



Sjunde AP-fonden

Annual Report 2006



INVESTOR IN PEOPLE

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Seventh AP Fund achieves its target – by a wide margin!

In the 1990s the politicians in Sweden's Riksdag decided, by a large majority, that Sweden would introduce a new pension system. This reform is unique of its kind for several reasons. The first is that the decision was made "without due cause", even though the old ATP system had begun to fall apart at the seams. The second reason is that it created a stable system in the sense that the pension system will not undermine the state budget in the event of unfavourable circumstances. Thirdly, the agreement had the support of the five largest political parties, thus avoiding another "reform" in the event of a change of government. This guarantees stability.

The new Swedish pension system has gained worldwide recognition, and numerous delegations from all parts of the world have visited Stockholm to find out more about the Swedish experience.

Put simply the reform means that 18.5 per cent of the gross wage is deducted and allocated to pension purposes. 16 percentage points go to the income-related pension system, which is a distribution system. The other 2.5 points go to the premium pension system, where savers can choose for themselves how the capital is to be managed. If no choice is made the capital is managed in the Seventh AP Fund's Premium Savings Fund.

The first time the Seventh AP fund was allotted capital from around two million pension savers was in November 2000. Around one-third of all Swedish wage earners did not make an active choice of PPM funds and so their capital was invested in the Seventh AP fund's Premium Savings Fund. The assets under management at that time amounted to some 15 billion kronor.

In December 2006 we were allotted a further eight billion kronor, corresponding to the premium pension rights for the year 2005. With this capital in the portfolio the Seventh AP Fund is now (February 2007) managing just over 82 billion kronor. Around 80 billion kronor are managed in the Premium Savings Fund and around two billion kronor in the Premium Choice Fund. The total assets under management have thus increased five-fold in five years.

This makes the Seventh AP Fund a significant player on the Swedish capital market. However, we have still managed to keep our costs in check; we have only 15 employees and our fees are among the lowest in the PPM system. The Premium Savings Fund has a fee of 0.15 per cent, which makes it the cheapest – bar one – of the more than 700 PPM funds.

We have always endeavoured to remain at the forefront of modern asset management. For our part this meant, for example, that right from the start in 2000 we chose to work with external partners. Our philo-

sophy was, and still is, that we do not believe that global securities can be managed in a professional manner from Stockholm. Our alternative was to identify local experts all around the world and to work closely together with them. For example, our Japanese shares are managed highly successfully by the Tokyo-based asset manager Nomura.

At the beginning of 2006 we launched a project that we call Alpha-Beta separation. The aim of this project is to try and separate the return earned when the market as a whole goes up (beta), from the return obtained by the research and efforts of an individual portfolio manager (alpha).

Having tested this method internally we are now ready to look for external suppliers. Considerable resources will be devoted to this project in 2007. Our aim is to achieve more cost-effective management and, hopefully, to earn a higher return.

Our funds increased in value by around 11 per cent in 2006. This figure is slightly above what we consider to be a sustainable annual return. The main reason for the healthy return was the strong performance of Stockholmsbörsen, which rose by 25 per cent.

In 2006 we devoted a great deal of time and effort into deciding, via a process of public procurement, which external asset managers should be entrusted with managing pension savers' pension capital. A number of new managers will start to manage capital on our behalf in 2007. As usual you will be able to find out on our website (www.ap7.se) who they are and how well each of them manages the capital.

When we started in the autumn of 2000 we set ourselves a target. It was that those who do not make an active choice in the premium pension system should receive a pension that is at least as good as that received by those who do make an active choice. We have achieved this margin by a wide margin during the first six years of the system. We see no reason to change our target or goal.

"Those who do not make an active choice in the premium pension system should receive a pension that is at least as good as that of those who do make an active choice."



PETER NORMAN
EXECUTIVE PRESIDENT



Alpha-Beta separation – hocus pocus or sound financial strategy?

THERE IS A STRATEGY on the financial markets that is known as “alpha-beta separation”. Naturally for an outsider this concept is totally incomprehensible. In this section we aim to shed some light on the phenomenon and put it into the perspective of the Seventh AP Fund.

One can distinguish between two types of return in an equity portfolio. One part is an effect of the equity market as a whole going up. This is not something that an individual asset manager has any control over. This type of return is often called “beta”. But then there is a second compo-



“We try to obtain a “alpha” return, i.e. the return that depends on the capability of the portfolio manager. The method we use to achieve this is known as “alpha-beta separation”, says Peter Norman.

ment, namely the ability of the asset manager to outperform the market. This is often called the “alpha” return.

In principle it could be said that the “alpha” for all managers should be equal to zero. This is because the market’s return is identical to the return earned by all equity managers. And as we all know, not everyone can beat the average. That is to say, if one manager outperforms the market as a whole then there must also be someone who is under performing.

“Beta”, the return that depends on the stock market as a whole, can be earned in a highly cost effective manner via index funds or other kinds of index-like instruments. An index fund does not need to employ any analysts as it automatically invests capital in companies that are included in a certain stock market index. There are also obvious economies of scale associated with this type of management. Consequently, it costs far less to run an index fund than an

actively managed fund. The Seventh AP Fund takes advantage of this opportunity. We have invested large amounts of capital in index funds, which enables us to match the market return at extremely low cost.

We also try to earn “alpha”, returns too, i.e. the return earned from having a capable portfolio manager. The technique we use for this is called “alpha-beta separation”.

The market return (“beta”) and the portfolio manager’s ability (“alpha”) together generate the total return. Since we earn the “beta” return in a cost effective way via index funds, we are interested in obtaining only the “alpha” component from a portfolio manager.

How do we do this? A normal Swedish equity fund, for example, naturally offers both “beta” and “alpha”. What we have been doing internally since the beginning of 2006, and what we intend to do via our external managers in 2007, is to move into new pastures. Dedicated “alpha” management means that an equity portfolio is not affected by general fluctuations on the stock market. This may sound strange, but consider the following example.

The manager creates value

Let us suppose that a portfolio manager believes that Ericsson will do better than Nokia. However, the manager does not wish to be exposed to a general market risk. So he/she can borrow Nokia shares worth, say, 1,000 kronor and then sell them. The manager thus has a liability in the form of Nokia shares. Using this money, the 1,000 kronor, he/she can then buy Ericsson shares, and now has an asset in the form of Ericsson shares.

Let us further suppose that there is now a general downturn on the stock market. The manager’s asset, the Ericsson shares, are then worth less. But the manager’s debt, the Nokia shares, also fall in value. Conclusion: the manager is unaffected by a general decline (or an upswing) on the stock market.

However, let us suppose that the manager was right. Ericsson outperforms Nokia. Then the manager’s net assets increase. His/her assets, the Ericsson shares, will be worth more than the debt, the Nokia shares, regardless of whether Ericsson and/or Nokia shares go up or down.

It will be easier and clearer to assess a capable “alpha” manager. The manager creates value if the result is positive. In a traditional management it is not so straightforward to assess performance. Suppose that the Swedish stock market goes up by 20 per cent one year, whilst a manager using Stockholmsbörsen as a benchmark earns a return of 17 per cent on his portfolio.

Admittedly, 17 per cent may sound good, but the manager has de facto earned three percentage points less for an investor than could have been earned by means of straightforward index management.

If we assume that a portfolio manager is more often right than wrong (which is not exactly self-evident!), the return will also be higher if he/she applies a straightforward alpha strategy. Suppose that a manager believes that a particular company’s share price will fall sharply. What he/she can then do is to sell the entire holding of that share. A capable alpha manager can take this analysis one stage further by going short on the share, increasing his gearing, and thus earning a higher return.

What is good financial journalism?

THE JURY FOR the Seventh AP Fund's journalist prize considered that TV8's FinansNytt best satisfied the requirements for good financial journalism. The jury awarded the prize "for reliable news journalism that in an intelligible way provides viewers with insight and information about relevant financial events and their impact both nationally and internationally".

The prize has been instituted with the object of raising the quality of financial journalism. In an age when most adult Swedes own shares of some kind greater demands are being put on financial journalists. In AP7's view it is no longer enough to simply write and report for financial experts.

Better knowledge

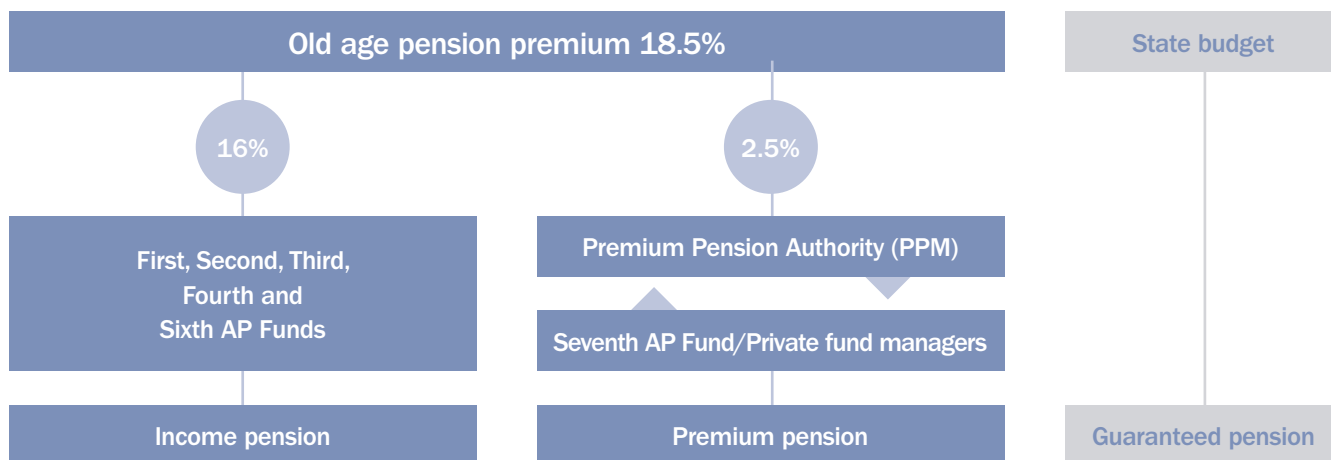
Nowadays, long-term investment is a matter for all Swedes, and journalism therefore needs to be geared towards raising the level of knowledge among them, including PPM investors. AP7 hopes that the journalism prize will contribute to such a development.

In addition to the pride and joy such a prize brings, it also motivates editors to sharpen their wits further in order to meet the stringent demands the AP7 makes when selecting the prize-winner. That is the view of Olle Zachrisson, editor in chief of FinansNytt, who together with his colleagues Peter Andersson, Per Wikström, Jonas Ohlin and Ola Björnör, was the first recipient of the AP7's journalist prize.





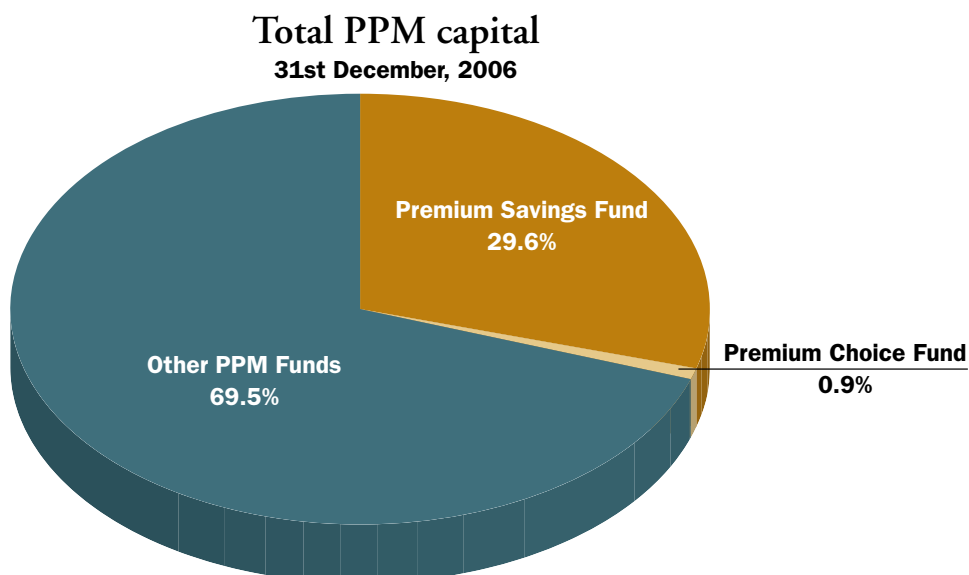
The winners, the editorial team at Finansnytt/TV8, at the Seventh AP Fund's journalist prizegiving ceremony, together with Peter Norman, President of Seventh AP Fund.



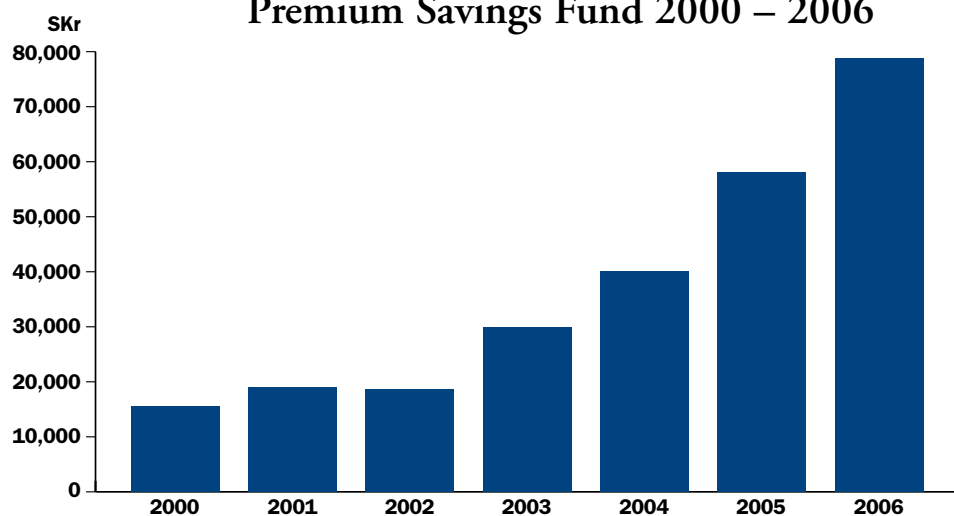
The Seventh AP Fund in the general pension system

SWEDEN'S GENERAL PENSION SYSTEM includes some of the pension premiums being earmarked for premium pensions. These are then managed in mutual funds according to the choice of the pension saver. The premium pension system is administrated by the state Premium Pension Authority (PPM), which functions in the same way as a mutual fund. The Seventh AP Fund, which is also a state authority, functions in the same way as a fund management company. For those refraining from selecting any

other fund the pension capital is invested in a special fund called the Premium Savings Fund and managed by the Seventh AP Fund. The Seventh AP fund also manages the Premium Choice Fund, which can be chosen in the same way as other funds within the premium pension system. The Premium Savings Fund and the Premium Choice Fund are intended solely for premium pension capital and are not open to other types of saving.

