



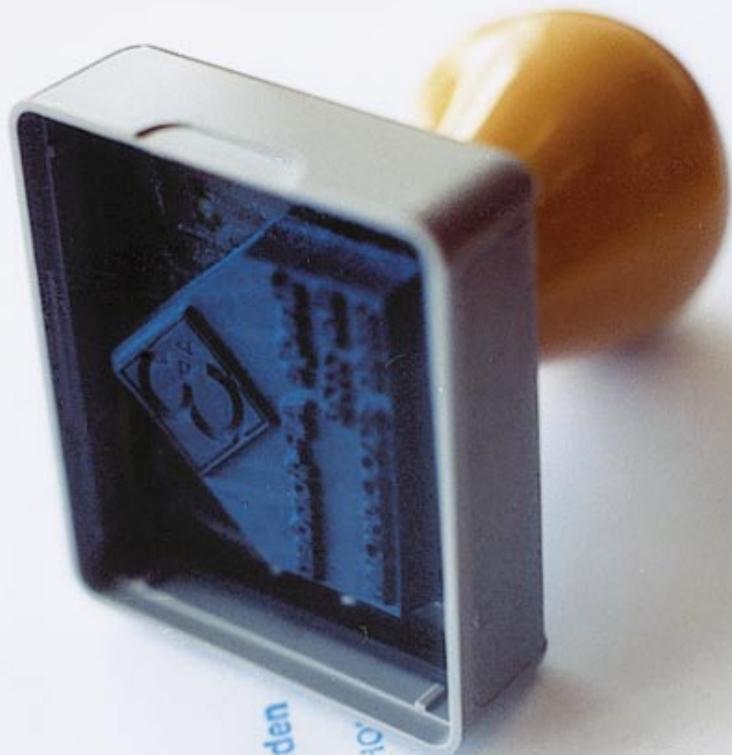
January–June

Interim Report 2005

THIRD SWEDISH NATIONAL PENSION FUND

About AP3

AP3 is one of five national pension funds (known as the AP funds) that manage the so-called buffer assets of the Swedish pension system. The combined funds of AP1, AP2, AP3, AP4 and AP6 correspond to about 10% of the state's future pension commitments. At 30 June 2005 AP3's assets under management totalled SEK 175.8 billion.



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First half of 2005

- ❖ AP3 recorded a net profit of SEK 13.8 billion in the first six months of 2005.
- ❖ The AP3 portfolio generated a return of 8.6% after commission expenses.¹
- ❖ Fund capital amounted to SEK 175.8 billion at 30 June, an increase of SEK 15.5 billion compared to the start of the year.
- ❖ The liquid asset portfolio generated a return of 8.1% after commission expenses¹, outperforming the reference index by 0.1 percentage points.
- ❖ The European and Swedish equity portfolios made the strongest contributions to net profit, generating returns of 13.7% (including hedging) and 13.3% respectively. Their performance accounted for 55% of total return in the first half.
- ❖ The Fund made 11 new investments in private equity funds during the first six months. Private equity investment undertakings stood at SEK 8.1 billion on 30 June, of which just over 35% has been invested.
- ❖ Currency exposure was 14.1% at 30 June, compared to 15.6% for the reference portfolio. At the start of the year this figure stood at 18.7%.

AP3's investment philosophy	Innovative asset management that earns respect for its professionalism and responsible approach and is based on a long-term mandate.
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¹ Commission expenses are external costs directly related to management of the Fund's assets and comprise management fees for external mandates, management costs for private equity funds, and custody account expenses.

