

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 state-owned 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 on investment.

Board of Directors

The Fourth Swedish National Pension Fund's Board of Directors consists of nine permanent 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 National Pension Funds, came into force on 1 January 2001 and are as follows:

- Investments are permitted in all forms of capital market instruments that are listed and liquid, except those relating to commodities.
- 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 percentage points 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.
- Equity holdings in listed Swedish companies 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.
- Investments in unlisted securities may not exceed 5% of the Fund's assets. Such investments must be made indirectly via venture capital firms or similar channels.
- At least 10% of the Fund's assets must be under external management.

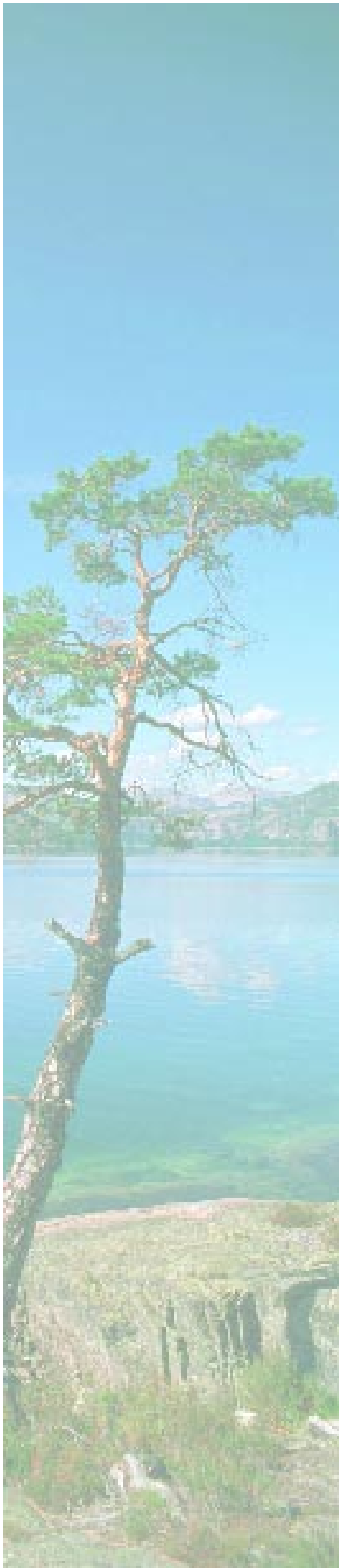
Information

For further information, visit the Fund's 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
- The Fund's Asset Liability Modelling Analysis 2003.

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 at www.forsakringskassan.se.



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2004 in Brief

- The Fund's market value net income totalled SEK 14.3 billion (19.3).
- Fund capital, calculated at market value and adjusted for transfers, rose from SEK 135.5 billion to SEK 151.4 billion. This figure equals the market value of the Fund's investment assets. The change in fund capital consisted of net profit, net transfers of SEK 1.4 billion from the national pension scheme and transfers of SEK 0.3 billion from special asset management funds.
- The return on investment assets in 2004 totalled 10.6%, compared to 10.9% for the benchmark index.
- The global equity portfolio generated a return of 6.7%, compared to 5.8% for the reference index.
- The return on the Swedish equity portfolio totalled 18.1%, an underperformance of 2.7 percentage points against the reference index.
- Fixed income asset management posted a return of 7.0%, outperforming the reference index by 0.9 percentage points.



President's Comments

The Fourth Swedish National Pension Fund has now been in operation for 31 years, the last four of which have been under the aegis of Sweden's new retirement pension system. In 2004, the market value of fund capital rose from SEK 135.5 billion to SEK 151.4 billion after net payments to the national pension scheme and transfers from special asset management funds totalling SEK 1.7 billion. As a result, we were able to report a net profit of SEK 14.3 billion for the financial year, including unrealised changes in value. Together with the previous year's net profit of SEK 19.3 billion, this represents a remarkable recovery in fund capital. Total return on investment assets amounted to 10.6%, compared to 10.9% for the Fund's benchmark index.

Our total return was highly satisfactory in 2004. However, the asset management return compared to the benchmark index was less pleasing, especially as our target is to outperform the index by 0.7 percentage points each year. Our performance in asset management produced three strongly positive outcomes but also one major disappointment at sub-portfolio level. Fixed income management performed most creditably and once again surpassed its active return target. Returns from these operations have been solid for quite some time and the management group has therefore been assigned a wider mandate. Active currency management also made a promising start, generating an active return of three basis points measured against total investment assets. Equity management also performed well, at least in terms of global equities. Internally managed global equities exceeded their target level for the first time. The big disappointment was Swedish equities, which underperformed substantially against the reference index. We can nevertheless draw a little comfort from the fact that few large Swedish equity managers performed strongly in 2004.

In the context of Sweden's retirement pension scheme, the most positive aspect of 2004 was the strong recovery of the system after two successive years of strong absolute returns. The Fourth Swedish National Pension Fund, together with its fellow buffer funds, can today show a positive – if modest

– return over the four years since the reform of the pension system. It should be remembered, too, that the first two years coincided with the heaviest stock market falls in living memory. Even so, the fact remains that returns up to now equate to approximately half of a normal year's returns, which means that three-and-a-half years' returns remain to be worked back. At today's inflation rate, this backlog corresponds to just over 25% of current fund capital. Assuming the other buffer funds show similar figures, this represents more than two percentage points in terms of the national pension scheme's balance figure, which is used to determine any need for pension disbursement reductions.

Though the speed of the recovery has surprised me, one should not be too over-optimistic about the system's financial strength in the short term. My own expectations of financial market trends over the coming five years lead me to believe that we have a tough period in front of us. Normalised interest rate levels mean that returns on fixed income markets are likely to be relatively low in the coming year. At the same time, demands for higher returns from equity markets are putting pressure on valuations at a time when earnings (measured as a percentage of GDP) appear higher than normal. Besides this, the activity rate – which is crucial to the system's short-term financial status – seems to be showing a negative trend at present, not least because of higher numbers of people entering premature retirement. It would surprise me greatly in current circumstances if the government decided to order further capital transfers from the pension system to the Treasury. Though this prospect was raised in 2004, the decision was deferred. The safety margin in the system is only 1% or so at this point in time and an early activation of the balancing mechanism would not only reduce pensions but seriously damage public confidence in the system.

I have followed the debate about the management of pension system assets and been rather surprised to hear the buffer funds being criticised for being too alike. I would have been truly surprised if the funds had been further apart



than the over five percentage points that separate them on the most important investment strategy criterion, namely their weightings of equities contra fixed income securities in their strategic portfolios. All four funds have been assigned the same task and all have naturally done their utmost to apply the same generally accepted methods and draw on internal and external expertise to pursue the modern capital markets doctrine laid out in the ALM analysis. Even more surprisingly, the critics have not realised how different the funds actually are in their approaches to different asset categories. For example, the Swedish equity weighting varies

markedly between the funds, while we take a completely different view on real estate and index-linked bonds compared to the other funds. For the moment at least, the funds also differ on their approaches to investment in emerging markets and private equity and maintain quite different ratios of capital under internal and external management.

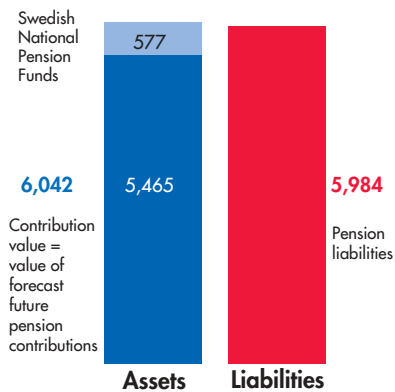
In conclusion, I would like to highlight two of the topics covered in detail in this annual report. Given our excellent performance in fixed income management last year, it feels appropriate that we provide a detailed insight into this area of our operations on pages 10-13. I would also draw readers' attention to the section on corporate governance on pages 15-17, particularly the paragraphs about the new Swedish Code of Corporate Governance.

The code working group presented its proposals in April 2004 and its first draft was a visionary and detailed document. Following an intensive and highly constructive consultation round, the group published a final report in December. The consultation process showed laudable sensitivity to the views of the capital market's various stakeholders yet still managed to preserve the key principles at the heart of the code. Sweden now has a corporate governance code on the international cutting edge. Code group chairman Erik Åsbrink, along with code group members and other staff, deserve applause for their efforts. I am firmly convinced that the code will be an asset to the Swedish corporate sector in the years to come.

Stockholm, February 2005

Thomas Halvorsen

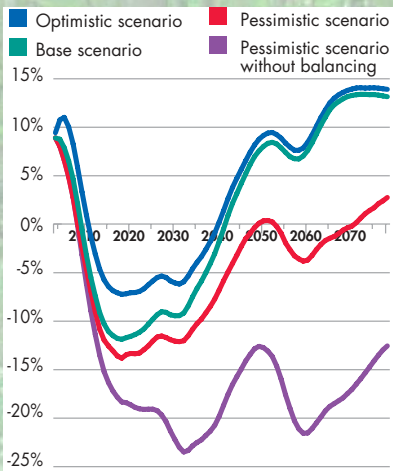
Financial Status of the National Pension Scheme 2003, SEK billion



Source: National Pension Scheme Annual Report, 2003

The assets of the Swedish National Pension Funds constitute only about 10% of the pension system's balance sheet.

Net Contributions as a % of the Contribution Base



Source: National Pension Scheme Annual Report, 2003

The graph shows the Swedish Insurance Office's forecast for net contributions to the national pension scheme (contribution income minus pension liabilities) as a percentage of contribution income. Net contributions become negative in about 2010 and remain so until 2040, in both the basic and optimistic scenarios. In the pessimistic scenario, net contributions are negative until about 2070. The lowest curve shows the pattern for net contributions in the pessimistic scenario if no balancing occurs to reduce pension payments. See also Swedish Pension System Annual Report 2003, page 42.

Asset Management Process

The Fund's asset management activities are based on an asset liability modelling (ALM) analysis, which evaluates the undertakings and income of the national pension scheme. ALM analysis aims to determine which combination of buffer fund assets best serves the long-term interests of the national pension system, based on a low level of risk. The chosen asset combination serves as the Fund's long-term strategic portfolio. In this section we describe the most important findings of the ALM study, the structure of the strategic portfolio and the Fund's active return targets and risk mandates. Our investment philosophy is explained on pages 10-13, with a special focus on fixed income management.

Asset liability modelling

Together with the First, Second, Third and Sixth Swedish National Pension Funds, the Fund acts as a buffer for a national pension scheme in which general pension contributions finance the major share of current pension disbursements. The buffer funds correspond to approximately 10% of total pension liabilities (see chart, Financial Status of the National Pension Scheme 2003).

If liabilities are shown to exceed assets then a balancing mechanism reduces disbursed pensions. In the next 20 to 30 years the greatest threat to pension levels is posed by

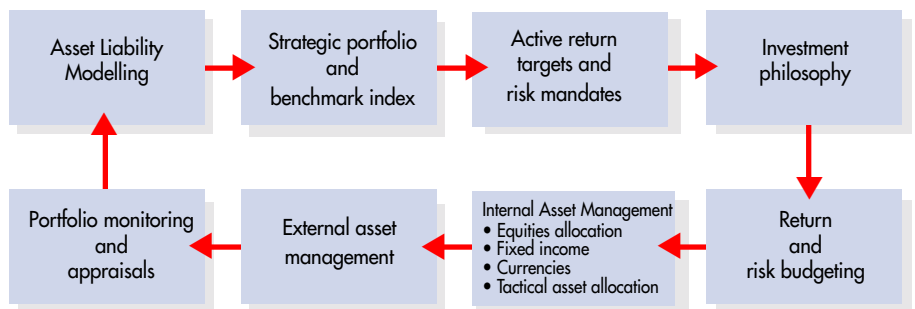
a fall in the activity rate. In the longer term, unfavourable demographic trends are post the biggest risk, followed by low growth and a weak return from the buffer funds.

Forecasts by the Swedish Insurance Office suggest pension disbursements will exceed contributions in the next few decades, and these deficits are not expected to disappear until the 2040s (see chart, Net Contributions as a % of the Contribution Base). The role of the buffer funds is to plug as much of this deficit as possible, starting in a few years' time.

Once every three years the Fourth Swedish National Pension Fund performs a comprehensive ALM analysis, which it updates and revises in intervening years. The most recent analysis was performed in 2003. For further details see the Annual Report 2003 or the Fund's website at (www.ap4.se under the "How We Work" section).

For the strategic portfolio, the prime conclusion of the ALM analysis was that a high weighting in equities (approximately 60% of investment assets) among the buffer funds is beneficial for the pension system. The buffer funds account for some 10% of pension system assets, while the remainder (in the form of forecast future contributions) can be likened to index-linked bonds. Considering this, the ALM analysis concluded that the pension scheme should hold about 6% of its assets in equities.

Asset Management Process



The above diagram shows all the steps in the Fourth Swedish National Pension Fund's asset management process. The first six steps are described and discussed on pp 6-13.

The analysis noted that equities have a natural advantage since they are expected to generate higher returns than other asset categories. It also observed, somewhat more surprisingly, that volatility is beneficial for the pension system. We examined these two conclusions in more detail in 2004.

The Fund made a fresh assessment of forecast returns over the next five years using a range of scenarios and current market valuations for equities and fixed income securities. The assessment drew the conclusion that equities would generate higher returns than fixed income bonds over a five-year timeframe but that the equity risk premium of 2.5 percentage points on which the ALM analysis was based would probably turn out to be somewhat lower. Returns on fixed income bonds were also forecast to be slightly below the 5.25% level assumed in the ALM analysis.

These new assessments did not affect the composition of the strategic portfolio but nevertheless confirmed the probability that financial market returns will be insufficient to offset the deficits in the pension system forecast by the Swedish Insurance Office. Thus, there remains a considerable risk that pensions will have to be reduced somewhat in the years ahead. According to the rules, this should occur when the balance figure (the ratio between pension system assets and liabilities) falls below 1.0000. The balance figure for 2005 has been estimated by the Swedish Insurance Office at 1.0097, only marginally above the level that would precipitate pension reductions.

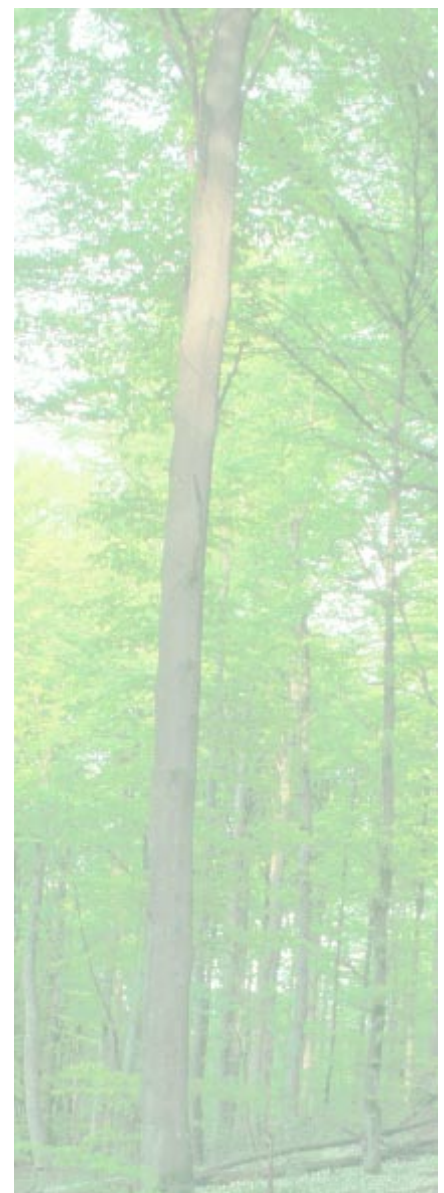
The new assessments are also relevant in the light of the negative historical covariance between the activity rate and equity returns – a covariance that accentuates the beneficial effect of equity volatility on the pension system. The Fund's analysis suggests that this can be partly traced to swings in the krona's exchange rate and, most importantly, to the devaluations of recent decades. A free-floating krona would not necessarily break the negative correla-

tion, even though the exchange rate would probably not fluctuate as widely as during Sweden's so-called devaluation policy era. Hence, a reasonable way to manage the uncertainty attached to future correlations when simulating future pension system scenarios is to rely instead on historical links and to perform sensitivity analysis. This was the approach taken in the 2003 ALM study. Simulations based on the alternative assumption of no covariance between the activity rate and equity returns indicate no perceptible effect on the composition of the strategic portfolio.

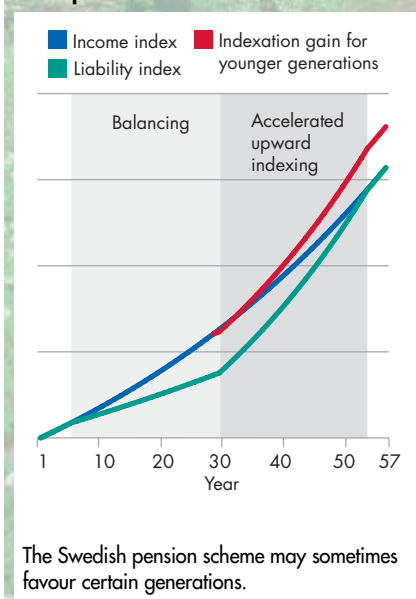
The Fund also analysed differences in projected pension outcomes between generations. Every tenth calendar-year age-group was examined, starting with people born in 1955 (the first group to fall entirely within the scope of the new pension system). Outcomes were measured for all groups when they reached pensionable age of 65 and the analysis showed that different generations may be differently affected by the balancing rules intended to ensure the system's financial stability. The adjacent diagram outlines how the rules function, but note that it does not constitute a forecast.

