year-end the Fund's holdings of unlisted Swedish equities had a value of SEK 259 million (171). The strong stock

market rally during the year resulted in a negative contribution to relative return from the unlisted Swedish equity holdings. Unlisted Swedish equities generated a return of 1.0% (-16.0).

The Fund's Swedish equity holdings accounted for 1.3% (1.4) of the Swedish stock market's total capitalisation at year-end.

Global equity portfolio

The market value of the global equity portfolio amounted to SEK 57,616 million (46,769) at year-end, of which SEK 17,571 million (15,147) were funds under external management. The proportion of actively managed funds increased during the year, while passive external mandates were switched during the second half to semi-passive, or enhanced, management mandates. Active risk is thus expected to increase in 2004. During 2003 a further SEK 1,049 million was allocated to the external managers of equities in the Pacific region excluding Japan.

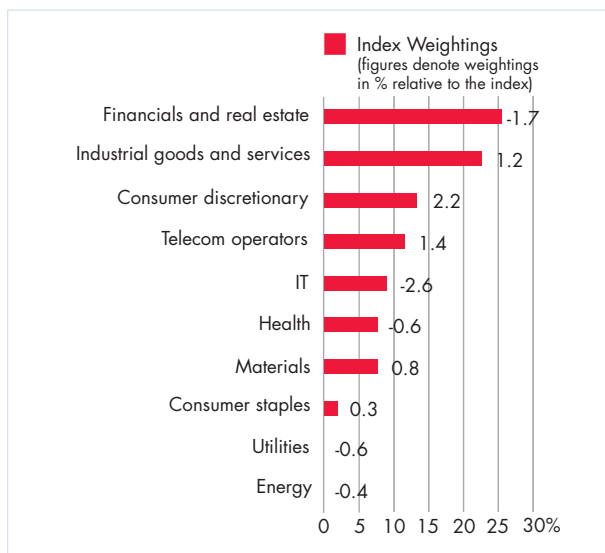
The adjacent chart shows the distribution of internally managed equities and their breakdown by sector at year-end.

Global Equity Portfolio

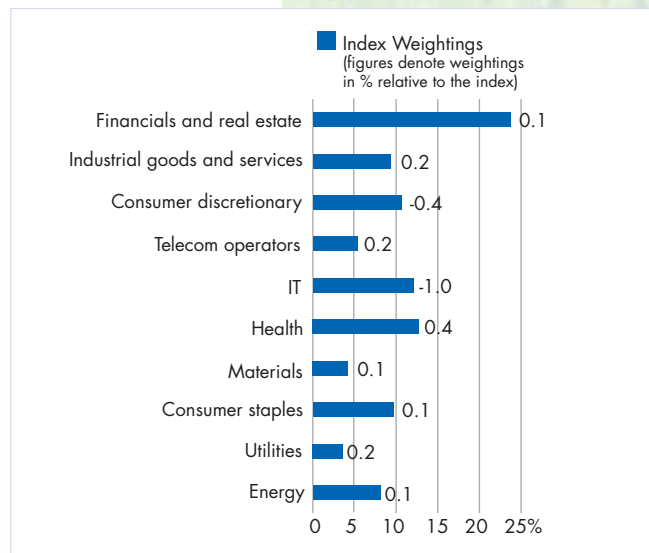
	Market value SEK million, 31-12-2003
Internally managed equities and equity-related instruments	40,045
Externally managed equity portfolio	17,571
of which:	
Enhanced external management	10,865
Active external management	6,706

The return on the global equity portfolio totalled 9.2% (-35.1). This was an underperformance of 1.0 percentage units (-1.5) against the reference index and was attributable mainly to the choice of equities in the equity portfolio under internal management. The choice of sectors also had a mildly negative impact.

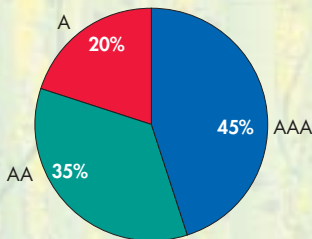
Swedish Equity Portfolio Weightings by Sector, 31 December 2003



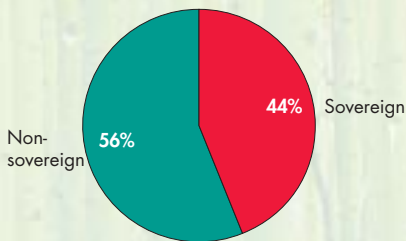
Global Equity Portfolio Weightings by Sector, 31 December 2003



**Fixed Income Portfolio by Rating,
31 December 2003**



**Fixed Income Portfolio Distribution
between Sovereign/Non-sovereign
Issuers, 31 December 2003**



A positive contribution to relative return was made by external asset management mandates.

Fixed income portfolio

The market value of the fixed income portfolio, including liquid funds, stood at SEK 47,379 million (41,332) at year-end. The return amounted to 4.8% (9.4), compared to a 4.3% (9.8) rise in the reference index. Active management of fixed income securities thus comfortably outperformed the reference index, which can be chiefly ascribed to position-taking between markets and an overweighting in Swedish credit bonds.

The fixed income portfolio duration was 4.17 at year-end, equal to the benchmark index's duration. At year-end, non-sovereign issuers accounted for 56% (57) of the fixed income portfolio excluding cash balances. Investments in single-A-rated sovereign global bonds totalled approximately SEK 3.1 billion (2.1) at year-end.

Currency management

The global equity portfolio's currency exposure is hedged in accordance with the Fund's currency strategy. These hedging activities boosted the absolute return by 5.2% (3.7). Only limited active currency management took place, the net effect of which was close to zero. For 2004, currency trading risk mandates have been widened with the aim of facilitating more active foreign exchange management.

Risk management

The Board sets an annual risk management plan for Fund operations that details the main risks and how these should be tackled. The principal risks are of a financial and operational character. Financial risks consist of market risks, credit and counterparty risks and liquidity risks. Operational risks are defined

as administrative, IT, other technical, legal and ethical risks.

Performance & Risk Control is an autonomous group that reports directly to the President and Board. Its primary function is to ensure compliance with investment legislation and risk management within the organisation. The key aspect of this role is close monitoring and prompt reporting of return and risk in relation to reference indices.

Financial risks

The basic aim of the Fund's investment operations is to generate an excess return in relation to the index, and for this reason risk is also determined in relation to the index. Currency, fixed income and equity risks are managed through parameters such as active risk, duration and deviation from index weightings.

For derivatives, limits are in place both on nominal underlying values and market risk. Liquidity risks arising in connection with derivatives are closely monitored. All derivative holdings and associated risks are monitored through the Fund's daily position and risk management.

Credit and counterparty risks depend on individual counterparties being able to discharge their undertakings to the Fund. With regard to credit risk, the Fund has established individual counterparty limits that are continuously monitored. Credit risks are also offset by the stipulation that investments may only be made in securities with a BBB rating or higher.

Liquidity risks are constrained by special rules controlling investments in fixed income assets and close monitoring of cash balances.

Operational risks

Relevant managers within the Fund are responsible for taking requisite steps to

identify, limit and control their departments' operational risks, in accordance with the risk management plan.

The Performance & Risk Control group has the task of establishing guidelines for operational risks. Also, all managers are required to report operational risks to Performance & Risk Control.

Portfolio overview

A more detailed overview of the Fund's investment assets is presented overleaf, with special emphasis on return and risk.

Board of Directors

The Fourth Swedish National Pension Fund's Board of Directors consists of nine full members, all appointed by the government, and no deputies. Two are appointed on the basis of nominations from employer organisations and a further two on the basis of nominations from employee organisations. The government appoints the Chairman and Deputy Chairman from its own nominees. The President and Fund officials attend board meetings in the role of rapporteur and secretary. The Members of the Board are listed on p. 46.