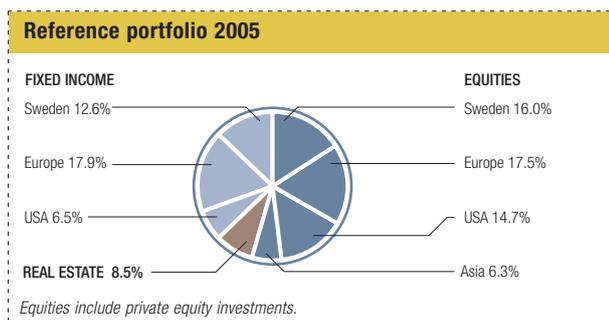


Positive performance continues

AP3's overriding objective is to generate the maximum possible benefit for the pension system over a 30–40 year time frame. The Fund has a long-term target of 4% average annual real growth¹ in capital.

In the first half of 2005 AP3 posted a net profit of SEK 13.8 billion. The return on AP3's portfolio amounted to 8.6% after commission expenses², with active management contributing 0.1 percentage points. Fund capital stood at SEK 175.8 billion on 30 June.

The essence of AP3's asset management operations is to identify a mix of financial assets considered likely to generate strong returns and appropriate risk diversification, based on the Fund's long-term undertakings to the Swedish pension system. This mix is determined using an asset liability modelling (ALM) analysis, which forms the basis of the Fund's annual decisions on its reference portfolio structure.



At the start of the year, the Fund had a relatively cautious market outlook. Expectations were for gradual increases in interest rates and for the krona to strengthen in the medium term. As a result, AP3 decreased risk in the fixed income portfolio and also reduced currency exposure.

The investment portfolio at 30 June was comprised of 57% equities (including private equity), 40.7% fixed income assets and 2.3% real estate³. Currency risk was 14.1%. European and Swedish equities were the largest contributors to net profit during the first half, together accounting for more than half of total return. These portfolios posted returns of 13.7% (including hedging) and 13.3% respectively.

¹ Real return is return minus inflation.

² Commission expenses are external costs directly related to management of the Fund's assets, i.e. management fees for external mandates, management costs for private equity funds, and custody account expenses.

³ Real estate exposure excludes debt financing of AP Fastigheter.

Market performance

Financial markets performed strongly in the first half. Equity markets posted gains and interest rates fell. Economic growth slowed somewhat in Europe but picked up in the US. In the US, this resulted in a stronger dollar, a softer equity market and higher short-term interest rates. In Europe, interest rates fell, equity markets rose and the euro weakened against the dollar. These tendencies were particularly pronounced in Sweden, where heavy demand for long-term bonds pushed interest rates down.

Financial market conditions were favourable for AP3's portfolio investments. The Swedish equity market, in which one sixth of AP3's portfolio is invested, generated high returns. The SIXRX Swedish equity index rose more than 15% in the six months to 30 June, while European equities gained more than 10% in local currency terms. Returns on the US and Asian equity markets were relatively low in local currency terms. However, the weakening of the Swedish krona meant the Fund's investments in these markets also generated a positive return.

Interest rates continued to fall in Sweden and Europe. The Riksbank cut its key repo rate by 0.5 percentage points to 1.5% in mid June. Long-term (10-year) interest rates fell by just over 1 percentage point to 3% in the first half. The European Central Bank left base rates unchanged in the first half but long-term (10-year) rates eased from 3.68% at year-end to 3.13% on 30 June. In the US, short-term interest rates rose amid strong economic growth. The Federal Reserve raised interest rates on four occasions, from 2.25% to 3.25%. However, long-term rates fell and 30-year bond rate was 4.19% at the half-year mark, compared to 4.83% at the start of the year. The spread between short-term and long-term rates narrowed appreciably during the period.

Asset management

In the short-term and medium-term AP3 actively manages its reference portfolio so as to outperform the index and limit risk. The overall portfolio is managed by the tactical asset allocation department. In addition, the Fund also has fixed income, foreign exchange and equity management departments. Identifying market segments and securities that are considered likely to outperform the index with no



material affect on overall risk is a key facet of AP3's portfolio management operations.

60% of the Fund's assets were managed internally and 40% externally at 30 June, while some 80% of assets were subject to active management.