When the balance ratio dips below 1.0000 the balancing mechanism is deployed. This means that pension values are not fully guaranteed but are indexed upward according to a liabilities index rather than an income index. When the pension system's financial status improves, the reduction of pension disbursements can be reversed by faster upward re-rating of the liabilities index compared to the income index. Accelerated upward indexing of this type is performed until the liabilities index reaches parity with the income index (see diagram).

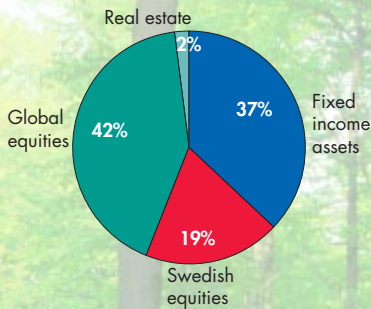
The Fund's simulations demonstrate that the greatest beneficiaries of the pension scheme are younger people, for example those born in 1985 and 1995, since they receive higher pensions than they would have received without balancing. This is



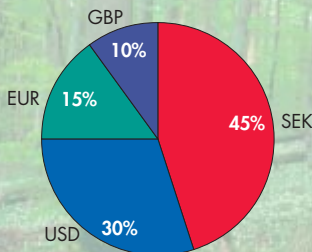
Principles for Pension Indexation



Strategic Portfolio, 2004 and 2005



Currency Exposure of Reference Index, Fixed Income Portfolio, 2004 and 2005



because they gain the benefit of accelerated upward indexing without incurring the full effect of earlier balancing. At the same time, the simulations indicate that differentials between generations are likely to be moderate. People born in 1955 and 1965 are not forecast to incur either a negative or positive effect, while those born in 1985 and 1995 are forecast to receive pensions that are about 1% higher due to accelerated upward re-rating of the liability index.

In 2004 the Fund completed a new analysis of its currency strategy that included an improved modelling of activity rate trends. A range of strategic currency baskets was tested, with total currency exposure of 0-40% in 10% steps. The primary finding was the absence of any divergence in projected return between the currency strategies tested, while risk levels were also relatively low.

Econometric studies conducted by the Riksbank suggest that import price changes have a 20% effect on Swedish inflation, even though imports account for 30% of Swedish consumption. Based on the Fund's analysis and the Riksbank study, a new currency strategy has been agreed under which portfolio currency exposure will be restricted to 20% and apportioned between Sweden's main import currencies.

Strategic portfolio and benchmark index

The revised ALM analysis gave no cause to change the strategic portfolio, which in 2005 will be configured as follows: 61% equities (19% Swedish and 42% global equities), 37% fixed income assets and 2% real estate (see chart, left).

For fixed income securities, the Fund's currency exposure for 2005 is: 45% SEK, 30% USD, 15% EUR, and 10% GBP (see chart). The Fund has opted to invest a relatively large portion of the fixed income portfolio in non-sovereign bonds with a high credit rating since these are expected to generate higher yields.

The Fund's currency strategy is based on the portfolio's currency exposure being allocated in accordance with the spread between Sweden's key import currencies. The US dollar weighting is being increased to reflect Sweden's dollar-based raw material imports. The idea is that the Fund's currency return should compensate for the effects of exchange rate swings on inflation, hence helping to preserve the purchasing power of future pensions.

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 in 2004 and hedged in 2005 for global equities; and the Merrill Lynch GBI (hedged) and Handelsbanken Markets Bonds Index for foreign bonds and Swedish bonds respectively. For real estate, the relevant indices are the return on investment from AP Fastigheter (for 2004) and the Swedish Real Estate Index (for 2005). The Fund's currency exposure and management thereof is measured against a custom-built import basket index (see table on next page).

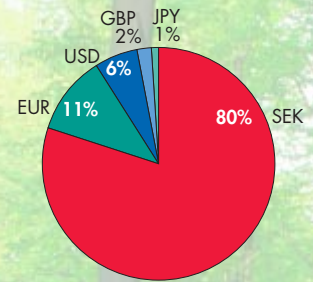
Active return targets and risk mandates

The Fund's asset management returns are compared to a weighted benchmark index comprised of the reference indices for each asset category. The Board has set the following targets and risk mandates for the Fund's asset management activities in 2005:

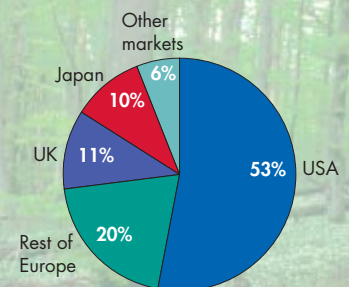
The Fund over a two-year period shall achieve a return that exceeds the chosen benchmark index by 1.35 percentage points (which equates to an active return of SEK 2 billion). The active risk of the entire portfolio shall not exceed 4.0% on a permanent basis (see table below). The deviation mandates from the strategic portfolio set by the board are +8/-10 percentage points for equities, +10/-7 percentage points for fixed income assets and +1/-1 percentage points for real estate. The Fund's risk-adjusted return, measured as an information ratio, shall on average exceed 0.3.

The key active return target of course relates to the total portfolio. The Fund also has annual subsidiary targets for individual asset categories. The sum of the subsidiary targets in 2004 exceeded the target for total active return. Other potentially positive contributions may also arise, e.g. from allocations between asset categories. Experience of day-to-day asset management nevertheless tells us that it is rare to outperform all subsidiary targets simultaneously.

Currency Exposure According to Currency Strategy, 2004 and 2005



MSCI World by Country, at 31 December 2004



Return targets and Risk Mandates at 1 January 2005

Asset category	Share, %	Deviation mandate, percentage points	Reference index	Excess target per year, percentage points	Active risk guideline, %
Global equity portfolio ¹⁾	42	+10/-10	MSCI World DNI (SEK) ¹⁾	0.70	< 4.4
Swedish equity portfolio ¹⁾	19	+10/-10	SIX Return Index	1.40	< 6.0
Fixed income portfolio	37	+10/-7	Handelsbanken Markets Bond Index/Merrill Lynch GBI (SEK) ¹⁾	0.40	< 1.5
Active currency management	–	+5/-5	Customised Import basket Index	0.10	< 0.5
Real estate	2	+1/-1	Swedish Real Estate Index	–	–
Investment assets	100		Index weighting as per Strategic portfolio	0.70	< 4.0

¹⁾ The deviation mandate for equities is +8/-10. ¹⁾ Hedged in SEK.

Investment Philosophy and Process

The Fund's investment philosophy underpins its strategic and operational approach to achieving a long-term active return on investment compared to the strategic portfolio. The aim is to outperform the benchmark index by 1.35 percentage points on a rolling two-year basis.

Overall investment philosophy

The Fund has a strong commitment to analysis in important areas of its asset management activities. Skilled, experienced and dedicated staff are a condition for successful analysis. The Fund takes active positions in a number of carefully selected sub-portfolios with as little correlation between them as possible in order to achieve a more stable return over time. The investment philosophy is founded primarily on long-term valuations of markets and companies, and is based on asset management performed by specialists in the various areas. External active managers are enlisted to supplement the Fund's own internal managers in investment areas considered to offer good prospects for achieving active returns but where

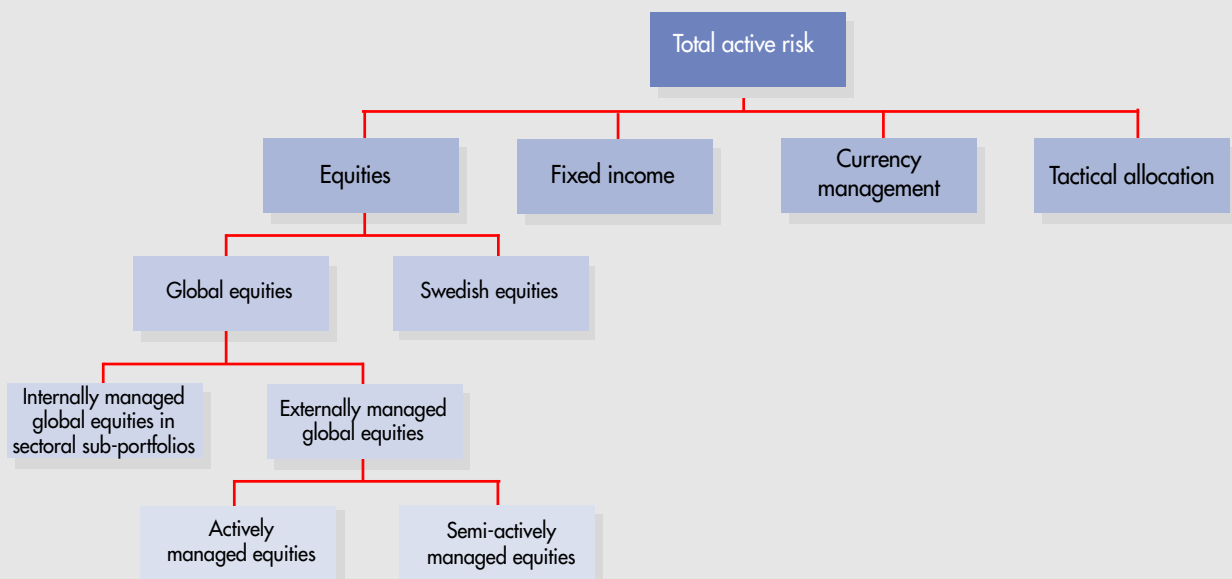
the Fund has opted not to acquire in-house management expertise.

The internal equity management philosophy centres on specialisation of internal analysis and decentralised position-taking. These increase the likelihood of achieving active returns and are based on company and equity analysis produced internally using a shared analysis model that creates consistency between the sub-portfolios.

Fixed income management is described below under a separate heading. Active currency management is based on the assumption that currency markets do not function with total efficiency. The various players on the market, such as central banks, corporations and asset managers, have different goals. It is the Fund's experience that currency movements tend to repeat themselves and that currencies from economies with higher interest rates tend to strengthen.

The investment philosophy for position-taking between asset categories and regions is known as tactical asset allocation and centres on how markets for different asset

Distribution of Return and Active Risk by Sub-Portfolio





categories move cyclically and the extent to which they are conditioned by asset and market valuations. Our analysis aims to identify current risk premiums on the various markets in order to locate business opportunities. Since the Fund's investment horizons exceed those of the market, we seek to exploit market swings by taking positions based on apparent discrepancies between markets and regions.

External managers are enlisted to supplement the Fund's internal asset management operations. Our internal project organisation, which itself has asset management experience, selects experienced managers with a focus on markets in which we believe good prospects exist for achieving active returns.

Global equity management is conducted internally and externally, while management of Swedish equities, the global fixed income portfolio, currencies and tactical asset allocation is handled internally.

Allocation of active return targets and risk

The Fund allocates active return targets and risk mandates for internally and externally managed global equities, Swedish equities, fixed income assets, currencies and tactical asset allocation. The aim is for the total portfolio to generate an active return that is as stable as possible, and for this reason active risk (i.e. risk in relation to the benchmark index) is not concentrated but instead distributed among the sub-portfolios. The diagram on the adjacent page outlines the distribution of return and active risk between the sub-portfolios.

Risk management involves allocating the highest active return targets and largest risk mandates to those investment areas judged at the moment in time to offer the best prospects of an active return.

In the internally managed global equity portfolio, active return targets and risk mandates are assigned to sector-based sub-portfolios with stock selection mandates

and to a sectoral allocation mandate. This results in some sectors being managed close to the index. The Swedish equities fund manager is provided with analysis from internal global sector managers, who follow companies across different global sectors.

Global fixed income securities are managed in a portfolio with an active return target and risk mandate.

Currency management and tactical asset allocation between asset categories and regions are two separate risk areas and have individual active return targets.

Fixed income management

The Fund's strategic fixed income portfolio comprises a global, hedged fixed income portfolio with an upper guideline of 1.5% for active risk. The active return target set by the Board was 0.3 percentage points for the financial year 2004. For 2005, the target has been raised to 0.4 percentage points and includes previously non-apportioned transaction expenses. In practice, this equates to an increase of approximately one basis point.

At the start of 2005, fixed income portfolio assets totalled SEK 54.6 billion, or 36.0% of the Fund's total portfolio. Internal management of fixed income securities has generated higher returns than the benchmark index for a prolonged period. In 2004, the active return target of 0.3 percentage points was surpassed three times over. In krona terms, this outperformance amounted to almost SEK 500 million. The primary reasons for this highly satisfactory outcome are:

- Extensive experience of global fixed income asset management
- Team-based asset management
- Specialisation in each risk category
- Professional central bank analysis
- Diverse spread of risk across a wide range of positions.



Fixed income investment philosophy

Our goal is to be among the top quartile of Swedish fixed income managers. In order to achieve this we operate on a longer investment horizon and offer a wider range of investment and diversification possibilities than other managers, as well as strong central bank analysis. The aim is to diversify active risk across a large number of positions that are only weakly correlated and thereby generate a higher active return in relation to the level of risk chosen by the Fund (i.e. a higher information ratio).

The average investment horizon is six months, which is a longer timeframe than applied by the average investor. This allows the Fund to continue to follow its convictions in spite of temporary market movements and to exploit distortions in asset prices to achieve its active return target. At the same time, the Fund's investment horizons vary according to risk category depending on variations in liquidity and risk premiums.

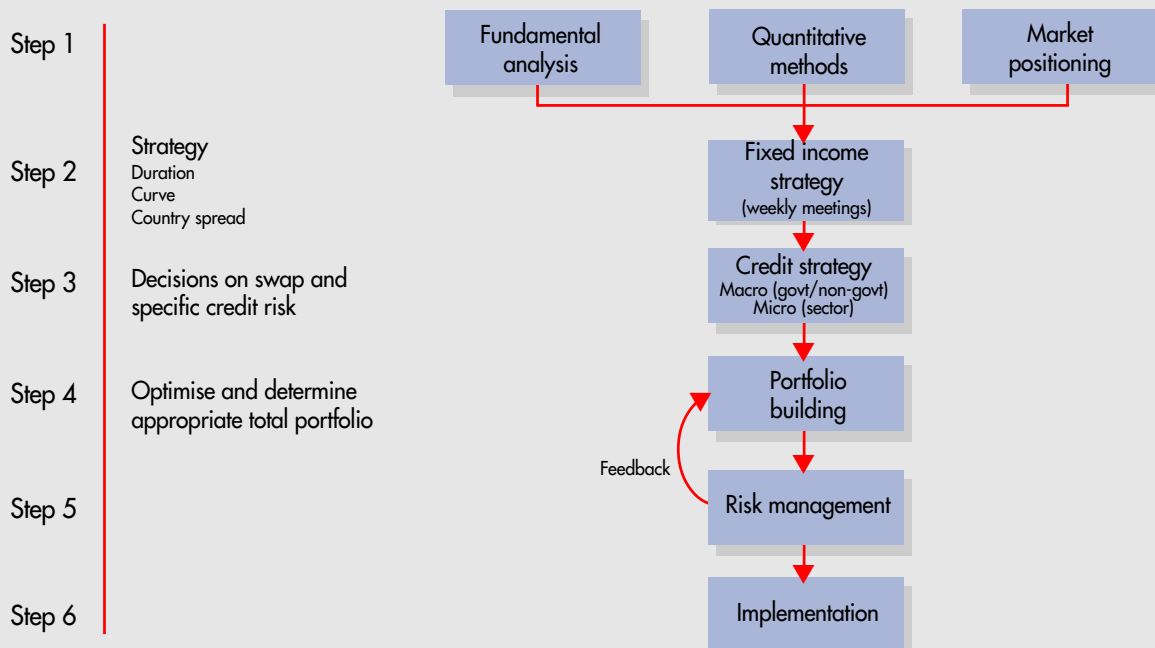
Fixed income investment process

Active risk allocation in fixed income management is divided according to the following categories.

Risk category	Investment horizon
1. Swap spread risk – differential between yields on high-credit-rated non-sovereign and government bond yields	> 6 mth
2. Yield curve – differential between short-term and long-term yields	6 mth
3. Country spread – yield spreads between countries	6 mth
4. Duration – average coupon rate	< 6 mth
5. Specific credit risk – yield spread between corporate bonds and high-credit-rated debt	> 6 mth

Management operations are team-based, which means that the aim is to create an optimal total fixed interest portfolio through collective decision-making. Each risk category has an individual asset manager.

Investment Process for Fixed Income



Risk is allocated primarily to swap spread risk, yield curve and country spreads, a strategy that stems largely from the ability in these instances to utilise positive risk premiums (which is a key aspect of the Fund's fixed income management). The risk related to specific credit risk is limited and is modified in tune with internal resources.

Fundamental analysis (see step 1 of diagram on page 12) focuses especially on the way central banks are expected to adjust interest rates over a 12-month period. The Fund's base rate forecast is then compared to market forecasts, which allows us to identify differences in expectations relating to short-term as well as long-term rates.