The board was unchanged in 2003 and convened for six meetings during the year. A seventh meeting was held to evaluate the Board's own work.

The Board is responsible for the Fund's organisation and management of its assets. It sets a written agenda for the Fund's work and provides written instructions to the President. These key documents are revised annually, together with the ethical guidelines for employees and rules for reporting holdings of financial instruments.

During the year the Board devoted particular attention to the latest ALM analysis and its conclusions in the form of a new investment policy. The project was discussed at each board meeting and also at two specially arranged seminars. The Board also examined and documented the government's evaluation of the financial year 2002. Moreover, a study visit and company presentation were arranged in conjunction with board gatherings.

The Board also stipulated an operational working plan for 2004 that includes updates to the Fund's investment policy, risk management plan, corporate governance policy, environmental and ethical guidelines, and annual operating cost budget.

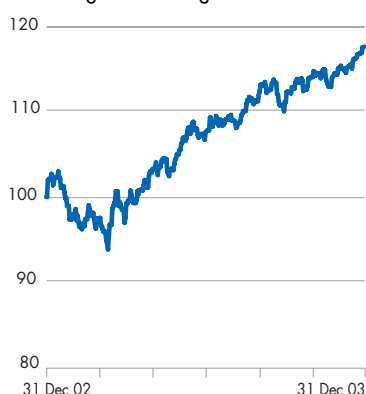
The Fund's auditors report personally to the Board their observations on the Fund's financial position and their assessment of its internal controls.



Portfolio Overview

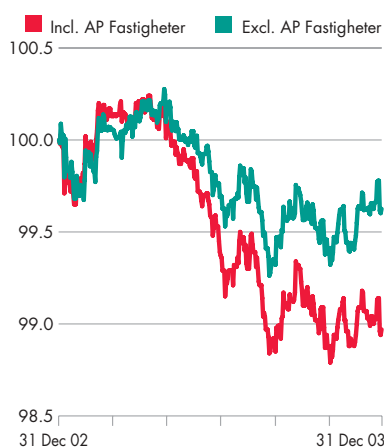
Absolute Return

Return on investment assets excluding shareholdings in AP Fastigheter.

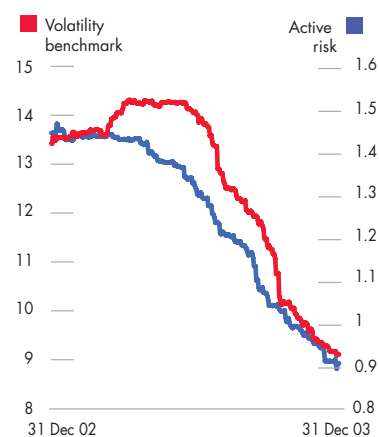


Relative Return

Return on investment assets including and excluding shareholdings in AP Fastigheter relative to the benchmark index



Active Risk and Volatility, %



The portfolio's active risk on a rolling 12-month basis has fallen in conjunction with declining market volatility.

Return per Asset Category, 2003

The table below presents the portfolio and index returns for each asset category and for total investment assets.

Investment assets	2003			2002		
	Return, % Portfolio	Return, % Index	Relative return	Return, % Portfolio	Return, % Index	Relative return
Swedish equity portfolio	32.9	34.2	-1.3	-36.4	-35.9	-0.5
Global equity portfolio	9.2	10.2	-1.0	-35.1	-33.6	-1.5
Under internal management	8.3	9.6	-1.3	-35.9	-33.8	-2.1
Under external active management	17.8	14.9	2.9	-2.2	-2.7	0.5
Under external enhanced management ¹⁾	9.4	9.6	-0.2	-33.5	-33.8	0.3
Fixed income portfolio	4.8	4.3	0.5	9.4	9.8	-0.4
Real Estate	-4.7	-	-	-1.2	-	-
Investment assets	17.0	18.0	-1.0	-16.8	-16.3	-0.5

Return on investment assets, excluding AP Fastigheter, was 17.6% (-17.2).

¹⁾ These mandates were switched in 2003 from passive to enhanced management.

Risk and Risk-adjusted Returns per Asset Category, 2003

The table below presents risk and risk-adjusted returns for each asset category and for total investment assets.

Investment assets	Volatility, % 12 months	Active risk, % 12 months	Information ratio 12 months	Sharpe ratio 12 months	Beta 12 months
Swedish equity portfolio	20.7	2.9	neg	1.45	1.01
Global equity portfolio	18.4	1.4	neg	0.33	0.97
Under internal management	19.7	1.7	neg	0.26	0.96
Under external active management	18.0	5.0	0.6	0.81	0.95
Under external enhanced management	19.7	1.3	neg	0.31	0.99
Fixed income portfolio	2.7	0.6	0.8	0.60	0.98
Real Estate	-	-	-	-	-
Investment assets	9.0	0.9	neg	1.54	0.95

The value at risk for the total portfolio was 1.44% (1.53). This means there is a 99% probability that the investment assets will not decline more than 1.44% in value on an overnight basis. See definitions on p. 48-49. for treatment of various risk categories and risk-adjusted return.

Total Fixed Income Portfolio by Rating Category for Sovereign and Non-sovereign Bonds, 31 Dec. 2003

Rating	Market value, SEK million Total	Market value, SEK million Sovereign	Market value, SEK million Non-Sovereign	Share, %
AAA	20,941	14,818	6,123	45.0
AA	16,420	5,688	10,732	35.0
A	9,291	0	9,291	20.0
Total	46,652	20,506	26,146	100.0

External Asset Management Mandates, 2003

Asset category	Form of asset management	Region	Benchmark index	Asset manager	Holdings at 31 Dec., SEK million	Return, %	Index return, %	Relative return, %
Equities	Enhanced management ¹⁾	North America	MSCI North America	State Street	3,789	6.3	6.3	0.0
Equities	Enhanced management ¹⁾	Europe	MSCI Europe	State Street	2,064	14.6	14.7	-0.1
Equities	Enhanced management ¹⁾	World's excl. Pacific	MSCI World ex Pacific	Merrill Lynch	5,012	9.7	9.6	0.1
Equities	Active	Pacific excl. Japan	MSCI Pacific ex Japan	APS	1,845	34.7	20.2	14.5
Equities	Active	Pacific excl. Japan	MSCI Pacific ex Japan	Capital	1,026	26.1	20.2	5.9
Equities	Active	Japan	MSCI Japan	Martin Currie	3,835	11.7	12.7	-1.0

¹⁾ These mandates were switched in 2003 from passive to enhanced management.

Largest Active Positions – Internally Managed Equity Portfolios, 31 Dec. 2003

Largest overweightings, Sweden

Company	Active weightings, %	Index weightings, %	Portfolio ¹⁾ weightings, %
Nordea	2.9	6.8	9.7
Tele 2	2.7	2.5	5.2
SHB	2.7	4.5	7.2
Hennes & Mauritz	2.1	5.4	7.5
SKF	1.8	1.4	3.2

Largest overweightings, Global

Company	Aktive weightings, %	Index weightings, %	Portfolio ¹⁾ weightings, %
Wyeth	1.4	0.4	1.8
Microsoft	1.3	1.7	3.0
AstraZeneca	1.3	0.5	1.8
IBM	1.2	1.1	2.3
Eli Lilly	1.1	0.5	1.6

Largest underweightings, Sweden

Company	Active weightings, %	Index weightings, %	Portfolio ¹⁾ weightings, %
SEB	-2.1	3.2	1.1
Scanica	-1.8	1.8	0.0
Sandvik	-1.8	2.8	1.0
Ericsson	-1.3	9.1	7.8
TeliaSonera	-1.2	7.6	6.4

Largest underweightings, Global

Company	Active weightings, %	Index weightings, %	Portfolio ¹⁾ weightings, %
Intel	-1.2	1.4	0.2
Johnson & Johnson	-0.7	1.0	0.3
Merck	-0.7	0.7	0.0
Nokia	-0.5	0.5	0.0
Dell	-0.5	0.5	0.0

¹⁾ The Portfolio does not include derivatives or private equity.