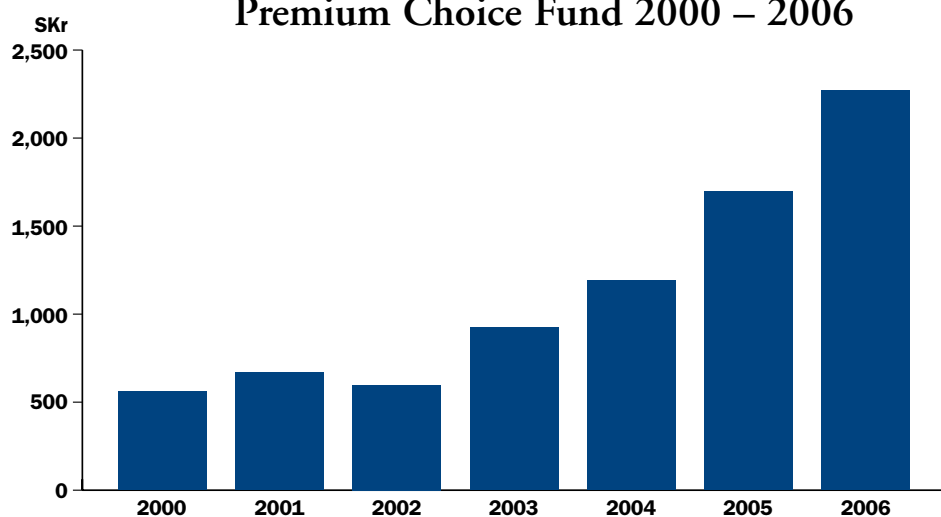


Assets under management: Premium Savings Fund 2000 – 2006



SKr million	2000	2001	2002	2003	2004	2005	2006
Opening capital	0	15,516	19,049	18,652	29,857	40,130	58,114
Inflow	16,807	5,634	6,503	7,027	7,650	7,973	16,758
Outflow	- 677	- 395	- 271	- 430	- 787	- 1,733	- 2,777
Return	- 614	- 1,706	- 6,629	4,608	3,410	11,744	6,752
Closing capital	15,516	19,049	18,652	29,857	40,130	58,114	78,847

Assets under management: Premium Choice Fund 2000 – 2006



SKr million	2000	2001	2002	2003	2004	2005	2006
Opening capital	0	562	668	597	924	1,190	1,695
Inflow	592	185	198	197	200	203	409
Outflow	0	- 7	- 13	- 19	- 32	- 70	- 51
Return	- 30	- 72	- 256	149	98	372	217
Closing capital	562	668	597	924	1,190	1,695	2,270

“Those who do not wish to choose, or cannot, should receive a pension that is at least as good a pension as everyone else’s – that is our aim”

IN THE AP FUNDS ACT, the Riksdag stipulated that the Seventh AP Fund’s management of the Premium Savings Fund shall be solely in the interests of pension savers. The Fund’s capital shall, at the selected level of risk, be invested in such a way as to achieve a high, long-term yield. The total risk in the fund’s investments shall be low. By low is meant, according to the definition in the act, that the Premium Savings Fund’s risk shall normally be lower than that of the average private manager of pension capital with the same investment horizon.

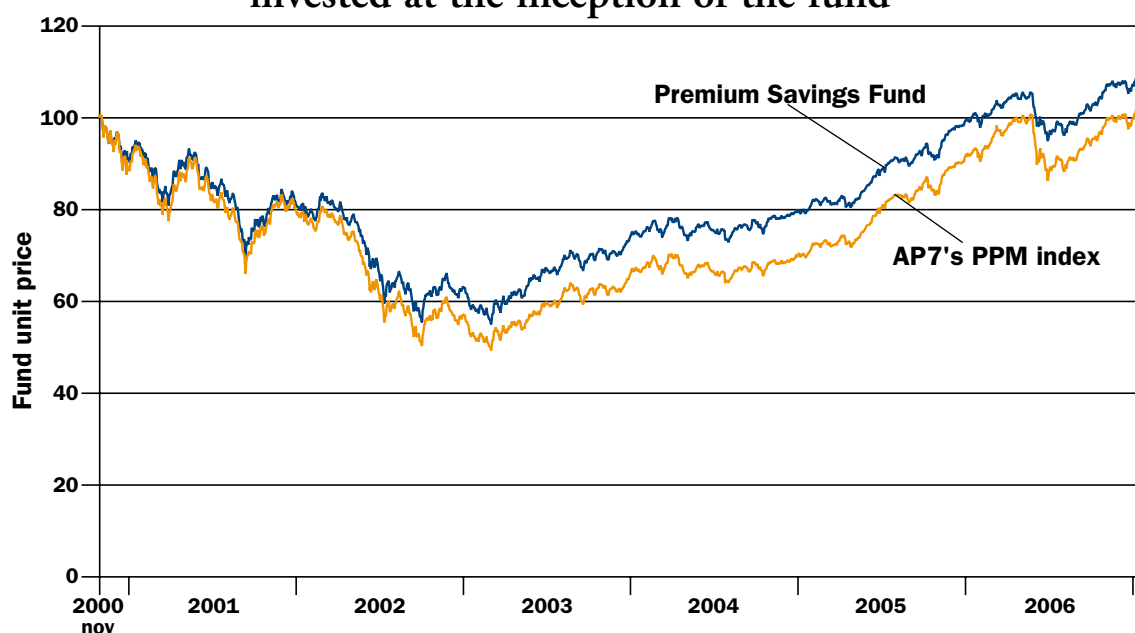
The Seventh AP Fund’s board has defined the long-

term goal stated by the Riksdag as follows:

The total return earned by the Premium Savings Fund shall during moving five-year periods correspond at a minimum to the average of all funds that can be chosen actively in the premium pension system, but at lower risk.

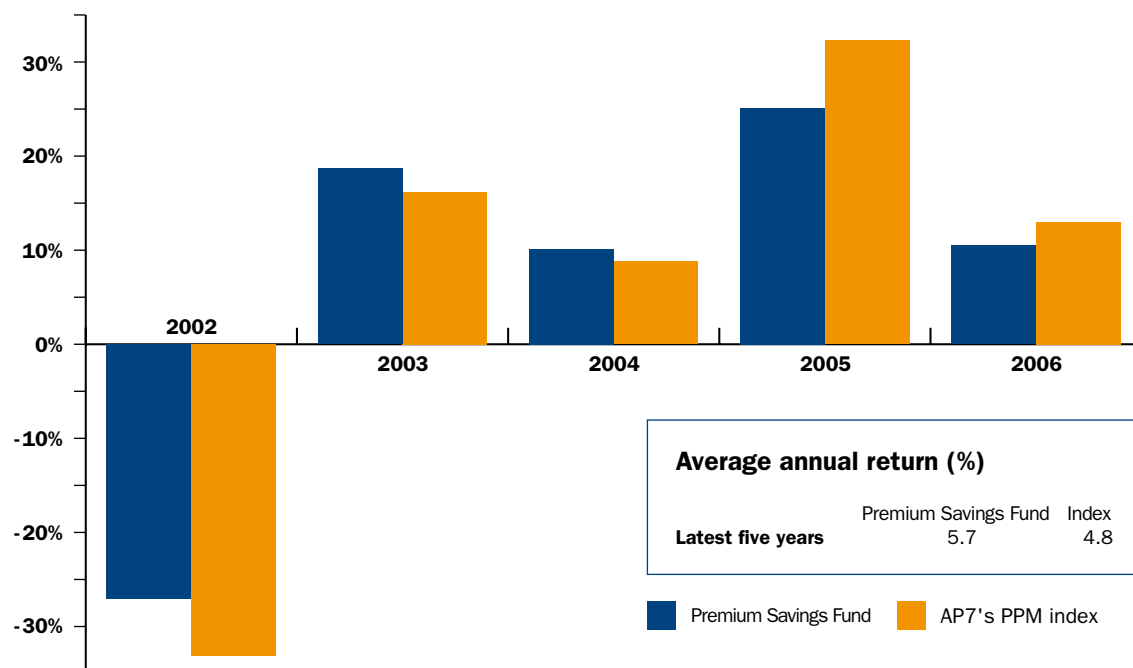
The total return earned by the Premium Choice Fund shall during moving five-year periods correspond at a minimum to the average of all funds that can be chosen actively in the premium pension system increased by 0.35 percentage points per year.

Change in value of 100 kronor invested at the inception of the fund



AP7's PPM index shows the capital-weighted average for all funds eligible for active selection in the PPM system.

Premium Savings Fund Annual return 2002–2006

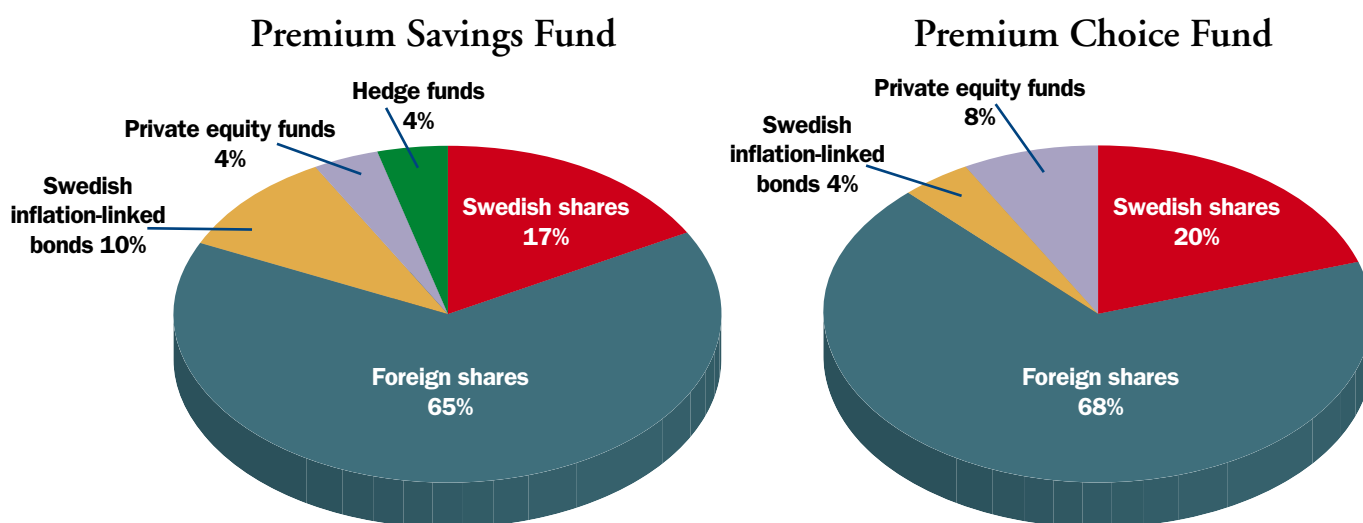


Premium Choice Fund Annual return 2002–2006



Strategic distribution of assets

THE CAPITAL OF the Premium Savings and Premium Choice Funds is managed on the basis of a standard portfolio. This shows the long-term distribution of the funds' various types of asset, expressed as a share of their total market value.



Foreign shares

The foreign shares in the standard portfolio are distributed among four geographical regions (Europe, North and South America, Japan, and Southeast Asia/Oceania) on the basis of the relative importance of each sub-market on the global stock market. In 2006 the Fund invested in shares in countries within the eurozone as well as in Sweden, Denmark, Norway, Poland, Switzerland, Great Britain, the Czech Republic, Hungary, Turkey, Brazil, Canada, Mexico, the USA, Japan, Australia, Hong Kong, Korea, New Zealand, Singapore and Taiwan.

Hedge funds and private equity funds

The types of asset known as alternative investments include hedge funds and private equity funds. The Fund invests in these through fund-of-fund investments. This means that the Premium Savings Fund and the Premium Choice Fund invest in units in funds, which in turn invest in a number of underlying funds. Such investments are only made if they satisfy the liquidity requirements of Finansinspektionen for this type of investment. Hedge funds and private equity funds often take the form of limited partnerships. Since it is a requirement of the Seventh AP Fund that direct investments must not go via tax havens, most alternative investments are channelled through specially formed Swedish limited partnerships in which the Premium Savings Fund and Premium Choice Funds are limited partners.

The term hedge fund is not a uniform concept; it is more of an umbrella name for funds that aim to earn a stable, positive return, regardless of the performance of the underlying market (e.g. stock or bond market). Various strategies and a wide range of financial instruments are used to achieve this. The return on hedge funds co-varies only to

a limited extent with the return on shares and fixed income securities. A holding of units in hedge funds can thus help to reduce fluctuations in the return, i.e. the risk, earned by a securities portfolio owning various types of asset.

