



ANNUAL REPORT
2002

Fourth Swedish National Pension Fund – Background

History

The Fourth Swedish National Pension Fund was founded in 1974.

Investment goods

The Fund is an independent state-owned body charged with managing assets to provide maximum benefit to the income-based retirement pension system.

The Fund's overall investment risk should be low. At the chosen risk level, Fund assets should be invested so as to secure a high long-term return.

Board of Directors

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

Investment rules

The Fund's investment rules in their current form entered force on 1 January 2001 and are as follows:

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

Information

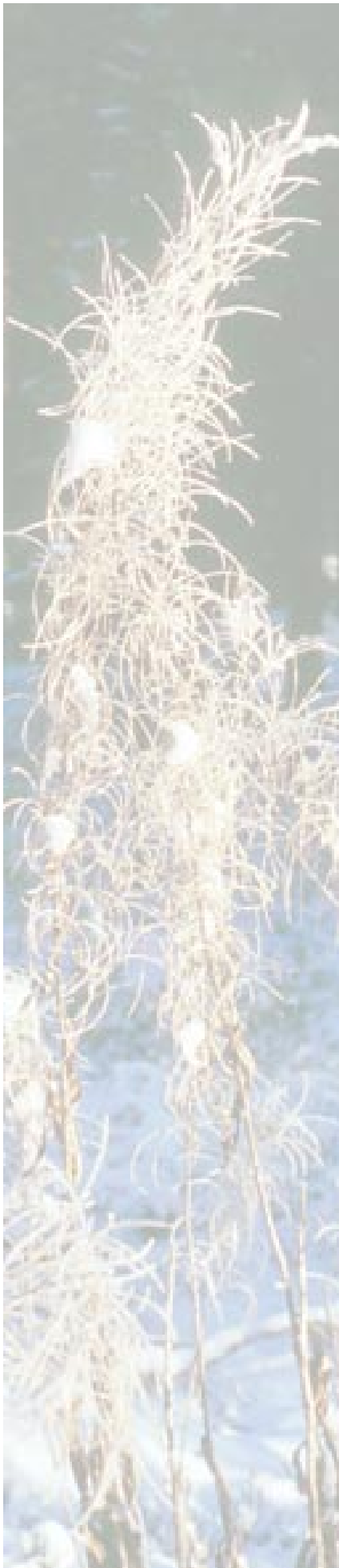
For further information visit the Fund's website, www.ap4.se. Contents include:

- The Annual Report and half-year reports from recent year
- Presentation of the new National Pension Funds

Special information:

- Asset Liability Modelling analysis 2000, see Annual Report 2001.

Annual reports, the Corporate Governance Policy and other reports can also be ordered directly from the Fourth Swedish National Pension Fund.



Contents

2002 in Brief	3
President's Comments	4
Asset Management	6
Macroeconomic Overview	10
Report of the Board of Directors	14
Income Statement	20
Balance Sheet	21
Accounting and Valuation Principles	22
Notes to Income Statement and Balance Sheet	23
Auditors' Report	27
List of Shares and Participations	28
Board of Directors and Auditors	34
Organisation and Executive Management Committee	35
Definitions	36

2002 in Brief

- The Fund recorded a market value loss of SEK -23.0 billion (-6.9).
- Fund capital, calculated at market value and after adjustment for transfers, declined from SEK 131.6 billion to SEK 113.6 billion. This figure represents the market value of the Fund's investment assets.
- The total return on investment assets amounted to -16.8%, compared to -16.3% for the benchmark index.
- The return on the Swedish equity portfolio totalled -36.4% at year-end, an underperformance of 0.5 percentage units against the reference index. The return on the global equity portfolio was -35.1%, compared to -33.6% for the reference index. The return on fixed income asset management was 9.4%, an underperformance of 0.4 percentage units against the reference index. Currency management made a positive contribution of 0.4 percentage units to relative return.
- A new Asset Liability Modelling analysis was launched to review the investment strategy.
- During the latter part of the year the Fund transferred three active asset management mandates to external fund managers.



President's Comments

This Annual Report reviews the Fourth Swedish National Pension Fund's 29th year of operations. In 2002, fund capital fell from SEK 131.6 billion to SEK 113.6 billion, calculated as market value after net disbursements to the National Pension Scheme and transfers from the Special Asset Management fund totalling SEK 5.0 billion. The total reported loss for the year, excluding unrealised changes in value, came to SEK -23.0 billion. The Fund's total return amounted to -16.8%, compared to -16.3% for the benchmark index. The reason for this disappointing return was the sharp fall in world equity markets during the year. Equity markets fell for the third successive year, an event not witnessed for more than 50 years.

When assessing the outcome of the year one must differentiate between the absolute return and relative outcome. The absolute return is principally a result of the long-term investment plan put in place by the Fund. As a safeguard against future deficits in the National Pension Scheme, the Fund developed a "normal portfolio" containing a high portion of equities, of which a large part are Swedish. This strategy proved exceptionally unfortunate in 2002. During the year, the Fund launched a new ALM analysis with the aim of fundamentally reviewing its investment strategy. It is worth noting that even if the analysis were to vindicate the high weighting in equities, this would not necessarily impact significantly on the Fund's ability to discharge its obligations to the National Pension Scheme. This is because the Fund's future undertakings are spread over a period of many decades. Stock markets will in all probability demonstrate a higher return relative to fixed income markets over such an extended period.

The relative outcome for the year was also disappointing because of the Fund's failure to outperform its benchmark index. Nevertheless, there was some encouragement during the last quarter because all sub-portfolios outperformed their respective indices. It should also be noted that the fixed income portfolio yielded a very high return due to sharp falls in market interest rates. Although fixed income asset manage-

ment operations fell just short of the reference index, the return of 9.4% was still strong considering that it was negatively impacted by transaction costs in other areas of the Fund's activities. Of particular satisfaction was the strength of currency income, which contributed positively to overall return. Nevertheless, these performances should not disguise the need to continually review the investment process. A number of changes, including a new rebalancing technique, will be introduced in 2003.

In all likelihood, 2002 will be remembered in financial terms for the fact that equity markets fell for the third successive year and that the rate of decline accelerated. Roughly one third of the stock market's value was wiped out during the year. With the benefit of hindsight it is easy to be wise after the event. I nevertheless feel it is worthwhile to offer a personal assessment of events over the past few years, though for space reasons I will restrict my remarks to general comments.

A proper understanding of events requires a long-term view. During the 1990s economic growth was strong, especially in the US. Economic policies were generally successful, resulting in falling budget deficits across a number of important countries. Monetary policy was a particular success. Inflation fell during the second half of the decade, which combined with lower interest rates to lead investors to reduce their expectations of nominal yields. At the same time, a strong savings trend in Western countries was targeted increasingly at equity markets. The decade thus offered unusually good conditions for investing in equities.

Investors' preference for equities pushed up share prices. In seeking to justify continued buying as prices rose, investors focused on growth industries. New valuation models emerged, based on longer investment horizons and analyses based more on long-term hopes than realistic short-term expectations. Investor interest was targeted especially at the so-called TIME sectors: telecoms, IT, media and entertainment. The market's appetite for venture capital soared and the risk premium for equities fell to an abnormally low level.

The combination of an extraordinarily favourable economic development and a remarkable valuation

bubble led to a stock market slump starting in the second half of 2000. However, the bubble did not burst quickly but gradually. Not until 2002 did the downside of the stock market downturn become clear.

This is a downside with which we are only too familiar today. Company boards awarded senior executives unrealistically generous stock-related bonus schemes. Some business leaders sidestepped competition laws. Well known international equity trading counterparties accepted millions of dollars in fines in return for the authorities dropping investigations into publication of suspect equity research. One of the largest accountancy firms collapsed after an audit scandal destroyed public confidence in its activities. The research and investment acumen of asset managers was questioned. What can rightly be called a crisis of confidence ensued.

My personal belief is that these factors accentuated uncertainty and fuelled the slump at least as much as international political instability. Aversion to risk increased, thereby raising investors' risk premium.

The most and worst excesses occurred in the US. Sweden suffered a fair share of the fallout from the IT bubble because of the IT sector's very high share of stock market capitalisation. Nevertheless, relatively few excesses were recorded. Demands from Swedish financial institutions for greater transparency and information-giving, as well as steadily increasing scepticism towards the scope of various options programmes, no doubt had a positive effect. Also noteworthy in this context is institutions' long-standing demand for independent board members, a key aspect of current US proposed legislation in this area.

The Swedish financial regulatory framework, with its tradition of gradual change, also weathered the crisis. One need merely observe that shareholder loan restrictions have long been part of Swedish legislation and that the Fermenta scandal prompted clearer board responsibilities and tougher rules on share issues directed at management and employees.


In my opinion, the principal responsibility for restoring confidence in the equity market lies with the



market participants themselves. It is not just bonuses and incentive programmes that are relevant here. Commission and remuneration levels in the industry, especially in corporate finance, need to be re-examined, as does the distinction between equity research and investment banking. These and other areas require soul-searching on the part of senior decision-makers in listed companies – and their shareholders – and among bankers, fund managers and brokers. Only by creating greater awareness of these ethical considerations can there be a change in attitude and a higher level of integrity. In this regard, strong leadership will play a more important role in restoring public confidence than any number of new laws and regulations.

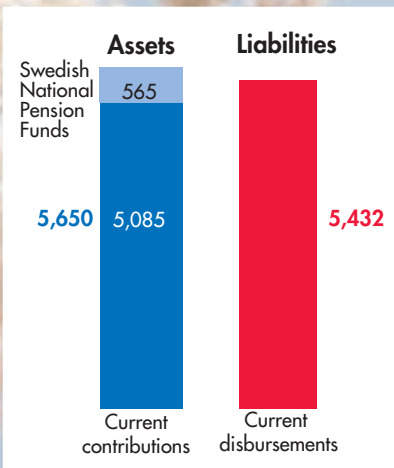
It is a truism that trust takes an age to build up but a few seconds to destroy. The task of rebuilding confidence in the equity market is a tough one. But I am optimistic that, slowly but surely, it can be done.

Stockholm, February 2003


Thomas Halvorsen

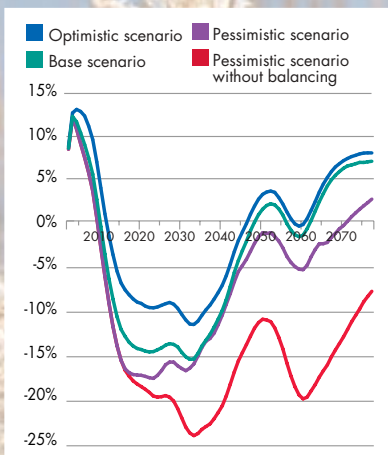
Asset Management

National Pension Scheme Balance 2001, SEK billion



Source: National Pension Scheme Annual Report 2001

Net Contributions as a % of the Contribution Base



Source: National Pension Scheme Annual Report 2001

As part of the reform of Sweden’s pension system, the Fourth Swedish National Pension Fund received a new asset management mandate, new investment rules and a new portfolio. For the first time, no major readjustments to the portfolio were made in 2002. The process by which the Fund arrived at its new investment strategy and normal portfolio – by analysing its new mandate and identifying assets suitable for the normal portfolio – is described briefly below. Active return targets, risk mandates and the investment philosophy are also discussed.