Equity management

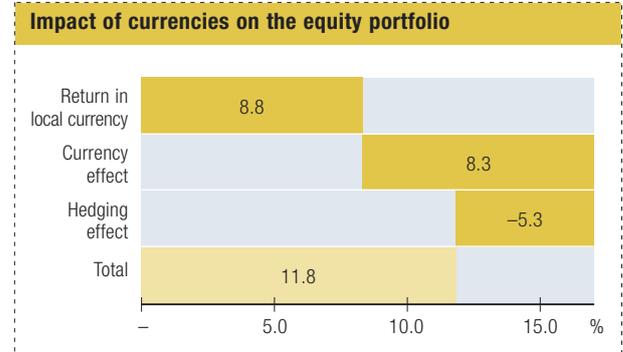
AP3's listed equity portfolio totalled SEK 97.7 billion on 30 June and posted a first-half return of 11.7%, which was the same as the reference index. Return on listed equities includes currency hedging, which is not the case for the figures relating to other portfolios in this report.

The Swedish equity portfolio stood at SEK 31.0 billion on 30 June. During the six months it generated an overall return of 13.3% and an active return of -1.8%. Up to now the Swedish portfolio has pursued a relatively long-term strategy and focused on holding a limited number of stocks compared to the index. However, this strategy and the choice of reference index are currently under review.

The European portfolio totalled SEK 33.0 billion at the half-year point, having generated a return of 17.9% (excluding hedging) during the period. Active return was -0.1 percentage points. The European portfolio's management structure was revised during the spring, resulting in a larger share of the internally managed portfolio being assigned to passive external management. At present, just over one third of the European portfolio is managed actively. Of this, only TMT Europe (Technology, Media and Telecom) is managed internally. As part of the portfolio adjustment, TMT investments were increased and this portfolio had a value of SEK 3.5 billion at the end of the period. It generated a first-half return of 11.3%, and outperformed the reference index by 2.3 percentage points. Small cap and mid cap European equities were actively managed through five different mandates.

The North American equity portfolio totalled SEK 24.8 billion on 30 June, representing a half-year return of 19.0% (excluding hedging) and an active return of 1.1 percentage points. The portfolio is externally managed through two mandates in large cap, mid cap and small cap equities respectively. Small cap and mid cap equities are managed under active mandates. These accounted for one third of the Fund's US stock market exposure at the half-year point.

The Asian equity portfolio was worth SEK 11.5 billion at 30 June. The entire portfolio is actively managed through six external mandates, three of which relate to



Japanese equities and three to other Asia-Pacific equities. The first-half return was 18.5% (excluding hedging), of which 0.8 percentage points was active return.

Combined return on foreign equities was 11.1% (including hedging) and outperformed the reference index by 0.8 percentage points.

Fixed income and foreign exchange management

The fixed income portfolio generated a return of 3.4%, outperforming the reference index by 0.1 percentage points, and was worth SEK 71.7 billion on 30 June.

The portfolio consists of Swedish and international securities and is primarily managed internally, though a small part is allocated to actively and externally managed US and UK corporate bonds. At the half-year mark, 10% of fixed income assets were externally managed. The entire fixed income portfolio, along with sections of the equity portfolio, is currency hedged.

Some 14.1% of the total portfolio was exposed to currency risk at 30 June, compared to 18.7% at the end of 2004. Currency exposure in the reference portfolio was reduced from 19.3% at the start of 2005 to 15.6% at the half-year mark, reflecting the Fund's view that the krona was likely to strengthen in the medium term. During the first half, however, the dollar appreciated by 17% against the krona and the euro strengthened with nearly 5% against the Swedish currency. In addition to setting currency hedging ratios, the Fund takes active positions relative to the reference portfolio's hedging ratios. The active return from foreign exchange management was zero.