The term private equity fund is an umbrella name for funds with investments in unlisted companies at various stages of their development. Such investments are often made on a 10-15 year investment horizon in companies at an early phase of their development. Skilled managers are often able to earn a very good return on long-term investments in unlisted companies. A holding of private equity funds can therefore help to increase the return on a securities portfolio with various types of asset. Admittedly, the return on private equity funds tends to co-vary more closely with the stock market than that on hedge funds, but such a holding can to a certain extent still help to reduce fluctuations in the return on a securities portfolio owning a variety of different assets. This type of asset also includes shares in such listed companies as in turn mainly invest in shares in unlisted companies or in private equity funds.

Currency hedging

Fifty per cent of the market value of equity investments denominated in euro, sterling, US dollars and Japanese yen are hedged by means of 6-month moving currency futures. Fifty per cent of the value at which investments in private equity funds denominated in euro, sterling and US dollars are included in the NAV calculation are hedged by means of currency futures. The total value at which hedge fund investments in euro, sterling and US dollars are included up in the NAV calculation is hedged by means of currency futures. Other investments denominated in foreign currencies are not hedged.

Active management and tracking

BY ACTIVE MANAGEMENT we mean that the investments deviate from the market average with the object of achieving a higher return. Tracking means that the investments follow the average on the market (index) as closely as possible, in which case the return will also match the market average. Active management has been chosen for those markets where this type of management can be expected to generate a higher return than tracking, taking account of cost differentials between the two types of management.

Management structure 2006

(Investments by type as a percentage of the market value)

Type of asset/market	Traditional active management	Separated alpha-beta management	Tracking
Shares			
Sweden	7	60	33
Europe	50	0	50
North and South America	0	0	100
Japan	100	0	0
Southeast Asia/ Oceania	100	0	0
Interest-bearing securities			
Inflation-linked bonds	0	0	100
Hedge funds and Private equity funds	100	0	0

Alpha and Beta management

The aim of active management is to earn an excess return (alpha) in relation to the market average (beta). In traditional active share management the capital is invested in shares in such a way that the weighting of the shares in the portfolio deviates from the corresponding share's weighting in the index. The aim is to outperform the average on the market (index) by being overweight in shares that are expected to outperform the index and underweight in those that are expected to underperform in relation to the index. Separated alpha and beta management involves making a sharper division of the management into two parts, one aiming to generate an average return (beta) and the other aiming to earn a return in excess of the market average (alpha). The total risk of the separated alpha and beta management remains unchanged in relation to traditional active management.

In the separated alpha management the return is generated using the long/short management model. Long positions are taken in the traditional way by investing in shares whose prices are expected to rise. Short positions are taken in shares whose prices are expected to fall. This involves selling short; which means that shares are borrowed and sold immediately. No capital, over and above a limited amount of working capital, needs to be earmarked for this separated alpha management. The long investments are financed using the proceeds of the short selling of the borrowed shares.

The return on separated beta management is generated by managing the total capital in the separated alpha and beta management in accordance with the tracking model (index management).

Read more about this on page 2.

Seventh AP Fund's employees

Richard Gröttheim,
Executive Vice
President and Head of
Asset Management
Marianne Björk, Vice
President Administra-
tion and Secretary to
the Board
Peter Norman,
President



Hans Löfgreen,
Equities management



Per Olofsson, Alternative
investments/equities
management



Anette Möller,
Equities management



Johan Dageryd, IT



**Christian Ragnartz,
Senior analyst**



**Johan Holtsjö,
Analyst**



**Marianne Karlsson, Earnings
calculation/fund administration**



**Svante Linder, Head of
fund administration**



**Leif Petersson, fixed
income and currency**

**Gunilla Dahlberg,
Administration**



**Anna Zetterberg,
Fund administration**

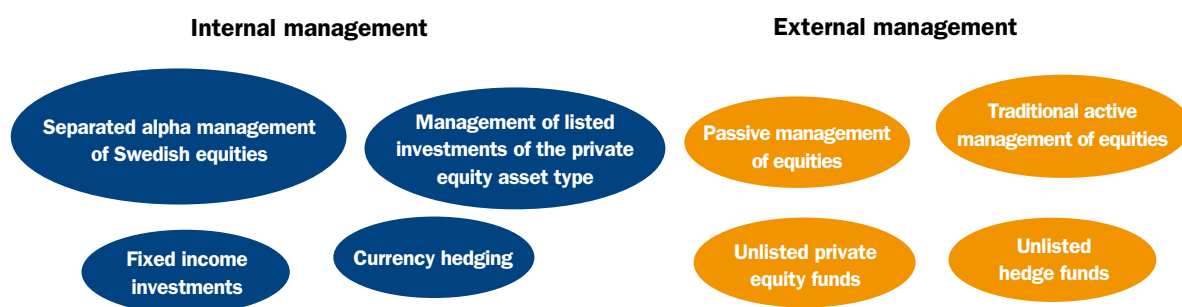


**David Brantmo, Risk analysis/
fund administration**

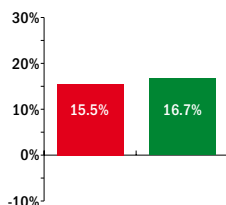
Internal and external management

BY INTERNAL MANAGEMENT we mean that investment decisions are made by portfolio managers employed by the Fund. By external management we mean that investments are made by specially engaged external portfolio managers – often large specialist firms.

Management structure 2006



■ Return
■ Benchmark index



EXTERNAL MANAGERS

Goldman Sachs Asset Management International, London

Responsible for active management of European equities (all of the European portfolio until 19 November, 2006 and half thereafter).

Assets under management 31 December, 2006: MSEK 3,792

Return 2006: 15.5%

Benchmark index (FTSE All World Index Europe) 2006: 16.7%

Axa Rosenberg Investment Management, London

Responsible since 20 November, 2006, for active management of half of the European equities portfolio.

Assets under management 31 December, 2006: MSEK 3,785

Return 2006: 1.2% (for the period from 20 November to 31 December)

Benchmark index (FTSE All World Index Europe) 2006: 1.1% (for the period from 20 November to 31 December)

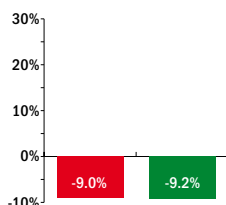
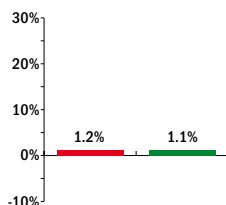
Nomura Asset Management, London/Tokyo

Responsible for all active management of Japanese equities.

Assets under management 31 December, 2006: MSEK 4,738

Return 2006: -9.0%

Benchmark index (FTSE World Index Japan) 2006: -9.2%



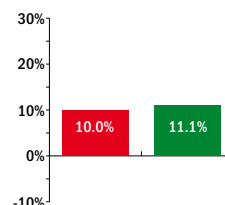
Schroder Investment Management, Singapore

Responsible for all active management of equities in Southeast Asia/Oceania.

Assets under management 31 December, 2006: MSEK 3,419

Return 2006: 10.0%

Benchmark index (FTSE All World Index Asia Pacific excl. Japan) 2006: 11.1%



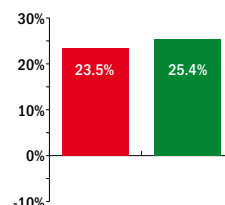
B. Carlson Investment Management, Stockholm

Responsible for traditional active management of a small proportion of the Swedish equities portfolio.

Assets under management 31 December, 2006: MSEK 1,210

Return 2006: 23.5%

Benchmark index (SBX Stockholmsbörsen's benchmark index) 2006: 25.4%



State Street Global Advisors, London

Responsible for all index management of equities.

Assets under management 31 December, 2006: Total MSEK 45,847, of which

Sweden	MSEK 15,019
Europe	MSEK 7,518
America	MSEK 23,310

Return 2006: Sweden 25.5%

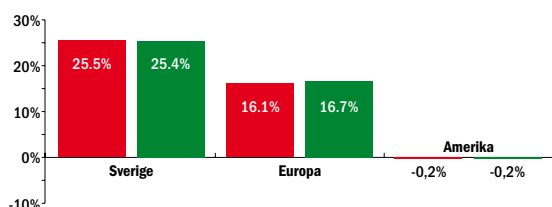
Benchmark index (SBX Stockholmsbörsen's benchmark index) 2006: 25.4%

Return 2006: Europe 16.1%

Benchmark index (FTSE All World Index Europe) 2006: 16.7%

Return 2006: America -0.2%

Benchmark index (FTSE World Index Americas) 2006: -0.2%



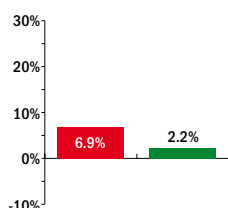
EIM, Nyon, Switzerland

Responsible for hedge fund management.

Assets under management 31 December, 2006: MSEK 1,236

Return 2006: 6.9%

Benchmark index (Index based on STIBOR overnight lending rate) 2006: 2.2%



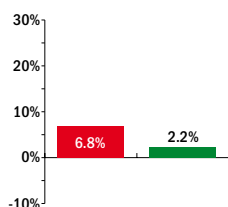
K2 Advisors, New York

Responsible for hedge fund management.

Assets under management 31 December, 2006: MSEK 1,228

Return 2006: 6.8%

Benchmark index (Index based on STIBOR overnight lending rate) 2006: 2.2%



LGT Capital Partners, Pfäffikon, Switzerland

Responsible for private equity fund management (unlisted).

Assets under management 31 December, 2006: MSEK 559, committed for investment, of which MSEK 142 invested

Since the unlisted investments are very long-term and still being built up no return figures are provided for individual years.

HarbourVest Partners, Boston/London

Responsible for private equity fund management (unlisted).

Assets under management at 31 December, 2006: MSEK 912 committed for investment, of which MSEK 540 invested

Since the unlisted investments are very long-term and still being built up no return figures are provided for individual years.

Hamilton Lane Advisors, Cynwyd, USA

Responsible for private equity management (unlisted).

Assets under management 31 December, 2006: MSEK 1,258 committed for investment, of which MSEK 464 invested

Since the unlisted investments are very long-term and still being built up there no return figures are provided for individual years.

INTERNAL MANAGERS

Separated alpha management of Swedish equities

Absolute return 2006: MSEK 3.2

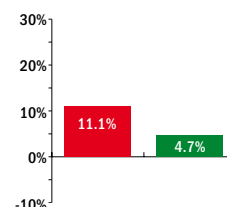
Target for absolute return 2006: MSEK 70

Listed investments within private equity

Assets under management 31 December, 2006: MSEK 2,341

Return 2006: 11.1%

Benchmark index (FTSE All World Index) 2006: 4.7%

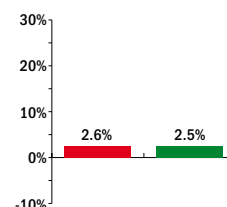


Fixed income investments (index-linked bonds)

Assets under management 31 December, 2006: MSEK 6,133

Return 2006: 2.6%

Benchmark index (OMRX-REAL) 2006: 2.5%



Environmental and ethical considerations in investments

The following companies were excluded from the Seventh AP Fund's holdings at the end of 2006.

ALLIANT TECHSYSTEM

Reports that the company is developing landmines.

AMERADA HESS

Reported corruption cases in Equatorial Guinea.

ANVIL MINING

Reports that the company has been involved in the massacre of civilians in Congo.

AWB

Reports of corruption crimes in connection with the oil-for-food programme in Iraq.

BAYER

Continued sales of environmental toxins in developing countries in breach of FAO declarations.

BHP BILLITON

Reported cases of anti-union activity in Australia.

BILFINGER BERGER

Reported cases of anti-union activity in Poland.

CHEVRON

Reported cases of human rights violations in Nigeria and environmental offences in the Amazon.

EXXON MOBIL

Reported corruption cases in Equatorial Guinea.

GENERAL DYNAMICS

Reports that the company is developing landmines.

GROUP 4 SECURICOR

Reported cases of breach of labour legislation in USA.

HALLIBURTON

Reported corruption cases in Nigeria and Iraq.

ING GROEP

Reported cases of anti-union activity in Chile.

L-3 COMMUNICATIONS

Reported cases of breach of human rights conventions at operations in Iraq.

MARATHON OIL

Reported corruption cases in Equatorial Guinea.

OCCIDENTAL PETROLEUM

Reported cases of breach of UN convention on human rights in Colombia.

REPSOL

Reported cases of environmental offences by part-owned company OCP in Ecuador.

SINGAPORE TECHNOLOGIES

Reports that a subsidiary is manufacturing landmines.

TEXTRON

Reports that the company is developing landmines.

THALES

Reported corruption cases in South Africa.

TOTAL

Reported cases of human rights violations through the use of commandeered labour at the business in Myanmar (Burma).

TOYOTA

Reported cases of anti-union activity at subsidiary in the Philippines.

WAL-MART STORES

Reported cases of discrimination against women in Guatemala and anti-union activity, infringement of labour law and child labour in USA.

YAHOO

Reported cases of actions curbing freedom of expression in China.

At the end of the year, Marriott's shares were also excluded. However, the exclusion was lifted at the beginning of 2007 since the company demonstrated that it had taken measures to deal with the reported state of affairs.

From the Seventh AP Fund's investment policy

In its investment activities, the Seventh AP Fund shall take the environment and ethics into consideration without compromising on the overall goal of earning a high return. This involves investing only in companies which, in the view of the Fund, acceptably comply with the requirements of the international conventions to which Sweden is a signatory. Companies in Sweden are also subject to the further requirement that they comply with Swedish law. The main conventions referred to here are:

- Human Rights conventions
- The UN Convention on the Rights of the Child
- ILO conventions
- International environmental conventions
- Conventions against bribery and corruption.