Liability modelling

The Fund, together with the First, Second, Third and Sixth Swedish National Pension Funds, acts as a buffer for a National Pension Scheme in which those in employment pay for current pension disbursements. The buffer funds account for a limited part, approximately 10%, of total pension liabilities (see chart, National Pension Scheme balance 2001).

The principal areas where the National Pension System runs a risk of imbalance relate to unfavourable demographic developments, namely in life expectancy, birth rates, immigration and the number

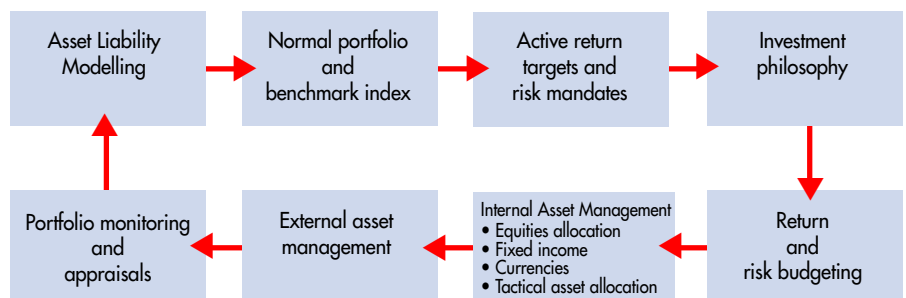
of people in work. Low growth and a weak return from the buffer funds constitute further risks. In the event that the National Pension Scheme does not develop favourably, pension disbursements will be reduced via the so-called automatic balancing mechanism.

In the course of the next few decades pension disbursements will substantially exceed pension contributions. Not until about 2040 is this imbalance expected to be redressed. The buffer funds aim from 2010 to offset this deficit, which is forecast by the Swedish National Insurance Board to peak between 2020 and 2030 and then gradually decline until approximately 2050. As a result, the Fund’s return must be sufficiently strong to offset the deficit at its peak and contribute to the long-term financial health of the National Pension Scheme (see chart, Net contributions as a percentage of the contribution base).

Asset modelling

In making decisions about the normal portfolio it is important to consider the need to keep pensions in line with increases in average pension-entitled income. The Fund’s investment assets

Asset Management Process



should therefore be assessed on the basis of the relationship between risk and return and average incomes.

The Asset Liability Modelling (ALM) analysis conducted by the Fund in 2000 demonstrated the necessity of a return target that exceeded income growth, a factor that led to the selection of a high proportion of equities in the normal portfolio. This was based on the assumption that equities will outperform the income index by almost 4%, while bond yields will outperform it by 2%. Stock market developments in recent times have not altered the Fund's assumption that equities will outperform bonds in the long run. In fact, events reinforce the need for long-term thinking in the Fund's strategic choice of assets. While the Fund's commitments have not changed, its investment base has decreased and thereby further raised the return target.

Normal portfolio and benchmark index

The ALM analysis was the basis for the decision to allocate the normal portfolio as follows: 62.5% equities (of which 22.5% Swedish equities and 40% global equities) and 37.5% bonds (see chart, right). This allocation took account of special competencies and the need for a diversified portfolio.

Following an analysis of forecast return and risk, bonds were allocated on the following currency basis: 45% SEK, 20% USD, 15% EUR, 10% GBP and 10% JPY (see chart). The Fund, which always takes a long-term approach to asset management, chose to invest about half the portfolio in non-sovereign bonds with a high credit rating.

Due to the currency restrictions contained in the LAP, the Fund will hedge a large portion of its global equities portfolio during an initial period of several years.

In 2002 the Fund introduced a new currency strategy under which the portfolio's currency exposure was spread among Sweden's largest import currencies. The US dollar weighting was adjusted upwards to account for Sweden's dollar-based raw material imports. The rationale is that an import-weighted currency spread will better safeguard the buying power of tomorrow's pensioners because Swedish retail prices are partly influenced by import currency swings.

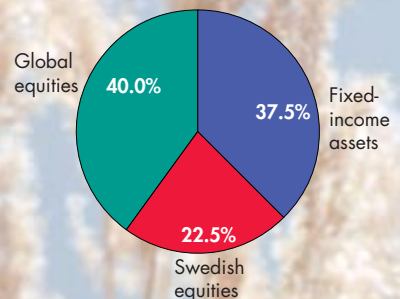
Returns for each asset category are measured against a relevant index: the SIX Return Index for Swedish equities; the MSCI World DNI, converted to Swedish kronor, for global equities; and the Merrill Lynch (hedged) and Handelsbanken Markets indices for Global bonds and Swedish bonds respectively. The Fund's currency exposure and management thereof is measured by a custom-built index of imported goods (see chart p. 8).

Active return targets and risk mandates

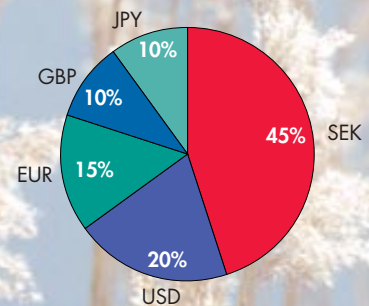
The Fund's asset management returns are compared to a benchmark index that consists of sub-indices corresponding to the asset categories described above. The following targets and risk mandates apply to the Fund's asset management activities:

Over a two-year period the Fund shall achieve a return that exceeds the chosen benchmark index by 1.5%. Portfolio's risk, measured as active risk, shall not exceed 4.0% on a permanent basis. The Fund's risk-adjusted return, measured as an information ratio, shall on average exceed 0.2. The mandate set by the Board for deviation from the normal portfolio, are +7.5/-10.0 percentage units for equities and +10.0/-7.5 percentage units for fixed income (see chart p. 8).

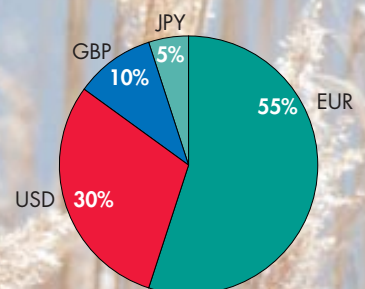
Normal Portfolio 2002, total



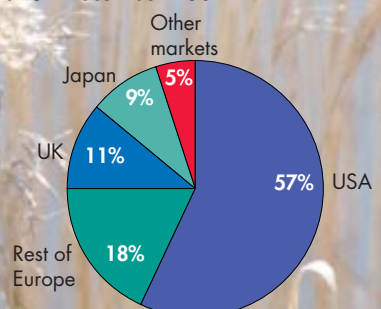
Currency Distribution Reference Index, Fixed Income Portfolio



Currency Distribution According to Currency Strategy



Country Distribution, MSCI World DNI, at 31 December 2002



Source: Datastream

Investment Assets (Indices etc.)

Asset category	Benchmark and reference index*	Annual excess target, %	Annual active risk guideline, %
Swedish equity portfolio	SIX Return Index	1.40	< 6.0
Global equity portfolio	MSCI World DNI (SEK)	0.70	< 4.4
Fixed income portfolio	Handelsbanken Markets Bonds Index/Merrill Lynch GBI	0.25	< 1.0
Unlisted real estate stocks	–	–	–
Investment assets	Index weighting as per normal portfolio	0.75	< 4.0

* For full explanation see Definitions, p. 36-37

Investment philosophy

The Fund's investment philosophy is founded on delivering a continuous excess return against the normal portfolio's benchmark index. Investment decisions are based on a combination of long-term fundamental and quantitative analysis methods. A disciplined investment strategy is pursued to guarantee good performance over the long term. This discipline is achieved through analysis and the careful structuring and documenting of portfolio decisions to allow continual monitoring and development. Investments in each asset category are based on a long-term analysis that takes account of current market values.

Return and risk budgeting

In return and risk budgeting, overall excess return targets and risk mandates for active risk are apportioned between asset categories and sub-portfolios within each category. Targets are also allocated between internal and external asset management operations. The highest return requirements as well as the greatest active risk mandate are attributed to the Swedish equity sub-portfolio, an area in which the Fund has extensive experience.

Close to 70% of the global equity portfolio is managed internally. Here, risk mandates and excess return targets are allocated between global sector portfolios. Three sectors in which the Fund has a special focus have higher risk mandates and excess return targets than the others. The outstanding 30% of the global equity portfolio is under external management. One third of these funds are managed with high active risk and two thirds passively.

The return target and risk level for the fixed income portfolio is low in comparison to equities. A certain risk level is allocated to currency exposure and tactical asset allocation according to asset category.

Internal asset management

Equities

Asset management is conducted via stock selection based on fundamental analysis and valuations across different sectors. Since year-end 2002, asset management operations cover North America and Europe. In each sector a selection process is implemented to identify a handful of investment alternatives and thereby focus the Fund's research activities and position-taking on a small number of companies. More extensive interval analyses are conducted in the Fund's global sectors, namely finance, consumer-related industries, IT/telecoms and pharmaceuticals. These sectors constitute a relatively large proportion of the world index. Based on the expertise we have developed in selected stocks we are confident they will yield a healthy long-term return. Equity management across other sectors, accounting for approximately 30% of the world index, is oriented more towards external analysis and quantitative selection criteria, and involves a lower risk level. Strong emphasis is laid on the choice of Swedish

stocks with respect to sectoral asset management. Individual stocks are selected in the light of macroeconomic and company-specific factors.

Fixed income & currencies

The Fund takes a global approach to its management of fixed income securities and focuses on four categories of risk: duration, yield curve, country risk and credit risk. The fixed income portfolio is managed as a single entity and credit investments are confined to high investment grade securities.

Management of fixed income securities is based on fundamental central bank analysis, quantitative analysis and analysis of market positions. A clear internal decision-making model underpins any investment decision. The Fund's interest rate and currency group manages currency exposure for the global equity and fixed income portfolios. Risk mandates are relatively constrained, with investments being based primarily on a macroeconomic-oriented flow analysis.

Tactical asset allocation

The Fund varies its asset allocation between equities and fixed-income securities based on assessments of market values, economic indicators and liquidity. Both internal and external analyses are used in these assessments.

External asset management

During 2002 the Fund outsourced the active management of equities in Asia and it intends to procure additional active mandates in 2003 so as to complement its internal asset management operations. It is the Fund's belief that the external asset managers are well placed to generate a favourable risk-adjusted return. In addition to the actively managed global equity portfolio, the Fund also oversees

passive management of global equities, which it believes's most cost-efficiently handled by external asset managers. There are at present no external management mandates for fixed income securities.

Portfolio monitoring & appraisals

The Fund regularly monitors and assesses its asset management performance relative to the benchmark index, as well as its investment philosophy and process. In this context the Fund has begun to introduce certain changes in the internal asset management investment process.