Currency Exposure, 31 Dec. 2003

SEK million	USD	EUR	GBP	JPY	Other	Total
Shares and participations	31,006	7,703	5,073	3,770	4,450	52,002
Bonds and other interest-bearing assets	8,595	7,162	4,760	4,170	0	24,687
Derivatives excl. currency derivatives	83	-187	8	53	0	-43
Currency derivatives	-33,177	-2,096	-10,503	-6,613	-1,424	-53,813
Net other receivables and liabilities	137	73	46	190	49	495
Exposure in SEK to listed companies with a foreign domicile ¹⁾ and allocation of index funds	927	488	2,989	2	-2,647	1,759
Net currency exposure	7,571	13,143	2,373	1,572	428	25,087

Currency Exposure, 31 Dec. 2002

SEK million	USD	EUR	GBP	JPY	Other	Total
Shares and participations	23,585	7,859	4,193	3,233	2,481	41,351
Bonds and other interest-bearing assets	8,031	6,459	4,188	3,852	0	22,530
Derivatives excl. currency derivatives	-3	-154	-21	5	0	-173
Currency derivatives	-26,625	-5,926	-9,135	-6,487	0	-48,173
Net other receivables and liabilities	104	65	68	381	165	783
Exposure in SEK to listed companies with a foreign domicile ¹⁾ and allocation of index funds	-25	792	3,097	0	-1,057	2,807
Net currency exposure	5,067	9,095	2,390	984	1,589	19,125

¹⁾ AstraZeneca is the largest holding with foreign domicile.

Income Statement

SEK million	Note	2003	2002
Operating income			
Dividends received		1,704	1,332
Net interest income	1	2,659	2,944
Net capital losses	2	-5,426	-12,228
Net exchange losses		-2,841	-1,632
Unrealised changes in value	3	23,454	-13,232
Total operating income		19,550	-22,816
Operating expenses			
External asset management costs	4	-69	-19
Personnel expenses	5	-73	-64
Other operating expenses	6	-74	-82
Total operating expenses		-216	-165
Profit for the year		19,334	-22,981

Balance Sheet

SEK million	Note	31-12-2003	31-12-2002
ASSETS			
Investment assets			
Shares and participations, listed	7	81,185	65,353
Shares and participations, unlisted	8	3,505	3,725
Bonds and other interest-bearing assets	9	46,035	41,168
Derivatives	10	3,564	1,806
Total investment assets		134,289	112,052
Receivables and other assets			
Cash and bank balances		398	749
Other assets	11	66	2,514
Prepaid expenses and accrued income	12	1,387	1,335
Total receivables and other assets		1,851	4,598
Total assets		136,140	116,650
FUND CAPITAL AND LIABILITIES			
Fund capital			
Fund capital at start of year		113,605	131,585
Net disbursements to the National Pension Scheme	13	2,143	1,984
Reimbursement from special asset management fund and liquidation fund	14	424	3,017
Profit for the year		19,334	-22,981
Total fund capital		135,506	113,605
Liabilities			
Derivatives	10	367	381
Other liabilities	15	26	2,525
Deferred income and accrued expenses	16	241	139
Total liabilities		634	3,045
Total fund capital and liabilities		136,140	116,650
MEMORANDUM ITEMS			
Pledges and equivalent collateral to secure own liabilities	17	0	3,347
Other pledges and equivalent collateral	18	837	897
Undertakings	19	602	219

Accounting and Valuation Principles

In compliance with the Swedish National Pension Funds Act, *Lag (2000:192) om allmänna pensionsfonder*, this Annual Report has been prepared according to generally accepted accounting principles. Taking into account the existing regulations that apply to comparable financial institutions, the four buffer funds have developed and put into practice a set of common accounting and valuation principles.

Changes in accounting principles

From 2003, deductible receivables and liabilities (mainly repurchase agreements) are stated on a net accounting basis. During 2003, common headings and classifications of buffer fund operating costs were agreed and implemented.

Comparable figures have been recalculated in accordance with the new principles.

Transaction day accounting

Purchases and sales on the money, bond, equity and foreign exchange markets are reported in the balance sheet on the transaction date, i.e. at the point when material rights, and therefore risks, are transferred between the parties. Receivables and liabilities that fall between transaction and settlement date are reported under other assets and other liabilities respectively.

Foreign currency

Foreign currency-denominated assets and liabilities are stated at year-end exchange rates. Changes in the values of foreign currency-denominated assets are divided between those attributable to the change in the value of the asset or liability and those caused by exchange rate changes. Realised and unrealised changes in value that arise due to exchange rate fluctuations are reported on a net basis under exchange profits or losses.

Shares and participations

Shares and participations are valued at fair value. Shares listed on an authorised stock exchange are valued either by using the closing rate in local currency on the year's last day of trading or, alterna-

tively, by using the last buying rate. Shares are reported under their market of purchase. Unlisted holdings are valued in accordance with EVCA principles. This involves holdings in normal circumstances being valued at acquisition value for the first 12 months, and thereafter at a conservative fair value. Fair value should primarily be calculated on the basis of transactions with third parties, though other valuation methods may be used in certain cases.

The averaging method has been used to calculate capital gains and losses.

Bonds and other interest-bearing securities

Bonds and other interest-bearing assets are valued at fair value. The market value of fixed income securities is determined by the closing buying rate on the last day of trading or, alternatively, by the buying rate on the preceding day.

Net capital gains and unrealised changes in value are the difference between average accrued acquisition value and sales value/fair value. Accrued acquisition value is the discounted present value of future payments where the discount rate corresponds to the effective interest rate at time of purchase. Acquired premiums and discounts are taken up as income until the coupon rate changes or the instrument matures. Changes in accrued acquisition values are reported as interest income.

Buy-backs

In a true buy-back (repurchase), the asset remains on the balance sheet and cash received is reported as a liability. The divested security is reported under pledged assets on the balance sheet. The cash value difference between spot and forward legs accrues during the maturity period and is reported as interest.

Derivatives

Derivative instruments are valued at fair value. Derivative transactions with positive market value at year-end are reported as investment assets, while transactions

with a negative market value are reported as liabilities. The difference between forward and spot rates accrues evenly over the term of the forward contract and is accounted for as interest.

Equipment

Equipment is booked at acquisition value after deducting accumulated depreciation according to plan. Computer equipment is depreciated over three years and other equipment over five years. Residual value at year-end is reported under other assets. Investments in in-house and purchased computer programmes are written off on an ongoing basis.

Items reported directly against fund capital

Payments to and receipts from the national pension scheme, as well as transfers from the special asset management funds owned jointly by the four buffer funds are reported directly against fund capital.

Operating expenses

All management costs, excluding direct transaction costs such as commissions, are reported under operating expenses. As a result, all external asset management expenses are reported under external asset management costs, regardless of whether they are invoiced or deducted from asset management capital.

The Fourth Swedish National Pension Fund is exempt from liability for value-added tax since it is not classed as conducting business activities. Consequently, the Fund is not entitled to claim back any VAT outlays. These are reported under the relevant expense.

Income taxes

The Fourth Swedish National Pension Fund is exempt from all income tax on investments in Sweden. The tax liability on investments outside Sweden varies from country to country.