Alternative investments

Private equity

In the first half of 2005 the Fund made 11 new investment undertakings worth a total of SEK 1.8 billion in



private equity funds. Private equity investment undertakings totalled SEK 8.1 billion at 30 June, of which SEK 2.9 billion has been invested, and amounted to 4.6% of AP3's total fund capital.

The private equity portfolio reported a half-year return of 19% after expenses, which consisted of distributed capital gains, unrealised changes in value on investments, and exchange rate effects. About 40% of the half-year return was attributable to exchange rate swings.

Real estate

The real estate portfolio consists of a holding in AP Fastigheter and forest properties. AP3 holds a 25% stake in AP Fastigheter that was worth SEK 3.5 billion at 30 June. Forest investments consist of Bergvik Skog and holdings in two international forestry funds. The combined value of these investments was SEK 0.5 billion at the half-year mark. No new investments were made in real estate during the period and the return on the real estate portfolio was 31.2%, which was due primarily to AP Fastigheter (where new valuation principles were introduced). The return on the Fund's holdings in AP Fastigheter amounted to 34.0%.

Corporate governance

Corporate governance remains a priority area for AP3. Through the Fund's actions in this sphere AP3 aim to raise long-term returns and reduce risk levels in the Swedish equity portfolio. AP3 exercised its voting rights at 42 AGMs in the first half of the year, which corresponds to every company in the Swedish equity portfolio. The Fund was also represented on eight corporate nominating committees. A more detailed account of AP3's corporate governance activities in connection with the 2005 AGM season can be found on the website at www.ap3.se.

Other events during the period

The drive to develop and improve the Fund's asset management operations continued during the first half. During the spring AP3 decided to further diversify the portfolio. This strategy includes extending the portfolio to include emerging markets, increasing exposure to international real estate and expanding alternative investments to infrastructure assets and small cap listed research companies in the pharmaceuticals sector. This

diversification initiative will be implemented in 2005 and 2006.

A number of ongoing projects have aimed to further reduce operational risks by improving process and control quality. A new portfolio system has been purchased and is currently being introduced.

During the spring the government submitted to parliament its annual report on the AP funds' operations. The report noted that asset management activity was once again low in 2004 in comparison to the funds' stated targets since their long-term returns differed only slightly from relevant indices. It was nevertheless noted that AP3 had outperformed the benchmark index by 0.2 percentage points annually and that the activity level increased slightly in 2004. The government said it considered the expenses of AP1, AP2, AP3 and AP4 to be disproportionately high in relation to their asset management activities. This opinion was based on a cost assessment by KPMG.

It is critical to the Fund's management and Board that asset management is cost-effective. As part of the Fund's efforts in this arena, AP3 has entered a partnership with Cost Effectiveness Measurement (CEM), a Canadian company with extensive experience of analysing pension funds. The aim of this partnership is to create a strong base from which to assess the Fund's effectiveness in terms of its asset management strategy and resource utilisation.

The analysis peer group consists of US and European pension funds of equivalent size to AP3. The evaluation results will form the foundation of the Fund's continued efforts to ensure cost-effective management.

Board changes

The government appointed two new members to AP3's Board of Directors during the spring. Lars Otterbeck succeeded Rolf Andersson as Deputy Chairman and Kari Lotsberg took over from Christina Liffner as a non-executive director.

Income statement and balance sheet

Fund capital and income

The market value of AP3's fund capital totalled SEK 175.8 billion at 30 June 2005, compared to SEK 160.3 billion at the start of the year. During the six months the Fund recorded a net capital inflow of SEK 1.7 billion.

Asset management income was SEK 13.8 billion, equivalent to a total return of 8.6% for the first six months of 2005.

Change in fund capital		
SEK million	30 June 2005	31 Dec 2004
Fund capital, opening balance 1/1	160,254	142,536
Pension contributions	22,668	42,904
Pension disbursements	-20,988	-41,195
Administration fee to Swedish Insurance Office	-147	-312
Transfers from phase-out fund	215	254
Net profit for the year	13,798	16,067
Fund capital, closing balance	175,800	160,254

Accounting for commission expenses

From 2005, AP3, along with AP1, AP2 and AP4, has adapted its income statement to comply with the main principles that apply to securities companies. Comparative figures have been adjusted accordingly.