Macroeconomic Overview

Economic cycle

From a financial perspective, 2002 was another year of great weakness on world stock markets and falling nominal bond yields. At the same time, it was also the first year of global economic recovery. The decline in annual growth in the OECD (measured as percentage change in value against the preceding quarter) bottomed out in the fourth quarter of 2001 and has been increasing steadily since. Nevertheless, the recovery was not as strong as would usually be expected at that point in the economic cycle and growth forecasts for 2002 and 2003 were later reduced. Growth in the eurozone was particularly weak compared to forecasted rates.

Early in 2002, the US economy grew considerably faster than expected. Consumers responded well to the stimulus they received in the form of lower interest rates, more lenient fiscal policy and lower energy prices. Very low inventory levels resulted in higher production volumes when demand increased. Key indicators rose strongly across all the main macroeconomic areas, strengthening hopes of a synchronised global upturn.

Yet, during the summer and autumn, it became increasingly clear that the pace of recovery was slowing. This was reflected in financial market instability, manifested in fresh falls in share prices and a general increase in credit spreads. Household optimism weakened and key indicators showed the economy losing ground. In the US and Europe, order bookings and industrial production declined, while growth forecasts in Japan were revised downwards too. These signs prompted central banks to cut interest rates.

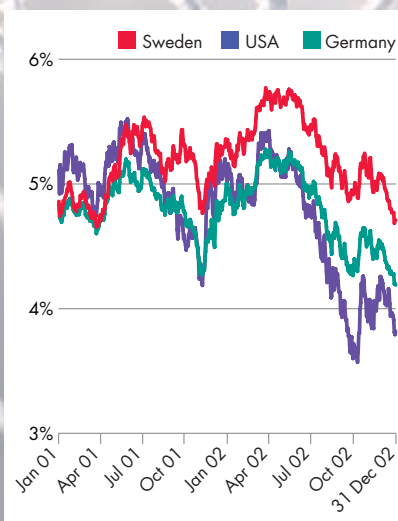
Nominal growth was weak, inflation low and deflation was noted in some economic sectors. A stabilisation of corporate earnings was attributable largely to falling interest rates and declining unit labour costs, as one would expect at that stage of the economic cycle. While the fall in corporate earnings was curbed and growth next year is anticipated to be positive, earnings forecasts for 2002 and 2003 were cut substantially from previous expected levels. Soft demand and price pressure raised questions about future earnings prospects and companies indicated a need for further rationalisation and restructuring. Rising oil and raw materials prices reinforced this need.

It is not difficult to identify potential threats to the global recovery. Investors and business leaders know a recovery in near future may not prove strong or sustained. A number of factors are inhibiting consumption and investment plans: high debt levels among US households; the impact on private wealth of the stock market slump; and the need among companies to improve cash flow after years of overinvestment and excessive expansion plans. The global economy is thus vulnerable to shocks such as war, rising oil prices or a continued decline in the US dollar. For these reasons and those outlined above the appetite for risk-taking on financial markets is currently low.

Bond & currency markets

The year was another positive one for world bond markets. Short-term and long-term interest rates fell substantially, with the former decreasing somewhat more than the latter.

Ten-year Sovereign Bond Yields
2001-2002



Source: Ecwin

Despite this, 2002 began with rising interest rates. Economic developments fuelled hopes that the global recovery which had started during the fourth quarter of 2001 would take root in 2002. There was thus an expectation that central banks would recoup some of the major interest cuts made the year before. However, it became clear as early as the second quarter that the recovery would be fairly modest. Equity markets started to fall during the spring, dousing any hopes of imminent interest rate cuts. The risk of a military intervention in Iraq also stoked uncertainty over the recovery and helped keep interest rates low, a state of affairs that became far clearer towards year-end. Lower inflation in the US and Europe was also a factor in keeping interest rates down.

During the summer, long-term investors in a number of countries sold stocks to reduce their exposure to equities. This was partly in order to comply with various rules and regulations. But it is also possible that the stock market downturn prompted a general re-evaluation of the proportion of equities in long-term investment portfolios. This reallocation process contributed to continued heavy falls in equity markets and further interest rate cuts, not least of all in Sweden.

Sharp downgrades in corporate earnings' forecasts and a continuing stock market slump during the summer and autumn resulted in increasing worries over the financial status of companies with low credit ratings. Yields on non-sovereign bonds versus sovereign bonds rose sharply during the summer, while corporate bonds with high ratings and swap-curve linked bonds fared relatively better. In the last few months of the year yields on non-sovereign bonds decreased again relative to sovereign bonds.

The stock market slump and the fact that

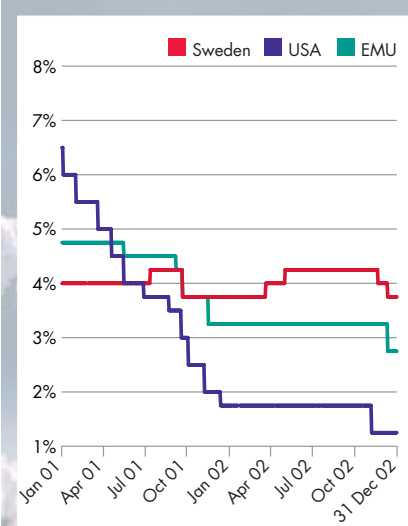
inflation, especially in the supply chain, slowed substantially in the first half led many commentators to draw parallels with the Japanese economy at the start of the 1990s. The possibility of deflation in the US and Europe was seen as much an acute threat as rising inflation. Moreover, the case of Japan indicated that such a situation could prove difficult to rectify were it to arise. Many commentators advised central banks to pursue an aggressive policy to prevent a deflationary spiral.

In November, after almost a year of unchanged interest rates, the Federal Reserve lowered its key rate by 0.5 percentage units to 1.25%. The ECB followed in early December by cutting its key rate by 0.5 percentage units to 2.75%. The Swedish Central Bank also opted to reverse its two rate rises made earlier in the year by lowering its main interest rate to 3.75%. The market expectation at year-end was that the ECB and Swedish Central Bank might trim interest rates further early in 2003 while the Federal Reserve would keep US interest rates unchanged.

Meanwhile, developments on currency markets during 2002 were shaped largely by the weakening of the US dollar. After rallying strongly for a few years previously, the dollar fell 16% against the euro and 10% against the Japanese yen.

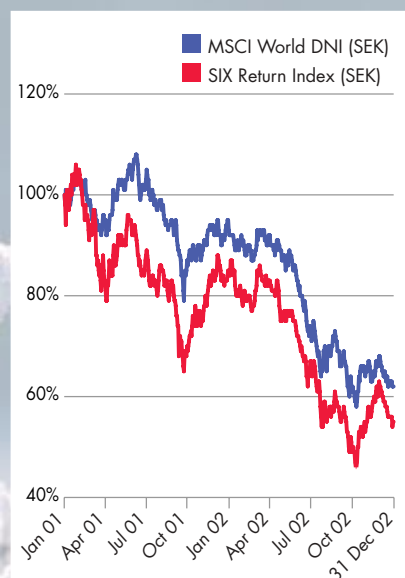
A growing US trade deficit necessitated a higher inflow of foreign capital. In the past, a large portion of this inflow was met by foreign investments in US equities and corporate bonds, reflecting an interest in investing in US assets that was strong enough to help strengthen the dollar. A series of connected factors, including a growing risk of war with Iraq and uncertainty over US corporate earnings and valuations, combined to dampen global appetite for US assets just as the

**Key International Interest Rates
2001 - 2002**



Source: Ecwin

Stock Market Performance 2001-2002



Source: Datastream

investment inflow need was growing. The steep decline in US interest rates relative to foreign rates in recent years also lessened investors' incentive to invest in US assets.

As the dollar weakened, the Swedish krona strengthened. The government decided during the year to hold a referendum in 2003 on Swedish EMU membership. This helped to cement the krona's rate against the euro and to lift the krona 17% against the dollar.

Equity markets

World equity markets remained weak in 2002. The MSCI World DNI Index fell 33% in SEK terms, while the Swedish stock market lost 36% of its value. The world stock market decline completely erased the gains from the strong rally between the end of 1997 and the first quarter of 2000.

As in previous years, performance varied greatly between the sectors included in the MSCI World DNI Index. Information technology again performed worst, posting a decline of 49%. The strongest sector was non-durables, which nevertheless fell 20%. Pharmaceuticals fell 32%, partly because of the negative forecast effect of patent expiries on earnings. The contrast between sectors was even wider in Sweden. The prime reason was the continued heavy fall in Ericsson shares, which precipitated a 79% decline in the information technology index. The best performing Swedish sector was non-durables, which gained 24%.

Growing concern over trends in corporate earnings and the crisis in confidence caused by a series of audit scandals at US corporations stifled investors' appetite for risk. Rising oil prices and the weaker dollar also impacted negatively on equity markets. The investment climate was fur-

ther undermined towards year-end by growing concern over a possible war with Iraq. Major sales of equity holdings by pension fund managers and insurance companies were another negative factor. But perhaps the most important cause of market weakness was mounting concern that corporate earnings had begun to adjust to an environment of lower inflation and interest rates.

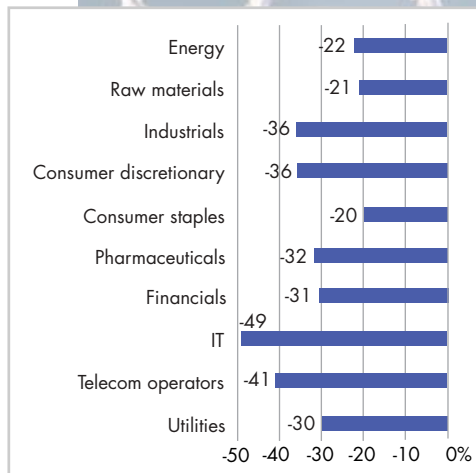
Rationalisation measures, more flexible corporate structures and relatively low variable costs should, however, produce a return to earnings growth in coming years, once economic demand starts to increase. To some extent this can be viewed as a temporary economic effect. There is a risk that part of the weaker earnings trend seen in recent years represents the start of an adjustment to permanently low inflation, and it is reasonable to assume that long-term corporate profitability will suffer during a period of lower nominal growth. It is hard, though, to be precise about the impact of any negative effect. Different relative competitiveness situations may also mean that the period of adjustment to lower profitability will vary between sectors.

The risk of lower future profitability should encourage us to be conservative of when forecasting equity market developments. With interest rates at their current level we cannot expect annual returns to match those seen over the past 25 years, during which period the S&P 500 posted an average annual return of 12.8%.

One positive effect of the stock market downturn is that investors now place greater emphasis on research and analysis and have adopted a sounder approach to valuations. It has become more important to adjust earnings for pension provisions and options as well as question-

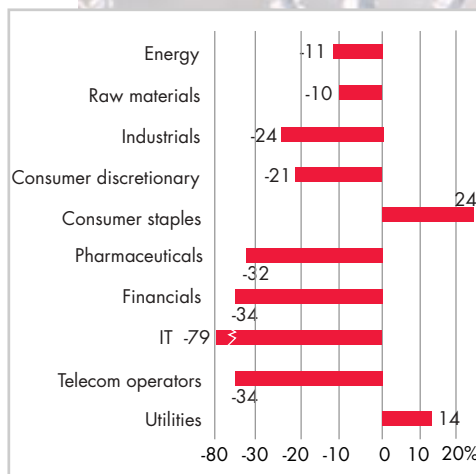
able “extraordinary expenses”. Shareholders, company executives and other financial market players in industry have probably also concluded that the big falls in share prices will benefit equity markets in the long term.