The Seventh AP Fund is therefore free to invest in shares in the approx. 1,500 companies world-wide that are included in the managed funds' benchmark index. In addition, the managing director can decide that investments may be made in shares that are not in the index. Furthermore, the Fund may also invest in inflation-linked corporate bonds with the highest rating. All these

companies are scrutinised on the basis of the principles stated. The Fund is not permitted to invest in companies that are not approved after such a scrutiny. Exclusion of a company from investment by the Seventh AP Fund applies for five years after

- a court decision, or
- documents that have been published by the official supervisor of an international convention that refer to the company, or
- the company's management has acknowledged the offence.

If a company can verify that measures have been taken to rectify the criticised conditions, the Fund's Board, after obtaining a recommendation from the consultants engaged to perform the scrutiny and after a special review, can decide that the company can be taken off the exclusion list before the five years are up.

In connection with alternative investments in hedge funds and private equity funds, the managers shall make every effort to assure themselves that the underlying investments comply as closely as possible with the Seven AP Fund's policy on environmental and ethical investments.



The board of the Seventh AP Fund

Lena Hagman

Chief economist, Swedish Confederation of Professional Employees (TCO).
Member of the Board for National Accounts at Statistics Sweden.



Lars Linder-Aronson

Chairman of the board of Ventshare AB and Tanglin Asset Management AB.
Board member of SBAB.

Karin Moberg

Director of Marketing at TeliaSonera Sweden AB.





Bengt Rydén, chairman
Doctor of economics. Chairman of Hallvarsson & Halvarsson AB, Flexoffice AB, Nordic Investor Services AB and Pantor Engineering AB. Member of the board: Autobalance Svenska AB, Onoterat AB, Svenskt Rekonstruktionskapital AB, the Foundation for Financial Research and Sven & Dagmar Salén's Foundation. Member of the Royal Swedish Academy of Engineering Sciences (IVA) and the Swedish Academy of Auditors (Svenska Revisionsakademin).



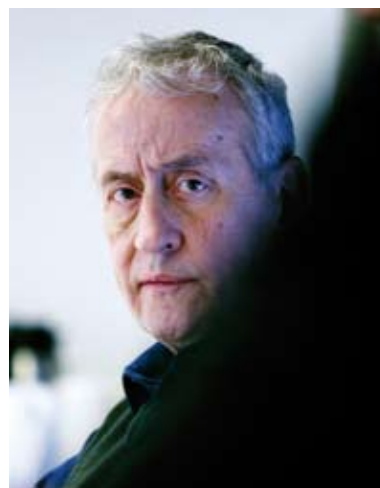
Reinhold Geijer
CEO, Head of Nordic Region Royal Bank of Scotland. Member of the board of Nefab AB.



Christina Striby
Former chief lawyer. Member of the board of Rikstrafiken.



Hans Mertzig
Asset manager at the Knowledge Foundation (KK Foundation). Chairman of the finance delegation in Gamla Livförsäkringsaktiebolaget SEB Trygg Liv and TryggStiftelsen. Member of the board: Hufvudstaden AB.



Per-Olof Edin, Deputy chairman
Professor. Director of Investment, Baltic Foundation (Östersjöstiftelsen). Chairman of the Labour Market Board (AMS). Member of the board: National Tax Board (Skatteverket), Svenskt Rekonstruktionskapital AB, Bergvik Skog AB, CEBA AB and Karolinska Development I AB and II AB.

Mari-Ann Krantz
Chair of the Swedish Union of Clerical & Technical Employees in Industry (SIF). Chair of the Council for Negotiation and Co-operation (PTK). Deputy chair of Alecta's national board and the board of the Confederation of Professional Employees (TCO). Member of the board: International Metalworkers' Federation, IMF.



AUDITORS

Anders Bäckström, Authorised public accountant
KPMG Bohlins AB.

Anna Hesselman, Authorised public accountant
Öhrlings PricewaterhouseCoopers AB.

Jan Palmqvist, Authorised public accountant
Deloitte AB.

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COMPANY REGISTRATION NUMBER 504400-8182

Report of the directors

The Premium Savings Fund in the general pension system

Sweden's general pension system includes some of the pension premiums being earmarked for premium pensions. These are then managed in mutual funds according to the choice of the pension saver. For individuals who refrain from selecting any other fund the pension capital is invested in the Premium Savings Fund, which functions just like a mutual fund. The Premium Savings Fund is managed by the Seventh AP Fund, a state authority that in this context functions as a fund management company. The Premium Savings Fund is intended solely for premium pension capital and is not open to other types of saving. The rules regulating the Seventh AP Fund and the Premium Savings Fund are laid down in the Act (2000:192) concerning the AP Funds.

Investment and withdrawal of capital

As the Premium Pension Authority (PPM) brought forward the allocation of premium pension capital for pension rights for 2005, premium capital for pension rights for both 2004 and 2005 was channelled into the Premium Savings Fund in 2006. The Fund also received further capital when PPM re-invested the discount on the management fee and invested inheritance profits, as well as when individuals who had previously selected another fund had their premium pension capital transferred to the Premium Savings Fund when their previous fund of preference left the PPM system. Over the year a total of some MSEK 16,800 (MSEK 8,000) was injected into the Fund. Of the first time selectors, 92% (92) refrained from actively selecting another manager and consequently had their premium pension capital invested in the Premium Savings Fund.

Withdrawals of capital as a result of premium pension savers transferring to other funds or premium pension capital being required for its purpose were higher in 2006 than in previous years, but the amount remained relatively small. Total withdrawals amounted to around MSEK 2,800 (MSEK 1,700), which corresponds to 4.1% (3.3%) of the average value of the fund during the year. Withdrawals were predominantly due to premium pension savers changing to other funds.

At the end of 2006, 2,347,943 people (2,312,736) had premium pension investments with a total market value of some MSEK 78,900 (58,100) invested in the Premium Savings Fund. This was equivalent to 29.6% (30.2) of the total premium pension capital, making the Fund by far the largest in the premium pension system.

Strategic distribution of assets

The Premium Savings Fund's capital is managed on the basis of a standard portfolio. This shows the long-term distribution of the Fund's various types of asset, expressed as a share of its total market value. In 2006 the standard portfolio had the following structure:

Shares	82%
of which Swedish	17%
of which foreign	65%
Fixed income investments	10%
of which Swedish inflation-linked bonds	10%
Alternative investments	8%
of which private equity funds	4%
of which hedge funds	4%

Foreign shares

The foreign shares in the standard portfolio are distributed among four geographical regions (Europe, North and South America, Japan and Southeast Asia/Oceania) on the basis of the relative importance of each sub-market on the global stock market. In 2006 investments were made in shares in the countries within the Eurozone as well as in Sweden, Denmark, Norway, Poland, Switzerland, Great Britain, the Czech Republic, Hungary, Turkey, Brazil, Canada, Mexico, the USA, Japan, Australia, Hong Kong, Korea, New Zealand, Singapore and Taiwan.

Currency hedging

Fifty per cent of the market value of equity investments denominated in euro, sterling, US dollars and Yen are hedged by means of currency forwards. Fifty per cent of the value at which investments in private equity funds denominated in euro, sterling and US dollars are included in the NAV calculation are hedged by means of currency forwards. Hedge fund investments in euro, sterling

and US dollars are hedged by means of currency futures at 100% of the value at which they are taken up in the NAV calculation. Other investments denominated in foreign currencies are not hedged. In order to benefit from a higher return some slight deviations were made from these percentage rates in 2006. This currency hedging strategy meant that at the end of 2006 the amount hedged corresponded to 43% of the assets denominated in foreign currencies and to 31% of the total value of the Fund.

Derivatives, lending and borrowing of equities

The Premium Savings Fund's placements are based on spot markets. However, derivatives can be used in situations where such instruments can help to further improve management efficiency or to hedge the fund against unwanted risk exposures. The fund rules include specific limits and collateral requirements for the use of derivatives and the borrowing and lending of equities. In 2006, derivatives were used to a limited extent. Lending of equities included the greater part of the Swedish equities portfolio. Shares were borrowed for selling short to a limited extent.

Management fee

The Premium Savings Fund pays the Seventh AP Fund a management fee that corresponds to 0.5% per year of the Fund's assets. The Fund is debited 1/365th part of the estimated annual fee daily. The fee covers the cost of management, administration, accounting, safekeeping of securities, information, supervision etc.

According to an agreement with PPM, the Seventh AP Fund grants PPM a discount on the management fee. For this discount PPM buys new units in the Fund on behalf of premium pension savers. The size of the discount depends on the amount of the fee and also on how much capital the Fund has under management. As the capital managed by the Premium Savings Fund is large, the discount will be considerable. As far as pension savers are concerned, this means that in 2006 the net fee after the discount was 0.15%.

Transaction costs such as brokerage commissions and fees payable to custodian banks for securities transactions are charged

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direct against the Fund and not included in the management fee.

Return

The Premium Savings Fund's return and risk are measured on the basis of daily valuations of the Fund's assets, which are performed using two different models:

- The first calculation model is used to determine the Fund's NAV (Net Asset Value), which is used for the purchase and redemption of units in the fund. The management fee that the Premium Savings Fund pays to the Seventh AP Fund is deducted from this value. The NAV is determined on the basis of the prices of the Fund's investments at 4.00 pm Swedish time. The calculation made on the basis of changes in the NAV reflects the change in value from the pension savers' perspective. The discount that is received by PPM and returned to the savers is, however, not reflected in the value calculated using this model. In 2006 the discount for the Premium Savings Fund was equivalent to an excess return of 0.35%.
- The second model is used for following up the Fund's performance in relation to its benchmark index. The valuation is therefore made in accordance with the same principles as those used for determining the value of the benchmark index. The management fee paid by the Premium Savings Fund to the Seventh AP Fund is not deducted. This model uses the closing prices of the Fund's listed assets on each market where these assets are listed.

The return earned by the Premium Savings Fund in 2006 was 10.5%, measured according to the NAV model. The risk, expressed as the standard deviation, was 9.0%.

The target for the Premium Savings Fund is that the return during each moving five-year period should correspond at a minimum to the average of all the funds eligible for selection within the premium pension system, but at a lower risk. The comparison with other funds in the pension system is based on the return measured using the NAV model. The Seventh AP Fund's PPM Index is calculated for this purpose. This index measures the capital-weighted average of all funds that are open for active selection in the premium pension system. The weightings in the index correspond to the proportion of the premium pension capital invested in each fund. The risk is measured

in terms of the standard deviation in the Premium Savings Fund's return, which is then compared with the standard deviation in the Seventh AP fund's PPM Index.

During the five-year period 2002-2006 the Premium Savings Fund earned a return of 31.9%. Over the same period the return on the Seventh AP Fund's PPM Index was 26.4%. The Premium Savings Fund's excess return in relation to the PPM average during the past five-year period was therefore 5.5 percentage points. The Premium Savings Fund's risk during this five-year period was lower than for the Seventh AP Fund's PPM Index. The target for the Premium Savings Fund was therefore exceeded by a wide margin.

One important reason why the Premium Savings Fund has outperformed in relation to the PPM average over the last five years is that

around 50% of the foreign securities portfolio had been hedged against currency losses.

The fall in the value of the dollar during the five-year period has therefore not had a particularly large effect on the return on foreign equities. The decision to invest in inflation-linked bonds instead of nominal ones and the structure of the equities portfolio were other factors behind this performance.

The operative target for active management in 2006 was to outperform the Fund's benchmark index by at least 0.5 percentage points. This comparison is made using the return measured according to the closing-price model. Measured in this way, the Premium Savings Fund's return in 2006 was 10.8% while that of the benchmark index was 10.8%. The Premium Savings Fund's return therefore matched the index but did not reach the targeted excess return.

The return and the active return (return in relation to the relevant benchmark index) by type of asset are shown in the table below.

Type of asset	Return	Active return
Swedish equities	25.3%	-0.1 percentage points
Foreign equities (before currency hedging)	4.1%	-0.5 percentage points
Currency hedging	4.3%	0.0 percentage points
Inflation-linked bonds	2.6%	0.0 percentage points
Hedge funds	6.0%	3.6 percentage points
Private equity (listed holdings)	11.1%	6.6 percentage points

As the weightings of each type of asset in the total portfolio differ their contribution to the total return also differs. These contributions were as follows.

Type of asset	Contribution to total return	Contribution to total active return
Swedish equities	4.3 percentage points	0.0 percentage points
Foreign equities (before currency hedging)	2.6 percentage points	-0.3 percentage points
Currency hedging	2.9 percentage points	0.0 percentage points
Inflation-linked bonds	0.3 percentage points	0.0 percentage points
Hedge funds	0.2 percentage points	0.1 percentage points
Private equity (listed holdings)	0.5 percentage points	0.2 percentage points
Total	10.8%	0.0 percentage points

Morningstar rating

Morningstar, the independent fund rating company, has awarded the Premium Savings Fund its highest rating – five stars out of a possible five.