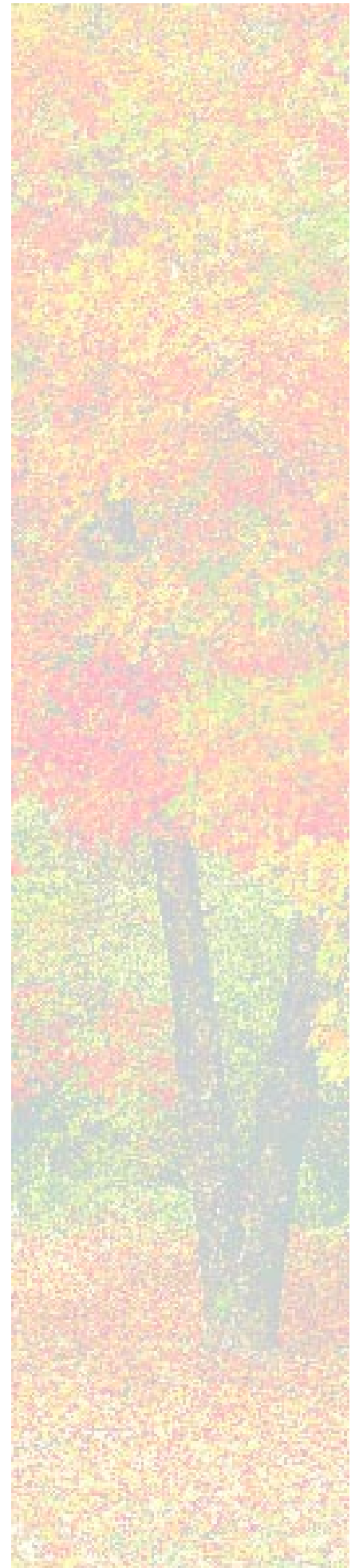
Quantitative analysis enables comparisons between markets and bond yields with different coupon rates and periods in different countries.

Through market positioning the Fund's managers seek to assess how the average fixed income market player is positioned, thereby enabling them to gauge the effects of fresh information entering the market. This facilitates the identification of risk and sensitivity for new negative or positive information. The data underpinning this analysis are provided by external contacts.

Taken together, these building blocks (see step 2 on diagram) create a fixed income strategy that encompasses duration and yield curve. Country spreads – which in practice mean different scenarios in each government securities market – are also analysed. Based on the fixed income strategy and the Fund's macroeconomic analysis, positions are taken in swap-related and specific credit risks (see step 3 on diagram). When it comes to a specific credit risk (otherwise known as company-specific risk), sectoral and company-specific analysis is used to underpin decision-making.

All positions are tested to evaluate their covariance with other positions. Identifying the extent to which positions can be expected to co-vary is important to being able to forecast overall risk.

The aim is to create an effective fixed income portfolio with limited potential for losses. A key ingredient in this work is to scrutinise existing positions rigorously (see steps 4 and 5 in diagram), which depends on defining and documenting the reasoning that underpins positions and on identifying risk events and indicators that serve as warning signals for any given position.



Corporate Governance in 2004

The Fund's activities relating to corporate governance during 2004 fell within a variety of different areas:

■ Processes prior to AGMs

Participation in nominating committees, including nominating committees elected by the AGM and instances where the AGM simply established guidelines for the nomination process. Some assignments were more demanding than others, for example FöreningsSparbanken and Handelsbanken (whose nominating committees were chaired by the Fund's President and Deputy Managing Director respectively). The Fund had representatives on 18 nominating committees ahead of the 2005 AGM season.

Participation in negotiations and/or informal contacts between major shareholders on specific issues, such as share-related bonus schemes and the re-weighting of voting rights between class A and class B shares at Ericsson.

■ Participation at AGMs

The AGM is the principal forum for shareholders. The Fund aims to participate in such meetings and to exercise its voting rights as a shareholder when it holds a significant holding in the company in question. In 2004 the Fund was represented at 50 AGMs and extraordinary general meetings.

■ Joint shareholder initiatives

During the year the Fund played an active role in the Association of Institutional Shareholders, which we had helped to found the previous year and whose mission is to strengthen and develop self-regulation on the Swedish equity market. In 2004, the association submitted its first comments on a proposed government bill, in this case the Swedish Code of Corporate Governance.

The Fund's President devoted considerable time during the year to his role as a member of the Swedish Industry and Commerce Stock Exchange Committee's nominating committee. Initially charged with the task nominating a new chairman, the committee later gained an expanded remit that saw it select the first board of directors for the new institution charged with overseeing compliance with the corporate governance code. The names of the board members were announced at a press conference in mid-December 2004, along with publication of the final version of the code.

■ Special shareholder initiatives

As in 2003, the Fund wrote letters to the chairmen of companies in its Swedish equity portfolio where the number of female directors was below the stock market average. We urged them to increase their efforts in this area and offered help in the task of identifying and proposing female directors. Most of the companies contacted now have at least one female board member. Figures show that female boardroom representation rose from 6.1% to 14.6% between 2002 and 2004. The Fund will continue to work actively to promote continued progress in this area.

■ Government consultation

During the autumn, the Fund submitted comprehensive comments on reports distributed by the government Commission on Business Confidence and the Code Group on corporate governance (see pp 15-17).

■ Board representation

In contrast to many other financial institutions, the Fourth Swedish National Pension Fund's corporate governance policy allows it to nominate, albeit on a restrictive basis, its own employees to non-executive directorships of listed companies. This requires a balance between our duties as a major shareholder in individual companies and our overriding aim to maximise returns on investment, which can be inhibited by the responsibilities associated with board membership.

The Fund's President has been a board member of Electrolux and Beijer Alma for several years. A number of the Fund's own non-executive directors, in some cases nominated by the Fund, hold directorships at listed Swedish companies.

The Fund's Deputy Managing Director continued to hold a position on the Swedish Industry and Commerce Stock Exchange Committee as the nominee of Sweden's large financial institutions.

■ Corporate governance policy of the Fund

The Fund reviews and assesses its corporate governance policy on an annual basis. Due to the imminent publication of the Swedish Code of Corporate Governance, the Fund made no changes to its own internal corporate governance policy during the year.

Two Governance Issues Spotlited

Corporate governance issues of different kinds continue to generate interest on Sweden's capital markets. Two milestones were reached in 2004: the completion of a Swedish corporate governance code and the resolution of a long-standing conflict relating to voting right disparities between class A and class B shares at Ericsson.

The new Swedish Code of Corporate Governance will probably prove to be the most significant result of the Commission on Business Confidence, set up by the government in 2002 to promote the efforts of Swedish corporations to foster increased trust and confidence in their activities following a string of high-profile international and national business scandals.

The commission noted that Sweden had not followed a trend among many countries in recent years to adopt national corporate governance codes. In Sweden, the commission said, self-regulation was well advanced and most large financial institutions had published internal corporate governance policies. Yet there was no formal national code. The commission therefore took the first steps towards drawing up such a code and in 2003 appointed a joint working group, representing a broad spectrum of investment and business interests, and chaired by Erik Åsbrink, the former finance minister.

Comply or explain

The working group, known as the "code group", was comprised of nine members, many with extensive experience and knowledge of corporate governance issues, along with two experts who served as adjuncts. They were quickly able to agree on the outline of a national code, primarily because they resolved at an early stage to entrench the principle of "comply or explain" at the heart of the code. The principle requires companies covered by the code either to comply with its provisions or to explain their failure to do so.



Scempix

Apart from one dissenting voice, the group's proposals had unanimous backing and were published in April 2004.

Extensive consultation round

The broad representation base of code group members ensured a solid base of initial support for the general thrust of the proposed code. Nevertheless, a wide range of criticisms were voiced when the proposals were put out to consultation. Financial institutions expressed concern over the government's dual role in implementing the code, suggesting that the state wanted both to act as legislator as well as a large shareholder. This concern prompted the relatively newly formed Association of Institutional Shareholders, whose members account for more than 20% of Stockholm stock market capitalisation, to submit its first response to a government consultation document.

Other criticisms included assertions that the proposed code was excessively detailed, poorly suited to small companies, inappropriate for companies with controlling shareholders and that the nominating committees proposed might evolve into a quasi corporate institution alongside shareholders, boards, executive managements and auditors – but without their basis in law.

Erik Åsbrink, chairman of the corporate governance code group, hands over the finalised Swedish Code on Corporate Governance to Hans Dalborg (left), chairman of Nordea and newly appointed chairman of the new institution set up to oversee the new rules.



Illustration: Fibben Hald, Financial Poetry

After years of differences, holders of Ericsson A and B shares came together in 2004 to settle their differences over disparities in voting rights.

Code group unanimity

The code group, which by now had been expanded to include representatives of smaller listed companies, evidently took heed of the criticism. In mid-December it presented a revised code, which enjoyed unanimous and wholehearted support from code group members.

The code is seen as a platform for expanded self-regulation by listed companies. With this in mind, its administration has been entrusted to a new corporate governance institution in which corporate interests will be well represented. In time, this new institution will assume some of the responsibilities previously held by the Swedish Industry and Commerce Stock Exchange Committee, though its main task will be to administer and develop the code.

The code is to come into force on 1 July 2005, with step-by-step implementation starting with companies on Stockholm-börsen's A list and large companies on the O list. Within a few years, all listed companies will be expected to follow the code.

Raising the bar

How, then, does the code fit with the corporate governance principles drawn up by the Fund and other financial institutions over the last decade? There are no substantial differences because general governance

standards in Sweden and institutions' internal governance policies are at the very heart of the new code. However, the code group did raise expectation levels in a variety of areas within the context of the core principle of comply or explain.

For instance, division of responsibilities between the shareholders' meeting, board and executive management has been made clearer and the chairman of the board's role strengthened and clarified. The code states that the chairman shall be elected by the shareholders' meeting but that he or she may not chair the nominating committee.

Another example of higher standards is the requirement that the AGM approves executive management remuneration levels.

In respect of the composition of corporate boards, the code states clearly that "an equal gender distribution is to be an aim". It may be noted in this context that several of the Fund's requirements, as stated in our governance policy, have been adopted as national standards. These include the abolition of deputy board members and adoption of annual reviews of board administration.

New measures aimed at increasing transparency include a requirement for a corporate governance report to be appended to the annual report and for information on governance issues to be published on the

websites of listed companies. Also significant is a new rule stating that an audited report of the internal control process must be attached to the annual report.

Risk of imbalance

Reactions to the revised draft of the code have so far been overwhelmingly positive and its implementation will be a high-priority task during 2005. The Fund will revise its own corporate governance policy to bring it into line with the code. However, it is important that the Fund – along with other shareholder interests – acts to ensure that Swedish boards do not become encumbered with controls and formalities. The code has every chance of becoming the cornerstone of Swedish self-regulation, yet national codes alone do not create strong companies. Success in this regard depends on the appointment of competent boards which focus on the right issues and ensure that companies are served by strong executive leaderships and skilled managers capable of developing good products and services and advancing their companies' market positions.

Reform in share voting rules at Ericsson

The second important corporate governance issue that arose in 2004 was the long-standing campaign to reduce the difference in voting rights between class A and class B shares at Ericsson. The Swedish Companies Act of 1944 stipulates a maximum difference in voting rights between share classes of 1:10. However, Ericsson and a few other established companies long maintained wider discrepancies by relying on transitional rules originally designed to prevent an erosion of the rights of existing shareholders.

Though corporations such as SKF, Electrolux and others eventually adopted the new rules, Ericsson, which for long periods had the highest market capitalisation on the Stockholm stock exchange, continued to follow a system whereby a B share gave only one-thousandth of a vote compared to an

A share. This allowed the two largest shareholder blocs, the Wallenberg family and the Handelsbanken sphere, to continue to control 40% of the voting equity with a mere 5% or so of the share capital.

Despite ongoing criticism of this extreme disparity, the problem appeared insoluble. Holders of A shares wanted to preserve the status quo, and when change eventually began to be mooted they demanded large financial compensation. Holders of B shares blankly rejected this as a matter of principle on the grounds that all shares – regardless of voting powers – entitle the holder to an equal share of the company's earnings and capital.

Many factors combined to create conditions for a resolution. At Ericsson these included a deep financial crisis that necessitated a massive SEK 30 billion rights issue and the appointment of a dynamic new chairman of the board and an equally dynamic new chief executive. The process was also aided by legal moves to create a new financial instrument. It took numerous rounds of negotiations, both between holders of A and B shares and among B shareholders themselves, before a solution could be tabled.

In February 2004, the negotiations finally resulted in agreement, pending approval by several shareholder meetings and the Swedish Securities Council, and favourable tax judgements from the Supreme Administrative Court.

Conversion rights

A new financial instrument known as conversion rights played a decisive role in securing agreement. Though there was consensus on the need to normalise the difference in voting rights, the sticking point was the insistence of class A shareholders on financial compensation. The breakthrough came in the form of a proposal to give class A shareholders a transferable conversion right for each A share, to be converted into an Ericsson B share or else sold on the stock market. The conversion rights gave holders of A shares a larger share of the voting

capital than they would have received under the original proposal of a straight reduction in the A:B voting rights ratio from 1000:1 to 10:1, and therefore checked their demands for extensive financial compensation. As part of the resolution, many Swedish financial institutions (among them the Fourth Swedish National Pension Fund) committed themselves to purchasing conversion rights at a rate of SEK 1.10 each.

Surprisingly, in the light of the laborious process involved in finding an acceptable solution, the conversion rights proposal received an easy passage at three extraordinary general meetings at Ericsson and its two main shareholders, Investor and Industrivärden. The conversion agreement and trading in the rights on the Stockholm stock exchange were both completed, according to plan, in the fourth quarter.

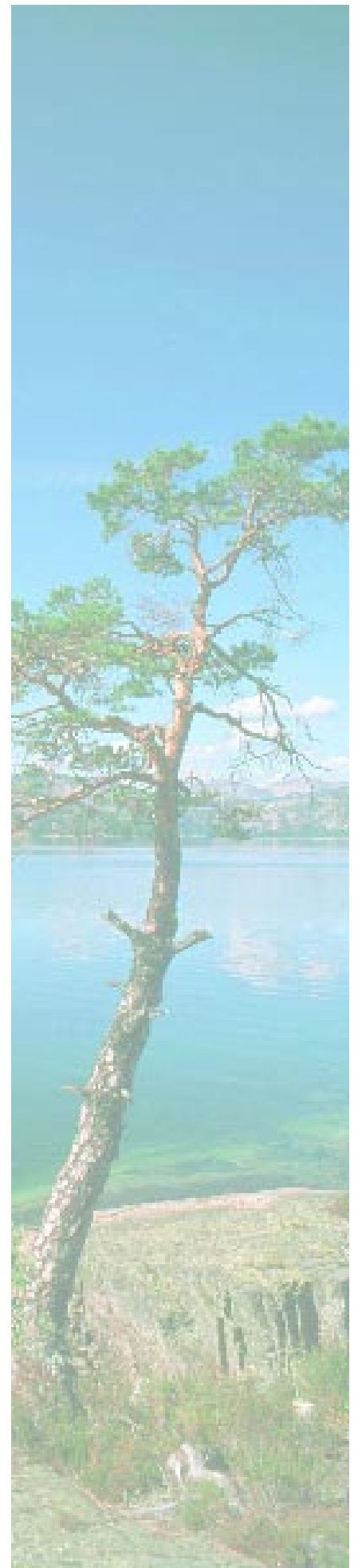
Summary

The outcome of the process can be summarised as follows:

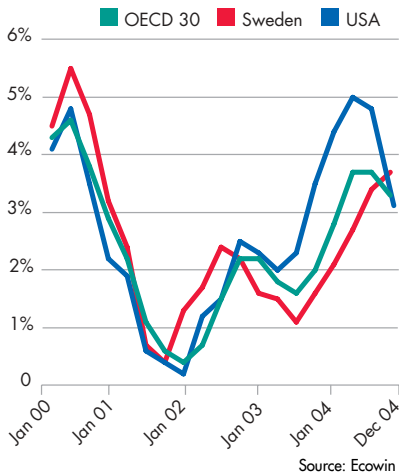
By adapting its voting structure to more modern rules, Ericsson strongly improved its relations with international capital markets without any dramatic disruption to its shareholder base and without precipitating the payment of direct financial compensation.

Thanks to the conversion rights, the largest holders of A shares retained strong influence over the company. Moreover, the price spread between A and B shares set by the stock market gave them a measure of financial compensation since they now owned approximately double the number of A shares as before.

The outcome for holders of B shares was also positive. They combined continued respect for shareholder rights with a modest capital investment to secure an acceptable balance between equity and voting rights in Sweden's largest company by market capitalisation, to the benefit of company and shareholders alike.