Sector Performance 2002, MSCI World DNI (SEK), %



Source: Datastream

Sector Performance 2002, SIX Return Index (SEK), %



Source: Datastream

Report of the Directors

Report by the Board of Directors and the President of the Fourth Swedish National Pension Fund for the financial year 1 January 2002 - 31 December 2002 – the Fund's 29th year of operation.

Accounting and valuation principles are described in a separate section.

Operations

For the Fourth Swedish National Pension Fund, 2002 was dominated by two challenges, namely the protracted and deep slump in equity markets and the further development of the Fund's organisation following the new legislation regulating Sweden's National Pension Funds that took effect in 2000.

Contrary to most market forecasts, the stock market slump which began in 2000 continued and deepened during 2002. The MSCI World Index fell approximately 33% in SEK terms and the fall in the Swedish market was even steeper at almost 36%.

These circumstances proved very difficult for the Fund, which on the basis of an Asset Liability Modelling (ALM) analysis in 2000 chose to pursue a strategy centred on holding a high proportion of equities. This was in order to meet the long-term aim of withstanding the pressures to which the National Pension System will be subject for many years from 2010. The Fund reported a market value loss for the year of SEK -23.0 billion (-6.9). Total return on investment assets was -16.8% (-5.0).

The fact that the normal portfolio was structured to include a high proportion of equities, and especially Swedish equities, clearly contributed to the disappointing outcome.

The Asset Liability Modelling analysis carried out in 2000 was the basis for a decision to hold 62.5% of the normal portfolio's assets in equities and 37.5% in fixed income assets. An updated ALM analysis conducted during 2001 resulted in the share of Swedish equities being lowered by 2.5% to 20% in favour of global equities. The prime reason for this adjustment was to improve the diversification of the equity portfolio following the decline in the relative share of Swedish equities on the world index. In addition, a fresh ALM analysis was launched to review the investment strategy. It is estimated that this work will be completed during 2003 in readiness for implementation at the start of 2004.

The Fund also introduced a new strategy whereby the portfolio's currency exposure was matched to Sweden's key import currencies (see p. 7). The motive here was that an import-weighted currency exposure would better safeguard future pensioners' buying power.

Disappointingly, the Fund failed to meet its relative return target for the normal portfolio. The benchmark index fell 16.3% in 2002, compared to the Fund's total return of -16.8%. The performance of the various sub-portfolios is reported under Investment Assets.

The Fund is continually looking for ways to develop and improve its asset management operations. In this regard, the rebalancing technique for asset allocation was changed at year-end. The Fund also procured its first active external asset management mandates (two for the Pacific region, excluding Japan, and one for Japan itself) in an effort to increase prospects for achieving an excess return in



interesting equity markets by utilising local expertise. Outsourcing mandates also unlocks resources within the Fund that can instead be focused on internal asset management.

Strengthening and developing the Fund's organisation has been a key task in recent years. Work began in 1999 to prepare for the new asset management mandate assigned by the government to the National Pension Funds. The mandate involved developing a new and more complex investment strategy and to build an organisation that could implement it. Since autumn 1999 the number of employees has risen fivefold and 52 people were employed within the organisation at year-end 2002.

The process of developing the new organisation made it necessary to integrate new staff members while simultaneously implementing the strategic changes. Most of the required adjustments, such as bedding in the new organisational structure and determining areas of responsibility, were completed during the year. The most important project was the procurement of three external mandates for asset management in Asia, a process that involved all departments within the Fund. A quality assurance review of the way the Fund measures risk and return was also launched, with the aim of simplifying and improving routines in this area. Another project concerned the introduction of a straight-through process (STP) to automate contacts between the Fund and the two banks where it has custody accounts. It is the Fund's intention to further develop this concept in 2003.

A net loss

The Fund incurred a net loss of SEK -22,981 million (-6,913) in 2002.

Operating income of SEK -22,816 million (-6,738) consisted of dividends, in-

terest income, realised and unrealised changes in asset values and net exchange income.

Operating expenses amounted to SEK 165 million (175). The asset management cost quotient (operating expenses relative to the average value of fund capital) totalled 0.13% (0.13).

Fund capital stood at SEK 113,605 million (131,585) at the start of 2002 and declined by SEK 17,980 million during the year. This change consisted of net payments to the pension system (RFV) of SEK 1,984 million (3,062), transfers from Special Asset Management operations of SEK 3,017 million (1,461) and the net loss for the year of SEK -22,981 million (-6,913).

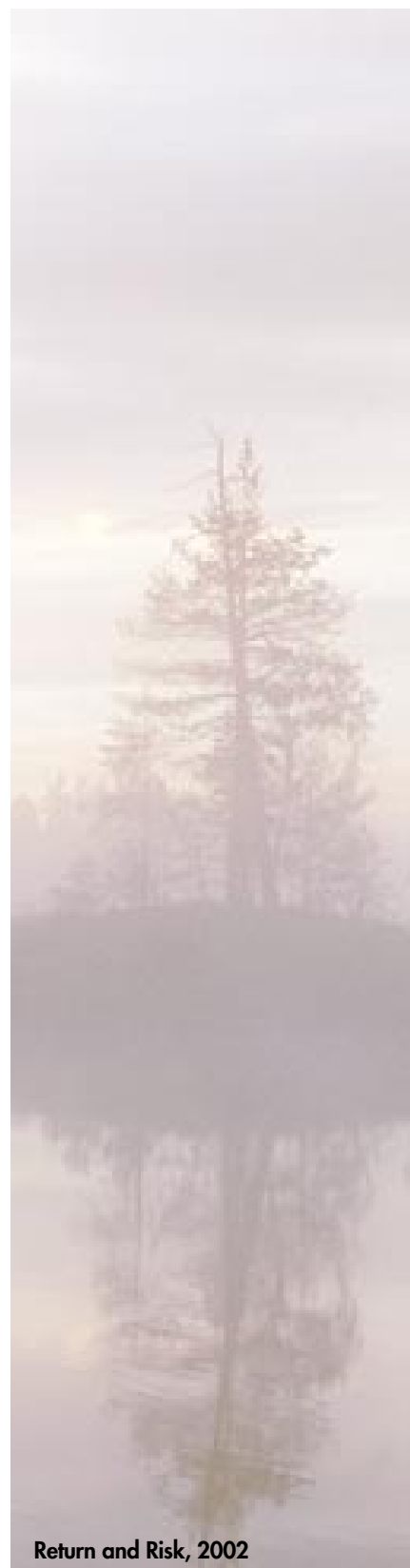
Investment assets

At year-end, the market value of the Fund's investment assets stood at SEK 113.6 billion (131.6). The Swedish equity portfolio was 3.2 percentage units underweight at year-end, compared to 1.7 percentage units overweight a year before. The underweighting in Swedish equities stems from changes in the normal portfolio timed to take effect at year-end (see p. 7).

At year-end, the Fund's currency exposure was 16.8%.

Allocation of Investment Assets

Asset category	Market value, SEK million	Share, %	Market value SEK million	Share, %	Normal portfolio, %
	31-12-2002	31-12-2002	31-12-2001	31-12-2001	2002
Swedish equity portfolio	21,989	19.3	31,904	24.2	22.5
Global equity portfolio	46,769	41.2	51,289	39.0	40.0
Fixed income portfolio	41,332	36.4	44,611	33.9	37.5
Unlisted real estate stocks	3,554	3.1	3,789	2.9	0.0
Investment assets	113,644	100.0	131,593	100.0	100.0



Return and Risk, 2002

Asset category	Annual return, % Portfolio	Annual return, % Reference index	Annual volatility, % Portfolio	Annual active risk, % Portfolio
Swedish equity portfolio	-36.4	-35.9	31.5	4.0
Global equity portfolio	-35.1	-33.6	24.4	2.7
Fixed income portfolio	9.4	9.8	2.3	0.7
Unlisted real estate stocks	-1.2	-	-	-
Investment assets	-16.8	-16.3	14.0	1.4

Total return

Return on investment assets totalled -16.8% (-5.0), an underperformance of 0.5% (0.5) against the benchmark index. Return on investment assets, excluding unlisted real estate stocks, was -17.2% (-5.8%). Hedging of the global equity portfolio had an impact on absolute return of 3.7 (1.4) percentage units.

In absolute terms, the extremely negative return on investment assets was due to the slump in equity markets combined with the high proportion of equities contained in the Fund's normal portfolio. This was partly offset by the return on fixed income investments and the currency strategy.

Return on fixed income investments was extremely favourable as a result of lower interest rates in key markets. The Fund's strategic decision to retain a high proportion of non-sovereign bonds with a high credit rating also boosted total return because yields on these instruments fell more sharply than for sovereign bonds with an equivalent maturity date.

The Fund's hedging activities had a positive effect on return, as did the decision to base the strategic currency spread on a basket of imported goods (see chart p. 7). The primary effect of this was to reduce US dollar exposure and increase euro exposure during a year in which the

dollar weakened. This change, planned for the autumn, was brought forward to the spring/summer, with good results.

In relative terms, the underperformance of 0.5 percent units against the benchmark index was due mainly to the choice of equities and, to a lesser extent, to allocations between different asset categories. The negative contribution from asset allocation is explained by the relative over-weighting in equities versus fixed income securities during the first half. The contribution from currency management was 0.4 percentage units (-0.6).

Risks

Portfolio volatility, which stemmed chiefly from the Swedish equity portfolio, was 14% (10.8), compared to 13.5% (11.8) for the benchmark index.

Active risk, measured retroactively, was 1.4% (3.5) for total assets and well within the 4% ceiling. The drop in active risk between the beginning and end of the financial year arose from the fact that last year's figure was affected by the re-weighting of investment assets in the normal portfolio in spring 2001. The information and Sharpe ratios were negative, both for the equity and fixed income portfolios.

The beta values of the Swedish and global equity portfolios were 1.07 and 1.06 respectively at year-end. The value at risk for the total portfolio was 1.53%, which means it can be said with 99% certainty that investment assets will not lose more than 1.53% of their value on a daily basis.

Swedish equity portfolio

The market value of the Fund's Swedish equity portfolio totalled SEK 21,989 million (31,904) at year-end. The five largest holdings are shown in the following table:

The Swedish equity portfolio posted a return of -36.4% (-12.7), while the SIX

Return Index recorded a -35.9% return (-14.8). The relative return of the Swedish equity portfolio was affected positively by sectoral allocations and negatively by the choice of equities. The Fund's Swedish equity portfolio accounted for 1.4% (1.1) of market capitalisation at year-end.

The charts, right, show the Fund's relative allocation by sector.

Global equity portfolio

The Fund's global equity portfolio had a market value of SEK 46,769 million (51,289) at year-end, of which SEK 15,147 million were funds under external management. In the main, these assets were passively managed. The Fund's first active external risk mandates were procured during the autumn and at year-end the value of funds under external management was SEK 4,826 million. External mandates were assigned to Martin Currie for Japan and to APS and Capital for the Pacific region excluding Japan.