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Key ratios	2006	2005	2004	2003	2002
Fund capital (SEK)	78,846,584,870	58,114,116,991	40,130,238,621	29,857,197,025	18,652,106,412
Number of units in issue	721,779,204.5593	587,602,051.4883	507,478,606.1886	415,689,109.6900	308,322,102.5321
Price of units (SEK)	109.24	98.86	79.05	71.80	60.48
Management fee (SEK '000)	336,544	260,304	191,231	132,987	104,816
Calculated return & risk, NAV model					
Total return, Premium Savings Fund (%)	10.5	25.1	10.1	18.7	-27.0
Total return, Seventh AP Fund's PPM Index (%)	13.0	32.3	8.8	16.2	-33.1
Total risk, Premium Savings Fund (standard deviation, %)	9.0	7.8	9.3	14.3	19.8
Total risk, Seventh AP Fund's PPM Index (standard deviation, %)	11.7	8.0	10.1	14.5	20.4
Return and risk, closing price model					
Total return, Premium Savings Fund (%)	10.8	25.5	10.8	19.8	-27.1
Total return Benchmark index (%)	10.8	24.8	11.2	19.5	-26.5
Total risk, Premium Savings Fund (standard deviation, %)	9.2	7.1	8.7	13.5	18.8
Total risk, Benchmark index (standard deviation, %)	9.4	7.2	8.7	13.6	18.8
Sharpe ratio	0.9	3.4	0.9	1.2	-1.7
Active risk (%)	0.5	0.4	0.5	0.8	1.2
Information ratio	0.1	1.4	-0.9	0.3	-0.5
Turnover rate (%)	27.6	23.3	30.2	34.2	28.8
Costs					
Management fee before PPM discount (%)	0.50	0.50	0.50	0.50	0.50
Management fee after PPM discount (%)	0.15	0.15	0.15	0.16	0.16
Total cost ratio (TCR) before PPM discount (%)	0.57	0.56	0.57	0.61	0.67
Total cost ratio (TCR) after PPM discount (%)	0.21	0.20	0.22	0.27	0.33
Total cost ratio (TCR) before PPM discount including alternative investments (%)	0.62	0.63	0.64	-	-
Total expense ratio (TER) before PPM discount (%)	0.50	0.51	0.50	0.50	0.50
Transaction costs (SEK '000)	43,631	28,780	27,840	29,732	19,969
Transaction costs, proportion of turnover (%)	0.09	0.10	0.08	0.11	0.11

Definitions

Return and risk calculations: the Premium Savings Fund's return and risk are calculated in two ways. The first method reflects the growth in value seen from the pension savers' perspective and is based on the Fund's NAV (Net Asset Value), which is used for purchase and redemption of units. With this method, the return is stated after deduction of the management fee that the Premium Savings Fund pays to the Seventh AP Fund, but without taking into account the reinvestment of the discount made by PPM on behalf of savers. A comparison is made with the Seventh AP Fund's PPM Index. When determining the NAV, the prices of the Fund's assets at 4.00 pm Swedish time are used. With the other method, which is used in comparisons with the Fund's benchmark index, the return is shown before deduction of the management fee that the Premium Savings Fund pays to the Seventh AP Fund. The valuation based on this model uses the prices of the Fund's assets that are listed at the close of each of the markets where the Fund's assets are listed.

Seventh AP Fund's PPM Index: Indicates the capital-weighted average of all funds within the PPM system that are open for active choice. The weightings correspond to the proportion of the premium pension capital invested in each fund.

Standard deviation: Indicates the magnitude of the fluctuations in the return and the index around the mean.

Sharpe ratio: A measure of the risk-adjusted return that indicates the return per unit of risk (risk = standard deviation). The Sharpe ratio is calculated as the portfolio return less the risk-free return divided by the standard deviation. For example: If the annual return is 10%, the risk-free return 4% and the standard deviation 15%, the Sharpe ratio will be $((10-4)/15) = 0.4$. This means that we earn a return of 0.4% per unit of risk.

Active risk: A measure of how much a portfolio deviates from its benchmark index. The day-to-day return on a portfolio is compared with the day-to-day return for the corresponding index. The standard deviation for this difference is a

measure of the active risk. The lower the standard deviation the lower the active risk. A low active risk means that the weighting of each individual security in the portfolio is roughly the same as the weighting of the security in the index. The return on a portfolio with a low active risk will most probably be the same as the return on the index. A high active risk means that the weighting of each individual security in the portfolio deviates from its weighting in the index. The return on a portfolio with a high active risk can be considerably higher or lower than the return on the index.

Information ratio: A measure of whether the risk exposure that is shown by the active risk has made a positive contribution to the portfolio's return. A positive information ratio indicates that the portfolio has earned a higher return than the index. The higher the positive figure, the greater the excess return (portfolio's return less index return) per unit of risk. If the information ratio is negative, the return on the portfolio has been lower than the index. The information ratio is calculated by dividing the portfolio's relative return by its active risk. By the portfolio's relative return

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is meant the return earned on the portfolio during the period in question less the return on the index during the same period.

Turnover rate: Measures how many times securities have been bought or sold in relation to the value of the Fund. It is calculated by dividing the lowest value of the sum of bought and the sum of sold securities during the period by the average value of the Fund, stated as a percentage.

Total cost ratio (TCR): The sum of the Fund's costs including transaction costs on the purchase and sale of securities. TCR is expressed as a percentage of the average value of the Fund. Both TCR before and TCR after the PPM discount are stated. The PPM discount is described in greater detail in the report of the directors.

Total cost ratio (TCR) including alternative investments: Calculated in the same way as TCR before the PPM discount (see above), but it also includes the costs of the limited partnerships through which the bulk of the alternative investments are channelled.

Total expense ratio (TER): Calculated as TCR (see above) but exclusive of transaction costs associated with the purchase and sale of securities.

Transaction costs: Commissions paid to the broker and transaction fees paid to the custodian bank.

Benchmark index

The benchmark index consists of a weighted index of the various benchmarks for the sub-portfolios based on the weighting of each sub-portfolio in the standard portfolio, account also being taken of any currency hedging. The following benchmark indices are used:

Swedish equities	SBX Stockholmsbörsen's benchmark index (SIX-RXA up to and including 31 July 2002)
Foreign equities	
Europe	FTSE All World Index Europe (excl. Russia and Turkey up to and including 1 May 2005)
America	FTSE World Index Americas
Japan	FTSE World Index Japan
Southeast Asia/Oceania	FTSE World Index Asia Pacific excl. Japan
Private equity	FTSE All World Index
Hedge funds	Index based on STIBOR Daily lending rate
Inflation-linked bonds	OMRX-REAL

Fund's ten largest holdings as % of fund capital at year-end 2006 (excluding investments in unlisted hedge funds and private equity funds)

Ericsson	2.7
Kingdom of Sweden inflation-linked bond 3105	2.1
Kingdom of Sweden inflation-linked Bond 3104	1.6
Nordea	1.6
Hennes & Mauritz	1.3
AstraZeneca	1.0
3i Group	0.9
Svenska Handelsbanken	0.9
SEB	0.8
Volvo	0.8
Total ten largest holdings	13.7

Geographical distribution of investments as % of fund capital at year-end 2006:

Sweden	35
America	31
Rest of Europe	24
Japan	6
Southeast Asia and Oceania	4
Total	100

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Balance sheet

All amounts in SEK '000

	31 December 2006		31 December 2005	
Assets				
Financial instruments with positive market value (Note 1)	79,249,336	100.5%	58,312,754	100.4%
Cash at bank and other liquid funds	253,610	0.3%	180,402	0.3%
Current receivables	259,152	0.3%	242,457	0.4%
Total assets	79,762,098	101.1%	5,735,613	101.1%
Liabilities				
Financial instruments with negative market value (Note 2)	531,416	0.6%	387,275	0.7%
Other current liabilities	384,097	0.5%	234,171	0.4%
Total liabilities	915,513	1.1%	621,446	1.1%
Value of Fund (Note 3)	78,846,585	100.0%	58,114,176	100.0%
Memorandum items (Note 12)	6,914,123	8.8%	5,219,956	9.0%

Income statement

All amounts in SEK '000

	2006	2005
Income and change in value		
Change in value of equity-related instruments (Note 4)	3,525,758	13,000,559
Change in value of fixed income related instruments (Note 5)	-2,901	204,264
Interest income (Note 6)	-207,740	-23,359
Dividends (Note 7)	1,299,620	1,014,898
Currency gains and losses, net (Note 8)	2,491,656	-2,194,392
Other income (Note 9)	6,690	6,693
Total income and change in value	7,093,083	12,008,663
Costs		
Management costs (Note 10)	-336,554	-260,304
Other costs (Note 11)	-4,449	-4,743
Total costs	-340,993	-265,047
Net profit for the year	6,752,090	11,743,616

Accounting principles

The Fund's annual report is made up in accordance with the Investment Funds Act and Finansinspektionen's ordinances and general recommendations.

Financial instruments are valued at fair value. Instruments listed on an authorised stock market are valued at 4.00 pm at their latest transaction price. In the case of unlisted holdings a cautious valuation is made of their fair value. The average method is used for calculating capital gains and losses. Lent securities are still stated in the balance sheet and included as pledged assets within the line. Premiums received or accrued are stated as interest income. Paid and accrued premiums (interest paid) for borrowed securities are stated under other costs.

Tax

The Premium Savings Fund is not liable for taxation in Sweden. In the case of investments abroad, there may in some instances be a liability to pay tax in the form of "definitive tax at source" on dividends.

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Note 1 – Financial instruments with positive market value

All amounts in SEK '000	31 December 2006		31 December 2005	
Equity-related securities	63,880,633	81.0%	50,060,610	86.2%
Equity-related securities, unlisted	3,454,520	4.4%	2,788,644	4.8%
Interest-related securities	10,595,177	13.4%	5,221,595	9.0%
Equity derivatives	1,576	0.0%	144	0.0%
Currency derivatives	1,317,430	1.7%	241,761	0.4%
Total	79,249,336	100.5%	58,312,754	100.4%

Note 2 – Financial instruments with negative market value

All amounts in SEK '000	31 December 2006		31 December 2005	
Equity derivatives	156	0.0%	49	0.0%
Currency derivatives	531,416	0.6%	387,275	0.7%
Total	531,416	0.6%	387,275	0.7%

Note 3 – Changes in the value of the fund

All amounts in SEK '000	2006	2005
Opening value of fund	58,114,167	40,190,239
Units issued	16,757,639	7,973,225
Units redeemed	-2,777,311	-1,732,913
Net profit for the year according to income statement	6,752,090	11,743,616
Total	78,846,585	58,114,167

Note 4 – Specification of change in value of equity-related instruments

All amounts in SEK '000	2006	2005
Realised capital gains	2,649,151	1,793,158
Realised currency gains/losses	28,869	-197,816
Unrealised capital gains	6,337,254	6,198,492
Unrealised currency losses/gains	-5,489,516	5,206,725
Total	3,525,758	13,000,559

Note 5 – Specification of change in value of fixed income-related instruments

All amounts in SEK '000	2006	2005
Realised capital gains	60,062	91,039
Unrealised capital losses/gains	-82,963	113,225
Total	-22,901	204,264

Note 6 – Specification of interest income

All amounts in SEK '000	2006	2005
Bonds	166,000	131,777
Short fixed income placements	44,67	12,645
Currency derivatives	-422,695	-170,738
Bank accounts	4,281	2,957
Total	-207,740	-23,359

Note 7 – Specification of dividends

All amounts in SEK '000	2006	2005
Dividend	1,371,994	1,071,587
Withholding tax	-89,363	-67,944
Reimbursement	16,989	11,255
Total	1,299,620	1,014,898

Note 8 – Specification of currency gains and losses, net

All amounts in SEK '000	2006	2005
Short fixed income placements	-42,986	18,647
Currency derivatives	2,516,592	-2,200,498
Bank accounts	18,050	-12,541
Total	2,491,656	-2,194,392

Note 9 – Specification of other income

All amounts in SEK '000	2006	2005
Lending of shares, premiums	3,399	3,400
Commission recapture	903	1,375
Other financial income	2,388	1,918
Total	6,690	6,693

Note 10 – Specification of management costs

Compensation to the Seventh AP Fund for management has been 0.5% annually. For the 2006 financial year this makes a management cost of SEK 336,544,000 (260,304,000). The fee to Seventh AP Fund includes compensation to the fiduciary custodian for custody and compensation to the Financial Supervisory Authority for supervision.

Note 11 – Specification of other costs

All amounts in SEK '000	2006	2005
Premiums, borrowing of shares	-1,148	-3
Transaction fees Nordea	-2,380	-3,491
Other bank charges	-921	-1,249
Total	-4,449	-4,743

The commission paid, which is reported together with changes in value for the equity-related instruments, amounts to SEK **40,085,000** (25,955,000) for 2006.

Note 12 – Memorandum items

All amounts in SEK '000	31 December 2006	31 December 2005
Lent securities and collateral received		
Lent securities	3,780,779	2,133,378
Collateral received for lent securities	4,999,325	3,401,385
Borrowed securities and collateral provided		
Borrowed securities	613,682	8,244
Collateral pledged for borrowed securities	0	0
Collateral pledged for derivative trade	306,477	312,901
Outstanding commitments		
Investments in Private Equity funds	1,608,321	1,518,681

The specification of holdings of securities has been omitted from this printed annual report. The list is available at www.ap7.se and may also be obtained from the Seventh AP Fund.

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Audit report

Seventh AP Fund's Premium Savings Fund

Co. Reg. No. 504400-8182

In our capacity as auditors of the Seventh AP Fund we have examined the annual report for the Premium Savings Fund for 2006. Our audit was performed in accordance with generally accepted auditing standards in Sweden.

The annual report is made up in accordance with the Act Concerning the AP Funds and the rules in the Investment Funds Act as specifically referred to in the AP Funds Act. The annual report thus provides a true and fair picture of the Fund's financial result and position in accordance with generally accepted accounting standards in Sweden.

In our audit we found no grounds for qualifying this annual report, the accounting records or the management in general.

STOCKHOLM, 7 FEBRUARY 2007

ANDERS BÄCKSTRÖM
Authorised public accountant
Appointed by the government

ANNA HESSELMAN
Authorised public accountant
Appointed by the government

JAN PALMQVIST
Authorised public accountant
Appointed by Finansinspektionen

This audit report relates to the Annual Report for the Premium Savings Fund (pages 27–32).

Annual report 2006 • Premium Choice Fund

COMPANY REGISTRATION NUMBER: 504400-8240

Report of the directors

The Premium Choice Fund in the general pension system

Sweden's general pension system includes the earmarking of some of the pension premiums for premium pensions. These are then managed in mutual funds according to the choice of the pension savers. The state's Premium Choice Fund functions just like a mutual fund and can be selected in the same way as other funds within the premium pension system. The Premium Choice Fund is managed by the Seventh AP Fund, which is a state authority that, in this context, functions as a fund management company. The Premium Choice Fund is intended solely for premium pension capital and is not open to other types of saving. The rules regulating the Seventh AP Fund and the Premium Choice Fund are laid down in the Act (2000:192) concerning the AP Funds.