Notes to Income Statement and Balance Sheet

SEK million, unless otherwise stated

NOTE 1

Net interest income

	2003	2002
<i>Interest income</i>		
Bonds and other interest-bearing assets	1,693	1,902
Derivatives	1,508	1,309
Other interest income	4	16
Total interest income	3,205	3,227
<i>Interest expenses</i>		
Derivatives	-544	-261
Other interest expenses	-2	-22
Total interest expenses	-546	-283
Net interest income	2,659	2,944

NOTE 2

Net capital losses

	2003	2002
Shares and participations	-6,010	-12,379
Bonds and other interest-bearing assets	598	93
Derivatives	-14	58
Net capital loss	-5,426	-12,228

NOTE 3

Unrealised changes in value

	2003	2002
Shares and participations	24,196	-14,707
Bonds and other interest-bearing assets	-800	1,457
Derivatives	58	18
Unrealised changes in value	23,454	-13,232

NOTE 4

External asset management costs

	2003	2002
Active asset management mandates, listed equities	42	1
Semi-passive asset management mandates, listed equities	12	9
Active asset management mandates, unlisted shares and participations	15	9
Total external asset management expenses	69	19

NOTE 5

Personnel expenses

SEK '000	2003	2002
<i>Salaries and remuneration</i>		
Chairman of the Board	100	100
Other Members of the Board	425	425
President	1,884	1,805
Other executive management committee members	5,924	5,732
Other employees	32,250	30,030
Total salaries and remunerations	40,583	38,092
<i>Bonus provisions</i>		
President	0	0
Other executive management committee members	261	0
Other employees	2,001	0
Total bonuses	2,262	0
<i>Pension costs</i>		
President	1,876	2,653
Other executive management committee members	1,967	1,376
Other employees	6,897	5,652
Total pension costs	10,740	9,681
<i>Social security costs</i>	15,971	14,113
<i>Other personnel costs</i>	2,967	2,046
Total personnel expenses	72,523	63,932

Salaries and remuneration

The government sets the remuneration of Members of the Board. The Board of Directors sets the employment conditions of the President and Deputy Managing Director, following recommendations by the Chairman and Duty Chairman of the Board. Remuneration of the President and other members of the executive management committee consists of salary plus bonus.

Bonuses

The bonus scheme is set by the Board. The scheme covers all employees who have been employed by the Fund for more than six months. The bonus criteria for the President and Deputy Managing Director are set by the Board. The core principle is that bonuses are payable in the event that the Fund outperforms the reference index or meets special predetermined targets. The maximum annual bonus figure varies from two to six months' salary. In the income statement, the figure stated for bonuses relates to provisions for 2003. Bonuses will be payable in 2004 after the Annual Report has been finalised by the Board and return estimates have been examined by the Fund's auditors. No bonuses were paid for 2002.

ctd. Note 5

Pensions and similar benefits

The President's pension benefits and severance pay are specified in his contract of employment. The agreement broadly entitles him to a pension from the age of 58 amounting to 75% of his full salary at the retirement date until the age of 65. The President is also entitled to severance pay of two years' salary.

Other executive management committee members have individual contracts of employment. The Deputy Managing Director is entitled to receive a pension from the age of 63 amounting to 75% of his salary at the retirement date until the age of 65. The entitlement of individual executive management committee members to severance pay varies in accordance with the financial sector's collective pay agreement up to a maximum of 12 months' salary.

The Fund's pension liabilities in respect of its special agreements with the President and Deputy Managing Director amount to SEK 9,264,000. The President and Deputy Managing Director reached an agreement with the Fund to reduce their previously agreed pensionable age by two years and instead abstain from commensurate salary increases.

Employees

The average number of employees was 49 (46), of whom 20 (20) were female. The year-end total was 53 (52). In 2003 and 2002 the executive management committee had five members, of whom two were female.

Sickness absences amounted to 4.1% (5.6) of normal working hours. The figures were 7.5% and 1.3% for female and male employees respectively. Some 3.0% of absences were longer than 60 days. The incidence of sickness absence among employees aged 29 or younger was 1.2%. For those aged 30-49 the figure was 4.7% and for those aged over 50 the figure was 1.3%.

NOTE 6

Other operating expenses

	2003	2002
Depreciation of equipment	4	5
Custody account expenses	23	28
Information and computer expenses	22	24
Services purchased	11	11
Cost of premises	10	10
Other operating expenses	4	4
Total other operating expenses	74	82

Certain reclassifications were made compared to the previous year.

Purchased services includes fees to auditors as follows:

	2003	2002
Audit services, Öhrlings PwC	0.7	1.0
Audit services, KPMG	0.1	0.2
Other services, Öhrlings PwC	0.2	0.2
Other services, KPMG	0.0	0.1
Total fees to auditors	1.0	1.5

NOTE 7

Shares and participations, listed

	31/12/2003		31/12/2002	
	Fair value	Acquisition value	Fair value	Acquisition value
Listed Swedish equities, internal asset management ^{*)}	29,208	31,610	24,002	37,543
Listed foreign equities, internal asset management ^{*)}	34,553	37,864	26,571	36,160
Listed foreign equities, active external asset management ^{**)}	6,559	5,970	4,459	4,594
Participations in foreign index funds ^{*)}	10,865	12,844	10,321	13,195
Total shares and participations, listed	81,185	88,288	65,353	91,492

^{*)} A detailed list of holdings is published on pps. 40-45.

^{**)} A detailed list of holdings is published on the Fund's website and printed copies can be ordered from the Fund.

NOTE 8

Shares and participations, unlisted

	31/12/2003		31/12/2002	
	Fair value	Acquisition value	Fair value	Acquisition value
Unlisted Swedish shares and participations	3,480	3,509	3,725	3,863
Unlisted foreign shares and participations	25	25	0	0
Total shares and participations, unlisted	3,505	3,534	3,725	3,863

A detailed list of holdings is published on p. 45.

NOTE 9

Bonds and other interest-bearing assets

	31/12/2003		31/12/2002	
	Fair value	Accrued acquis. value	Fair value	Accrued acquis. value
<i>Issuers</i>				
Kingdom of Sweden	6,060	5,975	7,628	7,451
Swedish municipalities	47	50	1	1
Swedish mortgage lending institutions	12,993	12,909	8,974	8,820
Other Swedish financial companies	1,472	1,466	729	723
Swedish non-financial companies	561	548	728	717
Foreign states	13,033	13,898	7,834	7,853
Other foreign issuers	11,869	13,244	15,274	15,992
Total interest-bearing assets	46,035	48,090	41,168	41,557
<i>Instrument type</i>				
Bonds	44,629	46,687	40,155	40,546
Subordinated debentures	77	74	72	70
Overnight loans	1,329	1,329	941	941
Total interest-bearing assets	46,035	48,090	41,168	41,557

NOTE 10**Derivatives**

	31/12/2003		
	Nominal value	Real value	
		Positive	Negative
Share futures	2,456	70	37
of which cleared	2,456	70	37
Interest rate-related instruments:			
Swaps	21,233	226	168
FRA / Futures	30,391	42	55
Total interest rate-related instruments	51,624	268	223
of which cleared	30,391	42	55
Currency forwards	71,623	3,226	107
Total derivatives	125,703	3,564	367
of which cleared	32,847	112	92

NOTE 11**Other assets**

	31/12/2003	31/12/2002
Non-liquid receivables sold	58	76
Equipment	5	7
Repurchase agreements	0	2,431
Other receivables	3	0
Total other assets	66	2,514

NOTE 12**Prepaid expenses and accrued income**

	31/12/2003	31/12/2002
Accrued interest income	1,315	1,278
Accrued dividends and restitutions	66	51
Other	6	6
Total	1,387	1,335

NOTE 13**Net disbursements to the National Pension Scheme**

	31/12/2003	31/12/2002
Pension contributions etc. received from the Swedish National Insurance Board RFV	41,481	40,186
Supplementary pension disbursements etc. to RFV	-39,057	-37,939
Administration fee paid to RFV	-281	-263
Net disbursements to the National Pension Scheme	2,143	1,984

NOTE 14**Reimbursement from Special Asset Management Fund and Liquidation Fund**

	31/12/2003	31/12/2002
First Swedish National Pension Fund's Liquidation Fund	394	3,017
Fourth Swedish National Pension Fund's Special Asset Management Fund	30	0
Total	424	3,017

The First Swedish National Pension Fund's liquidation fund had SEK 5,214 million (6,511) under management at year-end.