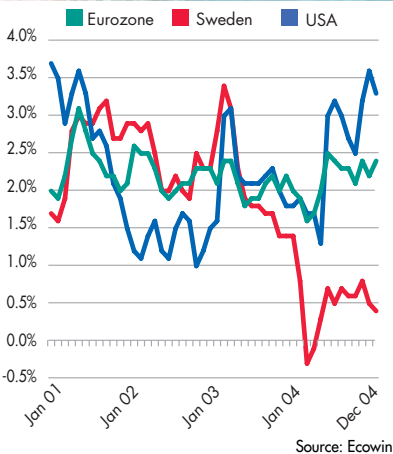


Annual GDP Growth, 2000-2004



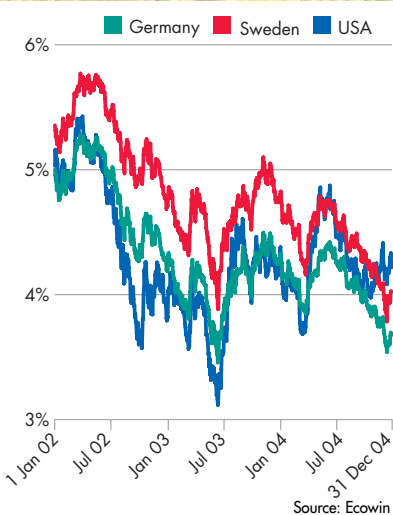
Strong growth in the world economy in 2004.

Annual Consumer Price Inflation, 2001-2004



Inflation rose in the US in 2004 but nevertheless remained low.

Ten-year Government Bond Rates 2002-2004



Completely contrary to forecasts, long-term interest rates fell in 2004.

Macroeconomic Overview

Last year's annual report observed that the global economic recovery had stabilised in 2003 and that usual economic patterns could be expected to generate healthy growth in 2004. Nevertheless, the prognosis remained uncertain and there was no lack of concern that developments might take a less positive turn.

It can now be safely said that the recovery did indeed feed into a more sustainable growth trend in 2004, albeit with relatively large regional variations. The United States notched up yet another year of solid growth, with growth of more than 4% in the first three quarters driven by a steady increase in private consumption and business investment. In the eurozone, growth also increased in 2004 and by the end of the third quarter was running at 1.8%. Domestic consumption increased only gradually and net exports slowed somewhat, which put a brake on expansion. The strengthening of the euro during the year also dampened prospects for a stronger recovery. The employment market performed weakly, a trend mirrored in Sweden, despite otherwise strong growth led by net exports. Non-OECD countries generally performed well. Growth was strong in Asia, particularly in China.

However, the year began amid widespread doubt over whether American household consumption would continue to rise at the same rate as in recent years. Tax cuts, lower interest rates and higher lending combined with an extensive refinancing of mortgage lending to drive up US household consumption in 2003 and 2003, in spite of falling employment. The market expected the positive impact of these factors on private consumption to fade during 2004, increasing the need for a labour market recovery. But the first few months of the year produced only a weak rise in employment, fuelling fears that the US economy would be unable to generate higher employment despite healthy economic growth. These circumstances were explained chiefly by the fact that companies did not hire new staff to

the same extent as during previous upturns because productivity-enhancing investments, particularly in information technology, had reduced overall demand for labour. Confirming this analysis, productivity remained at historically high levels relative to the economic cycle. A further reason for low labour demand was the trend to outsource production to other countries, particularly those with low wage costs. The same concerns also applied to Europe and Sweden, and were not allayed until data published during the spring revealed an increase in employment that was seen as normal for that stage of the economic cycle. Concerns over household consumption also proved largely unfounded. In the US, private consumption rose strongly and contributed to strong economic growth early in the year.

Key indicators and other economic data demonstrated that growth had peaked but that the economy remained stable. Growth in Asia was especially strong. China continued to grow in importance as a world trade engine and its rapid pace of economic growth benefited not just other Asian nations but other more developed industrial states too. For the second successive year, China's economy grew at more than 9%, forcing the government to take steps to prevent overheating and promote a more sustainable growth trend. These measures dampened growth somewhat, though the Chinese economy continued to expand rapidly for the rest of the year.

China's economic progress was one reason why commodity prices continued to climb in 2004. Commentators had begun warning in 2003 that rising oil prices might jeopardise global growth. In 2004, increasing demand for oil, along with fears that instability in oil-producing countries might adversely affect supply, sent oil prices to historic highs. After peaking at almost US\$40 a barrel in the spring, prices retreated somewhat before soaring to a new record of more than US\$50 a barrel during the autumn – a 75% increase since the start of the year.

Naturally, this surge induced greater caution among households and businesses. The relative slowdown noted in many economies during the second and third quarters may partly have been caused by higher oil prices, though China's economic tightening and higher interest rates and more bearish equity markets also had an effect.

The relative stability of the overall economic system eased the jitters to which financial markets had been prone in the two previous years. Equity markets made a positive start to the year, only to weaken during the spring and summer amid higher interest rates and oil prices. Steady growth created good conditions for strong corporate earnings, and when the immediate fears of higher oil prices and interest rate hikes retreated during the autumn share prices moved upwards again.

Interest rates fell at the start of the year but then rose sharply during the spring. The US Federal Reserve then increased base rates, but long-term US interest rates actually dropped slightly during the second half. A similar but more pronounced pattern was seen in Europe.

In all probability we are likely to see a certain slowing of global growth in the next few years. The recovery has peaked, as evidenced by key economic indicators in 2004, and fiscal policy has become less expansive – a trend forecast to continue in 2005.

Fixed income and currencies

In 2004, many of the world's central banks raised interest rates, which had been cut to historically low levels the previous year. Sweden's Riksbank was an exception, however. Surprisingly low inflation caused it to cut interest rates substantially in the first half, and market interest rates also fell during this period. This was primarily because US employment showed no signs of improvement and the Federal Reserve was signalling that interest rate cuts depended on a recovery in the labour market. As a result, financial markets deferred their fore-

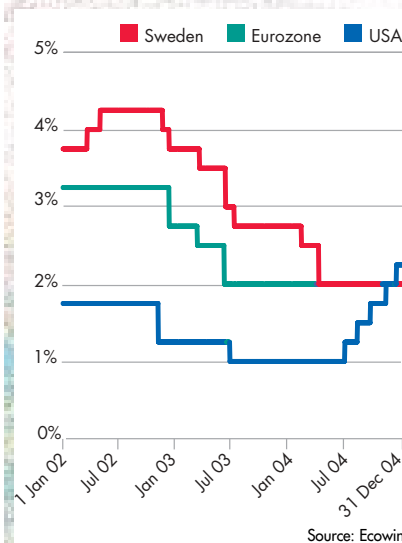
cast timing of interest rate increases. Many observers concluded that the Federal Reserve would delay any hike in rates until after year-end.

During the spring, however, it became apparent that employment growth was reasonably in step with previous recoveries, and the Federal Reserve therefore began to signal an imminent interest rate increase. At the same time, inflation moved upwards from its very low level in 2003. In an environment of steady growth, and with inflation hovering around 2%, it was no longer necessary to keep interest rates at the very low rate of 1% considered necessary to avoid deflation. Hence, the Federal Reserve in June embarked on a gradual tightening of monetary policy, raising interest rates in the second half from 1% till 2.25% on a step-by-step basis. Surprisingly, these increases did not feed through to generally higher interest rate levels. Indeed, long-term rates actually fell and by year-end were where they were at the start of the year. It can be inferred from this that the market deemed it unlikely that the Federal Reserve and other central banks would need to raise interest rates significantly at that point.

The fact that inflation remained low, in spite of relatively buoyant growth and rising oil prices, indicated that underlying inflationary pressures were weak, which in turn could be ascribed to continuing good productivity increases and greater global competition. By contrast, short-term interest rates, which are more closely linked to base lending rates, climbed sharply during the year and contributed to a flatter US yield curve. US monetary policy has remained expansive so far in 2005, which indicates that the Federal Reserve is likely to continue raising base rates until it sees signs of the economy cooling, notwithstanding the trend in long-term rates.

In Europe, long-term and short-term rates declined in 2004 and the region's economy performed less strongly than the US. A stronger euro also put a brake on economic

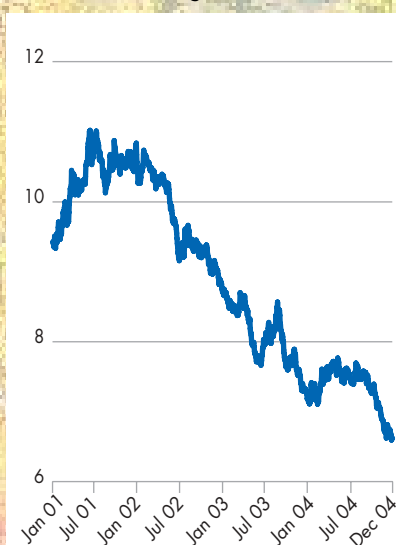
International Benchmark Interest Rates 2002-2004



Source: Ecwin

In 2004 the Federal Reserve began gradually to raise base rates from record-low levels.

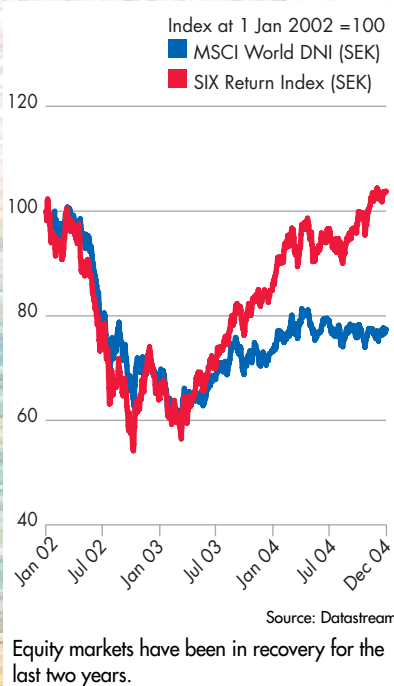
SEK/US\$ Exchange Rate, 2001-2004



Source: Ecwin

The dollar continues to decline.

Equity Market Performance 2002-2004



performance and ensured that the European Central Bank refrained from raising interest rates.

In Sweden, the interest rate decline was more pronounced. Swedish inflation fell at the start of the year by considerably more than the Riksbank had expected, prompting the bank to make two interest rate cuts that together reduced rates by 0.75 percentage points to 2.0% and brought Swedish rates into line with those of the eurozone. Very low inflation, combined with no imminent sign of employment growth, led the Riksbank to delay any plans to tighten monetary policy.

On currency markets, the US dollar continued to lose ground in 2004. On a trade-weighted basis, the dollar fell approximately 5%. Overall, the dollar's weakness represented a transition to a more sustainable long-term level. The US current account deficit continued to grow during the year and a weaker dollar helps to counteract this imbalance. The fact that a substantial portion of the deficit arises from trade with Asia indicates that much of the dollar's future depreciation is likely to be against Asian currencies (for instance the Chinese yuan) and less so against the euro. Growing expectations that the yuan would be revalued against the dollar also undermined the dollar during the second half. Any change in Chinese currency policy will remain a key issue for foreign exchange markets in 2005.

For the third consecutive year, the krona strengthened in 2004, gaining about 1% on a trade-weighted basis. This strengthening was primarily against the dollar, while the krona was largely unchanged against the euro.

Equity markets

World equity markets continued to gain ground in 2004. Corporate earnings exceeded expectations, thanks to steady economic growth and a continuing focus on cost rationalisation across the business sector.

The first half of the year saw major changes in business conditions. Leading indicators signalled a slowdown in the US economy and a general easing of growth, while commodity prices rose sharply and oil prices soared to record levels.

The sum effect was to diminish investors' appetite for equities, which duly lost ground during the first half. However, equity market conditions improved after the summer on account of stronger employment statistics, an unspectacular US presidential election outcome and lower oil prices.

The MSCI World DNI index rose 14.7% in US dollar terms, though dollar weakness meant the increase in Swedish krona terms was only 5.8%. The US stock market performed roughly in line with European equities in local currency terms. Several of the smaller Asian bourses posted strong gains, though not Japan and China.

All sectors on the MSCI World DNI showed a positive development during the year in dollar terms, though the picture was more mixed in Swedish krona terms. Rising oil prices meant the energy and power sectors performed best, generating gains of 18.1% and 18.3% respectively. The economic upswing resulted in cyclical sectors, industrial goods and services and materials all outperforming the market average. The weakest performer was the information technology sector, which fell 5.5% in krona terms. This decline was due largely to over-optimistic expectations at the start of the year. Healthcare was again among the weakest sectors, reflecting the strongly negative effects of more restrictive regulation by the US Food and Drug Administration and the withdrawals of several drugs by pharmaceutical companies. The sector declined 2.3% in krona terms. The chart below shows relative sector returns on the MSCI World DNI in krona terms in 2004.

Corporate earnings exceeded expectations and forecasts were revised upwards during the year. Profit margins continued to improve thanks to effective cost controls and

rationalisation measures. Higher raw material prices had only a limited effect during the year. The consumer staples sector was hit by higher costs that could not entirely be passed on to consumers, forcing a number of companies to issue profit warnings during the autumn.

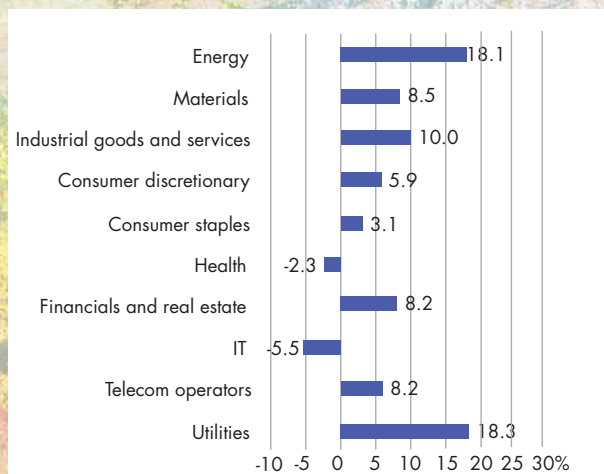
Strong profitability, combined with low investment levels, improved corporate cash flows during the year. This further strengthened corporate finances and allowed higher transfers of capital to shareholders through increased share dividends, bonus dividends and repurchase programmes.

The Swedish equity market rose 20.8% during the year. In large measure the gains were due to the strong rally in Ericsson shares, which surged 64.3% on the back of a rebound in earnings that far surpassed analysts' expectations at the start of the year. Another corporation that performed strongly was Hennes & Mauritz, whose advance was the primary reason for the robust showing of the consumer discretionary and services sector. The finance and real estate sector, which has a heavy weighting

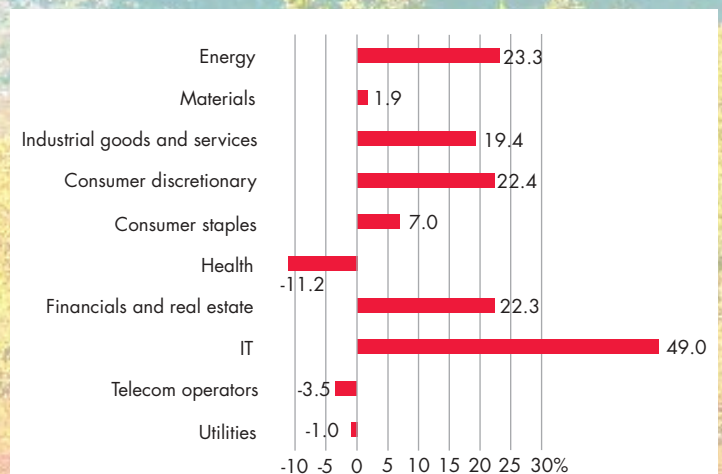
on the Stockholm stock exchange, notched up a 22.3% increase, helped by strong profitability among the large banks. The weakest-performing sectors were healthcare and telecom operators. AstraZeneca saw its shares fall 31.2% amid a string of negative product news during the autumn. The continued depreciation of the US dollar hit the earnings of many Swedish-based exporters. Among those to suffer were forestry companies, whose relative weakness had an adverse effect on the materials sector.

At the time of writing, early in 2005, many analysts are forecasting weaker economic growth in the months ahead. Rising costs are seen as likely to squeeze corporate margins, creating uncertainty surrounding prospects for earnings growth during the year. However, the profit margins of listed corporations remain at high levels when considered from an historical perspective. These companies also boast high levels of efficiency, strong cash flow and low debt ratios. Seen from this angle, valuations do not appear unduly challenging, especially with interest rates at their current level.

Performance by Sector in 2004, MSCI World DNI (SEK), %



Performance by Sector in 2004, SIX Return Index (SEK), %





Report of the Board of Directors

Report of the Board of Directors and the President of the Fourth Swedish National Pension Fund for the financial year 1 January 2004 – 31 December 2004, the Fund's 31st year of operation and the fourth since the reorganisation of the Swedish pension system.

Accounting and valuation principles are described in a separate section.

Operations

The financial year 2004 was characterised by gains for all major asset categories on world financial markets. Equity markets continued to recover and fixed income, real estate and commodity markets also performed favourably. The Swedish stock market posted a 20.8% gain for the year, while the MSCI World DNI index rose a more modest 14.7% in US dollar terms. The continued depreciation of the dollar against the krona meant this increase was just 5.8% in krona terms. Bond yields defied initial market expectations and ended 2004 at lower levels than at the start of the year. The main trend on currency markets was the continued depreciation of the US dollar against the krona and other currencies.