Global Equity Portfolio

	Market value, SEK million, 31-12-2002
Internally managed equities and equity-related instruments	31,622
Externally managed equity portfolio	15,147
of which	
Passive external management	10,321
Active external management	4,826

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

The return on the global equity portfolio totalled -35.1% at year-end, an underperformance of 10.6 percentage units compared to the reference index. The main explanation for this was a negative

contribution from the choice of equities, as well as an underweighting in Asia. This underweighting was reduced towards year-end by the outsourcing of the Fund's Asian equity management.

Fixed income portfolio

The market value of the fixed income portfolio, including liquid funds, stood at SEK 41,332 million (44,611) at year-end. The return on fixed income securities and bank deposits was 9.4% (4.2). By comparison, the reference index rose 9.8% (5.8). Sharp falls in market interest rates ensured a good return on fixed income assets. Due to unclear tax rules, the Fund withheld from investing in Japanese sovereign bonds, which had a negative effect on income. The fixed income portfolio was also encumbered by transaction costs unrelated to its asset management activities. Had it not been for these factors, the portfolio's return would have correlated much more closely to the reference index.

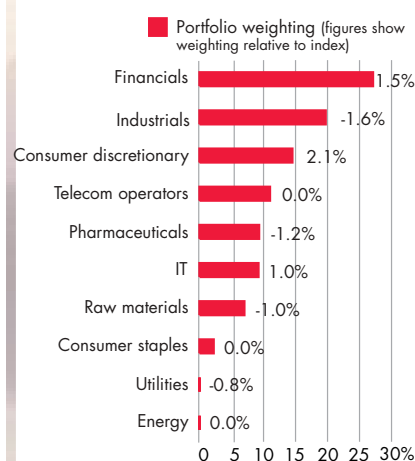
During the year the Fund was well positioned for an anticipated reduction in the credit spread between sovereign bonds and non-sovereign bonds with a high credit rating, which made a positive contribution to overall return. By contrast, a flatter US yield curve had the opposite effect.

The fixed income portfolio duration was 4.16 at year-end, equal to the benchmark index's duration. At year-end, non-sovereign issuers accounted for 57% (57) of the fixed income portfolio. Credit risk is minimised by a rule limiting investments to securities with a BBB rating or higher (as defined by Standard & Poor's or equivalent credit rating agency). The Fund invested for the first time in single-A rated sovereign Eurobonds. These investments totalled SEK 2.1 billion at year-end.

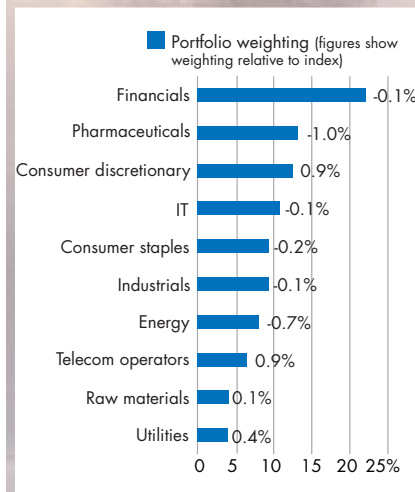
Swedish Equity Portfolio's Five Largest Holdings

Largest holdings	Market value SEK million 31-12-2002	Share of Swedish equity portfolio, %
Nordea	2,012	9.2
Hennes & Mauritz	1,861	8.5
AstraZeneca	1,613	7.3
SHB	1,545	7.0
Ericsson	1,430	6.5
Total	8,461	38.5

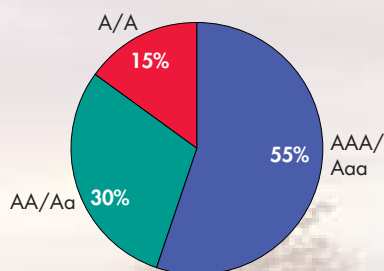
Swedish Equity Portfolio Overweighting and Underweighting by Sector at 31 December 2002



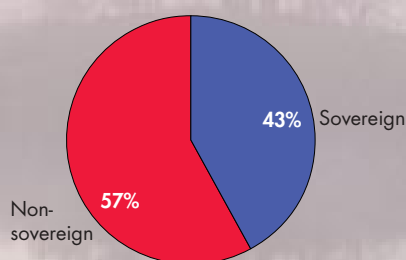
Global Equity Portfolio Overweighting and Underweighting by Sector at 31 December 2002



Bond Holdings by Rating, as of 31-12-2002



Fixed Income Portfolio Distribution between Sovereign/Non-sovereign Issuers, as of 31-12-2002



Currency management

Currency management made a positive contribution of 0.4 (-0.6) percentage units to the relative return. This can be ascribed to a general overweighting in SEK compared to the percentage guideline level after the Fund took the view that the krona would strengthen against the US dollar. Also beneficial was an overweighting in euros compared to the Fund's currency index.

Unlisted securities

In 2001, the Fund began compiling a new portfolio for unlisted holdings. However, the process was hampered by market developments and the Fund's policy that any investment in unlisted securities must be subject to Swedish law.

Two investments were completed in 2002: one in a new Swedish limited partnerships, HealthCap IV in the health care sector, the other a further investment in BrainHeart, a Swedish limited partnership oriented to mobile communications businesses.

The Fund's investments in unlisted securities thus consisted of four limited partnerships with a combined portfolio value of SEK 440 million. The total market value of these investments, calculated according to EVCA guidelines, was SEK 171 million at year-end, which is approximately 15% below acquisition value.

The investment philosophy was relaxed during the year to allow the Fund to invest in unlisted companies regulated by foreign law.

The Fund's shareholding in AP Fastigheter is reported under unlisted securities and was valued at SEK 3,554 million at year-end.

Risk management

The Board sets an annual risk management plan for the Fund covering risk policy, responsibility, risk management, risk control and reporting.

Performance & Risk Control is an autonomous group reporting directly to the President and Board. Its primary task is to ensure compliance with statutory investment rules and to monitor compliance with the rules and restrictions set by the Board and President, in particular the risk management plan. The key aspect of this role is close monitoring and prompt reporting of return and risk in different areas. Return and risk are calculated using a benchmark index compiled from the benchmark indices for the various asset categories.

The group's remit also extends to monitoring other risks arising from Fund operations, notably financial and operational risks. 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.

Any transgressions are reported immediately to the President and Board.

Financial risks

Market risks arise in connection with changes in interest rates and currency and security prices. These are monitored on a daily basis as they affect the value of the Fund's positions. Bond and equity risks are managed via parameters including active risk, duration and deviations from index weighting. Restrictions on equity and bond risks are thus relative rather than absolute.

Currency risks are limited on an absolute and per-currency basis. For deriva-



tives, limitations are in place both on nominal underlying value and market risk. Liquidity risks arising in connection with derivatives are closely monitored. All derivative holdings and attached risks are monitored via the Fund's daily risk and position management.

Credit and counterparty risks depend on individual counterparties being able to fulfil their undertakings to the Fund. With regard to credit risk, the Fund has established individual, per-counterparty limits that are continuously monitored.

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

Operational risks

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

Performance & Risk Control is also charged with scrutinising operational risks and all managers are required to report operational risks to Performance & Risk Control.

Board of Directors

The Fourth Swedish National Pension Fund's Board of Directors consists of nine full members, all appointed by the government. Two members are appointed on the basis of nominations from employer organisations and a further two on the basis of nominations from employee organisations. The government appoints the Chairman and Vice-chairman from its own nominees. The President and Fund officials attend board meetings in the role of rapporteur and secretary. The Members of the Board are listed on p. 34.

The board, which was unchanged in 2002, convened for six minuted meetings during the financial year. A seventh meeting was held to evaluate the Board's own work.

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

The Board has stipulated an operational work plan for 2003 that includes updates to the Fund's investment policy, risk management plan, corporate governance policy, environmental and ethical guidelines and annual operating cost budget.

Special focus was directed towards the corporate governance policy. In addition to the importance of Board members possessing requisite expertise, integrity, availability and commitment, it is vital that the Board contains female as well as male members. This consideration should be borne in mind during the nomination process. The Fund also clarified its position on incentive programmes. The Fund is, in principle, positively disposed to share-related incentive programmes for management and other employees, provided that the terms are market-based and that transparent, relevant and up-to-date information is produced and made available to shareholders in good time before the shareholders' general meeting. As a rule, decisions on incentive programmes should be taken at the annual general meeting.

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

Income Statement

SEK million	Note	2002	2001
Operating income			
Dividends received		1,332	964
Net interest income	1	2,944	3,037
Net capital losses	2	-12,228	-2,977
Net exchange losses		-1,632	361
Unrealised changes in value	3	-13,232	-8,123
Total operating income		-22,816	-6,738
Operating expenses			
External asset management costs	4	-19	-18
Personnel costs	5	-64	-57
Other operating expenses	6	-82	-100
Total operating expenses		-165	-175
Net loss for the year		-22,981	-6,913

Balance Sheet

SEK million	Note	31-12-2002	31-12-2001
ASSETS			
Investment assets			
Shares and participations, listed	7	65,353	82,293
Shares and participations, unlisted	8	3,725	3,907
Bonds and other interest-bearing assets	9	41,168	42,972
Derivatives	10	1,806	1,265
Total investment assets		112,052	130,437
Receivables and other assets			
Cash and bank balances		749	105
Other assets	11	4,141	27
Prepaid expenses and accrued income	12	1,334	1,241
Total receivables and other assets		6,224	1,373
Total assets		118,276	131,810
FUND CAPITAL AND LIABILITIES			
Fund capital			
Fund capital at start of year		131,585	133,975
Net disbursements to the National Pension Scheme	13	1,984	3 062
Reimbursement from Special Asset Management funds and liquidation fund	14	3,017	1,461
Net loss for the year		-22,981	-6,913
Total fund capital		113,605	131,585
Liabilities			
Derivatives	10	381	174
Other liabilities	15	4,150	18
Deferred income and accrued expenses	16	140	33
Total liabilities		4,671	225
Total fund capital and liabilities		118,276	131,810
MEMORANDUM ITEMS			
Pledges and equivalent collateral to secure own liabilities	17	3,347	-
Other pledges and equivalent collateral	18	897	351
Undertakings	19	219	216
Currency exposure	20		

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, i.e. at the point when material rights, and therefore risks, are transferred between the parties. Receivables and liabilities that fall between transaction and settlement date are reported under other assets and other liabilities respectively.

Foreign currency

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

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 last buying rate. Shares are reported under their market of purchase. With the exception of Swedish unlisted real estate companies, unlisted

holdings are valued in accordance with EVCA principles. This involves holdings normally 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. Valuations of holdings in Swedish unlisted real estate companies are based on the market value of a company's real estate portfolio at year-end.

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

Bonds and other fixed income securities

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

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

Buy-backs

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

Derivatives

Derivative instruments are valued at fair value. Derivative transactions with positive market value at year-end are reported as investment assets, while transactions with a negative market value are reported as liabilities. The difference between forward and spot rates accrues evenly over the term of the forward contract and is accounted for as interest.

