



- The Fourth National Swedish Pension Fund's investment assets had a total market value of SEK 123 billion on 30 June 2003.
- The Fund's assets generated a total return of 6.7% in the first half of 2003.
- Net profit for the period totalled SEK 7.7 billion.

INTERIM REPORT
January–June
2003

Interim Report January–June 2003

Economic conditions

Growth among OECD countries remained weak during the first half of the year. In the US and Japan, growth was about 2% on an annualised basis and remained largely unchanged in the euro area. A decline was noted from the last quarter of 2002, particularly in the US. Thus growth remained below trend and substantially lower than would usually be the case in the recovery phase of the economic cycle. This was even more so for nominal growth owing to low, and indeed falling, inflation.

Industrial production was also weak. The recovery that took hold in the OECD area during autumn 2001 peaked in mid-2002. Thereafter, industrial production in the OECD remained more or less stagnant. In the US, industrial production fell during the first half of 2003, while employment was unchanged or declining in the world's leading economies.

This weakness precipitated further monetary and fiscal stimulus measures. The Federal Reserve cut its key US interest rate by a further 0.25 percentage points during the period, while the ECB lowered its main European rate by 0.75 percentage points. In Sweden, the Riksbank cut its key interest rate by 1 percentage unit.

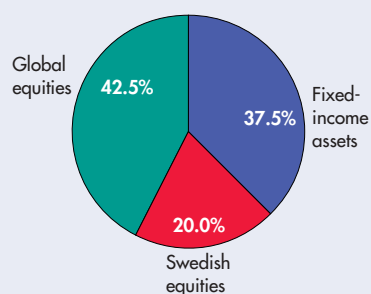
Developments in Iraq dominated news headlines in the first quarter. Deepening uncertainty over the prospect of war and

its economic consequences fuelled pessimism among households and businesses in the US and Europe. According to many US companies, war-related uncertainty had a strongly negative effect on readiness to invest. Oil prices rose sharply in February and early March to levels that would have impacted negatively on growth and corporate earnings had they persisted. However, oil prices dropped sharply when war broke out, though they increased somewhat thereafter and were at about USD 30 per barrel at end June.

Long-term interest rates fell in the first half to new lows but rose significantly towards the end of the period. The US dollar continued to weaken relative to the euro and even more so against a trade-weighted basket of currencies. Among the causes of dollar weakness were a growing trade deficit, expectations of a big increase in the US budget deficit, weaker than expected economic performance and low US interest rates.

Falling short-term and long-term interest rates, a weaker dollar and rising share prices combined to create better conditions for economic growth in the US. The second quarter experienced a growing confidence that the economy had reached bottom and that economic stimuli had created a favourable climate for higher growth.

Normal portfolio 2003



Allocation of investment assets

Asset category	30-06-2003		30-06-2002		31-12-2002	
	Market value, SEK million	Share, %	Market value, SEK million	Share, %	Market value, SEK million	Share, %
Swedish equity portfolio	24,911	20.3	26,551	21.8	21,989	19.3
Global equity portfolio	52,850	43.1	48,777	40.0	46,769	41.2
Fixed income portfolio	41,636	33.9	42,920	35.2	41,332	36.4
Unlisted real estate equities	3,267	2.7	3,587	3.0	3,554	3.1
Investment assets	122,664	100.0	121,835	100.0	113,644	100.0

Return and risk

Asset category	Return, %						Volatility, % Full year Portfolio	Active risk, % Full year Portfolio
	2003 Jan-June		2002 Jan-June		2002 Full year			
	Portfolio	Index	Portfolio	Index	Portfolio	Index		
Swedish equity portfolio	10.7	10.9	-23.1	-21.9	-36.4	-35.9	32.2	4.1
Global equity portfolio	2.0	2.3	-20.9	-19.9	-35.1	-33.6	25.9	2.5
Fixed income portfolio	4.2	4.2	3.0	3.1	9.4	9.8	2.7	0.7
Unlisted real estate equities	-3.3	-	0.0	-	-1.2	-	-	-
Investment assets	6.7	7.2	-10.2	-9.7	-16.8	-16.3	14.4	1.3

However, it remains to be seen how quickly the economy will improve and whether a recovery is sustainable. Debt-burdened US consumers cannot be expected to contribute as strongly to increased demand in the OECD as has been the case in previous economic rebounds. Question marks may also be raised over the European economy, especially regarding the appreciation of the euro.