Investment and withdrawal of capital

In 2006 additional capital was channelled into the Premium Choice Fund for pension rights for the years 2004 and 2005 by the Premium Pension Authority's (PPM) bringing forward of the allocation of premium pension capital for pension rights for the year 2005. The fund also received further capital when pension savers transferred from other funds to the Premium Choice Fund and when PPM reinvested the discount on the management fee and invested inheritance profits. During the year a total of some MSEK 409 (MSEK 202) was injected into the Fund. In 2006, the withdrawal of capital as a result of premium pension savers transferring to other funds, or premium pension capital being required for its purpose, was lower than in the previous year. The total outflow amounted to around MSEK 51 (MSEK 70), which corresponded to 2.6% (4.7%) of the average fund capital during the year. The outflow was mainly attributable to the fact that premium pension savers transferred to other funds.

By the end of 2006, 105,540 investors (108,114) had premium pension investments with a total market value of some MSEK 2,300 (MSEK 1,700) invested in the Premium Choice Fund. This was equivalent to 0.9% (0.9%) of the total premium pension capital, making the fund the seventeenth largest (17th) among the approx. 700 funds

eligible for active choice in the premium pension system.

Strategic distribution of assets

The Premium Choice Fund's capital is managed on the basis of a standard portfolio. This shows the long-term distribution of the Fund's various types of asset, expressed as a share of its total market value. In 2006 the standard portfolio had the following structure:

Shares	88%
of which Swedish	20%
of which global	68%

Fixed income investments	4%
of which Swedish inflation-linked bonds	4%

Alternative investments	8%
of which private equity funds	8%

Global shares

The global shares in the standard portfolio are divided into four geographical areas (Europe, North and South America, Japan and Southeast Asia/Oceania), based on the relative weighting of each sub-market on the global stock market. In 2006, share investments were made in countries in the Eurozone as well as in Sweden, Denmark, Norway, Poland, Switzerland, Great Britain, the Czech Republic, Hungary, Turkey, Brazil, Canada, Mexico, the USA, Japan, Australia, Hong Kong, Korea, New Zealand, Singapore and Taiwan.

Currency hedging

Fifty per cent of the market value of equity investments denominated in euro, Sterling, US dollars and Yen is hedged by means of moving six-month currency forwards. Fifty per cent of the value at which investments in private equity funds denominated in euro, Sterling, US dollars are included in the NAV calculation are hedged by means of currency forwards. Other investments in foreign currencies are not hedged. In order to take advantage of opportunities for a higher return, certain short-term deviations from the stated percentage rates were made in 2006. This hedging strategy means that at the end of 2006 the amount hedged was equivalent to 43% of the assets denominated in foreign currencies and to 34% of the total capital of the Fund.

Derivatives, lending and borrowing of equities

The Premium Choice Fund's investments are based on spot markets. However, derivatives can be used in situations where they will help to further improve the management of the Fund or protect it against unwanted risk exposure. Equities may be lent if this helps to improve the return. The Fund rules contain specific restrictions and collateral requirements for the use of derivatives and the lending of shares. In 2006 derivatives were only used to a limited extent. There was no lending of shares. There was some borrowing of shares for the purposes of short selling.

Management fee

The Premium Choice Fund pays the Seventh AP Fund a management fee that corresponds to 0.5% per year of the Fund's value. The Fund is debited 1/365th part of the estimated annual fee daily. The fee covers the cost of management, administration, accounting, safekeeping of securities, information, supervision etc.

According to an agreement with the Premium Pensions Authority (PPM), the Seventh AP Fund grants PPM a discount on the management fee. For this discount PPM buys new units in the Fund on behalf of premium pension savers. The size of the discount depends on the amount of the fee and also on how much capital the Fund has under management. As far as pension savers whose capital is managed by the Premium Choice Fund are concerned, this meant that in 2006 the net fee after the discount was 0.29%.

The Premium Choice Fund is debited direct for transaction costs such as broker's commissions and fees to custodial banks for security transactions. These costs are not included in the management fee.

Return

The Premium Choice Fund's return and risk are measured on the basis of daily valuations of the Fund's assets, which are performed using two different models:

- The first valuation model is used to determine the Fund's NAV (Net Asset Value) that is used for purchases and redemptions of units in the fund. The management fee that the Premium Choice Fund pays to the Seventh AP Fund is deducted

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from this value. The NAV is determined on the basis of the prices of the Fund's investments at 4.00 pm Swedish time. The calculation made on the basis of changes in the NAV reflects the change in value from the pension savers' perspective. The discount that is obtained by PPM and returned to the savers is, however, not reflected in the value calculated using this model. In 2006 the discount for the Premium Choice Fund was equivalent to an additional return of 0.21%.

- The second model is used for following up the Fund's performance in relation to its benchmark index. The valuation is therefore made in accordance with the same principles as those used for determining the value of the benchmark index. The management fee paid by the Premium Choice Fund to the Seventh AP Fund is not deducted. This model uses the prices of the Fund's assets that are listed at the close of each market where the Fund's assets are listed.

The return earned by the Premium Choice Fund in 2006 was 11.7%, measured according to the NAV model.

Since the end of 2004 the target for the Premium Choice Fund has been that the return for each moving five-year period should correspond at a minimum to the average of all the funds that are eligible for active selection in the premium pension system plus 0.35 percentage points per year. The comparison with other funds in the pension system is based on the return arrived at using the NAV model. The Seventh AP Fund's PPM Index is calculated for this purpose. This index measures the capital-weighted average of all funds that are open for active selection in the premium pension system. The weightings in the index correspond to the proportion of the premium pension capital invested in each fund.

The Premium Pension System was launched in the autumn of 2000. Until the end of 2003 the target was for the return earned by the Premium Choice Fund to be high enough to put the Fund in the top 25% of the funds in the PPM system. This target was not achieved. The new target of outperforming the average for the actively selected PPM funds by at least 0.35 percentage points per year over moving five-year periods has been applied for three years, 2004 - 2006. The target was not achieved during this three-year period. During the five-year period 2002-2006

the return earned by the Premium Choice Fund was 29.8%. A return of 28.6% during the same period was required to achieve the new target. The new target was thus achieved for the five-year period 2002-2006.

The operative target for active management in 2006 was to outperform the Fund's benchmark index by at least 0.5 percentage points. This comparison is

made for returns measured according to the closing-price model. Measured in this way, the Premium Choice Fund's return in 2006 was 12.0% while that of the benchmark index was 11.9%. The Premium Choice Fund's return thus exceeded the benchmark index by 0.1 percentage points. However, this fell short of the established target of 0.5 percentage points.

The return and active return (return in relation to respective index) for the various types of asset are shown in the following table.

Type of asset	Return	Active return
Swedish equities	25.3%	-0.1 percentage points
Foreign equities without hedging	4.0%	-0.4 percentage points
Currency hedging	4.5%	0.0 percentage points
Index-linked bonds	2.6%	0.0 percentage points
Private equity (listed holdings)	8.8%	4.2 percentage points

Since the various types of asset have different weightings in the total portfolio they contribute different amounts to the total return. The contributions to the total return were as follows.

Type of asset	Contribution to total return	Contribution to active return, total
Swedish equities	5.1%	0.0 percentage points
Foreign equities without hedging	2.8%	-0.2 percentage points
Currency hedging	3.3%	0.0 percentage points
Index-linked bonds	0.1%	0.0 percentage points
Private equity (listed holdings)	0.7%	0.3 percentage points
Total	12.0%	0.1 percentage points

Morningstar rating

The independent equity research company Morningstar has given the Premium Choice Fund the highest rating, five stars out of a possible five.

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Key ratios	2006	2005	2004	2003	2002
Fund capital (SEK)	2,270,301,412	1,694,603,059	1,190,334,274	924,328,401	596,979,825
Number of units in issue	22,538,505.3825	18,783,954.4286	16,844,514.4239	14,338,038.0435	11,076,428.2620
Price of units (SEK)	100.73	90.17	70.64	64.44	53.88
Management fee (SEK '000)	9,732	7,550	5,734	4,113	3,478
Calculated return & risk, NAV model					
Total return, Premium Choice Fund (%)	11.7	27.7	9.6	19.6	-30.6
Total return, Seventh AP Fund's PPM Index (%)	13.0	32.3	8.8	16.2	-33.1
Total risk, Premium Choice Fund (standard deviation, %)	10.0	8.5	10.5	16.0	22.6
Total risk, Seventh AP Fund's PPM Index (standard deviation, %)	11.7	8.0	10.1	14.5	20.4
Return and risk, closing price model					
Total return, Premium Choice Fund (%)	12.0	28.2	10.5	21.2	-30.8
Total return Benchmark index (%)	11.9	27.2	11.7	21.4	-30.0
Total risk, Premium Choice Fund (standard deviation, %)	10.3	7.7	9.7	15.1	21.2
Total risk, Benchmark index (standard deviation, %)	10.6	8.0	9.8	15.4	21.4
Sharpe ratio	1.0	3.5	0.8	1.2	-1.6
Active risk (%)	0.7	0.7	0.7	1.2	1.4
Information ratio	0.2	1.3	-1.8	-0.2	-0.6
Turnover rate (%)	32.6	25.6	43.1	24.5	18.9
Costs					
Management fee before PPM discount (%)	0.50	0.50	0.50	0.50	0.50
Management fee after PPM discount (%) ¹⁾	0.29	0.30	0.32	0.25	0.25
Total cost ratio (TCR) before PPM discount (%)	0.63	0.69	0.79	0.82	0.91
Total cost ratio (TCR) after PPM discount (%) ¹⁾	0.42	0.50	0.61	0.57	0.66
Total cost ratio (TCR) before PPM discount including alternative investments (%)	0.65	0.72	0.81	-	-
Total expense ratio (TER) before PPM discount (%)	0.50	0.51	0.50	0.50	0.50
Transaction costs (SEK '000)	2,469	2,872	3,270	2,591	1,971
Transaction costs, proportion of turnover (%)	0.15	0.33	0.26	0.44	0.42

¹⁾ PPM has changed its method of re-entering discounts as from 2004. The PPM discount has been calculated on an approximate basis for the period 2002–2005.

Definitions

Return and risk calculations: the Premium Choice Fund's return and risk are calculated in two ways. The first method reflects the growth in value seen from the pension savers' perspective and is based on the Fund's NAV (Net Asset Value), which is used for purchase and redemption of units. With this method, the return is stated after deduction of the management fee that the Premium Choice Fund pays to the Seventh AP Fund, but without taking into account the reinvestment of the discount made by PPM on behalf of savers. A comparison is made with the Seventh AP Fund's PPM Index. When determining the NAV, the prices of the Fund's assets at 4.00 pm Swedish time are used. With the other method, which is used in comparisons with the Fund's benchmark index, the return is shown before deduction of the management fee that the Premium Choice Fund pays to the Seventh AP Fund. The valuation based on this model uses the prices of the Fund's assets that are

listed at the close of each of the markets where the Fund's assets are listed.

Seventh AP Fund's PPM Index: Indicates the capital-weighted average of all funds within the PPM system that are open for active choice. The weightings correspond to the proportion of the premium pension capital invested in each fund.

Standard deviation: Indicates the magnitude of the fluctuations in the return and the index around the mean.

Sharpe ratio: A measure of the risk-adjusted return that indicates the return per unit of risk (risk = standard deviation). The Sharpe ratio is calculated as the portfolio return less the risk-free return divided by the standard deviation. For example: If the annual return is 10%, the risk-free return 4% and the standard deviation 15%, the Sharpe ratio will be $((10-4)/15) = 0.4$. This means that we earn a return of 0.4% per unit of risk.

Active risk: A measure of how much a portfolio deviates from its benchmark index. The day-to-day return on a portfolio is compared with the day-to-day return for the corresponding index. The standard deviation for this difference is a measure of the active risk. The lower the standard deviation the lower the active risk. A low active risk means that the weighting of each individual security in the portfolio is roughly the same as the weighting of the security in the index. The return on a portfolio with a low active risk will most probably be the same as the return on the index. A high active risk means that the weighting of each individual security in the portfolio deviates from its weighting in the index. The return on a portfolio with a high active risk can be considerably higher or lower than the return on the index.

Information ratio: A measure of whether the risk exposure that is shown by the active risk has made a positive contribution to the portfolio's return. A positive information ratio indicates that

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the portfolio has earned a higher return than the index. The higher the positive figure, the greater the excess return (portfolio's return less index return) per unit of risk. If the information ratio is negative, the return on the portfolio has been lower than the index. The information ratio is calculated by dividing the portfolio's relative return by its active risk. By the portfolio's relative return is meant the return earned on the portfolio during the period in question less the return on the index during the same period.

Turnover rate: Measures how many times securities have been bought or sold in relation to the value of the Fund. It is calculated by dividing the lowest value of the sum of bought and the sum of sold securities during the period by the average value of the Fund, stated as a percentage.

Total cost ratio (TCR): The sum of the Fund's costs including transaction costs on the purchase

and sale of securities. TCR is expressed as a percentage of the average value of the Fund. Both TCR before and TCR after the PPM discount are stated. The PPM discount is described in greater detail in the report of the directors.

Total cost ratio (TCR) including alternative investments: Calculated in the same way as TCR before the PPM discount (see above), but it also includes the costs of the limited partnerships through which the bulk of the alternative investments are channelled.

Total expense ratio (TER): Calculated as TCR (see above) but exclusive of transaction costs associated with the purchase and sale of securities.

Transaction costs: Commissions paid to the broker and transaction fees paid to the deposit bank.