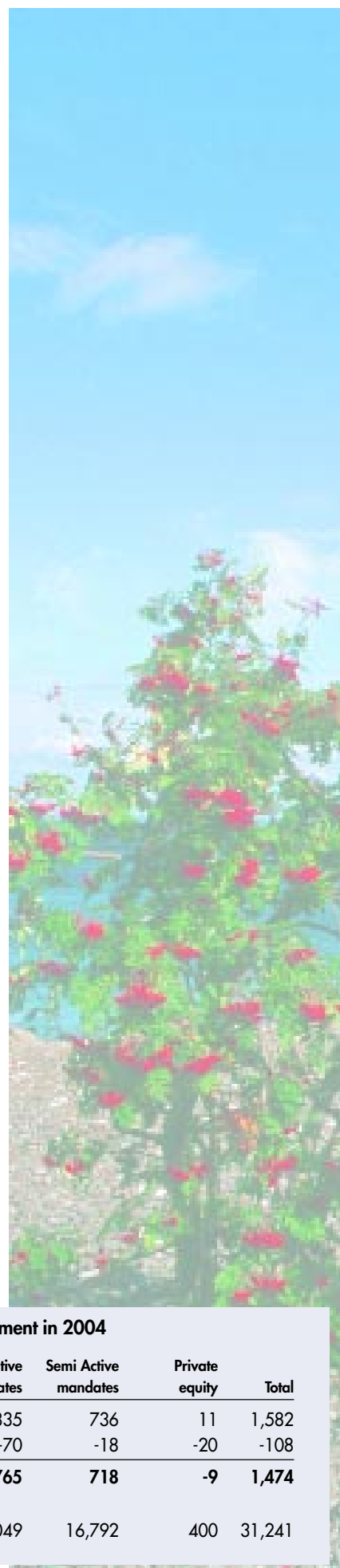
Overall market movements favoured the Fund since its strategic portfolio contains a high weighting in equities, in particular Swedish equities. The total return on investment assets amounted to 10.6% (17.0), while the benchmark index returned 10.9% (18.0). The Fund's net profit for the year totalled SEK 14.3 billion (19.3). At year-end, fund capital stood at SEK 151.4 billion (135.5). The positive absolute returns of the two past years represent a strong financial recovery in Sweden's retirement pension system compared to two years ago. The first two years following the reform of the system were marked by exceptional falls on global equity markets, but the Fund can today report a positive (albeit modest) overall positive return since the pension scheme was revamped at the end of 2000.

As the figures stated above confirm, the Fund was unable in 2004 to match its

benchmark index for the total portfolio, though asset management returns for the various sub-portfolios differed quite widely. At sub-portfolio level, returns on almost 80% of Fund assets exceeded relevant target levels. Fixed income asset management came comfortably within its targets and now has a long period of very satisfactory returns behind it. Internally and externally managed global equities reached their targets for the first time, but returns on Swedish equities were unsatisfactory and were the cause of the Fund's underperformance against the benchmark index. Special measures have been put in place to ensure an improvement. The performance of the various sub-portfolios is reported under Investment Assets.

An important aspect of the Board's work is the annual review of the Fund's investment policy, using an asset liability modelling (ALM) analysis. It is the Fund's policy to conduct a new ALM analysis every third year. Since the most recent analysis was performed in 2003, ALM-related work in 2004 focused on updating the current study. This created an opportunity to take a special look at conclusions regarded as uncertain, surprising or otherwise warranting closer examination. A more detailed description of the ALM process can be found under Asset Management Process on pp 6-9.

We merely observe here that the conclusions drawn in the 2003 analysis have proven well founded. A close inspection of currency policy concluded that the Fund's currency exposure should be limited to 20%, compared to the previous limit of 30%. As a result, the Board decided to review its previous decision for the Fund to approach the 30% ceiling during 2005. It can be mentioned in this context that the Fund's model has been used for studies of the annual cohort level of the national pension system in order to assess generational neutrality between different age groups. It was with considerable surprise that the Board discovered that the rules of the system may result in



younger generations being over-compensated in the long-run if pensions for older retirees are reduced by balancing. This is because the liabilities index for younger generations may be updated faster than the income index.

Active currency management operations were launched during the year. For 2005, currency management has received new mandates and a fixed performance target, while fixed income management has also gained extended mandates and an adjusted excess return target.

Efforts to increase the level of active risk in the portfolio were hampered by lower market volatility and weak short-term relative returns from Swedish equity management. Two new external equity management mandates (a general global active mandate and a semi-active mandate focused on the financial sector) were implemented.

A currency management project aimed at improving the quality of these operations and refining the process of calculating returns was put in place in 2004. A close focus on cost-effectiveness was maintained throughout the year and expenses for procured services were reduced as a result. The organisation now has the resources and capacity to conduct a wider range of extra tasks internally. Several other efficiency-enhancing projects remain in progress, while others terminated during the year. These generated cost-savings, while custody account costs also fell. A custody account procurement process was launched at the end of the year aimed at achieving further cost reductions. It is expected to be complete during the second half of 2005.

A member of the executive management committee, the head of Performance and Risk Control, left the Fund during the spring. The vacancy was filled in August by Göran Schubert. During the autumn the Head of Equities Management left the Fund to start his own business. For the moment the Fund has chosen to fill this vacancy by dividing operational charge of equities management between two managers: one with

responsibility for global equities and the other for Swedish equities. This situation will be reviewed in 2005. The number of employees totalled 50 (51) at year-end. The Fund's organisational structure and executive management committee composition are detailed on page 45.

Profit for the year

The Fund reported a net profit of SEK 14,277 million (19,334) in 2004.

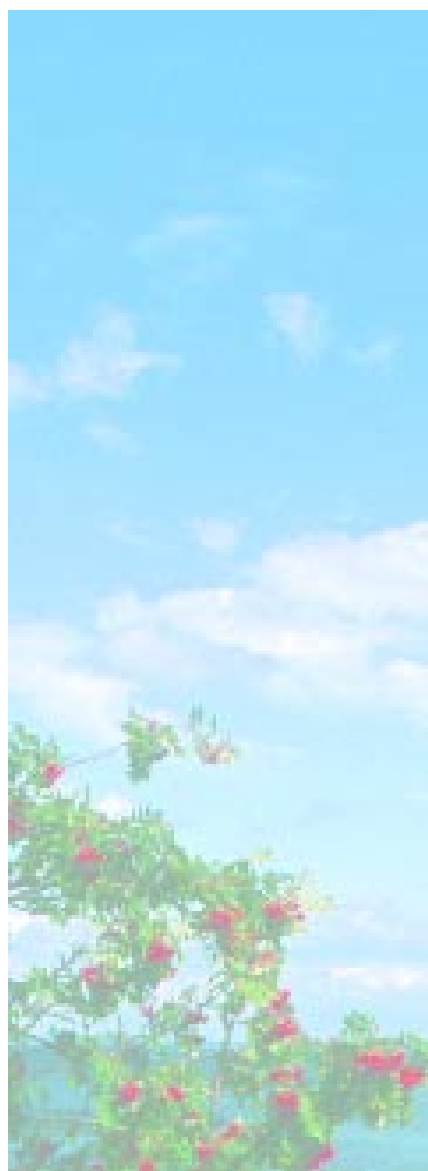
Operating income totalled SEK 14,523 million (19,550) and consisted of dividends, interest income, realised and unrealised changes in asset values and currency income.

Operating expenses amounted to SEK 246 million (216). This increase was entirely due to higher external management costs, which totalled SEK 100 million (69). A breakdown of these expenses between the various external mandates can be seen in the table below. The table also includes indirect costs, both for internal and external mandates, amounting to SEK 8 million. Personnel costs rose by SEK 6 million to SEK 79 million, partly on account of annual salary increases and partly due to the adjustment in remuneration levels that resulted from the scaling-back of the Fund's bonus scheme in January 2004.

Other operating expenses fell by SEK 7 million to SEK 67 million (74). Of these, costs for temporary staff and consultants totalled SEK 4 million and custody account expenses SEK 3 million. Commission costs (included under equity acquisition values) were SEK 97 million (102).

Revenue and Expenses for External Management in 2004

SEK million	Active mandates	Semi Active mandates	Private equity	Total
Revenue	835	736	11	1,582
Expenses	-70	-18	-20	-108
Result	765	718	-9	1,474
Funds under external management at 31 Dec 2004	14,049	16,792	400	31,241



The asset management cost quotient (operating expenses as a proportion of the average value of fund capital) amounted to 0.17% (0.17). The asset management cost quotient on the internal management amounted to 0,10 % (0,12).

Fund capital at year-end stood at SEK 151,434 million (135,506), an increase of SEK 15,928 million (21,901) since the start of the year. This change consisted of net payments to the pension system of SEK 1,397 million (2,143), including a non-recurring item of SEK -400 million to correct accounting errors by the Swedish Insurance Office, transfers from special asset management operations of SEK 254 million (424) and net profit for the year of SEK 14,277 million (19,334).

Investment assets

At year-end, the Fund's investment assets had a market value of SEK 151,539 million (135,550), of which equities and equity-

related assets accounted for SEK 93,884 million (84,950). Equities constituted 62.0% (62.6) of total investment assets, an overweighting of 1 percentage points compared to the strategic portfolio. The market value of externally managed assets, excluding private equity, totalled SEK 30,841 million (17,571), or 20.4% (13.0) of investment assets.

Total return

Return on investment assets amounted to 10.6% (17.0), an underperformance of 0.3 percentage points (1.0) against the benchmark index. Excluding AP Fastigheter, investment assets generated a return of 10.6% (17.6).

The upswing on equity markets continued in 2004, though not as strongly as in the previous year. Returns on Swedish equities again exceeded returns on global equities. In spite of somewhat lower market bullishness, the Swedish equity portfolio posted a return of 18.1% (32.9), while the return on the global equity portfolio totalled 6.7% (9.2), excluding hedging. Bond markets outperformed expectations because interest rates defied forecasts and fell. In addition to interest rate movements, the high weighting of non-sovereign bonds helped the fixed income portfolio to achieve an excellent return of 7.0% (4.8). AP Fastigheter also performed well, generating a return of 13.6% (-4.7).

Swedish equities made the largest contribution to the total return on investment assets, accounting for about one third of total return. The global equity and fixed income portfolios contributed about one quarter each.

In addition, the hedging of the global equity portfolio contributed just over one percentage point to total return. This outcome was due to the strengthening of the krona against most other currencies. Currency exposure was increased gradually at the start of the year in response to a defined strategy which envisaged overall currency

Allocation of Investment Assets

Asset category	Market value,	Weighting, %	Market value	Weighting, %	Strategic portfolio, %
	SEK million	31 Dec 2004	SEK million	31 Dec 2003	
Global equity portfolio	64,534	42.6	57,616	42.5	42.0
Swedish equity portfolio	29,350	19.4	27,334	20.1	19.0
Fixed income portfolio	54,564	36.0	47,379	35.0	37.0
Real estate	3,091	2.0	3,221	2.4	2.0
Investment assets	151,539	100.0	135,550	100.0	100.0

Return and Risk 2004

Asset category	Return	Return	Volatility	Active risk
	full year, %	full year, %	full year, %	full year, %
	Portfolio	Reference index	Portfolio	Portfolio
Global equity portfolio	6.7	5.8	11.9	1.5
Swedish equity portfolio	18.1	20.8	14.9	2.4
Fixed income portfolio	7.0	6.1	2.5	0.6
Real estate	13.6	13.6	-	-
Investment assets	10.6	10.9	6.0	1.0
Investment assets excl. real estate and unlisted	10.6	10.8		
Investment assets incl. asset management expenses	10.4	10.9		

exposure of 30%. However, a study performed during the year persuaded the Fund to abandon this increase and to adopt a new currency strategy with an exposure target of 20%. At year-end, the Fund's currency exposure was 20.4% (18.5).

Relative return on the Fund's investment assets, excluding AP Fastigheter, amounted to -0.3 percentage points (-0.4) and this can be attributed to a quite sharply negative relative return on the Swedish equity portfolio while the internally managed global equity portfolio and fixed income portfolio outperformed their reference indices. External equity management also generated a positive relative return.

Risk

Active risk, measured retroactively, was 1.0% (0.9) for the Fund's investment assets. A range of measures was taken to increase the level of risk in actively managed portfolios in a controlled fashion. However, the effect was offset by a continued decline in market volatility during the year.

Global equity portfolio

The global equity portfolio had a market value, including currency futures, of SEK 64,534 million (57,616) at year-end. Of this, SEK 16,792 million (10,865) consisted of externally managed funds under semi-active mandates and SEK 14,049 million (6,706) of funds under active mandates.

Funds from the internally managed global portfolio were allocated to two externally managed funds. Close to SEK 5 billion was invested in an actively managed global equity fund and more than SEK 4 billion in a quantitative semi-actively managed global ex-Pacific equity fund focused on the financial sector.

During the year, internal equity management sought to increase risk levels in an organised manner and within its structure of sector-based management. The sectoral breakdown of equities under internal management and their weighting contra the reference index at year-end are shown in the table on page 25.

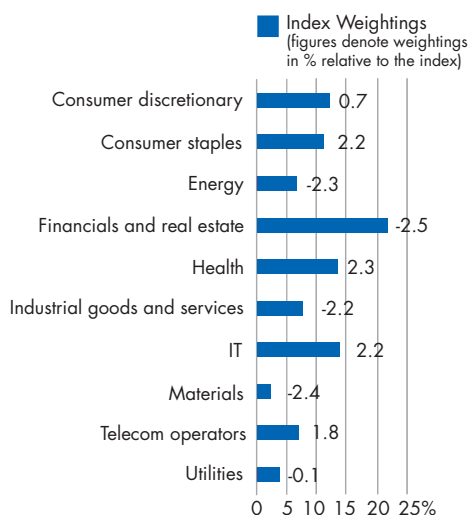
Global equity Portfolio

	Market value SEK million, 31 Dec 2004
Internally managed equities and equity-related instruments	33,693
Externally managed equity portfolio	30,841
of which:	
Semi-Active external management	16,792
Active external management	14,049

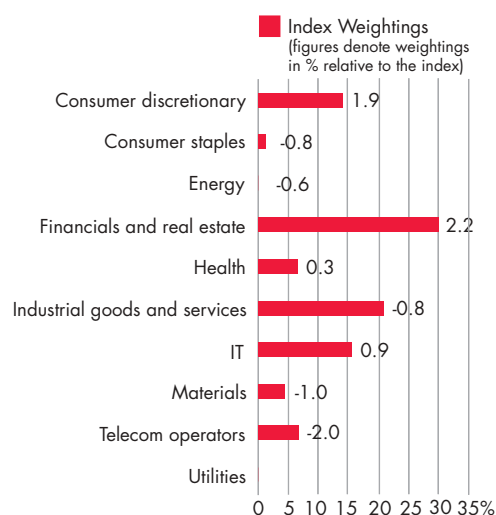
Swedish Equity Portfolio's Five Largest Holdings

Company	Market value SEK million 31 Dec 2004	Share of Swedish portfolio, %
Ericsson	3,894	13.3
Nordea	2,876	9.8
H&M	2,495	8.5
SHB	2,164	7.4
Investor	1,353	4.6
Total	12,782	43.6

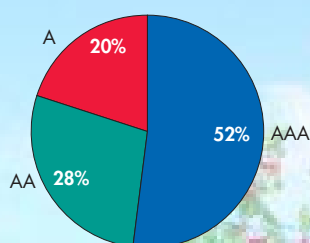
Global Equity Portfolio Weightings by Sector, 31 December 2004



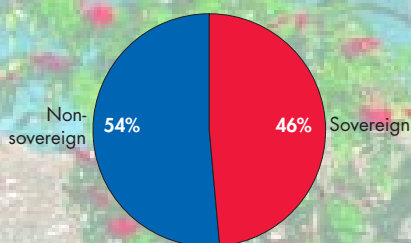
Swedish Equity Portfolio Weightings by Sector, 31 December 2004



**Fixed Income Portfolio by Rating,
31 December 2004**



**Fixed Income Portfolio Distribution
between Sovereign/Non-Sovereign
Issuers, 31 December 2004**



Effect of Currency Effects on Total Return in 2004

	Return as percentage of total portfolio, %
Return in local currencies	11.4
Net currency effects	-0.8
Of which,	
Currency effects excl. hedging	-3.3
Currency hedging in fixed income portfolio	0.9
Currency hedging in global equity portfolio	1.6
Return (SEK)	10.6

Excluding currency futures, the return on the Swedish equity portfolio totalled 6.7% (9.2), an outperformance of 0.9 percentage points (-1.0) relative to the reference index. The internally managed equity portfolio outperformed its reference index by 0.9 percentage points (-1.3), a turnaround attributable to the choice of equities. External equity mandates also produced a positive relative return of 0.7 percentage points (0.9).

Swedish equity portfolio

The market value of the Swedish equity portfolio, including private equity holdings of SEK 371 million (259), totalled SEK 29,350 million (27,334) at year-end. The five largest holdings are shown in the table on page 25. The Swedish equity portfolio recorded a return of 18.1% (32.9), an underperformance of 2.7 percentage points (1.3) against the SIX Return Index. This negative relative return can be ascribed mainly to an underweighting in the information technology sector and to the choice of equities in the financial and telecom sectors.

Unlisted equities posted a return of 3.5% (1.0) and made a negative contribution to relative return of 0.2 percentage points (-0.3). Investment undertakings in the unlisted portfolio rose by some SEK 1,400 million to almost SEK 2,200 million. The market value of completed investments in

the unlisted portfolio was just SEK 400 million at year-end, of which foreign equities accounted for SEK 29 million.