Investment assets

The Fund's normal portfolio was adjusted at year-end 2002 and the proportion of Swedish equities reduced to 20%, a reduction of 2.5 percentage points, in favour of global equities. (See chart, previous page.) The prime reason for this was a desire to improve the Fund's equity portfolio diversification following a decline in the relative share of Swedish equities in the world index.

After a weak first quarter on world equity markets, stock prices began to rally. The catalyst for this was the outbreak of war in Iraq and the rapid advance of the allied forces. Also, the Federal Reserve signalled that it would prioritise efforts to prevent deflation, from which the market inferred that interest rates would be kept low for a substantial period in order to promote growth. Falling interest rates and a lower equity risk premium underpinned gains on stock markets, which recorded an overall gain in the first half. Bond markets also prospered as interest rates continued to fall.

The total net market value of the Fund's investment assets was SEK 122,664 million on 30 June. Relative to the normal portfolio, there was an overweighting of 0.6 percentage points in the global equity portfolio, of 0.3 percentage points in the Swedish equity portfolio and an underweighting of 3.6 percentage points in the fixed income portfolio.

Total return

Return on investment assets totalled 6.7%, an underperformance of 0.5 percentage points against the Fund's benchmark index. The return on liquid assets, excluding unlisted equities, was 7.0%. Currency hedging of the global equity portfolio added 2.2 percentage points to absolute return.

The return relative to the benchmark index was negatively affected chiefly by the change in value of shares in the AP Fastigheter real estate company, which is not part of the Fund's normal portfolio. The fixed income portfolio outperformed its reference index somewhat, while the equity portfolios underperformed.

Swedish equity portfolio

The Swedish equity portfolio had a market value of SEK 24,911 million on 30 June.

Including unlisted equities worth SEK 211 million, the portfolio posted a return of 10.7%. This return was facilitated by low exposure to basic industries and a high weighting in cyclical consumer industries. However, high exposure to

security companies and the mix of equities in the banking sector had a negative impact on return. The five largest holdings are shown in the chart below.

Global equity portfolio

The global equity portfolio had a market value of SEK 52,850 million on 30 June, of which SEK 15,301 million was funds under external management. In the main, these assets were passively managed. The market value of those sections of the portfolio under active management was SEK 4,677 million on 30 June.

The return on the global equity portfolio, unhedged, totalled 2.0%, an underperformance of 0.3 percentage points against the reference index. This underperformance can be ascribed to sector allocation and to a lesser degree to stockpicking, which proved less favourable in the second quarter.

Swedish equity portfolio's largest investments at 30-06-2003

Company	Market value SEK million	Share of portfolio, %
Hennes & Mauritz	2,079	8.3
Nordea	2,065	8.3
Ericsson	1,941	7.8
SHB	1,816	7.3
AstraZeneca	1,711	6.9
Total	9,612	38.6

Fixed income portfolio

The fixed income portfolio, including liquid assets, had a market value of SEK 41,636 million on 30 June. The portfolio reported a return of 4.2% and outperformed the Fund's reference index. The relative return benefited from narrower credit spreads and a decline in Swedish interest rates relative to UK and continental European rates. Fixed income holdings by rating class are shown in the chart below.

At the end of the period the Fund was positioned for small interest rate increases in Sweden relative to the US and UK, flatter yield curves and a general rise in interest rates.

Currencies

In 2002, the Fund introduced a new currency strategy under which the portfolio's exposure was spread among Sweden's largest import currencies. The US dollar weighting was increased to reflect Sweden's dollar-based raw material imports. This strategy resulted in the following currency spread: 55% EUR, 30% USD, 10% GBP and 5% JPY. The rationale is that an import-weighted currency spread will better safeguard the buying

power of tomorrow's pensioners since Swedish retail prices are partly influenced by import currency swings. The Fund's currency distribution as of 30 June 2003 is shown in the chart below.

Currency exposure corresponded to 16.1% of total assets at the half-year mark, compared to 16.8% at the start of the year.

Other

Fund capital totalled SEK 122,652 million on 30 June 2003, an increase of SEK 9,047 million from year-end. Net profit of SEK 7,656 million for the period was added to fund capital, in addition to which SEK 1,116 million was received from the National Pension Scheme and SEK 275 million from the First Swedish National Pension Fund's liquidation fund.

Operating expenses increased to SEK 97 million, compared to SEK 86 million in the first half of 2002. External asset management costs accounted for SEK 10 million of this increase. The asset management cost quotient (operating expenses as a proportion of the average value of fund capital) was 0.16% (0.14) recalculated on an annualised basis. The number of employees increased from 52 to 53.