Benchmark index

The benchmark index consists of a weighted index of the various benchmarks for the sub-portfolios based on the weighting of each sub-portfolio in the standard portfolio, account also being taken of any currency hedging. The following benchmark indices are used:

Swedish equities	SBX Stockholmsbörsen's benchmark index (SIX-RXA up to and including 31 July 2002)
Foreign equities	
Europe	FTSE All World Index Europe (excl. Russia and Turkey up to and including 1 May 2005)
America	FTSE World Index Americas
Japan	FTSE World Index Japan
Southeast Asia/Oceania	FTSE World Index Asia Pacific excl. Japan
Private equity	FTSE All World Index
Inflation-linked bonds	OMRX-REAL

Fund's ten largest holdings as % of fund capital at year-end 2006

(excluding investments in unlisted private equity funds)

Ericsson	2.7
3i Group	1.6
Nordea	1.5
Hennes & Mauritz	1.3
AstraZeneca	1.0
Svenska Handelsbanken	1.0
General Electric	0.9
SEB	0.8
Telia Sonera	0.7
Volvo	0.7
Total ten largest holdings	12.2

Geographical distribution of investments as % of fund capital at year-end 2006:

America	34
Rest of Europe	29
Sweden	25
Japan	7
Southeast Asia and Oceania	5
Total	100

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Balance sheet

All amounts in SEK '000	31 December 2006		31 December 2005	
Assets				
Financial instruments with positive market value (Note 1)	2,278,996	100.4%	1,679,068	99.1%
Cash at bank and other liquid funds	16,652	0.7%	25,401	1.5%
Current receivables	12,202	0.5%	6,250	0.4%
Total assets	2,307,850	101.6%	1,710,719	101.0
Liabilities				
Financial instruments with negative market value (Note 2)	15,142	0.6%	9,905	0.6%
Other current liabilities	22,407	1.0%	6,211	0.4%
Total liabilities	37,549	1.6%	16,116	1.0%
Value of Fund (Note 3)	2,270,301	100%	1,694,603	100.0%
Memorandum items (Note 12)	49,069	2.2%	53,325	3.1%

Income statement

All amounts in SEK '000	2006	2005
Income and change in value		
Change in value of equity-related instruments (Note 4)	130,181	407,667
Change in value of fixed income related instruments (Note 5)	770	2,179
Interest income (Note 6)	-7,515	-3,190
Dividends (Note 7)	40,667	32,750
Currency gains and losses, net (Note 8)	63,924	-57,930
Other income (Note 9)	134	150
Total income and change in value	228,161	381,626
Costs		
Management costs (Note 10)	-9,732	-7,550
Other costs (Note 11)	-1,119	-2,065
Total costs	-10,851	-9,615
Net profit for the year	217,310	372,011

Accounting principles

The Fund's annual report is made up in accordance with the Investment Funds Act and Finansinspektionen's ordinances and general recommendations.

Financial instruments are valued at fair value. Instruments listed on an authorised stock market are valued at 4.00 pm at their latest transaction price. In the case of unlisted holdings a cautious valuation is made of their fair value. The average method is used for calculating capital gains and losses. Lent securities are still stated in the balance sheet and included as pledged assets within the line. Premiums received or accrued are stated as interest income. Paid and accrued premiums (interest paid) for borrowed securities are stated under other costs.

Tax

The Premium Savings Fund is not liable for taxation in Sweden. In the case of investments abroad, there may in some instances be a liability to pay tax in the form of "definitive tax at source" on dividends.

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Note 1 – Financial instruments with positive market value

All amounts in SEK '000	31 December 2006	31 December 2005
Equity-related securities	2,123,770 93.5%	1,598,157 94.3%
Equity-related securities, unlisted	29,360 1.3%	14,417 0.9%
Interest-related securities	85,582 3.8%	59,142 3.5%
Equity derivatives	58 0.0%	12 0.0%
Currency derivatives	40,226 1.8%	7,340 0.4%
Total	2,278,996 100.4%	1,679,068 99.1%

Note 2 – Financial instruments with negative market value

All amounts in SEK '000	31 December 2006	31 December 2005
Equity derivatives	5 0.0%	2 0.0%
Currency derivatives	15,137 0.6%	9,903 0.6%
Total	15,142 0.6%	9,905 0.6%

Note 3 – Changes in the value of the fund

All amounts in SEK '000	2006	2005
Opening value of fund	1,694,603	1,190,335
Units issued	409,493	202,213
Units redeemed	-51,105	-69,956
Net profit for the year according to income statement	217,310	372,011
Total	2,270,301	1,694,603

Note 4 – Specification of change in value of equity-related instruments

All amounts in SEK '000	2006	2005
Realised capital gains	70,706	54,681
Realised currency losses	-5,496	-3,529
Unrealised capital gains	211,781	209,840
Unrealised currency losses/gains	-146,810	146,675
Total	130,181	407,667

Note 5 – Specification of change in value of fixed income-related instruments

All amounts in SEK '000	2006	2005
Realised capital gains	6,525	1,378
Unrealised capital losses/gains	-5,755	801
Total	770	2,179

Note 6 – Specification of interest income

All amounts in SEK '000	2006	2005
Bonds	1,518	1,399
Short fixed income placements	1,995	225
Currency derivatives	-11,588	-5,305
Bank accounts	560	491
Total	-7,515	-3,190

Note 7 – Specification of dividends

All amounts in SEK '000	2006	2005
Dividend	42,934	34,644
Withholding tax	-2,735	-2,208
Reimbursement	468	314
Total	40,667	32,750

Note 8 – Specification of currency gains and losses, net

All amounts in SEK '000	2006	2005
Short fixed income placements	-1,205	-354
Currency derivatives	67,026	-57,484
Bank accounts	-1,897	-92
Total	63,924	-57,930

Note 9 – Specification of other income

All amounts in SEK '000	2006	2005
Commission recapture	26	53
Other financial income	108	97
Total	134	150

Note 10 – Specification of management costs

Compensation to the Seventh AP Fund for management has been 0.5% annually. For the 2006 financial year this makes a management cost of SEK 9,732,000 (7,550,000). The fee to Seventh AP Fund includes compensation to the fiduciary custodian for custody and compensation to the Financial Supervisory Authority for supervision.

Note 11 – Specification of other costs

All amounts in SEK '000	2006	2005
Premiums, borrowing of shares	-54	0
Transaction fees Nordea	-1,044	-1,967
Other bank charges	-21	-98
Total	-1,119	-2,065

The commission paid, which is reported together with changes in value for the equity-related instruments, amounts to SEK **1,376,000** (860,000) for 2006.

Note 12 – Memorandum items

All amounts in SEK '000	31 December 2006	31 December 2005
Borrowed securities and collateral provided		
Borrowed securities	32,156	0
Collateral pledged for borrowed securities	0	0
Collateral pledged for derivatives trading	3,206	10,256
Outstanding commitments		
Investments in Private Equity funds	45,863	43,470

The specification of holdings of securities has been omitted from this printed annual report. The list is available at www.ap7.se and may also be obtained from the Seventh AP Fund.

Annual report 2006 • Premium Choice Fund

Audit report

Seventh AP Fund's Premium Choice Fund

Co. Reg. No. 504400-8240

In our capacity as auditors of the Seventh AP Fund we have examined the annual report for the Premium Choice Fund for 2006. Our audit was performed in accordance with generally accepted auditing standards in Sweden.

The annual report is made up in accordance with the Act Concerning the AP Funds and the rules in the Investment Funds Act as specifically referred to in the AP Funds Act. The annual report thus provides a true and fair picture of the Fund's financial result and position in accordance with generally accepted accounting standards in Sweden.

In our audit we found no grounds for qualifying this annual report, the accounting records or the management in general.

STOCKHOLM, 7 FEBRUARY 2007

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This audit report relates to the Annual Report for the Premium Choice Fund (pages 27–32).

Annual report 2006 • Seventh AP Fund

COMPANY REGISTRATION NUMBER: 802406-2302

Report of the directors

The role of the Seventh AP Fund in the general pension system

The general pension system involves a proportion of the pension premiums being allocated to premium pensions and managed in mutual funds on the basis of each saver's individual choice. The Premium Pension System is administered by the state Premium Pension Authority (PPM), which functions just like a unit-link insurance company. The Seventh AP Fund, which is also a government authority, functions within this system as a fund company that manages mutual funds. For those individuals who refrain from choosing any other fund in the premium pension system, the fund capital is invested by the PPM in a special fund known as the Premium Savings Fund and managed by the Seventh AP Fund. The Seventh AP Fund also manages a second fund, the Premium Choice Fund, which can be chosen in the same way as other funds within the premium pension system. The Premium Savings Fund and the Premium Choice Fund are intended solely for premium-pension capital and are not open for any other type of saving.

The Seventh AP Fund's asset management activities began in connection with the first choice of funds within the premium pension system in the autumn of 2000. Since then, capital has been allocated each year to the Premium Savings Fund and the Premium Choice Fund, when the PPM has allocated each year's new premium pension capital to the funds. The two funds have also received additional capital mainly in the form of re-investments by the PPM of the discount it receives on the management fee. In 2006 PPM allocated premium pension capital for two years of pension rights (for the years 2004 and 2005). Therefore the assets under management increased in total by around MSEK 17,200 in 2006, which is more than twice as much as in the previous year (MSEK 8,200), via the purchase of units in both the funds. Withdrawals of capital as a result of units being redeemed when premium pension savers switched to other funds amounted to some MSEK 2,800 (1,800) during the year. By the end of 2006 the Seventh AP Fund had total assets under management of MSEK 81,100 (59,800), of which approx. MSEK 78,900 (58,100), or 97.2% (97.2%) was in the Premium Savings

Fund and approx. MSEK 2,300 (1,700), or 2.8% (2.8%), in the Premium Choice Fund.

Separate annual reports for Premium Savings Fund and Premium Choice Fund

The asset management activities of the Premium Savings Fund and the Premium Choice Fund are described in separate annual reports published by these funds. This Report of the Directors relates to the activities of the fund manager, the Seventh AP Fund.

External services

The Seventh AP Fund has a relatively small but highly qualified permanent organisation. External resources are also engaged in those areas where it is appropriate to ensure a high level of competence, low costs and low exposure. This model means that it is important for the permanent organisation to act as a qualified customer and maintain effective day-to-day control over the quality and costs of the outsourced functions.

Since a high proportion of the capital is managed by external managers, the Seventh AP Fund devotes a great deal of attention to systematically monitoring their performance. All the portfolio managers are visited twice a year, when their management results and administrative procedures are evaluated. After three years an in-depth evaluation is made of each manager.

A round of public procurement of external equity managers took place in connection with the start of the asset management in 2000. In accordance with the Act on Public Procurement all external equity managers were once again asked to submit a tender via public procurement in 2006. The process will be concluded at the beginning of 2007. The procurement of a European equities manager, which had begun earlier, was concluded in 2006 and an agreement was signed with AXA Rosenberg Investment Management, London.

In 2006 there was also a public procurement process for managers for active management of currency hedging positions in the Premium Savings Fund and Premium Choice Fund. This process will be concluded at the beginning of 2007.

Review of strategic capital allocation

Every third year the Seventh AP Fund conducts an in-depth review of the strategic asset allocation in the Premium Savings Fund and

Premium Choice Fund. Such a review is in process ahead of the decision on an investment policy and risk management plan for 2007, which the Board intends to make early in 2007. The review is based partly on an in-depth ALM study (Asset Liability Modelling) that was carried out in 2006. When the Seventh AP Fund started and during previous major reviews of the strategic asset allocation, ALM studies were made using a considerable amount of support from external consultants. The current ALM study is mainly being performed by the fund's own personnel, which has also helped to develop in-house competence.

Shareholder issues

A corporate policy for the Seventh AP Fund is adopted every year as part of the business plan. This policy lays down guidelines as to how the Seventh AP Fund shall exercise the governance function that accompanies the ownership of shares by the Premium Savings Fund and the Premium Choice Fund, one constraint being that, according to the AP Funds Act, the Seventh AP Fund may only exercise its voting rights for Swedish shares in certain exceptional cases.

Premium pensions investigation

In the autumn of 2005 the Premium pension investigation presented its findings in "Navigation problems? Premium pension savings on the right course" (SOU 2005:87). This report proposes that several changes be made to the premium pension system that will affect the activities of the Seventh AP Fund. The proposals mean, for example, that the Seventh AP Fund would manage a basic alternative to replace the Premium Savings Fund and the Premium Choice Fund, that the basic alternative would be open for active choice and consist of generation funds, and that the Seventh AP Fund should be allowed to exercise its voting rights for Swedish shares. The Seventh AP Fund submitted its comments on the findings at the beginning of 2006. The proposals that affect the Seventh AP Fund's activities were generally approved of, with certain additions. The comments also included more fundamental thoughts on the supply of funds and the risk of systematic under-performance. The Seventh AP Fund expressed the opinion that these topics should be highlighted and considered further in connection with the prepara-

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tion of possible legislation. The government has not yet taken a position on the proposals or the comments received.

Board procedures

In 2006 the board held six meetings. In connection with one of the meetings there was also a board seminar on strategic issues for the Seventh AP Fund and a visit to the external equities manager for Southeast Asia/Oceania, Schroder Investment Management. There was also a board seminar in connection with the in-depth ALM study.

The Board has set up an executive committee consisting of the chairman, deputy chairman and managing director. The executive committee prepares business for meetings of the Board and makes decisions on business delegated by the Board to it. An Investment Council has been set up to provide support and advice for the managing director on various business decisions and as an advisory organ for the internal portfolio managers. At the end of 2006 the Investment Council consisted of four Board members and two external members. Over and above this, the Board has not set up any committees or working groups from among its members.

In 2006 the auditors attended two of the board meetings. On one occasion they presented their audit plan, and after completion of their audit they commented on the results.

In 2006 the board made an assessment of its operating procedures, which involved structured one-to-one discussions between the chairman and each member of the board. Two of the board members contributed with particular questions as a basis for the discussions. The assessment indicated that the Board was functioning well.