The Swedish equity portfolio accounted for 1.1% (1.3) of the Stockholm stock exchange's total capitalisation at year-end.

Fixed income portfolio

The market value of the fixed income portfolio, including liquid funds, stood at SEK 54,564 million (47,379) at year-end. Return on investment assets totalled 7.0% (4.8), an outperformance of 0.9% (0.5) against the benchmark index. Active fixed income management therefore exceeded its active return target by a wide margin. This excellent showing was the result of several active positions, from which the largest contributions came from the Fund's positioning for a steeper yield curve in Sweden and an overweighting in interest rate risk in Sweden, along with underweightings in the UK and the eurozone.

The year-end duration in the fixed income portfolio was 4.08 years, which was somewhat lower than the reference index. At year-end, non-sovereign issuers accounted for 54% (56) of the fixed income portfolio. Investments in single-A-rated non-sovereign foreign bonds totalled SEK 3.9 billion (3.1).

Currency management

Average currency exposure during the year was 18.7% of total investment assets. Foreign assets accounted for 59.7% of total investment assets, which meant that 41.0% of the Fund's assets were hedged in 2004. The Swedish krona strengthened against most currencies, producing a positive result in the currency futures portfolio. The favourable return from currencies added 1.6 percentage points (5.2) to the total return on investment assets. A breakdown of the impact of currency effects on total return is shown in the adjacent table.

As part of efforts to increase active risk levels, the Fund in 2004 began taking active foreign exchange positions in currencies

other than kronor, which added 3 basis points to the active return on the total portfolio during the year. Active currency management will be expanded to other currencies in 2005.

Risk management

The Board sets an annual risk management plan for the Fund that details the main operational 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 risks, IT risks, other technical risks, legal risks and ethical risks.

Performance & Risk Control is an autonomous department 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 analysis and prompt reporting of return and risk, both in absolute terms and in relation to relevant reference indices.

Financial risks

The core aim of the Fund's investment operations is to generate an active return in relation to the benchmark and reference indices, and for this reason risk is primarily determined in relation to the index (active risk). Currency, fixed income and equity risks are managed by controlling active risk, duration and permissible deviations from index weightings.

For derivatives, limits are in place both on nominal underlying value and market risk. All derivative holdings and attached risks are monitored via 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 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 for investments in fixed income assets and close monitoring of cash balances.

Operational risks

The Fund's managers are responsible for taking requisite steps to identify, limit and control their departments' operational risks, in accordance with the risk management plan.

Performance & Risk Control 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 Fund's Board of Directors consists of nine members, all appointed by the government. Two members are appointed on the basis of nominations by employer organisations and a further two on the basis of nominations by 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.

In 2004, Ulla Reinius and Carl Wilhelm Ros retired from the Board and were succeeded by Kajsa Lindståhl and Ulrik Wehtje. The Members of the Board are listed on page 44. The Board held six regular meetings in 2004 and a seventh to evaluate its administration.

The Board is responsible for the Fund's organisation and management of its assets. It has a written agenda for its work and gives instructions to the President. These docu-

ments 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 updating the latest ALM analysis and the new investment policy that had been drawn up in response to its findings. This topic was discussed at each Board meeting and at a special seminar. A more detailed presentation of the ALM analysis and its findings was published in the 2003 Annual Report on pp 6-10. The updates carried out in 2004 are reported on pp 6-9 of this report and are also summarised earlier in this section. The Board also examined and documented the government's evaluation of the financial year 2003.

Moreover, it drafted an operations plan for 2005 that encompasses the Fund's investment policy, risk management plan, corporate governance policy, environmental and ethical investment guidelines, annual plan 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. The Chairman and Deputy Chairman hold at least two meetings with the auditors every year.

Portfolio Overview

Absolute Return

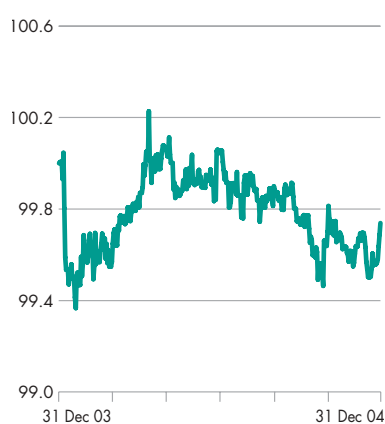
Return on investment assets excluding shareholdings in AP Fastigheter.



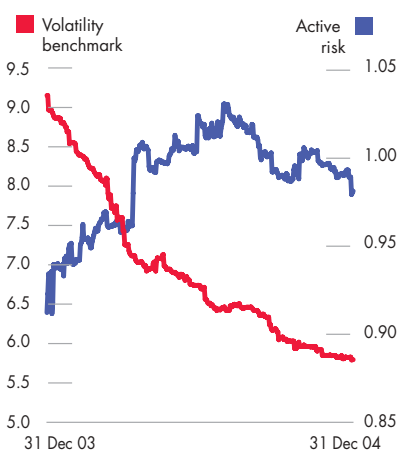
Strong absolute returns in 2004

Relative Return

Return on investment assets (excl. AP Fastigheter) versus benchmark index.



Active Risk and Volatility, %



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

Return per Asset Category, 2004 and 2003

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

Asset category	2004			2003		
	Return, % Portfolio	Return, % Index	Relative return	Return, % Portfolio	Return, % Index	Relative return
Global equity portfolio	6.7	5.8	0.9	9.2	10.2	-1.0
Under internal management ¹⁾	6.0	5.2	0.9	8.3	9.6	-1.3
Under external active management	11.5	11.1	0.4	17.8	14.9	2.9
Under external semi-active management	6.1	5.2	0.9	9.4	9.6	-0.2
Swedish equity portfolio	18.1	20.8	-2.7	32.9	34.2	-1.3
Fixed income portfolio	7.0	6.1	0.9	4.8	4.3	0.5
Real estate	13.6	13.6	0.0	-4.7	-	-
Investment assets	10.6	10.9	-0.3	17.0	18.0	-1.0

¹⁾ = Investment in an external financial-sector mandate included from May 2004.

Percentages in this are rounded up individually, which may affect the overall total.

Return on investment assets, excluding AP Fastigheter, was 10.6% (17.6).

Risk and Risk-Adjusted Returns per Asset Category, 2004

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

Asset category	Volatility, % 12 months Portfolio	Active risk, % 12 months Portfolio	Information ratio 12 months Portfolio	Sharpe ratio 12 months Portfolio	Beta 12 months Portfolio
Global equity portfolio	11.9	1.5	0.61	0.37	0.97
Under internal management ¹⁾	12.3	1.9	0.45	0.31	0.97
Under external active management	15.0	3.7	0.11	0.62	1.00
Under external semi-active management	12.4	0.9	1.02	0.32	0.98
Swedish equity portfolio	14.9	2.4	neg.	1.07	1.03
Fixed income portfolio	2.5	0.6	1.61	1.95	0.94
Real estate	-	-	-	-	-
Investment assets	6.0	1.0	neg.	1.40	0.98

¹⁾ = Investment in an external financial-sector mandate included from May 2004.

See Definitions (p. 46) for explanation of risk and risk-adjusted return terminology.

Total Fixed Income Portfolio by Rating Category for Sovereign and Non-Sovereign Bonds, 31 December 2004

Rating	Market value, SEK million Total	Market value, SEK million Sovereign	Market value, SEK million Non-Sovereign	Weighting, %
AAA	28,084	20,781	7,303	52
AA	15,553	4,061	11,492	28
A	10,859	270	10,589	20
Total	54,496	25,112	29,384	100

Exposure and Return on Externally Managed Mandates in 2004

Asset category	Form of asset management	Region	Benchmark index	Asset manager	Holdings at 31 Dec 2004 SEK million	Return, %	Index return, %	Relative return percentage points
Equities	Semi-active management	North America	MSCI North America	State Street	4,601	2.2	2.1	0.2
Equities	Semi-active management	Europe	MSCI Europe	State Street	2,733	12.9	11.4	1.5
Equities	Semi-active management	World's excl. Pacific	MSCI World excl. Pacific	Merrill Lynch	5,327	6.3	5.2	1.1
Equities	Semi-active management ¹⁾	World's excl. Pacific	MSCI Financial excl. Pacific	Merrill Lynch	4,131	1.2	1.4	-0.2
Equities	Active	Pacific excl. Japan	MSCI Pacific excl. Japan	APS	2,311	25.3	18.4	6.9
Equities	Active	Pacific excl. Japan	MSCI Pacific excl. Japan	Capital	1,255	22.3	18.4	3.9
Equities	Active	Japan	MSCI Japan	Martin Currie	5,652	5.5	6.6	-1.1
Equities	Active ¹⁾	World	MSCI World	Capital	4,831	-2.9	-1.0	-1.9

¹⁾ = Investment in an external financial-sector mandate included from May 2004.

Percentages in this table are rounded up individually, which may affect the overall total.

Largest Active Positions – Internally Managed Equity Portfolios, 31 December 2004

Largest overweights, Sweden

Company	Active weight, %	Index weight, %	Portfolio weight, %
SHB	3.0	4.4	7.4
Nordea	2.9	6.9	9.8
Investor	2.2	2.4	4.6
Getinge	2.1	0.6	2.7
Kinnevik	2.1	0.7	2.8

Largest overweights, Global

Company	Active weight, %	Index weight, %	Portfolio weight, %
Colgate Palmolive	2.1	0.0	2.1
Diageo	2.1	0.3	2.4
Walgreen	2.0	0.3	2.3
Reckitt	2.0	0.1	2.1
KB HOME	1.8	0.0	1.8

Largest underweights, Sweden

Company	Active weight, %	Index weight, %	Portfolio weight, %
SEB	-3.3	3.3	0.0
TeliaSonera	-3.2	6.8	3.6
Sandvik	-2.6	2.6	0.0
SKF	-1.2	1.2	0.0
Skanska	-1.2	1.2	0.0

Largest underweights, Global

Company	Active weight, %	Index weight, %	Portfolio weight, %
General Electric	-1.4	2.5	1.1
Johnson & Johnson	-1.0	1.2	0.2
Glaxosmith	-0.9	0.9	0.0
Procter & Gamble	-0.9	0.9	0.0
Nestle	-0.7	0.7	0.0

Currency Exposure, 31 December 2004

SEK million	USD	EUR	GBP	JPY	Other	Total
Shares and participations	31,291	8,344	7,529	6,119	6,854	60,137
Bonds and other interest-bearing assets	15,685	8,532	5,311	0	0	29,528
Derivatives excl. currency derivatives	-26	-511	19	33	0	-485
Net other receivables and liabilities	58	32	62	20	13	185
Exposure in SEK to listed companies with a foreign domicile	0	324	833	0	0	1,157
Currency derivatives	-42,562	-2,873	-10,740	-3,390	-60	-59,625
Net currency exposure	4,446	13,848	3,014	2,782	6,807	30,897

Currency Exposure, 31 December 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
Net other receivables and liabilities	137	73	46	190	49	495
Exposure in SEK to listed companies with a foreign domicile	927	488	2,989	2	-2,647	1,759
Currency derivatives	-33,177	-2,096	-10,503	-6,613	-1,424	-53,813
Net currency exposure	7,571	13,143	2,373	1,572	428	25,087

Income Statement

SEK million	Note	2004	2003
Operating income			
Dividends received		1,667	1,704
Net interest income	1	2,398	2,659
Net capital gain/loss	2	3,108	-5,426
Net exchange losses		-1,918	-2,841
Net unrealised changes in value	3	9,268	23,454
Total operating income		14,523	19,550
Operating expenses			
External asset management costs	4	-100	-69
Personnel expenses	5	-79	-73
Other operating expenses	6	-67	-74
Total operating expenses		-246	-216
Net profit for the year		14,277	19,334

Balance Sheet

SEK million	Note	31 Dec 2004	31 Dec 2003
ASSETS			
Shares and participations, listed	7	90,776	81,185
Shares and participations, unlisted	8	1,333	3,505
Bonds and other interest-bearing assets	9	54,689	46,035
Derivatives	10	3,893	3,564
Cash and bank balances		385	398
Other assets	11	678	66
Prepaid expenses and accrued income	12	1,579	1,387
Total assets		153,333	136,140
LIABILITIES AND FUND CAPITAL			
Liabilities			
Derivatives	10	584	367
Other liabilities	13	864	26
Deferred income and accrued expenses	14	451	241
Total liabilities		1,899	634
Fund capital			
	15		
Fund capital at start of year		135,506	113,605
Net disbursements to the national pension scheme		1,397	2,143
Transfers from special asset management fund and liquidation fund		254	424
Net profit for the year		14,277	19,334
Total fund capital		151,434	135,506
Total liabilities and fund capital		153,333	136,140
MEMORANDUM ITEMS			
Other pledges and equivalent collateral	16	972	837
Undertakings	17	1,702	602

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.

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, that is 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 in the income statement under net exchange 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, alternatively, by using the final buying rate. Shares are reported under their market of purchase. Unlisted holdings are valued in accordance with EVCA principles or similar standards. 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 securities 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 the 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.

Other assets

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 generally accounted for 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 and liquidation 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. Paid VAT is 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

	2004	2003
<i>Interest income</i>		
Bonds and other interest-bearing assets	2,109	1,693
Derivatives	1,327	1,508
Other interest income	5	4
Total interest income	3,441	3,205
<i>Interest expenses</i>		
Derivatives	-1 042	-544
Other interest expenses	-1	-2
Total interest expenses	-1 043	-546
Net interest income	2,398	2,659

NOTE 2

Net capital gain/loss

	2004	2003
Shares and participations, listed	2,483	-5,571
Shares and participations, unlisted	0	-439
Bonds and other interest-bearing assets	421	598
Derivatives	204	-14
Net capital gain/loss	3,108	-5,426

NOTE 3

Net unrealised changes in value

	2004	2003
Shares and participations, listed	8,660	24,086
Shares and participations, unlisted	223	110
Bonds and other interest-bearing assets	570	-800
Derivatives	-185	58
Unrealised changes in value	9,268	23,454

NOTE 4

External asset management costs

	2004	2003
Active management mandates, listed equities	67	42
Semi-active management mandates, listed equities	15	12
Active management mandates, unlisted shares and participations	18	15
Total external asset management costs	100	69

NOTE 5

Personnel expenses

SEK '000	2004	2003
<i>Salaries and remuneration</i>		
Chairman of the Board	100	100
Other Members of the Board	410	425
President	1,791	1,884
Other executive management committee members	5,945	5,924
Other employees	36,395	32,250
Total salaries and remuneration	44,641	40,583
<i>Bonus provisions</i>		
President	0	0
Other executive management committee members	224	261
Other employees	1,643	2,001
Total bonuses	1,867	2,262
<i>Pension costs</i>		
President	1,637	1,876
Other executive management committee members	1,920	1,967
Other employees	8,596	6,897
Total pension costs	12,153	10,740
<i>Social security costs</i>	17,454	15,971
<i>Other personnel costs</i>	3,052	2,967
Total personnel expenses	79,167	72,523

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 Deputy Chairman of the Board. Remuneration of the President and Deputy Managing Director is paid in the form of salary. Remuneration of 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 personnel (with the exception of the President and Deputy Managing Director) who have been employed by the Fund for more than six months. The core principle is that bonuses are payable in the event that the Fund outperforms the reference index. The maximum bonus entitlement for the financial year was two months' salary. Bonus payments relate to provisions for 2004. Bonuses will be payable in 2005 after the Board has finalised the annual report and estimated returns on investment have been examined by the Fund's auditors.

Pension and similar benefits

The President's pension benefits and severance pay are specified in his contract of employment. The agreement 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 employment contracts. 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 and does not exceed a maximum of 12 months' salary.

The Fund's pension liabilities in respect of its individual agreements with the President and Deputy Managing Director amount to SEK 11,039,000. The President and Deputy Managing Director have agreed with the Fund to reduce their previously stipulated pensionable age by two years in return for abstaining from commensurate salary increases.

Employees

The average number of employees was 48 (49), of whom 17 (20) were female. The year-end total was 50 (51). In contrast to previous annual reports, this figure no longer includes temporary staff. The executive management committee has had five members for the past two years, including one female in 2004 and two females in 2003.

Sickness absences amounted to 4.6% (4.1) of normal working hours. The figures were 9.8% for female staff members and 0.9% for male staff. Some 3.0% of absences exceeded 60 days. The incidence of sickness absence among employees aged 29 or younger was 2.4%. For those aged 30-49 the figure was 4.7% and for those above 50 the figure was 4.1%.