Equipment

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

Items reported directly against fund capital

Payments to and receipts from the National Pension Scheme, as well as transfers from the Special Asset Management funds owned jointly by the four buffer funds, are reported directly against fund capital.

Income taxes

The Fourth Swedish National Pension Fund is exempt from all income tax on domestic investments. 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

	2002	2001
<i>Interest income</i>		
Bonds and other interest-bearing assets	1,902	2,861
Derivatives	1,309	380
Other interest income	54	1
Total interest income	3,265	3,242
<i>Interest expenses</i>		
Derivatives	-261	-203
Other interest expenses	-60	-2
Total interest expenses	-321	-205
Net interest income	2,944	3,037

NOTE 2

Net capital losses

	2002	2001
Shares and participations	-12,379	-2,671
Bonds and other interest-bearing assets	93	-178
Derivatives	58	-128
Net capital losses	-12,228	-2,977

NOTE 3

Net unrealised changes in value

	2002	2001
Shares and participations	-14,707	-7,983
Bonds and other interest-bearing assets	1,457	-155
Derivatives	18	15
Net unrealised changes in value	-13,232	-8,123

NOTE 4

External asset management costs

External asset management costs pertain to fees paid to external asset managers with discretionary mandates to manage listed and unlisted assets, and to asset management fees with respect of listed securities funds.

NOTE 5

Personnel expenses

SEK '000	2002	2001
<i>Salaries and remuneration</i>		
Chairman of the Board	100	100
Other Members of the Board	425	425
President	1,805	1,788
Other executive management committee members	5,732	4,760
Other employees	30,030	28,611
Total salaries and remuneration	38,092	35,684
<i>Pension costs</i>		
President	2,653	1,069
Other executive management committee members	1,376	948
Other employees	5,652	5,154
Reimbursement of surplus funds from SPP	0	-2,439
Total pension costs	9,681	4,732
<i>Social security costs</i>	14,113	13,084
<i>Other personnel costs</i>	2,046	3,229
Total personnel expenses	63,932	56,729

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 on the recommendation of the Chairman and Vice-chairman. Remuneration of the President and other executive management committee members consists of salary plus bonus.

Bonuses

The current bonus plan was set by the Board, which is also responsible for any changes that may be made to it. The plan covers all employees who have been employed by the Fund for more than six months. The bonus criteria for the President and Deputy Managing Director are set by the Board. The basic principle is that bonuses are payable in the event that the Fund outperforms the reference index or meets special predetermined targets. The full-year potential bonus entitlement corresponds to between two and six monthly salary payments. No bonuses were paid in 2001 nor 2002.

Pensions 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 corresponding to 75% of his salary at the date of retirement up to the age of 65. The President is also entitled to severance pay amounting to two years' salary.

Other executive management committee members have individual contracts of employment. The Deputy Managing Director is entitled to a pension from the age of 63 equivalent to 75% of 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, though does not exceed a maximum of 12 monthly salary payments.

The Fund's pension liabilities in respect of its special agreements with the President and Deputy Managing Director amount to SEK 7,246,000.

The pension provision for 2002 is based largely on the finding that previous provisions were set too low.

Employees

The average number of employees was 46 (39), of which 20 (15) were women. The year-end total was 52 (47). The executive management committee consisted of five people, two of them women, during 2002 and the major part of 2001.

Illness-induced absences accounted for 5.6% of normal working hours (8.6% in the case of female employees and 3.4% in the case of male employees). Some 2.4% of absences were longer than 60 days. The incidence of sickness absence among employees aged 29 or younger was 1.0%. For those aged 30-49 the incidence was 6.3% and for employees aged above 50 the figure was 2.7%.

NOTE 6**Other operating expenses**

	2002	2001
Depreciation equipment	5	4
Custody account costs	28	24
Information and computer expenses	18	20
Cost of premises	10	19
Audit fees ¹⁾	1	1
Consultancy fees to audit firms ²⁾	0	2
Other operating expenses	20	30
Total other operating expenses	82	100

¹⁾ Audit fees to Öhrlings PwC of SEK 1.0 million (0.5) and KPMG of SEK 0.2 million (0.2).

²⁾ Consultancy fees to Öhrlings PwC of SEK 0.2 million (2.4) and KPMG of SEK 0.1 million (0.1).

NOTE 7**Shares and participations, listed**

	31/12/2002		31/12/2001	
	Fair value	Acquisition value	Fair value	Acquisition value
Listed Swedish equities, internal asset management ¹⁾	24,002	37,543	32,712	36,240
Listed foreign equities, internal asset management ¹⁾	26,571	36,160	32,506	34,523
Listed foreign equities external asset management ²⁾	4,459	4,594	0	0
Participations in foreign index funds ¹⁾	10,321	13,195	17,075	18,422
Total shares and participated, listed	65,353	91,492	82,293	89,185

¹⁾ A detailed list of holdings is published on p.28-33.

²⁾ The list may be ordered from the Fourth Swedish National Pension Fund or viewed on its website.

NOTE 8**Shares and participations, unlisted**

	31/12/2002		31/12/2001	
	Fair value	Acquisition value	Fair värde	Acquisition value
Unlisted Swedish shares and participations	3,725	3,863	3,907	3,778

A detailed list of holdings is published on p. 33.

NOTE 9**Bonds and other interest-bearing assets**

	31/12/2002		31/12/2001	
	Fair value	Accrued acquis. value	Fair value	Accrued acquis. value
<i>Value per issuer</i>				
Kingdom of Sweden	7,628	7,451	6,691	6,833
Swedish, municipalities	1	1	3	3
Swedish mortgage lending institutions	8,974	8,820	10,470	10,528
Other Swedish financial companies	729	723	554	556
Swedish non-financial companies	728	717	812	809
Foreign states	7,834	7,853	9,175	8,973
Other foreign issuers	15,274	15,992	15,267	15,008
Total interest-bearing assets	41,168	41,557	42,972	42,710
<i>Per instrument category</i>				
Bonds	40,155	40,546	41,129	40,855
Subordinated debentures	72	70	66	66
Certificates	0	0	280	292
Call loans	941	941	1,497	1,497
Total interest-bearing assets	41,168	41,557	42,972	42,710

NOTE 10**Derivatives**

	31/12/2002		
	Nominal value	Real value Positive	Real value Negative
<i>Currency forward contracts</i>	2,383	48	54
of which cleared	2,383	48	54
<i>Interest rate-related instruments</i>			
Swaps	11,768	237	165
FRA / Futures	29,173	74	113
<i>Total interest rate-related instruments</i>	40,941	311	278
of which cleared	29,173	74	113
<i>Foreign exchange forward contracts</i>	38,676	1,447	49
Total derivatives	82,000	1,806	381

NOTE 11**Other assets**

	31/12/2002	31/12/2001
Non-liquid receivables sold	661	14
Equipment	7	11
Repurchase agreements	3,473	0
Other receivables	0	2
Total other assets	4,141	27

NOTE 12**Prepaid expenses and accrued income**

	31/12/2002	31/12/2001
Accrued interest income	1,277	1,200
Accrued dividends and restitutions	51	30
Other	6	11
Total	1,334	1,241

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

	31/12/2002	31/12/2001
Pension contributions etc. from the Swedish National Insurance Board (RFV)	40,186	39,202
Supplementary pension disbursements etc. to RFV	-37,939	-35,891
Administration fee paid to RFV	-263	-249
Net disbursements to the National Pension Scheme	1,984	3,062

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

	31/12/2002	31/12/2001
First Swedish National Pension Fund's Liquidation Fund	3,017	1,408
Fourth Swedish National Pension Fund's Special Asset Management Fund	0	53
Total	3,017	1,461

The First Swedish National Pension Fund's Liquidation Fund had SEK 6,511 million (18,273) under management at year-end.

The First Swedish National Pension Fund's Special Asset Management Fund had SEK 1,377 million (1,572) under management at year-end.

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

NOTE 15**Other liabilities**

	31/12/2002	31/12/2001
Trade creditors	3	10
Pension provisions	7	4
Repurchase agreements	3,473	0
Non-liquid liabilities purchased	648	0
Other liabilities	19	4
Total other liabilities	4,150	18

NOTE 16**Deferred income and accrued expenses**

	31/12/2002	31/12/2001
Accrued interest expenses	128	17
Accrued personnel costs	3	3
Other accrued expenses	9	13
Total	140	33

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

	31/12/2002	31/12/2001
Bonds transferred for repurchase agreements	3,347	-

NOTE 18**Other pledges and equivalent collateral**

	31/12/2002	31/12/2001
Bonds pledged as collateral for futures	897	351

NOTE 19**Undertakings**

	31/12/2002	31/12/2001
Non-utilised capital investments	219	216

NOTE 20**Currency exposure, 31-12-2002**

	USD	EUR	GBP	JPY	Other	Total
Shares and participations	23,585	7,859	4,193	3,233	2,481	41,351
Bonds and other interest-bearing assets	8,031	6,459	4,188	3,852	0	22,530
Net derivatives	-26,628	-6,080	-9,156	-6,482	0	-48,346
Net other receivables and liabilities	104	65	68	381	165	783
Net currency exposure	5,092	8,303	-707	984	2,646	16,318
Adjustment	-25	792	3,097	0	-1,057	2,807
Exchange rate exposure under the Fund's interpretation of LAP 4 Ch. 10§	5,067	9,095	2,390	984	1,589	19,125

Stockholm, 13 February 2003

Birgit Friggebo
Chairman

Karl-Olof Hammarkvist
Vice Chairman

Göran Johnsson

Marianne Nivert

Sture Nordh

Inga Persson

Ilmar Reepalu

Ulla Reinius

Carl Wilhelm Ros

Thomas Halvorsen
President

Our Auditor's Report was submitted in
Stockholm on 13 February 2003.

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 2002. The responsibility for the financial statements and administration rests with the Board. It is our responsibility to express our opinion on the Annual Report and administration on the basis of our audit.