Management functions

For overall issues not relating to capital management the Seventh AP Fund has a management group, consisting in 2006 of three members (two men and one woman): the managing director, the deputy managing director and the administrative manager.

For capital management there is an investment committee, which in 2006 consisted of three members (all men): the managing director, the deputy managing director in his capacity as head of the management group, and the fund administration manager.

Personnel

In 2006 the number of established employees increased from thirteen to fifteen (five

women and ten men). Three employees, two of whom were previously employed on a temporary basis, were hired on a permanent basis. One person left the Seventh AP Fund during the year.

Total sick leave during the year was 0.1% (0% for men and 0.4% for women) of the employees' aggregate working hours. There was no long-term sick leave (60 days or more).

Result

The result in the form of the return earned by the Premium Savings Fund and the Premium Choice Fund is presented in the annual reports of these funds.

In 2006 the Seventh AP Fund's gross operating income amounted to SEK 346,456,000 (267,968,000). The discounts granted to the PPM amounted to SEK 246,719,000 (185,416,000), giving net income of SEK 99,737,000 (82,552,000). Costs, including net interest, amounted to SEK 99,108,000 (77,782,000). The Seventh AP Fund's result for 2006 was consequently a profit of SEK 629,000 (4,770,000). The accumulated loss at the end of the year thus amounted to SEK 149,600,000 (loss 150,229,000).

The result for 2005 included a one-off income item of MSEK 12.2, which related to a refund from the Swedish National Tax Board for overpaid VAT. If this is taken into account, then the result for 2006 is a significant improvement in relation to the previous year. This is mainly due to more capital being managed by the Premium Savings Fund and the Premium Choice Fund.

The Seventh AP Fund's earnings consist of the management fees that are drawn from the capital under management in the Premium Savings Fund and Premium Choice Fund. As more than 97% of the assets under management are in the Premium Savings Fund, the fees paid by this fund play a decisive role in determining the Seventh AP Fund's financial result. The management fee, which is 0.5% per year of the assets under management, is reduced by the discount system applied by the Premium Pension Authority (PPM). This discount accrues to pension savers as the PPM buys new fund units for the amount of the discount. In the case of the Premium Savings Fund the discount system meant that in 2006 the net management fee was 0.15%.

Around half of the costs of the Seventh AP Fund's activities depend on the amount of capital under management. The capital-based costs consist of fees to external asset managers and to the custodian bank. Since the capital

under management increased in 2006, the Seventh AP Fund's income also rose in relation to 2005. Parallel to this, the capital-based costs for external managers and the custodian bank increased. Personnel costs increased as a result of the increase in the workforce, while the cost of external services fell.

Result and financing forecast

The costs of the Seventh AP Fund's activities shall be covered by management fees drawn from the assets under management in the Premium Savings Fund and the Premium Choice Fund. The cost of building up the business is to be periodised over several years in order not to charge a disproportionate amount against any individual annual cohort of premium pension savers. This means that the Seventh AP Fund authority will incur losses for a number of years after inception. In order to finance the accumulated losses, the Seventh AP Fund has access to credits from the Swedish National Debt Office. In accordance with a government decision, the Seventh AP Fund has at its disposal in 2007 an interest-bearing account on which credits of up to MSEK 150 could be drawn, along with loans of up to MSEK 5 to finance fixed assets.

An estimate made on the basis of various assumptions about inflow and outflow of capital, return, cost trends etc. shows that the Seventh AP Fund's annual result will improve successively. This means that the accumulated deficit will steadily decline, and eventually be entirely eliminated by 2015. For the years thereafter estimates show that unchanged management fees can result in a sharply growing retained surplus, which could permit a reduction in the management fees.

The forecast is less certain than in previous years. This is mainly due to the fact that PPM has recently decided to modify its discount system, which will have a major impact on the calculation of Seventh AP Fund's net income. The changes come into effect on 1 April 2007. The most important change for the Seventh AP Fund is that the free fee withdrawal before the discount system takes effect is being set at 0.15% of the capital under management. This means that the Seventh AP Fund can reduce its management fees to the current level of the net fee after the discount for the Premium Savings Fund and thus be no longer covered by the discount system. In this way the Seventh AP Fund can to a certain extent exert a greater influence over its income. The implications of such a change in the fee structure for the long-term income forecast will require further analysis.

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Income statement

All amounts in SEK '000

	2006	2005
Operating income		
Management fees	346,276	267,854
Less discount to PPM	<u>-246,719</u>	<u>-185,416</u>
Other operating income	180	114
Operating costs		
Personnel costs (Note 1)	-26,094	-23,698
Other operating costs (Note 2)	-71,169	-52,085
Operating profit/loss	2,474	6,769
Financial income and costs		
Interest income	1,081	422
Interest costs	-2,926	-2,421
Profit after financial income and costs	629	4,770
Net profit for the year (Note 3)	629	4,770

Balance sheet

All amounts in SEK '000

	31 December 2006	31 December 2005
Assets		
<i>Fixed assets</i>		
Equipment (Note 4)	919	1,668
Total fixed assets	919	1,668
<i>Current assets</i>		
Other current receivables (Note 5)	1,672	16,181
Prepaid costs and accrued income (Note 6)	34,478	26,635
Cash and bank	27,699	942
Total current assets	63,849	43,758
Total assets	64,768	45,426
Equity and liabilities		
<i>Equity</i>		
Accumulated losses	-150,229	-154,999
Net profit/loss for the year	629	4,770
Total equity	-149,600	-150,229
<i>Liabilities</i>		
Credits from Swedish National Debt Office (Note 7)	128,957	130,389
Liabilities to suppliers	1,129	828
Other liabilities	992	875
Accrued costs and deferred income (Note 8)	83,290	63,563
Total liabilities	214,368	195,655
Total equity and liabilities	64,768	45,426
Pledged assets	None	None
Contingent liabilities	None	None

Accounting principles

The Seventh AP Fund complies with the rules in the AP Funds Act (2000:192).

The PPM discount is stated as a negative item under income since it represents a significant part of gross income and is beyond the Seventh AP Fund's control.

Equipment is capitalised and depreciated according to plan over three years in the case of computer equipment and five years for other equipment. Receivables are stated at the value that is expected to be received.

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Note 1 – Personnel costs

All amounts in SEK' 000	2006	2005
Number of employees		
Average number of employees	15	13
Employees 31 December	15	14
of whom employed for fixed periods	0	1
Number of employees in management group/- investment committee	4	4
Salaries and fees		
Chairman	125	125
Managing director	2,878	2,856
The board excl. chairman	500	483
Management group/investment committee excl. managing director	3,905	3,761
Other employees	7,718	6,297
Total	15,126	13,522
Pension costs		
Managing director	973	880
Management group/investment committee excl. managing director	1,515	1,379
Other employees	1,787	1,550
Total	4,275	3,809
Social insurance costs		
Chairman	30	30
Managing director	1,185	928
Board excl. chairman	163	157
Management group/investment committee excl. managing director	1,663	1,247
Other employees	2,837	2,928
Total	5,878	5,290
Other personnel costs	815	1,077
Total personnel costs	26,094	23,698

The Seventh AP Fund applies the collective agreement between the Banking Employers' Organisation (BAO) and the Swedish Federation of Lawyers, Sociologists and Economists (JUSEK)/Swedish Association of Business Administration Graduates (CR)/Swedish Association of Graduate Engineers (CF) (Swedish Confederation of Professional Associations (SACO)).

The following conditions apply to the managing director and the deputy managing director: the retirement age is 65; they are exempted from the pension plan that applies under the collective agreement, and instead receive individual pension insurances at a cost equivalent to 30% of their fixed salary. The period of notice is 6 months. If notice is given by the employer, severance pay equivalent to the fixed monthly salary is provided for 18 months after the period of notice. Severance pay is netted against any other salary or income from business.

The Board fee is determined by the government. Over and above the fee determined by the government, a total of SEK 100,000 has been paid to board members who are also members of the executive committee or the Investment Council.

Note 2 – Other operating costs

All amounts in SEK' 000	2006	2005
Auditing	1,304	1,295
External managers and fiduciary custodian	49,097	27,954
External services	13,178	15,652
Other costs	6,635	6,063
Depreciation according to plan	955	1,121
Total other costs	71,169	52,085
Fees to audit companies		
Auditing		
Öhrlings PricewaterhouseCoopers	808	875
KPMG	164	326
Deloitte	332	94
Total auditing	1,304	1,295
Other contracts		
Öhrlings PricewaterhouseCoopers	0	108
Total other contracts	0	108

Note 3 – Breakdown of the Seventh AP Fund's costs and income between Premium Savings Fund and Premium Choice Fund

According to the AP Funds Act (2000:192) the Seventh AP Fund is entitled to draw funds from both the Premium Savings Fund and the Premium Choice Fund to cover the management costs incurred on behalf of each fund. If the costs relate to both the Premium Savings Fund and the Premium Choice Fund, they shall be allocated in a reasonable manner. The following table shows how the Seventh AP Fund's income and costs have been allocated to the respective fund. The allocation of common costs is based on the average value of each fund's assets. In 2006 97% (97%) were attributable to the Premium Savings Fund and 3% (3%) to the Premium Choice Fund.

All amounts in SEK' 000	Premium Savings Fund	Premium Choice Fund	Total
Income			
Management fees	335,888	10,388	346,276
Less discount to PPM	-239,317	96,571	-7,402
Other specific income	0	2,986	0
Allocated common income	1,223	38	1,261
Total income	97,794	3,024	100,818
Costs			
Specific costs	-47,624	-1,473	-49,097
Allocated common costs	-49,560	-1,532	-51,092
Total costs	-97,184	-3,005	-100,189
Profit for the year	610	19	629
Opening accumulated losses	-150,319	90	-150,229
Closing accumulated losses	-149,709	109	-149,600

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Note 4 – Equipment

All amounts in SEK '000	31 December 2006	31 December 2005
Opening acquisition value	19,302	18,602
Purchases	206	700
Closing accumulated acquisition value	19,508	19,302
Opening depreciation	-17,634	-16,513
Depreciation during the year	-955	-1,121
Closing accumulated depreciation	-18,589	-17,634
Closing book value	919	1,668

Note 5 – Other receivables

The figure for 2005 includes a receivable of MSEK 12.2 relating to VAT refunds for the years 2001 through 2004. The amount was refunded by the Swedish National Tax Board in 2006.

Note 6 – Prepaid costs and accrued income

All amounts in SEK '000	31 December 2006	31 December 2005
Accrued fund fees, gross	32,700	25,312
Other	1,778	1,323
Total prepaid costs and accrued income	34,478	26,635

Note 7 – Credits from the Swedish National Debt Office

All amounts in SEK '000	31 December 2006		31 December 2005	
	Total limit	Drawn	Total limit	Drawn
Check account credit	200,000	127,339	200,000	127,926
Loan for financing of fixed assets	5,000	1,618	10,000	2,483

Total credits from the Swedish National Debt Office

205,000 128,957 210,000 130,389

Loans for financing fixed assets have the same duration as the depreciation period for the assets being financed. The rates of interest on the check account credit and the loans for financing fixed assets are variable and based on the repo rate. At the end of 2006 the interest rate was 3.30%.

In 2007 the Seventh AP Fund will have at its disposal an interest-bearing account with a credit limit of MSEK 150 and a loan limit of MSEK 5 for financing fixed assets.

Note 8 – Accrued costs and deferred income

All amounts in SEK '000	31 December 2006	31 December 2005
Accrued vacation pay and social insurance charges	3,170	3,256
Accrued PPM discount	66,301	49,486
Accrued cost of external managers and custodian bank	11,254	8,640
Other	2,565	2,181

Total accrued costs and deferred income 83,290 63,563

STOCKHOLM, 7 FEBRUARY 2007

BENGT RYDÉN
Chairman

PER-OLOF EDIN
Deputy chairman

REINHOLD GEIJER

LENA HAGMAN

MARI-ANN KRANTZ

LARS LINDER-ARONSON

HANS MERTZIG

KARIN MOBERG

CHRISTINA STRIBY

PETER NORMAN
Managing director

Our audit report was submitted on 7 February 2007

ANDERS BÄCKSTRÖM
Authorised public accountant
Appointed by the Government

ANNA HESSELMAN
Authorised public accountant
Appointed by the Government

JAN PALMQVIST
Authorised public accountant
Appointed by Finansinspektionen

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Report of the auditors

Seventh AP Fund

Co. Reg. No. 802406-2302

We have examined the annual report and the accounting records, as well as the administration by the board of the Seventh AP Fund for 2006. The board has responsibility for the accounting records and the administration and for the application of the AP Funds Act when making up the annual report. Our responsibility is to express our opinion on the annual report and the administration on the basis of our audit.

We have carried out our audit in accordance with generally accepted auditing standards in Sweden, which require us to plan and perform the audit so as to obtain reasonable assurance but not absolute certainty that the annual report is free from material misstatement. An audit includes examining a selection of the records supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles and their application by the Board, as well as assessing the material estimates and judgments made by the Board when making up the annual report and assessing the totality of the information in the annual report. We believe that our audit provides a reasonable basis for our opinion as set out below.

The annual report is made up in accordance with the Act concerning the AP Funds, and thus provides a true and fair picture of the Seventh AP Fund's financial result and position in accordance with generally accepted accounting practice in Sweden. The report of the directors is in agreement with the other sections in the annual report.

In our audit no grounds have emerged for qualifying this annual report, the income statement and balance sheet therein, the bookkeeping, the inventory of assets or the administration in general.

We therefore recommend that the income statement and the balance sheet be adopted.

STOCKHOLM, 7 FEBRUARY 2007

ANDERS BÄCKSTRÖM
Authorised public accountant
Appointed by the Government

ANNA HESSELMAN
Authorised public accountant
Appointed by the Government

JAN PALMQVIST
Authorised public accountant
Appointed by Finansinspektionen

This audit report relates to the Annual Report for the Seventh AP Fund (pages 34-38).

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