NOTE 6

Other operating expenses

	2004	2003
Depreciation of equipment	3	4
Information and IT costs	23	22
Services purchased (incl. custody account expenses)	26	34
Cost of premises	10	10
Other operating expenses	5	4
Total other operating expenses	67	74

Purchased services includes the following fees paid to auditors:

	2004	2003
Audit services, Öhrlings PwC	0.8	0.7
Audit services, KPMG	0.3	0.1
Other services, Öhrlings PwC	0.1	0.2
Other services, KPMG	0.0	0.0
Total fees to auditors	1.2	1.0

NOTE 7

Shares and participations, listed

	31 Dec 2004		31 Dec 2003	
	Fair value	Acquisition value	Fair value	Acquisition value
Listed Swedish equities, internally managed ¹⁾	30,600	29,108	29,208	31,610
Listed foreign equities, internally managed ¹⁾	29,525	30,075	34,553	37,864
Listed foreign equities, active external management ¹⁾	9,028	8,191	6,559	5,970
Participation in foreign mutual funds ¹⁾	21,623	22,965	10,865	12,844
Total shares and participations, listed	90,776	90,339	81,185	88,288

¹⁾ A detailed list of holdings is published on pp. 38-42.

²⁾ 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 Dec 2004		31 Dec 2003	
	Fair value	Acquisition value	Fair value	Acquisition value
Unlisted Swedish shares and participations	1,304	1,107	3,480	3,509
Unlisted foreign shares and participations	29	32	25	25
Total shares and participations, unlisted	1,333	1,139	3,505	3,534

A detailed list of holdings is published on pp. 42-43.

NOTE 9

Bonds and other interest-bearing assets

	31 Dec 2004		31 Dec 2003	
	Fair value	Acquisition value	Fair value	Acquisition value
<i>Issuers</i>				
Kingdom of Sweden	8,191	7,940	6,060	5,975
Swedish municipalities	51	50	47	50
Swedish mortgage lending institutions	14,151	13,838	12,993	12,909
Other Swedish financial companies	158	155	1,472	1,466
Swedish non-financial companies	2,287	2,280	561	548
Foreign states	15,546	16,544	13,033	13,898
Other foreign issuers	14,305	15,670	11,869	13,244
Total interest-bearing assets	54,689	56,477	46,035	48,090
<i>Instrument type</i>				
Bonds	52,531	54,322	44,629	46,687
Promissory note loans	2,000	2,000	0	0
Subordinated debentures	81	78	77	74
Overnight loans	77	77	1,329	1,329
Total interest-bearing assets	54,689	56,477	46,035	48,090

NOTE 10**Derivatives**

	31 Dec 2004		
	Nominal value	Real value	
		Positive	Negative
Share futures	2,298	39	1
of which cleared	2,298	39	1
Interest-rate-related instruments			
Swaps	27,706	266	426
FRA/Futures	30,680	53	18
Total interest-rate-related instruments	58,386	319	444
of which cleared	30,680	53	18
Foreign exchange forward contracts	86,730	3,535	139
Total derivatives	147,414	3,893	584
of which cleared	32,978	92	19

NOTE 11**Other assets**

	31 Dec 2004	31 Dec 2003
Non-liquid receivables sold	672	58
Equipment	4	5
Other receivables	2	3
Total other assets	678	66

NOTE 12**Prepaid expenses and accrued income**

	31 Dec 2004	31 Dec 2003
Accrued interest income	1,517	1,315
Accrued dividends and restitutions	56	66
Other	6	6
Total	1,579	1,387

NOTE 13**Other liabilities**

	31 Dec 2004	31 Dec 2003
Trade creditors	2	4
Pension provisions	11	9
Non-liquid liabilities purchased	848	7
Other liabilities	3	6
Total other liabilities	864	26

NOTE 14**Deferred income and accrued expenses**

	31 Dec 2004	31 Dec 2003
Accrued interest expenses	377	202
Accrued personnel costs	7	6
Accrued external asset management costs	62	29
Other accrued expenses	5	4
Total	451	241

NOTE 15**Fund capital**

	31 Dec 2004	31 Dec 2003
Fund capital at start of year	135,506	113,605
<i>Net transfers from the National Pension Scheme</i>		
Pension contributions received	42,904	41,271
Pension disbursements	-40,696	-38,852
Transfer of pension rights to the EU	-95	0
Pension entitlement adjustments	-4	5
Non-recurring adjustment for 1999-2002	-400	0
Administration fee paid to RFV	-312	-281
Net transfers from the National Pension Scheme	1,397	2,143
Transfer from First Swedish National Pension Fund's liquidation fund	129	394
Transfer from Fourth Swedish National Pension Fund's special asset management fund	125	30
Total transfers from liquidation and special asset management funds	254	424
Net profit for the year	14,277	19,334
Fund capital at year-end	151,434	135,506
Assets under management in First Swedish National Pension Fund's liquidation fund	4,921	5,214
Assets under management in Fourth Swedish National Pension Fund's special asset management fund	806	1,291

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

NOTE 16**Other pledges and equivalent collateral**

	31 Dec 2004	31 Dec 2003
Bonds pledged as collateral for futures	972	837

NOTE 17**Undertakings**

	31 Dec 2004	31 Dec 2003
Capital investments not yet drawn down	1,702	602

NOTE 18**Related enterprises**

The Fourth Swedish National Pension Fund rents offices from AP Fastigheter at market rates.

Stockholm, 10 February 2005

Birgit Friggebo
Chairman

Karl-Olof Hammarkvist
Deputy Chairman

Göran Johnsson

Kajsa Lindstahl

Marianne Nivert

Sture Nordh

Inga Persson

Ilmar Reepalu

Ulrik Wehtje

Thomas Halvorsen
President

Our Auditors' Report was submitted in

Stockholm, 10 February 2005

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 2004. The responsibility for the financial statements and administration, and for the application of the Swedish National Pension Funds Act in conjunction with the Annual Report, 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 Fourth Swedish National Pension Fund in accordance with generally accepted auditing standards in Sweden. The Report of the Board of Directors is compatible with the other elements of the Annual Report.

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 income statement and balance sheets be adopted.

Stockholm, 10 February 2005

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 equities, internally managed

Company, 31 Dec 2004	Number	Fair value SEK million	Percentage of share capital	Percentage of voting capital
Addtech B	1,075,775	62	4.25	3.05
Ainax	1,247,284	332	4.57	4.57
Alfa Laval	4,804,200	516	4.30	4.30
Anoto Group	4,871,794	54	4.13	4.13
Assa Abloy B	7,164,400	813	1.96	1.33
AstraZeneca ¹⁾	3,447,600	833	0.32	0.32
Atlas Copco	2,107,200	620	1.01	1.10
A	1,559,200			
B	548,000			
Axis	3,320,700	60	4.82	4.82
Beijer Alma B	118,000	16	1.29	0.62
Bergman & Beving B	1,075,775	82	3.83	2.83
Biolnvent International	1,370,550	12	4.65	4.65
Boliden	850,000	24	0.34	0.34
Capio	3,246,900	257	4.08	4.08
Castellum	1,290,200	307	3.00	3.00
Clas Ohlson B	1,994,580	249	3.18	2.25
Electrolux B	5,273,440	802	1.71	1.34
Ericsson	196,892,300	4,175	1.22	0.80
A	2,872,755			
B	194,019,545			
FöreningsSparbanken A	4,322,500	715	0.82	0.82
Gefinge B	9,504,500	786	4.71	2.94
Hennes & Mauritz B	12,453,450	2,883	1.50	0.73
Holmen	803,300	187	0.95	0.78
A	160,000			
B	643,300			
Intentia International B	5,197,700	74	3.10	2.43
Investor	16,014,500	1,353	2.09	0.65
A	820,000			
B	15,194,500			
JM	769,200	147	2.74	2.74
Karo Bio	1,381,866	18	4.46	4.46
Kinnevik B	11,361,000	804	4.03	1.27
Metro International	14,323,400	206	2.72	4.36
A	11,474,900			
B	2,848,500			
Micronic	1,900,000	127	4.85	4.85
MTG B	3,372,000	610	5.08	1.63
New Wave Group B	200,000	25	0.63	0.15
Nordea	43,164,890	2,892	1.58	1.58
Oriflame	1,370,000	211	2.31	2.31
Precise Biometrics A	3,375,000	10	5.54	5.54
SCA	2,827,509	805	1.20	2.62
A	1,432,500			
B	1,395,009			
Scania B	4,136,600	1,088	2.07	0.38
Seco Tools B	219,000	67	0.75	0.20
Securitas B	8,380,009	955	2.30	1.61
SHB	12,592,485	2,179	1.88	1.89
A	12,304,485			
B	288,000			
Skandia	12,811,808	424	1.25	1.25
SSAB	1,946,800	310	1.93	2.03
A	1,526,800			
B	420,000			
Swedish Match	1,816,900	140	0.57	0.57

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

cont. from previous page

Company, 31 Dec 2004	Number	Fair value SEK million	Percentage of share capital	Percentage of voting capital
Tele 2 B	4,044,850	1,056	2.74	1.41
Teleca B	2,940,210	107	4.71	4.31
Telelogic	9,534,000	150	4.39	4.39
TeliaSonera	30,369,300	1,209	0.65	0.65
Transcom WorldWide	3,335,000	118	4.64	1.94
A	700,000			
B	2,635,000			
Volvo	6,683,095	1,727	1.51	2.22
A	3,417,427			
B	3,265,668			
Wihlborgs Fastigheter	19 451	3	0.02	0.02
Total fair value of listed Swedish equities, internally managed		30,600		
Total acquisition value of listed Swedish equities, internally managed		29,108		

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

Listed foreign equities, internally managed

All foreign holdings correspond to less than 2% of the share capital and voting capital.

Austria

Company, 31 Dec 2004	Number	Fair value SEK million
Immofinanz Immobilien	109,400	7
Total fair value		7
Total acquisition value		7

Denmark

Company, 31 Dec 2004	Number	Fair value SEK million
Danske Bank	125,000	25
Total fair value		25
Total acquisition value		25

Belgium

Company, 31 Dec 2004	Number	Fair value SEK million
Cofinimmo	1,390	2
Dexia	120,400	18
Electrabel	11,460	34
Total fair value		54
Total acquisition value		46

France

Company, 31 Dec 2004	Number	Fair value SEK million
AXA	221,200	36
BNP Paribas	145,800	70
Business Objects	530,000	89
Carrefour	1,040,337	329
Credit Agricole	178,868	36
France Telecom	1,200,000	264
Gecina	4,840	3
JC Decaux	1,784,915	346
Klepierre	3,970	2
L'Oréal	661,435	334
Peugeot Citroën	294,800	124
Suez	287,300	51
Total	142,100	206
Unibail	3,800	4
Veolia Environnement	109,900	27
Total fair value		1,921
Total acquisition value		1,803

Canada

Company, 31 Dec 2004	Number	Fair value SEK million
Bank of Nova Scotia	82,300	19
Bank of Montreal	47,600	15
Canadian Imperial Bank of Commerce	46,700	19
Enbridge	55,270	18
EnCana	122,500	46
Manulife Financial Corporation	92,800	29
Nexen	57,010	15
Petro-Canada	50,540	17
Royal Bank of Canada	59,000	21
Sun Life Financial	86,600	19
Suncor Energy	120,100	28
TransCanada Corporation	137,000	23
Total fair value		269
Total acquisition value		249

Germany

Company, 31 Dec 2004	Number	Fair value
		SEK million
Allianz	44,171	39
BASF	261,900	125
BMW	967,600	290
Depfa Bank	99,000	11
Deutsche Bank	45,120	27
Deutsche Telekom	200,000	30
E.ON	197,900	120
Hypo Real Estate	61,300	17
Bayerische Hypo- und Vereinsbank	109,800	17
Münchener RE	20,216	16
RWE	144,900	53
Siemens	933,408	525
Total fair value		1,270
Total acquisition value		1,179

Italy

Company, 31 Dec 2004	Number	Fair value
		SEK million
Assicurazioni Generali	149,800	34
Banca Intesa	866,331	28
Enel	816,000	53
Eni	606,000	101
RAS	83,640	12
SanPaolo IMI	210,000	20
UniCredito Italiano	944,700	36
Total fair value		284
Total acquisition value		251

Netherlands

Company, 31 Dec 2004	Number	Fair value
		SEK million
ABN AMRO Holding	94,100	17
Aegon	223,700	20
Fortis	165,100	30
ING	233,565	47
KPN	3,100,000	196
Royal Dutch Petroleum	497,240	190
Total fair value		500
Total acquisition value		516

Norway

Company, 31 Dec 2004	Number	Fair value
		SEK million
Norsk Hydro	51,400	27
Total fair value		27
Total acquisition value		25

Republic of Ireland

Company, 31 Dec 2004	Number	Fair value
		SEK million
Bank of Ireland	261,700	29
Total fair value		29
Total acquisition value		27

Spain

Company, 31 Dec 2004	Number	Fair value
		SEK million
Banco Bilbao Vizcaya Argentaria	706,900	83
Banco Santander Central Hispano	670,900	55
Endesa	326,400	51
Gas Natural	101,200	21
Iberdrola	268,400	45
Repsol YPF	240,700	42
Telefonica	600,000	75
Total fair value		372
Total acquisition value		309

Switzerland

Company, 31 Dec 2004	Number	Fair value
		SEK million
Credit Suisse Group	154,400	43
Novartis	500,654	167
Roche	781,700	598
Swiss Re	48,500	23
UBS	170,800	95
Zurich Financial Services	20,427	23
Total fair value		949
Total acquisition value		891

United Kingdom

Company, 31 Dec 2004	Number	Fair value
		SEK million
AstraZeneca	2,021,154	487
Aviva	304,100	24
Barclays	750,300	56
BG Group	889,600	40
BHP Billiton	1,524,500	119
BOC Group	624,800	79
BP	4,968,800	322
British Land	35,900	4
BT Group	4,000,000	104
Centrica	1,408,560	43
Diageo	7,864,121	745
Great Portland	17,540	1
Hammerson	20,200	2
HBOS	443,200	48
HSBC Holdings	1,581,500	177
Kingfisher	6,919,392	273
Land Securities	37,900	7
Legal & General	1,196,600	17
Liberty International	29,700	4
National Grid Transco	1,073,600	68
Northern Rock	182,600	18

Company, 31 Dec 2004	Number	Fair value
		SEK million
Prudential	333,500	19
Reckitt Benckiser	3,280,569	659
Rio Tinto	608,800	119
Royal Bank of Scotland	532,700	119
Scottish Power	650,100	33
Scottish & Southern Energy	300,000	33
Severn Trent	194,100	24
Shell	2,291,400	130
Shire Pharmaceuticals	2,050,200	143
Slough Estates	39,900	3
Smith & Nephew	1,882,050	128
Standard Chartered	84,300	10
United Utilities	264,200	21
Vodafone Group	35,000,000	631
Total fair value		4,710
Total acquisition value		4,832

USA

Company, 31 Dec 2004	Number	Fair value
		SEK million
ACE	40,200	11
Adobe	753,900	314
Aflac	82,600	22
AIG	280,100	122
Alcoa	316,500	66
Allergan	264,400	142
Allstate	100,000	34
Altria	568,200	230
Ambac Financial	16,420	9
Ameren	70,500	23
American Express	187,600	70
American Electric Power	137,000	31
Amgen	411,900	175
Anadarko Petroleum	70,300	30
Angiotech Pharmaceuticals	326,000	40
Apache	84,400	28
AT&T Wireless Services	1,280,000	162
Baker Hughes	109,100	31
Bank of America	626,300	195
Bank of New York	225,800	50
Baxter	353,000	81
BB&T	76,000	21
BellSouth	1,100,000	203
BJ Services	57,010	18
Boston Scientific	404,500	95
Burlington Resources	112,070	32
Capital One Financial	20,560	12
Caremark Rx	436,000	114
Centex	1,118,700	442
Cephalon	45,000	15
ChevronTexaco	494,600	172
Chubb	32,700	17
Cinergy	111,800	31
Cisco Systems	857,700	110
CIT Group	121,100	37
Citigroup	753,300	241
Cognos	310,600	91
Colgate-Palmolive	1,951,095	662
Commerce Bancorp	75,000	32
Consolidated Edison	60,600	18
Constellation Energy Group	97,610	28
Countrywide Financial	184,198	45