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

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

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

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

Stockholm, 13 February 2003

Anna Hesselman
Authorised Public Accountant
Appointed by the Swedish Government

Anders Bäckström
Authorised Public Accountant
Appointed by the Swedish Government

Shares and Participations

Shares and participations, listed

Listed Swedish shares, internally managed

Company, 31 Dec 2002	Number	Fair value SEK million	Percentage of share capital	Percentage of voting capital
Addtech B	1,075,775	32	3.86	2.84
Anoto Group	4,871,794	57	4.70	4.70
Assa Abloy B	8,592,800	855	2.35	1.60
AstraZeneca ¹⁾	5,270,400	1,613	0.33	0.33
Atlas Copco	2,436,600	405	1.16	1.32
A	1,888,600			
B	548,000			
Autoliv ²⁾	1,961,000	350	2.03	2.03
Axis	2,964,000	55	4.30	4.30
Beijer Alma B	118,000	4	1.31	0.62
Bergman & Beving B	1,075,775	46	3.76	2.79
Biacore International	260,375	48	2.67	2.67
Biolvent International	1,188,750	15	4.03	4.03
Capio	1,015,500	70	1.31	1.31
Castellum	1,132,400	138	2.63	2.63
Drott	1,513,200	147	1.64	1.82
A	28,000			
B	1,485,200			
Electrolux B ²⁾	7,388,400	1,016	2.18	1.72
Ericsson ²⁾	251,015,000	1,536	1.57	0.36
A	2,191,000			
B	248,824,000			
FöreningsSparbanken,A	7,370,100	759	1.40	1.40
Gambro A	1,880,500	91	0.55	0.72
Getinge B	478,900	85	0.95	0.59
Hennes & Mauritz B ²⁾	12,476,300	2,096	1.51	0.73
Holmen	655,000	138	0.82	0.74
A	160,000			
B	495,000			
Industrivärden A	3,304,300	330	1.71	2.36
Intentia International B	1,365,900	24	3.73	2.92
Investor B	5,494,900	286	0.72	0.15
JM	769,200	125	2.53	2.53
Karo Bio	405,800	35	3.37	3.37
LGP Telecom	1,225,600	44	4.05	4.05
Lindex	377,500	64	2.75	2.75
Metro International	2,435,700	14	2.27	2.27
A	272,600			
B	2,163,100			
Micronic Laser Systems	70,000	3	0.36	0.36
MTG B ²⁾	3,285,000	232	4.95	1.59
Munters	611,380	118	2.45	2.45
NCC	848,000	44	0.78	1.05
A	673,000			
B	175,000			
Nobel Biocare Holding	54,900	31	0.22	0.22
Nokia ²⁾	4,654,000	642	0.10	0.10
Nordea	52,386,590	2,012	1.75	1.75
Perbio Science	802,800	80	2.19	2.19
Pharmacia Corporation ¹⁾	90,528	33	0.04	0.04
Precise Biometrics A	750,000	5	6.32	6.32
PyroSequencing A	1,059,400	8	3.05	3.05
Q-Med	18,184	1	0.07	0.07
Ratos B	550,000	53	0.68	0.20
Sandvik	2,271,400	442	0.88	0.88
SCA	3,524,809	1,036	1.52	2.70
A	1,432,500			
B	2,092,309			
SEB A	3,322,400	241	0.47	0.49
Seco Tools B	219,000	49	0.76	0.20
Securitas B	5,921,609	616	1.63	1.15
SHB ²⁾	14,374,085	1,662	2.01	2.05
A	13,386,085			
B	988,000			

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

²⁾ Included in Swedish and global share portfolios.

Company, 31 Dec 2002	Number	Fair value SEK million	Percentage of share capital	Percentage of voting capital
Skandia	22,494,808	522	2.20	2.20
Skanska	5,595,544	285	1.34	0.90
A	116,000			
B	5,479,544			
SKF ²⁾	2,980,600	673	2.62	1.86
A	506,000			
B	2,474,600			
SSAB	2,575,000	263	2.55	2.78
A	2,095,000			
B	480,000			
Stora Enso R	889,600	81	0.10	0.03
Swedish Match ²⁾	9,290,400	636	2.57	2.57
Syngenta	123,000	60	0.11	0.11
Tele 2 B ²⁾	5,251,500	1,210	3.56	1.53
Teleca B	2,633,710	78	4.46	4.05
Telelogix	7,000,000	43	3.45	3.45
TeliaSonera	42,510,349	1,394	0.92	0.92
Trelleborg B	396,200	28	0.44	0.22
Tripep	55,770	1	0.40	0.40
Volvo	6,777,795	942	1.54	2.22
A	3,417,427			
B	3,360,368			
Total fair value, Swedish listed, internally managed		24,002		
Total acquisition value, Swedish listed, internally managed		37,543		

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

²⁾ Included in Swedish and global share portfolios.

Foreign listed shares, internally managed

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

Denmark

Company, 31 Dec 2002	Number	Fair value, SEK million
Danske Bank	767,500	110
Total fair value		110
Total acquisition value		114

France

Company, 31 Dec 2002	Number	Fair value, SEK million
Aventis	552,268	261
AXA	1,200,000	140
BNP Paribas	664,200	235
Carrefour	454,705	176
Groupe Danone	115,000	134
LVMH	400,000	143
L'Oréal	385,000	255
Lagardère	490,000	173
Peugeot Citroën	542,400	192
Pinault-Printemps-Redoute	60,000	39
Sanofi-Synthelabo	195,470	104
Société Générale	351,500	178
STMicroelectronics	493,000	84
Suez	701,600	106
Total Fina Elf	259,400	322
Total fair value		2,542
Total acquisition value		3,201

Germany

Company, 31 Dec 2002	Number	Fair value SEK million
Altana	55,100	22
BASF	381,300	125
Bayer	116,000	22
BMW	594,410	157
E.ON	487,700	171
MAN	966,900	116
Metro	505,900	105
Munich Re	38,500	40
RWE	422,500	95
Siemens	267,400	99
Volkswagen	610,000	193
Total fair value		1,145
Total acquisition value		1,631

Italy

Company, 31 Dec 2002	Number	Fair value SEK million
Generali	897,600	161
Enel	3,365,900	152
Eni	1,677,600	232
Telecom Italia Mobile	2,500,000	99
UniCredito	2,818,559	98
Total fair value		742
Total acquisition value		862

Netherlands

Company, 31 Dec 2002	Number	Fair value SEK million
AEGON	299,800	33
ING	1,235,000	182
KPN	1,600,000	90
Royal Dutch Petroleum	694,840	266
TPG	877,700	124
Unilever	284,000	152
Total fair value		847
Total acquisition value		1,128

Spain

Company, 31 Dec 2002	Number	Fair value SEK million
BBVA	1,191,800	99
Banco Popular	405,300	144
Endesa	864,500	88
Iberdrola	884,600	108
Inditex	85,000	17
Repsol YPF	554,400	64
Telefonica	1,100,000	86
Total fair value		606
Total acquisition value		674

Switzerland

Company, 31 Dec 2002	Number	Fair value SEK million
Adecco	373,832	127
Nestlé	164,000	302
Novartis	1,016,795	323
Roche	128,800	78
Swiss Re	285,600	163
UBS	431,600	182
Total fair value		1,175
Total acquisition value		1,470

UK

Company, 31 Dec 2002	Number	Fair value SEK million
Amersham	262,600	21
ARM Holdings	4,317,200	29
AstraZeneca	432,054	134
Aviva	1,869,600	116
Barclays	4,739,000	256
BOC Group	1,172,400	146
BP	6,159,600	368
BT Group	4,700,000	128
Diageo	338,248	32
Dixons Group	7,988,693	162
GlaxoSmithKline	1,538,205	257
HBOS	2,783,700	255
HSBC Holdings	2,577,600	248
Kingfisher	4,436,000	138
Lloyds TSB	1,925,400	120
National Grid Transco	2,942,200	188
Rio Tinto	334,100	58
Royal Bank of Scotland	1,869,100	390
Shell	2,779,000	159
SkyePharma	2,421,500	14
Smiths Group	1,183,200	115
Tesco	6,640,000	180
Vodafone Group	34,365,749	545
WPP Group	2,020,000	134
Total fair value		4,193
Total acquisition value		5,668

USA

Company, 31 Dec 2002	Number	Fair value SEK million
Abbott Laboratories	371,650	129
AIG	856,500	431
Alcoa	629,500	124
Allergan	43,900	22
American Express	745,900	229
Amgen	354,400	149
Anheuser-Busch Companies	240,000	101
AOL Time Warner	2,060,000	234
AT&T Wireless Services	3,602,600	177
Automatic Data Processing	533,300	182
Bank of America	758,200	459
Bank of New York	808,500	168
Baxter International	156,400	38
Biovail	177,600	41
Boeing	132,600	38
Boston Scientific	207,400	77
Cardinal Health	132,210	68

to be continued

continued from previous page

Company, 31 Dec 2002	Number	Fair value SEK million
ChevronTexaco	410,000	237
Cisco Systems	3,140,000	358
Citigroup	1,840,800	563
Coca-Cola	600,000	229
CVS	425,000	92
Danaher	121,800	70
Deere	240,500	96
Dominion Resources	190,400	91
Dow Chemical	748,300	193
Du Pont	643,200	237
Duke Energy	665,000	113
Eli Lilly	121,800	67
Electronic Arts	244,000	106
Emerson Electric	395,600	175
Exxon Mobil	1,812,900	551
Fannie Mae	537,900	301
FedEx	441,400	208
Flextronics	1,171,000	83
Forest Laboratories	50,300	43
Freddie Mac	403,100	207
General Electric	2,547,300	539
Gillette	175,000	46
HCA	167,500	60
Home Depot	1,028,000	214
IBM	687,000	463
Illinois Tool Works	371,300	209
Ingersoll-Rand	513,200	192
Intel	2,310,000	313
International Paper	257,800	78
Johnson & Johnson	922,100	431
Juniper Networks	737,000	44
Kraft Foods	250,000	85
Kroger	580,000	78
Mattel	1,050,000	175
MBNA	855,050	141
McGraw-Hill	480,400	252
Medtronic	376,100	149
Merck	296,200	146
Microsoft	1,647,000	740
3M	258,400	277
Monsanto	215,668	36
NVIDIA	315,000	32
Oracle	1,773,000	166
PepsiCo	200,000	73
Pfizer	2,157,900	573
Pharmacia Corporation	508,800	185
Philip Morris	827,500	292
PPG Industries	129,600	57
Procter & Gamble	260,000	194
SBC Communications	1,145,000	270
Schlumberger	173,200	63
Sun Microsystems	2,090,000	57
Target	709,000	185
Tenet Healthcare	127,185	18
Texas Instruments	635,000	83
UnitedHealth Group	80,150	58
Veritas Software	422,000	57
Verizon Communications	920,000	310
Viacom B	225,000	80
Walgreen	250,000	63
Wal-Mart Stores	850,000	373
Wells Fargo	998,500	407
Weyerhaeuser	135,300	58
Wyeth	620,591	202
Total fair value		15,211
Total acquisition value		21,412
Total fair value, foreign listed, internally managed		26,571
Total acquisition value, foreign listed, internally managed		36,160

Participation in foreign index funds

Index fund, 31 Dec 2002	Number	Fair value SEK million
Balzac Europe Index	2,225,779	1,977
Balzac USA Index	3,712,539	3,776
Merrill Lynch World Index Fund	74,452,385	4,568
Total fair value, foreign index funds		10,321
Total acquisition value, foreign index funds		13,195

Shares and participations, unlisted

Unlisted Swedish shares

Company, 31 Dec 2002	Corp. reg. no.	Number	Acquisition value, SEK million	Percentage of share capital	Percentage of voting capital
AP Fastigheter ¹⁾	556061-4603	10,000,000	3,660	25.0	25.0
Total acquisition value			3,660		
Total fair value			3,554		

Participations in Swedish limited partnerships

Company, 31 Dec 2002	Acquisition value, SEK million	Percentage of invested capital
BrainHeart Capital KB	132	21.5 ¹⁾
HealthCap IV KB	7	13.3 ¹⁾
Innoventus Life Science 1 KB	9	16.3
Northern Europe Private Equity KB (EQT 3)	55	10.3 ¹⁾
Total acquisition value	203	
Total fair value	171	
Total Swedish unlisted shares and participations		
Fair value	3,725	
Acquisition value	3,863	

¹⁾ AP Fastigheter is a real estate company owned jointly and equally by the First, Second, Third and Fourth Swedish National Pension Funds. The Fourth Swedish National Pension Fund received SEK 200 million in dividends from AP Fastigheter in 2002.