The Fourth Swedish National Pension Fund's Special Asset Management Fund had SEK 1,291 million (1,377) under management at year-end.

Annual reports are available from the First and Fourth Swedish National Pension Funds.

NOTE 15**Other liabilities**

	31/12/2003	31/12/2002
Trade creditors	4	3
Pension provisions	9	7
Repurchase agreements	0	2,431
Non-liquid liabilities purchased	7	65
Other liabilities	6	19
Total other liabilities	26	2,525

NOTE 16**Deferred income and accrued expenses**

	31/12/2003	31/12/2002
Accrued interest expenses	202	127
Accrued personnel costs	6	3
Accrued external asset management costs	29	1
Other accrued expenses	4	8
Total	241	139

NOTE 17**Pledges and equivalent collateral to secure own liabilities**

	31/12/2003	31/12/2002
Bonds transferred for repurchase agreements	0	3,347

NOTE 18**Other pledges and equivalent collateral**

	31/12/2003	31/12/2002
Bonds pledged as collateral for futures	837	897

NOTE 19**Undertakings**

	31/12/2003	31/12/2002
Capital investments not yet drawn down	602	219

Stockholm, 12 February 2004

Birgit Friggebo
Chairman

Karl-Olof Hammarkvist
Deputy Chairman

Göran Johnsson

Marianne Nivert

Sture Nordh

Inga Persson

Ilmar Reepalu

Ulla Reinius

Carl Wilhelm Ros

Thomas Halvorsen
President

Our Auditors' Report was submitted in

Stockholm on 12 February 2004

Anna Hesselman
Authorised Public Accountant

Anders Bäckström
Authorised Public Accountant

Auditors' Report

for the Fourth Swedish National Pension Fund, (corporate identity number 802005-1952)

We have examined the Annual Report, the book-keeping and the administration of the Fourth Swedish National Pension Fund by the Board of Directors for the financial year 2003. The responsibility for the financial statements and administration rests with the Board of Directors. It is our responsibility to express our opinion on the Annual Report and administration on the basis of our audit.

Our examination was performed in accordance with generally accepted auditing standards in Sweden. This means that we have planned and implemented our audit in order to make sure as far as possible that the Annual Report contains no material errors. An audit implies that a selected number of documents forming the basis of amounts and other information in the accounts are examined. An audit furthermore implies a test of the accounting principles and the Board's application of these, as well as an evaluation of the total information contained in the Annual Report. We consider that our audit gives us reasonable grounds for our opinions expressed below.

The Annual Report has been drawn up in compliance with the Swedish National Pension Funds Act and therefore presents a true picture of the results and position of the company in accordance with generally accepted auditing standards in Sweden.

The audit has given us no reason for qualification with regard to the Annual Report, the income statement and balance sheets contained therein, the book-keeping, the inventory of assets or the administration of the company in general.

We recommend that the profit and loss account and balance sheet be adopted.

Stockholm, 12 February 2004

Anna Hesselman

Authorised Public Accountant
Appointed by the Swedish Government

Anders Bäckström

Authorised Public Accountant
Appointed by the Swedish Government

Shares and Participations

Shares and participations, listed

Listed Swedish shares, internally managed

Company, 31 Dec 2003	Number	Fair value SEK million	Percentage of share capital	Percentage of voting capital
Addtech B	1,075,775	42	4.06	2.95
Alfa Laval	4,291,700	470	3.84	3.84
Altima	42,300	3	0.41	0.41
Anoto Group	4,871,794	83	4.13	4.13
Assa Abloy B	7,488,400	640	2.05	1.39
AstraZeneca ¹⁾	4,516,250	1,583	0.37	0.37
Atlas Copco	3,165,600	803	1.51	1.82
A	2,617,600			
B	548,000			
Axis	3,320,700	56	4.82	4.82
Beijer Alma B	118,000	8	1.31	0.62
Bergman & Beving B	1,075,775	49	3.76	2.79
Biacore International	291,075	49	2.99	2.99
Biolinvent International	1,370,550	14	4.65	4.65
Capio	3,246,900	188	4.18	4.18
Castellum	1,121,000	191	2.61	2.61
Clas Ohlson B	724,390	137	2.21	1.23
Electrolux B ²⁾	7,778,400	1,229	2.40	1.88
Ericsson B	168,458,300	2,173	1.04	0.03
FöreningsSparbanken A	6,319,600	894	1.20	1.20
Gefinge B	4,672,000	322	2.31	1.44
Hennes & Mauritz B ²⁾	14,583,900	2,494	1.76	0.86
Holmen	655,000	168	0.82	0.74
A	160,000			
B	495,000			
Industrivärden A	2,446,500	296	1.27	1.75
Intenia International B	4,097,700	30	3.73	2.92
Investor	7,771,900	540	1.01	0.42
A	820,000			
B	6,951,900			
JM	769,200	82	2.74	2.74
Karo Bio	829,120	25	4.91	4.91
Kinnevik B	2,810,600	663	4.47	1.51
Metro International	8,675,400	114	1.65	2.49
A	6,566,300			
B	2,109,100			
MTG B	2,848,000	431	4.29	1.38
Munters	668,380	116	2.67	2.67
NCC A	423,000	23	0.39	0.67
Nordea	50,106,590	2,706	1.71	1.71
Precise Biometrics A	2,250,000	5	6.32	6.32
Sandvik	1,171,900	291	0.45	0.45
SCA	3,618,009	1,064	1.54	2.76
A	1,432,500			
B	2,185,509			
SEB A	2,807,400	297	0.40	0.41
Seco Tools B	219,000	60	0.76	0.20
Securitas B	9,176,609	890	2.51	1.77
SHB ²⁾	14,932,985	2,191	2.09	2.14
A	13,944,985			
B	988,000			
Skandia	5,111,808	134	0.50	0.50
Skanska	5,195,544	330	1.24	0.90
A	116,000			
B	5,079,544			
SKF ²⁾	3,642,100	1,013	3.20	2.66
A	506,000			
B	3,136,100			
SSAB	2,175,800	277	2.16	2.26
A	1,695,800			
B	480,000			

¹⁾ Holdings acquired through foreign stock exchanges have been included when calculating percentages of share capital and voting capital.

²⁾ Included in Swedish and global equity portfolios.

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Company, 31 Dec 2003	Number	Fair value SEK million	Percentage of	
			share capital	voting capital
Swedish Match ²⁾	11,150,400	819	3.17	3.17
Tele 2 B	3,792,150	1,456	2.57	1.11
Teleca B	2,940,210	100	4.81	4.39
Telelogic	9,534,000	110	4.66	4.66
TeliaSonera ²⁾	48,817,000	1,836	1.04	1.04
Transcom	3,335,000	97	4.76	1.99
A	700,000			
B	2,635,000			
Volvo ²⁾	7,484,795	1,616	1.70	2.26
A	3,417,427			
B	4,067,368			
Total fair value, listed Swedish equities, internally managed		29,208		
Total acquisition value, listed Swedish equities, internally managed		31,610		

¹⁾ Holdings acquired through foreign stock exchanges have been included when calculating percentages of share capital and voting capital.