Company, 31 Dec 2004	Number	Fair value
		SEK million
Dell	2,000,000	559
Devon Energy	112,880	29
Dominion Resources	103,000	46
Dow Chemical	356,900	117
Duke Energy	299,000	50
EchoStar Communications	816,200	180
Edison International	99,900	21
El Paso	431,500	30
Elan	230,900	42
Eli Lilly	575,200	217
Emerson Electric	746,500	347
Entergy	73,800	33
E-Trade	79,600	8
Exelon	233,600	68
Express Scripts	169,100	86
Exxon Mobil	1,461,900	497
Fannie Mae	109,900	52
First Data	1,435,200	405
FirstEnergy	114,000	30
FPL Group	59,600	30
Freddie Mac	63,900	31
Gannett	512,800	278
General Electric	1,431,825	347
Genentech	265,800	96
Gilead Sciences	395,600	92
Golden West Financial	53,200	22
Goldman Sachs	64,510	45
Guidant	240,700	115
Halliburton	131,700	34
Hartford Financial	43,300	20
IBM	1,101,900	721
International Game Technology	775,800	177
Ingersoll-Rand	641,300	342
Intel	1,142,400	177
Johnson & Johnson	142,000	60
J.P. Morgan Chase	323,700	84
Juniper Networks	1,600,000	289
KB HOME	799,900	554
Kohl's	669,400	218
Lincoln National	33,300	10
Liz Claiborne	1,237,400	347
LPX	261,200	46
Marathon Oil	85,600	21
Marsh & McLennan	83,300	18
MBIA	17,300	7
MBNA	253,550	47
McGraw-Hill	439,000	267
Medicines Company	915,691	175
Medtronic	362,500	120
Merck & Co	187,000	40
Merrill Lynch	162,600	65
MetLife	104,900	28
MGI Pharma	841,200	156
Microsoft	5,637,300	999
Morgan Stanley	129,100	48
3M	574,135	313
Nabors Industries	51,600	18
Neiman Marcus Group	285,700	136
Noble	52,760	17
North Fork Bancorporation	170,050	33
Northern Trust	124,600	40
O2Micro	510,600	39
Occidental Petroleum	95,700	37
Oracle	2,790,000	254
OSI Pharmaceuticals	91,700	46
PacificCare Health Systems	256,700	96
Pfizer	1,770,400	316
PG&E	127,800	28
PNC Financial Service Group	50,500	19

cont. from previous page

Company, 31 Dec 2004	Number	Fair value SEK million	Company, 31 Dec 2004	Number	Fair value SEK million
PPL	60,600	21	Wyeth	885,091	250
Progress Energy	82,400	25	Xcel Energy	129,500	16
Progressive	31,290	18	Xerox Corporation	2,600,000	293
Providan	83,500	9	XL Capital	19,960	10
Prudential Financial	97,800	36	XTO Energy	59,325	14
Public Service Enterprise	80,200	28	Zimmer Holdings	243,500	129
Rigel Pharmaceuticals	63,300	10	Zions Bancorporation	45,600	21
SBC Communications	1,820,000	311	Total fair value		19,108
Schlumberger	154,400	69	Total acquisition value		19,915
Sempra Energy	85,200	21			
Sepracor	376,000	148			
SLM	53,600	19			
Southern Company	227,600	51			
Sovereign Bancorp	104,800	16	Total fair value of listed foreign equities, internally managed		29,525
St Paul Travelers	90,339	22			
Symantec	310,000	53			
Transocean	106,600	30	Total acquisition value of listed foreign equities, internally managed		30,075
TXU	112,300	48			
Tyco International	2,489,900	590			
UnitedHealth Group	361,500	211			
Unocal	88,700	25			
U.S. Bancorp	383,000	80			
Valero Energy	79,620	24			
Veritas Software	1,000,000	189			
Verizon Communications	700,000	188			
Wachovia	255,200	89			
Walgreen	2,800,800	713			
Wal-Mart Stores	838,700	294			
Washington Mutual	40,000	11			
WellPoint	216,600	165			
Wells Fargo	304,800	126			
Weyerhaeuser	219,200	98			

Fund, 31 Dec 2004	Number	Fair value SEK million
Capital International Global Equity Fund	42,355,253	4,831
State Street Europe Enhanced Fund	2,470,902	2,733
State Street North		
America ex-REIT Enhanced Fund	60,623,924	4,601
Merrill Lynch Financial Sector Fund	54,008,618	4,131
Merrill Lynch World Index Fund	74,452,385	5,327
Total fair value, participations in mutual funds		21,623
Total acquisition value, participation in mutual funds		22,965

Shares and participations, unlisted

Unlisted Swedish shares and participations

Company, 31 Dec 2004	Corp. reg. no.	Number	Acquisition value SEK million	Percentage of share capital	Percentage of voting capital
AP Fastigheter Holding AB	556650-4196	1,000,000	721	25.0	25.0
Innoventus AB	556602-2728	2,100	1	15.0	15.0
Total acquisition value			722		
Total fair value			934		

Participations in Swedish limited partnerships

Company, 31 Dec 2004	Corp. reg. no.	Acquisition value SEK million	Percentage of invested capital
Accent Equity 2003 KB	969694-7739	28	18.9 ¹⁾
BrainHeart Capital KB	969674-4102	197	21.5 ¹⁾
HealthCap III Sidefund KB	969699-4830	33	20.0
HealthCap Annex Fund I - II KB	969690-2049	29	19.8
HealthCap IV KB	969683-6650	18	13.3 ¹⁾
Innoventus Life Science I KB	969677-8530	20	16.3
Northern Europe Private Equity KB (EQT 3)	969670-3405	60	10.3 ¹⁾
Total acquisition value		385	
Total fair value		370	

¹⁾The Fourth Swedish National Pension Fund's share of the total commitments in Accent, BrainHeart, HealthCap IV and EQT 3 is 6%, 19.3%, 1.7% and 0.5% respectively.

Participations in foreign limited partnerships

United Kingdom

Company, 31 Dec 2004	Acquisition value SEK million	Percentage of invested capital
EQT 4	1	3.6 ^{*)}
European Strategic Partners KB II	31	4.1
Total acquisition value	32	
Total fair value	29	

*) The Fourth Swedish National Pension Fund's share of the total undertakings in EQT is 3.0%.

Total fair value, unlisted shares and participations	1,333
Total acquisition value, unlisted shares and participations	1,139

Historical Performance Review

	2004	2003	2002	2001
Fund capital, (31 Dec), SEK billion	151.4	135.5	113.6	131.6
Net transfers from National Social Insurance Board and liquidation/ special asset management funds, SEK billion	1.7	2.6	5.0	4.5
Net profit for the year, SEK billion	14.3	19.3	-23.0	-6.9
Return on total portfolio excl. expenses, %	10.6	17.0	-16.8	-5.0
Return on total portfolio versus index, excl. expenses, %	-0.3	-1.0	-0.5	-0.5
Return on listed assets versus index, excl. expenses, %	-0.3	-0.4	-0.9	0.1
Active risk in total portfolio, ex post, %	1.0	0.9	1.4	3.5
Currency exposure, (31 Dec), %	20.4	18.5	16.8	13.5
Share of active management incl. enhanced, (31 Dec), %	100.0	100.0	90.9	87.0
Share of external management incl. investments in venture capital firms, (31 Dec), %	20.6	13.2	13.5	13.1
Asset management cost quotient incl. external management costs, %	0.17	0.17	0.13	0.13
Asset management cost quotient excl. external asset management costs, %	0.10	0.12	0.12	0.12

Board of Directors and Auditors



Birgit Friggebo



Karl-Olof Hammarkvist and Inga Persson



Sture Nordh



Kajsa Lindstahl and Ilmar Reepalu



Marianne Nivert



Göran Johnsson and Ulrik Wehtje

Board of Directors

Birgit Friggebo

Year of birth 1941. Chairman since 2000.

Other assignments:

Chairman of the University College of Opera and the Swedish Educational Broadcasting Company.

Karl-Olof Hammarkvist

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

Other assignments:

Member of the Board of the Stockholm Institute for Financial Research, Skandia AB and Capital Market Group Foundation.

Göran Johnsson

Chairman of the Swedish Metalworkers' Union. Year of birth 1945. Member of the Board since 1997 and Deputy Member of the Board 1993-1996.

Other assignments:

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

Member of the Board of the International Metalworkers' Federation, 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. Ambassador for Blekinge Institute of Technology.

Kajsa Lindstahl

Director. Year of birth 1943. Member of the Board since 2004.

Other assignments:

Chairman of the Board of Amnesty Business Group, Stiftelsen Tumba Bruk and Aktieförbundet. Member of the Board of Skandia AB, NGM Holding AB, Swedish National Road Consulting AB, Riksbankens Jubileumsfond and SIFR Stockholm Institute for Financial Research.

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, Karolinska Universitetssjukhus, Lennart Wallenstam Byggnads AB, Chalmers Technical Högskola AB, Studieförbundet Näringsliv and Samhälle, and Systembolaget.

Sture Nordh

Chairman of the Swedish Confederation of Professional Employees. Year of birth 1952. Member of the Board since 1999.

Other assignments:

Chairman of the Board of Karlstad University. Deputy Chairman of Folksam Liv. Member of the Board of the Swedish National Labour Market Administration, Riva del Sole Spa and the European Trade Union Confederation.

Inga Persson

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

Other assignments:

Member of the SIDA Research Council. 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. Deputy Chairman of KPA AB. Member of the Board of Sydkraft AB, Förenade Kommunföretag AB, Att Veta AB and Position Skåne AB.

Ulrik Wehtje

Master of Engineering. Year of birth 1956. Member of the Board since 2004.

Other assignments:

Deputy Chairman of the Swedish Association of Bookbinders, the Swedish Graphic Companies' Federation and the Confederation of Swedish Enterprise's SME Committee. Member of the Board of the Confederation of Swedish Enterprise.

Auditors

Anna Hesselman

Authorised Public Accountant. Öhrlings PricewaterhouseCoopers.

Anders Bäckström,

Authorised Public Accountant. KPMG.

Executive Management Committee and Organisational Structure



Executive Management Committee

Göran Schubert,
Head of Performance and
Risk Control

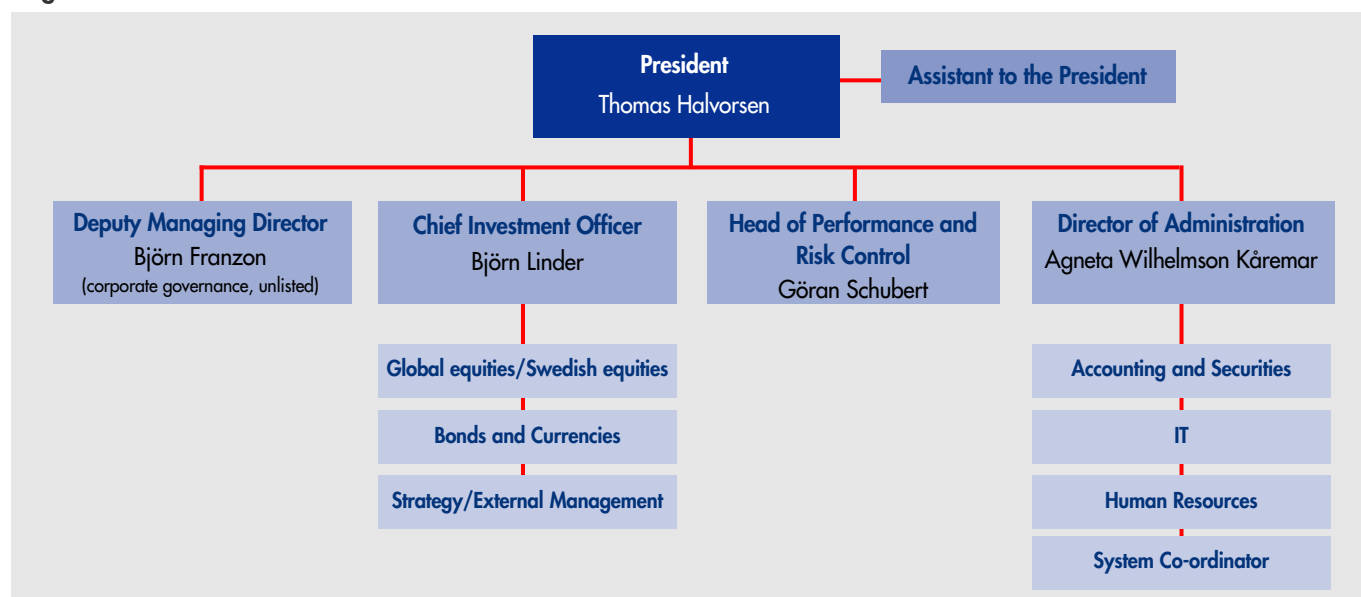
Björn Franzon,
Deputy Managing
Director

Agneta Wilhelmson Kåremar,
Director of Administration

Thomas Halvorsen,
President

Björn Linder,
Chief Investment Officer

Organisation



Definitions

Active management

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

Active position

Difference between a portfolio and its reference or benchmark index, e.g. in terms of weighting in individual equities (in active stock selection), sectoral weighting (in active sectoral allocation) or duration (in active duration management).

Active return

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

Active stock selection

The taking of active positions in different equities in order to outperform the reference index.

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, forecast pension contributions 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 optimum combination to meet the Fund's pension commitments.

Asset management cost quotient

Operating expenses as a ratio of average fund capital.

Automatic balancing

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

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 figure falls below 1.0, the automatic balancing mechanism is triggered and pension disbursements are reduced.

Benchmark index

Combination of various reference indices. Is a series of index returns against which the Fund's total risks and return is compared. Returns mirror those from the strategic portfolio.

Beta value

Denotes the portfolio's propensity to rise or fall when the benchmark or reference index rises or falls. It states the expected percentage change in the value of the portfolio given a change of 1% in the reference or benchmark index.

Buffer fund

The name for the First, Second, Third, Fourth and Sixth National Swedish Pension Funds. The funds' purpose is to compensate for temporary deficits in pension contributions in relation to pension disbursements (i.e. periods when disbursements exceed contributions) and also to maintain the value of pension assets in relation to pension liabilities. See Balance ratio.

Contribution value

Estimate of the present value of future forecast pension 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 payments.

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 the Swedish krona and for which currency risk has not been neutralised by hedging.

Currency risk

The risk of a change in value of the portfolio as a result of fluctuations in foreign exchange rates.

Derivatives

Collective term for financial instruments whose value is linked to the value of an underlying instrument. Sovereign bonds futures are an example of a derivative linked to government bonds as an underlying instrument.

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 McCauley Duration. See Modified duration.

Enhanced index management

Portfolio management with a somewhat higher risk management than passive management, i.e. resembling index management but with a limited active component.

Excess return

Arises when a portfolio outperforms its benchmark or reference index. Is the same as active return where the latter exceeds zero.

Fixed income portfolio

Comprised of fixed income assets including interest rate derivatives and currency futures tied to fixed income assets. The foreign portion of the fixed income portfolio's reference index is hedged in Swedish kronor.

Fundamental analysis

Analysis aimed at predicting a company's future value. Is based primarily on information about companies and their markets, e.g. information about their executive management, strategy, earnings forecasts and financial status and performance.

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.) The reference index is the MSCI World DNI, rebased to Swedish kronor in 2004 and local currencies in 2005.

Handelsbanken Markets Bond Index

Svenska 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 currency futures.

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.

Interest rate risk

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

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 buybacks, liquid assets and derivatives with a negative market value are reported under items other than investment assets.

Investment grade

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

Legal risk

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

Liquidity risk

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

Market risk

Risk of a change in the value of a financial instrument due to changes in equity prices, exchange rates or interest rates.

Merrill Lynch GBI

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

Modified duration

Measure of interest rate risk. Defined as the percentile change in value of a fixed income security as a result of a 1% parallel shift in the yield curve. Calculated by dividing duration (see definition) by the market interest rate plus 1.

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 and charts global market performance, including dividends.

Net contributions

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

Non-sovereign bond

Bond carrying a higher credit risk than a sovereign bond, e.g. a corporate bond.

Operational risks

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

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

The return on a financial instrument or portfolio divided by the level of risk (measured as volatility). 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 often 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-active asset management

Portfolio management with a somewhat higher active risk than passive management (i.e. resembling index management but with a limited active component).

Sharpe ratio

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

SIX Return Index

Reference index for the Fund's Swedish equity portfolio. Charts the market performance of companies listed on Stockholm Stock Exchanges 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.

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 or regions in order to outperform the index.

Tracking error

See Active 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.

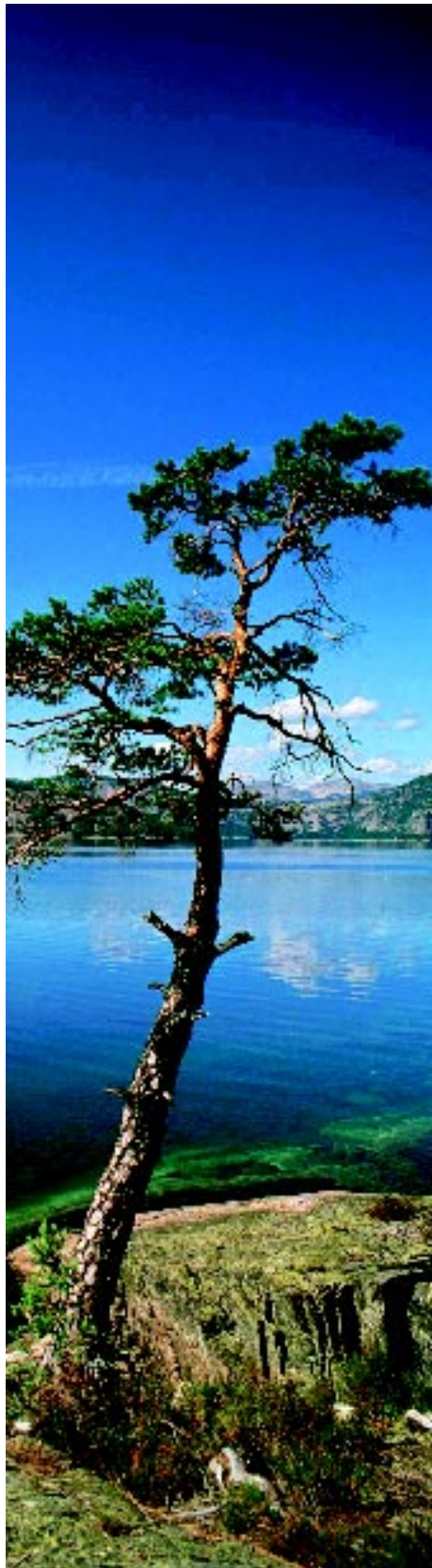
Yield curve

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

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