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



Birgit Friggebo



Karl-Olof Hammarkvist



Göran Johnsson



Marianne Nivert



Sture Nordh



Inga Persson



Ilmar Reepalu



Ulla Reinius



Carl Wilhelm Ros

Board of Directors and Auditors

Board of Directors

Birgit Friggebo

Governor of the County of Jönköping. Born in 1941 and Chairman since 2000.

Other assignments: Chairman: County Administration of Jönköping and County Labour Board in Jönköping.

Chairman: Structural Funds Delegation Objective 2 South, Structural Funds Delegation Objective 2 Islands, National Board of Forestry Jönköping-Kronoberg and the Royal College of Opera as of 1 Jan 2003.

Member of the Board of the National Courts Administration, Swedish Agency for Government Employers, Swedish National Audit Office Council.

Karl-Olof Hammarkvist

Professor. Born in 1945 and vice-chairman since 2000.

Other assignments: Member of the Board of the Stockholm Institute for Financial Research and Capital Market Group Foundation.

Göran Johnsson

Chairman of the Swedish Metalworkers' Union. Born in 1945, Member of the Board since 1997 and Deputy Member of the Board 1993-1996.

Other assignments: Vice-chairman of the European Metalworkers' Federation and Nordic Metal.

Member of the Board of the FöreningsSparbanken, Amnesty Advisory Board, Swedish Trade Union Confederation and Kvinnoforum.

Deputy Member of the Board: Swedish Democratic Party and its Executive Committee.

Marianne Nivert

Director. Born in 1940 and Member of the Board since 2000.

Other assignments: Member of the Board of the SSAB, Beijer & Alma AB, Huddinge Universitetssjukhus AB, Lennart Chalmers University of Technology, the Centre for Business and Policy Studies, Swedish Exportkredit AB and Posten AB.

Sture Nordh

Chairman of the Swedish Confederation of Professional Employees. Born in 1952 and Member of the Board since 1999.

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

Inga Persson

Professor. Born in 1945 and Member of the Board since 2000.

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

Ilmar Reepalu

Chairman of Malmö City Executive Board. Born in 1943 and Member of the Board since 2000.

Other assignments: Chairman: Swedish Association of Local Authorities.

Member of the Board of the Sydkraft AB, Förenade kommunföretag AB and the Swedish Museum of Architecture.

Ulla Reinius

Director of Finansfakta R AB. Born in 1937 and Member of the Board since 2000.

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

Carl Wilhelm Ros

Director. Born in 1941 and Member of the Board since 1994.

Other assignments: Chairman of the Dahl International and Martin Olsson AB. Member of the Board of the INGKA (IKEA) Holding, Bonnier AB, SEB, NCC AB, LKAB and Profil-Gruppen.

Auditors

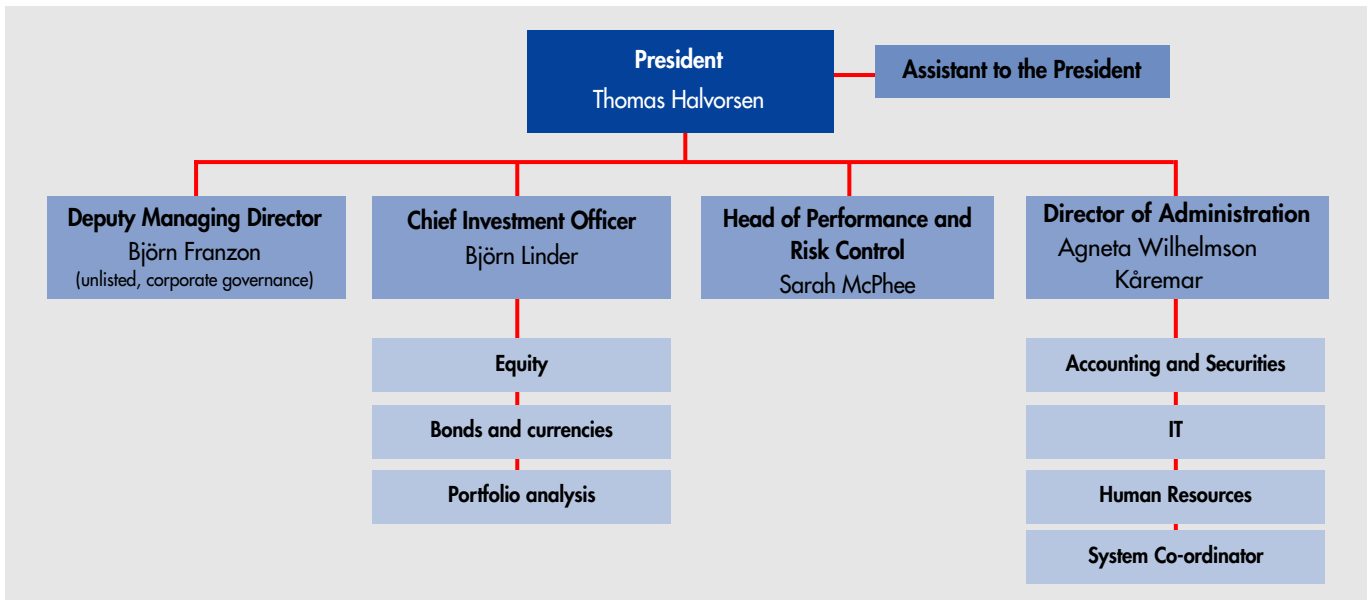
Anna Hesselman

Authorised Public Accountant
PricewaterhouseCoopers

Anders Bäckström

Authorised Public Accountant
KPMG

Organisation and Executive Management Committee



Executive management committee:

Björn Linder

Sarah McPhee

Thomas Halvorsen

Agneta Wilhelmson Kåremar

Björn Franzon

Definitions

Absolute Value at Risk (VAR)

A measure of expected risk of loss based on past statistics. Absolute VAR is calculated on a portfolio's total return, while relative VAR is calculated on a portfolio's active return

Active management

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

Active return

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

Active risk

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

Asset Liability Modelling

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

Automatic balancing

Mechanism activated to adjust pension payments in the event the National Pension Scheme is not in equilibrium (see Balance figure).

Balance figure

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

Series of returns to which the Fund's total return and risk is compared.

Beta value

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

Contribution income

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

Country risk

In respect of an international bond portfolio, is a risk arising from differentials in yield spreads between countries.

Credit risk

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

Credit swaps

Loans whose interest rates follow the market swap rate (see Swap rate).

Currency risk

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

Duration

Approximate measure of interest rate risk (see Modified duration). Measures the average outstanding life of future cash flows (coupon yields and final maturity) for a bond or portfolio of bonds.

EVCA

European Venture Capital Association.

Fixed income portfolio

Comprised of fixed income assets including bank deposits, interest rate derivatives and foreign exchange forward contracts tied to fixed income assets. All these instruments are included when conducting performance assessments. The Fund's reference index is denominated in SEK.

Fundamental analysis

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

Global equity portfolio

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

Handelsbanken Markets Bonds Index

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 foreign exchange forward contracts.

Information ratio

Measurement of risk-adjusted return calculated 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.

Investment assets

Used in the Annual Report to denote the Fund's total capital under management. In the balance sheets, however, investment assets are defined in accordance with accounting rules. These require that buybacks, liquid assets and derivatives with negative market value are reported under other items, and here investment assets refer to net assets.

Investment grade

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

Legal risk

Risk of 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

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

Merrill Lynch GBI

The Merrill Lynch Global Bond Index is a return index for sovereign bonds and non-sovereign bonds in their respective markets and 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 above) by the market interest rate plus 1.

MSCI World DNI

The Morgan Stanley Capital International World Developed Markets Daily Net Index 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, for instance a corporate bond.

Normal 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 (see Asset Liability Modelling). The normal portfolio thus determines the benchmark index against which the Fund's risk and return are compared. It is synonymous with the reference portfolio.

Operational risks

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

Passive management

Asset management whereby a specific portfolio mirrors a chosen index in order to match the index's return.

Pension liability

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

Rebalancing technique

Method describing how often the reference index's asset weighting is readjusted to its initial weighting in the normal portfolio.

Reference index

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

Reference portfolio

Synonymous with normal portfolio (see above).

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.

Sectoral allocation

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

Sharpe ratio

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

SIX Return Index

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

Stock selection

The taking of active positions in different equities in order to achieve an excess return.

STP

Straight Through Processing – a concept for automated handling of securities transactions and related processes.

Swap rate

Interest rate on a derivative instrument known as a swap. A swap is an agreement to exchange interest payments for a fixed time period.

Swedish equity portfolio

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

Tactical asset allocation

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

Tracking error

See Active risk.

Value at Risk

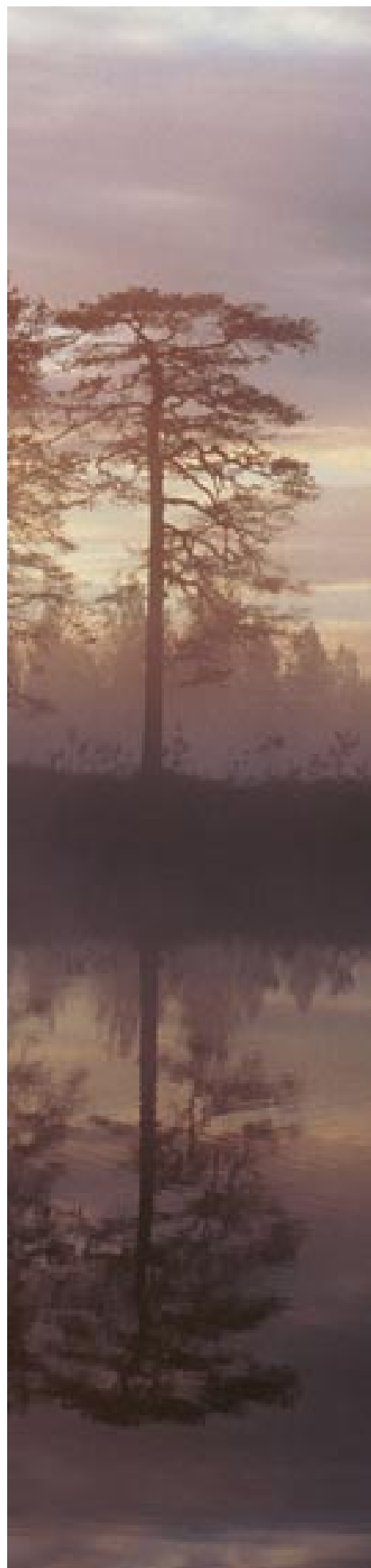
See Absolute Value at Risk.

Volatility

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

Yield curve

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



 **FJÄRDE AP-FONDEN**

Box 3069, SE-103 61 Stockholm, Sweden
Sveavägen 25
Telephone +46 8 787 75 00
Fax +46 8 787 75 25
e-mail 4apfonden@ap4.se
www.ap4.se