²⁾ Included in Swedish and global equity portfolios.

Foreign listed shares, internally managed

All foreign holdings correspond to less than 1% of the share capital and voting capital.

France

Company, 31 Dec 2003	Number	Fair value, SEK million
AXA	948,000	146
BNP Paribas	618,800	280
Credit Agricole	1,024,968	176
France Telecom	400,000	82
JC Decaux	1,868,500	220
L'Oréal	532,856	314
Lagardère	583,999	243
Pernod-Ricard	74,880	60
Peugeot Citroën	496,600	182
Sanofi-Synthelabo	226,200	123
Suez	326,000	47
Total	288,200	386
Total fair value		2,259
Total acquisition value		2,093

Italy

Company, 31 Dec 2003	Number	Fair value, SEK million
Enel	3,383,200	166
Eni	1,372,200	186
Telecom Italia	7,700,000	164
Telecom Italia Mobile	2,550,000	100
UniCredito	2,289,800	89
Total fair value		705
Total acquisition value		732

Canada

Company, 31 Dec 2003	Number	Fair value, SEK million
EnCana	304,300	86
Total fair value		86
Total acquisition value		87

Netherlands

Company, 31 Dec 2003	Number	Fair value, SEK million
Fortis	862,700	125
KPN	2,850,000	158
Royal Dutch Petroleum	844,040	320
TPG	1,220,200	206
Total fair value		809
Total acquisition value		939

Switzerland

Company, 31 Dec 2003	Number	Fair value, SEK million
Logitech International	45,000	14
Nestlé	271,242	487
Novartis	278,695	91
Roche	612,600	445
Swiss Re	369,900	180
UBS	686,500	338
Zurich Financial Services	132,500	137
Total fair value		1,692
Total acquisition value		1,699

Spain

Company, 31 Dec 2003	Number	Fair value, SEK million
BBVA	1,062,400	105
Endesa	1,384,200	192
Iberdrola	1,039,600	148
Repsol YPF	474,700	67
BSCH	3,086,300	263
Telefonica	510,000	54
Total fair value		829
Total acquisition value		702

UK

Company, 31 Dec 2003	Number	Fair value SEK million
AstraZeneca	1,892,154	653
Aviva	1,869,600	118
BHP Billiton	2,410,600	152
BOC Group	1,013,900	111
BP	7,438,000	434
BT Group	8,000,000	194
Diageo	3,318,321	314
GlaxoSmithKline	2,553,670	421
HBOS	2,868,800	267
HSBC Holdings	4,870,500	551
Kingfisher	9,285,692	333
National Grid Transco	1,333,400	69
Reckitt Benckiser	499,104	81
Rio Tinto	1,016,800	202
Royal Bank of Scotland	1,732,800	367
Shell	2,288,100	122
Smith & Nephew	1,108,050	67
Smiths Group	1,592,600	136
Tesco	6,155,000	204
Vodafone Group	15,500,000	277
Total fair value		5,073
Total acquisition value		5,384

Germany

Company, 31 Dec 2003	Number	Fair value SEK million
BASF	445,000	180
BMW	325,020	109
E.ON	530,900	249
MAN	116,300	25
RWE	667,900	190
Siemens	450,600	260
Total fair value		1,013
Total acquisition value		960

USA

Company, 31 Dec 2003	Number	Fair value SEK million
Abbott Laboratories	616,850	207
Accenture A	1,820,000	345
AIG	917,000	437
Alcoa	552,000	151
Allstate	632,400	196
Altria	427,000	167
American Express	450,600	156
Amgen	567,200	252
Anadarko Petroleum	103,100	38
AT&T Wireless Services	2,600,000	150
Automatic Data Processing	820,000	234
Bank of America	658,500	381
Bank of New York	903,300	215
BellSouth	280,000	57
Biovail	436,800	68
Boeing	200,900	61
Capital One Financial	335,300	148
Caremark Rx	142,800	26
Charter One Financial	650,700	162
ChevronTexaco	535,800	333
Cisco Systems	1,460,000	255
Citigroup	2,239,200	782
Coca-Cola	537,000	196
Colgate-Palmolive	559,000	201

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Company, 31 Dec 2003	Number	Fair value SEK million
Commerce Bancorp	370,900	141
ConocoPhillips	248,000	117
Countrywide Financial	236,267	129
CVS	926,000	241
Danaher	348,500	230
Deere	226,600	106
Dominion Resources	402,900	185
Dow Chemical	757,000	227
Du Pont	653,400	216
Duke Energy	446,900	66
EchoStar Communications	600,000	147
Electronic Arts	988,000	340
Eli Lilly	1,126,200	570
Emerson Electric	455,100	212
Exxon Mobil	2,531,200	747
Fannie Mae	488,500	264
FedEx	346,800	169
First Data	1,600,000	473
General Electric	3,925,200	875
Grainger	269,300	92
Hewlett-Packard	350,000	58
Home Depot	1,705,451	436
IBM	1,233,500	823
Illinois Tool Works	435,500	263
Ingersoll-Rand	498,400	244
Intel	310,000	72
International Paper	479,500	149
Johnson & Johnson	256,500	95
J.P. Morgan Chase	363,300	96
KB HOME	539,000	281
Liz Claiborne	843,700	215
Mattel	1,705,000	236
MBNA	507,350	91
McGraw-Hill	560,400	282
Medtronic	468,700	164
Merrill Lynch	730,200	308
Microsoft	5,395,000	1,069
Morgan Stanley	544,300	227
3M	312,800	191
Occidental Petroleum	323,800	98
Oracle	3,643,000	346
PepsiCo	352,000	118
Pfizer	2,661,600	677
Procter & Gamble	302,000	217
Prudential Financial	601,800	181
SBC Communications	1,700,000	319
Symantec	1,230,000	305
Target	896,000	248
Time Warner	704,200	91
Travelers Property Casualty	1,110,000	134
Tyco International	956,800	183
UnitedHealth Group	224,000	94
U.S. Bancorp	1,569,200	336
Verizon Communications	1,370,000	346
Viacom B	474,700	152
Wachovia	1,030,400	346
Walgreen	1,172,000	307
Wal-Mart Stores	865,000	330
Wells Fargo	971,500	412
Weyerhaeuser	329,100	152
Wyeth	2,063,191	630
Total fair value		22,087
Total acquisition value		25,268
Total fair value, listed foreign equities, internally managed		34,553
Total acquisition value, listed foreign equities, internally managed		37,864

Participations in foreign index funds

Index fund, 31 Dec 2003	Number	Fair value SEK million
State Street Europe Enhanced Fund	2,103,491	2,064
State Street MSCI Noth America ex-REIT Enhanced Fund	50,096,203	3,789
Merrill Lynch World Index Fund	74,452,385	5,012
Total fair value, participations in foreign index funds		10,865
Total acquisition value, participations in foreign index funds		12,844

Shares and participations, unlisted

Unlisted Swedish shares

Company, 31 Dec 2003	Corp. reg. no.	Number	Acquisition value, SEK million	Percentage of share capital	Percentage of voting capital
AP Fastigheter Holding AB ¹⁾	556650-4196	1,000,000	3,221	25.0	25.0
Innoventus AB	556602-2728	2,100	1	15.0	15.0
Total acquisition value			3,222		
Total fair value			3,222		

¹⁾ The company, whose name is in the process of being changed, is owned equally by the First, Second, Third and Fourth Swedish National Pension Funds and, as of December 2003, owns AP Fastigheter AB. An injection of SEK 3,121 million in capital by shareholders is included in the acquisition value.