The Fund's special asset management portfolio, which manage the AP Funds' withdrawal from its unlisted equity holdings, held investment assets worth SEK 1,269 million on 30 June 2003.

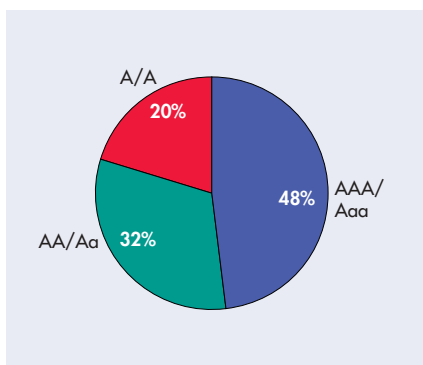
President's comments

It is gratifying that the Fund has reported its strongest half-year figures in absolute terms since the remodelling of the National Pension Scheme at the end of 2000. The primary driving force has been rising share prices on world equity markets, which hopefully now have reached their lowest point in the current economic cycle.

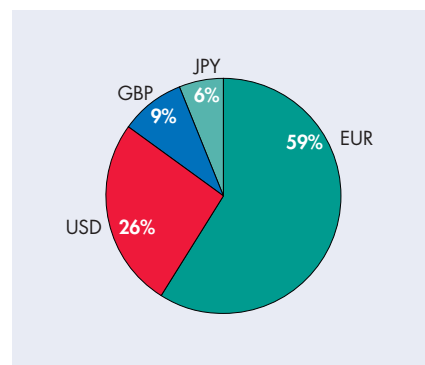
However, the Fund's return of 6.7% relative to 7.2% for the benchmark index is unsatisfactory, even though the fact that much of the underperformance stemmed from a negative return on unlisted assets. Asset management income was clearly positive during the first quarter but the Fund was not positioned for the speed and strength of the equity market recovery that then ensued. Throughout the period, the Fund instead retained a bias towards stable companies with strong finances. While this was a favourable strategy vis-à-vis the IT sector, the mix of financial stocks performed relatively poorly. In this respect, the Fund's market assessment was not rewarded in the second quarter.

The Fund worked during the first half to increase the level of active risk in the total portfolio, though the effect of this strategy was offset by declining market volatility during the period.

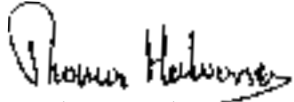
Bond holdings by rating at 30 June 2003



Currency distribution at 30 June 2003



Stockholm, 28 August 2003


Thomas Halvorsen
President

Income statement

SEK million	30-06-2003	30-06-2002	31-12-2002
Operating income			
Dividends received	1,334	1,070	1,332
Net interest income	1,365	1,453	2,944
Net capital losses	-4,368	-3,043	-12,228
Net exchange losses	-1,103	-1,562	-1,632
Unrealised changes in value	10,525	-11,622	-13,232
Total operating income	7,753	-13,704	-22,816
Operating expenses			
External asset management costs	-21	-11	-19
Personnel costs	-36	-32	-64
Other operating expenses	-40	-43	-82
Total operating expenses	-97	-86	-165
Net profit/loss for the period	7,656	-13,790	-22,981

Balance sheet

SEK million	30-06-2003	30-06-2002	31-12-2002
ASSETS			
Investment assets			
Shares and participations, listed	73,767	73,220	65,353
Shares and participations, unlisted	3,477	3,753	3,725
Bonds and other interest-bearing assets	43,467	40,790	41,168
Derivatives	1,773	3,036	1,806
Total investment assets	122,484	120,799	112,052
Receivables and other assets			
Cash and bank balances	301	290	749
Other assets	1,259	1,247	3,849
Total receivables and other assets	1,560	1,537	4,598
Total assets	124,044	122,336	116,650
FUND CAPITAL AND LIABILITIES			
Fund capital			
Fund capital at start of year	113,605	131,585	131,585
Net disbursements to the National Pension Scheme	1,116	1,163	1,984
Reimbursement from liquidation fund	275	2,876	3,017
Net profit/loss for the period	7,656	-13,790	-22,981
Total fund capital	122,652	121,834	113,605
Financial liabilities, derivatives	877	191	381
Short-term liabilities	515	311	2,664
Total fund capital and liabilities	124,044	122,336	116,650

Net accounting is used when reporting other assets and liabilities, and comparative figures have been recalculated to reflect this. Accounting and valuation principles and definitions are stated in the Fund's 2002 Annual Report.

This interim report has not been examined by the Fund's auditors.

A list of the Fund's listed equity holdings under internal management on 30 June 2003 is available on the Fund's website or may be obtained by contacting:

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