Participations in Swedish limited partnerships

Company, 31 Dec 2003		Acquisition value, SEK million	Percentage of invested capital
Accent Equity 2003 KB	969694-7739	10	20.6
BrainHeart Capital KB	969674-4102	175	21.5 ¹⁾
HealthCap Annex Fund I - II KB	969690-2049	22	19.8
HealthCap IV KB	969683-6650	11	13.3 ¹⁾
Innoventus Life Science I KB	969677-8530	14	16.3
Northern Europe Private Equity KB (EQT 3)	969670-3405	55	10.3 ¹⁾
Total acquisition value		287	
Total fair value		258	

¹⁾ The Fourth Swedish National Pension Fund's share of the total commitments in BrainHeart, HealthCap IV and EQT 3 is 19.4%, 1.7% and 0.5% respectively.

Participations in foreign limited partnerships

UK

Company, 31 Dec 2003	Acquisition value, SEK million	Percentage of invested capital
European Strategic Partners II	25	4.1
Total acquisition value	25	
Total fair value	25	
Total fair value, unlisted shares and participations	3,505	
Total acquisition value, unlisted shares and participations	3,534	



Birgit Friggebo



Karl-Olof Hammarkvist



Göran Johnsson



Marianne Nivert



Sture Nordh



Inga Persson



Ilmar Reepalu



Ulla Reinius



Carl Wilhelm Ros

Board of Directors and Auditors

Board of Directors

Birgit Friggebo

Year of birth 1941.

Chairman since 2000.

Other assignments: Chairman of the University College of Opera.

Member of the Board of the National Courts Administration.

Karl-Olof Hammarkvist

Professor. Year of birth 1945. Deputy Chairman since 2000.

Other assignments: Member of the Board of Stiftelsen för Finansforskning, Försäkringsaktiebolaget Skandia and Kapitalmarknadsgruppen.

Göran Johnsson

Chairman of the Swedish Metalworkers' Union.

Year of birth 1945. Member of the Board since 1997, Deputy Member of the Board 1993-1996.

Other assignments: Deputy Chairman of the European Metalworkers' Federation and Nordic Metal.

Member of the Board of FöreningsSparbanken, the Swedish Foundation for Strategic Research, the Swedish Trade Union Confederation and Kvinnoforum.

Deputy Member of the Board of the Swedish Social

Democratic Party and its Executive Committee.

Marianne Nivert

Director. Year of birth 1940. Member of the Board since 2000.

Other assignments: Chairman of Posten AB.

Member of the Board of SSAB, Beijer & Alma AB, Huddinge Universitetssjukhus AB, Lennart Wallenstam Byggnads AB, Stiftelsen Chalmers Tekniska Högskola AB, Studieförbundet Näringsliv, Samhälle AB and Swedish Exportkredit AB.

Sture Nordh

Chairman of the Swedish Confederation of Professional Employees. Year of birth 1952.

Member of the Board since 1999.

Other assignments: Member of the Board of Vinnova, Folksam Liv, the Swedish National Labour Market Administration and the European Trade Union Confederation.

Inga Persson

Professor. Year of birth 1945. Member of the Board since 2000.

Other assignments: Pro-vice-chancellor and Member of the Board of the School of Economics and Management, Lund University.

Ilmar Reepalu

Chairman of Malmö City Executive Board. Year of birth 1943. Member of the Board since 2000.

Other assignments: Chairman of the Swedish Association of Local Authorities.

Member of the Board of Sydkraft AB, Förenade kommunföretag AB, Att Veta AB and Position

Skåne AB.

Ulla Reinius

Director of Finansfakta R AB. Year of birth in 1937. Member of the Board since 2000.

Other assignments: Member of the Board of the Royal Swedish Opera, INCA AB and the KPA Ethical Board.

Carl Wilhelm Ros

Director. Year of birth 1941. Member of the Board since 1994.

Other assignments: Chairman of Dahl International, Martin Olsson AB and Catella Property AB.

Member of the Board of INGKA (IKEA) Holding, Bonnier AB, SEB, Camfil AB, LKAB and Profil-Gruppen.

Auditors

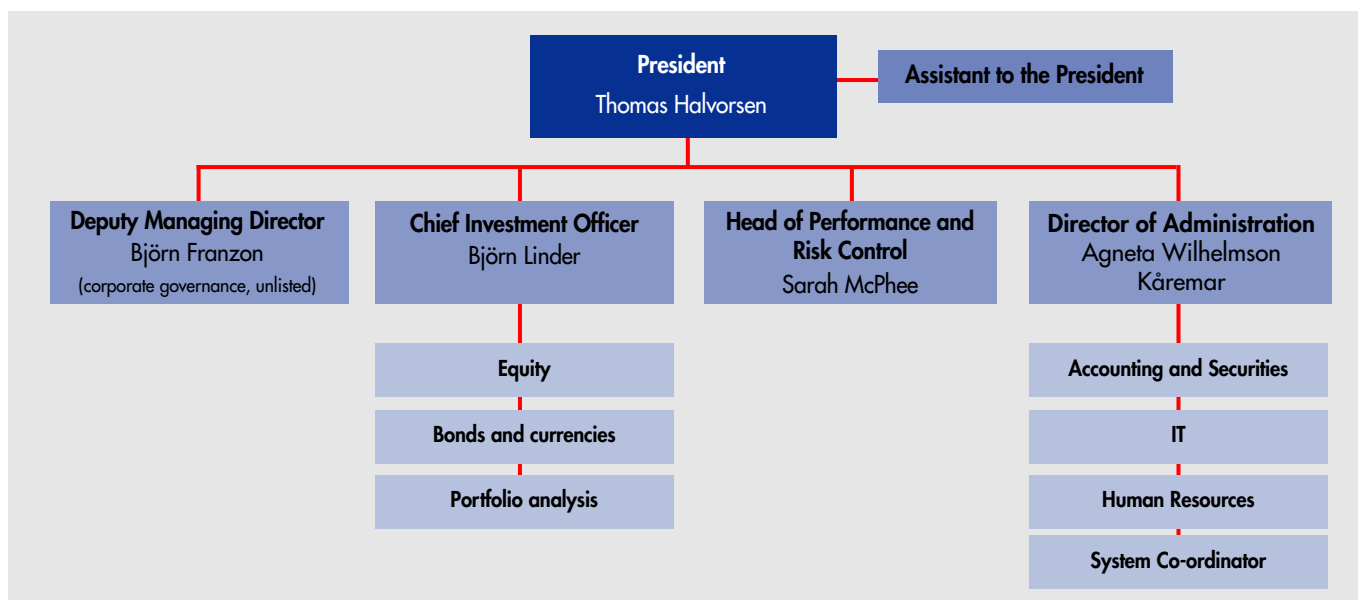
Anna Hesselman

Authorised Public Accountant
Öhrlings PricewaterhouseCoopers

Anders Bäckström

Authorised Public Accountant
KPMG

Organisation and Executive Management Committee



Executive management committee:

Björn Franzon,
Deputy Managing Director

Sarah McPhee
Head of Performance
and Risk Control
until February 2004

Thomas Halvorsen
President

Björn Linder
Chief Investment Officer

Agneta Wilhelmson Kåremar
Director of Administration

Definitions

Absolute value at risk (VAR)

A measure of expected risk of loss based on the historic standard deviation in portfolio return. Absolute VAR is calculated on a portfolio's total return, while relative VAR is calculated on a portfolio's active return.

Active management

Asset management via a portfolio composed differently from the index in an effort to secure a higher return.

Active return

Difference between the return on a portfolio compared to the return on its benchmark or reference index. Is synonymous with relative return.

Active risk

Risk that arises as a result of active management. Is defined as the standard deviation of the difference between fair return and index return, (i.e. the standard deviation of the active return) and also known as tracking error.

Asset liability modelling

Analysis model used for compiling the Fund's strategic portfolio. An ALM analysis is premised on the Fund's long-term undertakings and the expected return and risk of different asset categories. The model simulates theoretical portfolios to provide a basis for selecting a strategic portfolio that provides the best possible combination of expected return and risk, and thus meets the Fund's pension commitments.

Automatic balancing

A mechanism that reduces pensions when pension liabilities exceed pension assets, see Balance figure.

Benchmark index

Series of returns to which the Fund's total return and risk is compared. Should mirror the strategic portfolio as closely as possible.

Balancing

See Automatic balancing

Balance ratio

The total assets of the national pension scheme (excluding premium pensions) divided by pension liabilities. It is an estimate of the national pension scheme's financial balance. If the balance ratio falls below 1.0 the automatic balancing mechanism is triggered and pension disbursements are reduced.

Beta value

Denotes the portfolio's propensity to rise or fall when the benchmark or reference index rises or falls. In technical terms, it is the slope of a simple linear regression line between the index and portfolio.

Buffer fund

The function of the First-Fourth and Sixth National Swedish Pension Funds. Their purpose is to compensate for temporary deficits in pension contributions in relation to pension disbursements and also to maintain the value of pension assets in relation to pension liabilities.

Contribution income

Value of contributions to the national pension scheme (excluding the premium reserve pension scheme). Calculated by multiplying a three-year average of contributions by the "turnover period", which measures the average time between acquired pension entitlement and disbursed pension payment.

Corporate governance

This concept designates matters related to ownership issues.

Country risk

A risk arising from differentials in yield spreads between countries in the context of an international bond portfolio.

Credit risk

Risk that a counterparty wholly or partly cannot fulfil his undertakings due to financial incapacity.

Currency exposure

Denotes the proportion of the portfolio exposed to currencies other than Swedish kronor. Unless otherwise stated, currency exposure includes currency hedging instruments.

Currency risk

Change in value of the portfolio as a result of shifts in foreign exchange rates.

Derivatives

Collective term for financial instruments whose value is linked to the value of an underlying instrument, e.g. futures.

Duration

Approximate measure of interest rate risk. Measures the average outstanding life of all future cash flows (coupon yields and final maturity) for a bond or portfolio of bonds. Is also known as MacCauley Duration.

Enhanced index management

Index management with a somewhat higher risk mandate than passive management.

Fixed income portfolio

Comprised of fixed income assets including bank deposits, interest rate derivatives and currency futures tied to fixed income assets. All these instruments are included when calculating performance. Foreign securities in the Fund's reference index are hedged in SEK.

Fundamental analysis

Analysis aimed at predicting a company's future value. Is based primarily on information about a company's executive management, strategy and financial performance and status. Together, these form the basis for an assessment.

Global equity portfolio

Consists of equities and equity-related instruments listed on global stock exchanges included in the MSCI World index. (Note that a share listed on the Swedish stock exchange may be included in both the Swedish and global equity portfolios and such shares are allocated to the intended portfolio at time of purchase.) Also includes index funds and any deposits and foreign exchange forward contracts allied to the portfolio. The MSCI World DNI is the reference index and for this reason foreign exchange forward contracts are excluded when comparing performance.

Handelsbanken Markets Bonds Index

Swedish Handelsbanken's return index for Swedish fixed income bonds.

Hedging

The removal of currency risk by swapping exposure to foreign currencies for Swedish kronor using foreign exchange forward contracts.

Import basket

Basket of currencies weighted in relation to their respective share of Swedish import revenues.

Information ratio

A measure of risk-adjusted return. Measured as a portfolio's active return compared to its active risk.

Investment assets

Used in the annual report to denote the Fund's total capital under management. In the balance sheet, however, investment assets are defined in accordance with generally accepted accounting principles. These require that buy-backs, liquid assets and derivatives with negative market value are reported under other items in the balance sheet and not as investment assets.

Interest rate risk

Measurement of the change in value of a fixed income portfolio after a specified change (often 1%) in market interest rates.

Investment grade

Term to describe borrowers assigned an A-rating (A, AA, AAA or equivalent) or triple-B-rating (BBB or equivalent).

Net contributions

Difference between annual pension contributions to the national pension scheme and disbursed pensions.

Legal risk

Risk of unforeseen losses arising because of legal errors in agreements and contracts, e.g. that an agreement proves void or less advantageous than intended.

“Leo Act”

A Swedish statute (SFS 1987:464) requiring that certain decisions concerning share-related remuneration or the transfer of shares to senior managers are taken by the annual general meeting and that such decisions are seconded by at least nine-tenths of the voting capital and shareholders represented at the AGM.

Liquidity risk

Risk that a financial instrument cannot be divested within a reasonable period without significantly affecting its pricing.

Market risk

Change in the value of a financial instrument or portfolio in connection with changes in interest rates, currency rates or share prices.

Merrill Lynch GBI

The Merrill Lynch Global Bond Index is a return index for sovereign bonds and non-sovereign bonds in their respective markets. It is used as the reference index for the foreign part of the nominal fixed income portfolio.

MSCI World DNI

The Morgan Stanley Capital International World Developed Markets Daily Net Index. It is the reference index for the Fund's global equity portfolio. It charts global market performance, including dividends.

Net contributions

Difference between annual pension contributions to the national pension scheme and disbursed pensions.

Non-sovereign bond

Bond carrying a higher credit risk than a sovereign bond, for instance a corporate bond.

Normal portfolio

See Strategic portfolio.

Operational risks

Collective term for risk of losses arising through operational disruptions, e.g. human error, deficient systems, inferior instructions or routines, and shortcomings in business agreements.

Passive management

Portfolio management where portfolio holdings mirror a chosen index in order to match the index return.

Pension liability

The financial commitment to current pensioners plus total pension entitlements accumulated by those in work at year-end.

Reference index

Index series against which a portfolio's return and risk is compared, e.g. the MSCI World DNI or SIX Return Index.

Return

Time-weighted return excluding asset management costs, calculated on a daily basis and assuming that all transactions are carried out at the end of the day. Is used when reporting the financial performance of the portfolio and sub-portfolios.

Risk-adjusted return

Return in relation to the volatility/risk of the investment. If two portfolios offer the same return but differ in volatility, the one with the lower volatility offers the higher risk-adjusted return. This is measured as an information or Sharpe ratio.

Sectoral allocation

Active overweighting or underweighting in different equity market sectors relative to the index in order to achieve an excess return.

Semi-passive management

See Enhanced index management.

Sharpe ratio

A measure of risk-adjusted return. Calculated as portfolio return minus risk-free interest and divided by portfolio volatility measured as the standard deviation.

SIX Return Index

Reference index for the Fund's Swedish equity portfolio. Charts the market performance of companies listed on Stockholmsbörsen's A and O lists, including dividends.

Strategic portfolio

The distribution of assets deemed to correspond best to the Fund's long-term objectives and targets. Its composition is determined by the Fund's Board of Directors following an ALM analysis. The strategic portfolio thus determines the benchmark index against which the Fund's risk and return are compared. It is used synonymously with the term *normal portfolio*, which was used in previous annual reports.

Swedish equity portfolio

Consists of equities and equity-related instruments listed on the Swedish stock market and unlisted Swedish shares and participations with the exception of shares in AP Fastigheter. The reference index is the SIX Return Index.

Tactical asset allocation

Active position-taking between different asset categories in order to outperform the index.

Tracking error

See Active risk.

Value at risk

See Absolute value at risk.

Volatility

Risk yardstick that corresponds to the measured standard deviation of the return on an asset. It shows the extent to which returns vary.

Yield curve

Graph created by plotting the market interest rates of a particular class of security according to maturity.



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