The change, recommended by the Fund's accountants, means that all external expenses directly related to asset management operations are stated as income in the income statement under the heading commission expenses, thereby reducing asset management income by an equivalent amount. Under the new arrangements, commission expenses consist of management fees for external mandates, management expenses for private equity funds and custody account expenses.

Commission expenses			
SEK million	1 Jan-30 Jun 2005	1 Jan-30 Jun 2004	1 Jan-30 Dec 2004
Fixed fees for external mandates	49.7	24.8	62.4
Variable fees for external mandates	34.6	-4.6	35.2
Private equity fees	45.9	31.6	65.9
Custody account fees	8.4	11.9	21.4
Total commission expenses	138.6	63.7	184.9

In the first half of 2005 commission expenses totalled SEK 139 million, which was more than double the level for the same period the previous year, and are shown in the table "Commission expenses". This difference was due to the fact that many external mandates started in 2004, while the private equity portfolio was under construction at the same time. Moreover, management costs for active mandates are partly performance-based. Since these mandates have, on average, outperformed the index the costs associated with them have also risen. The performance of externally managed assets and private equity is shown in detail in the table below.

Income from external management and private equity at 30 June 2005

SEK million	Market-listed assets			Private equity (funds)	
	Actively managed	Passively managed ¹	Total		
Return	6,020	4,807	10,827		418
Of which active return	472	-22	450		
Total fees	81	3	84		46
Net income	5,939	4,804	10,743		372
Assets under management at 30 Jun 2005	26,943	35,669	62,612	Investment undertakings	8,110
				Completed investments	2,910

¹ Including enhanced

Expenses

Expenses in the first half totalled SEK 65 million (69), of which SEK 37 million (39) related to personnel costs. The average number of employees was 48 at 30 June. The average number of employees during 2004 was 46. Management expenses totalled 0.08% (excluding commission expenses) and 0.24% (including commission expenses) of total assets under management on annualised basis.



Income statement and balance sheet

Income statement			
SEK million	Jan–June 2005	Jan–June 2004	Jan–Dec 2004
Revenue			
Dividends received	2,121	1,535	2,063
Net interest income	1,767	1,380	2,991
Net currency gains/losses	2,156	281	–1,438
Net income, listed equities	6,511	3,183	10,086
Net income, private equity	789	300	316
Net income, fixed income securities	966	1,616	2,105
Net income, derivatives	–308	17	258
Commission expenses	–139	–64	–185
Total revenue	13,863	8,248	16,196
Operating expenses			
Staff expenses	–37	–39	–70
Other operating expenses	–28	–30	–59
Total operating expenses	–65	–69	–129
NET PROFIT	13,798	8,179	16,067

This interim report has been prepared in accordance with the accounting and valuation principles jointly agreed between the AP funds. These are set out in the 2004 Annual Report under Note 1.

From 2005, AP3, along with AP1, AP2 and AP4, has adapted its income statement to comply with the principles followed by equivalent organisations in Sweden and abroad. Comparative figures have been adjusted accordingly.

Stockholm, 23 August 2005

Kerstin Hessius
AP3 Chief Executive Officer

Examination by the auditors

We have reviewed this interim report in accordance with the recommendations of FAR. Such a review is significantly less rigorous than an audit.

The review has given us no reason to believe that this interim report does not accord with the Swedish National Pension Funds Act.

Stockholm, 23 August 2005

Anders Bäckström
Authorised Public Accountant

Anna Hesselman
Authorised Public Accountant

Balance sheet			
SEK million	30 June 2005	30 June 2004	31 Dec 2004
ASSETS			
Investment assets			
Shares and units			
Listed	97,847	81,335	86,548
Unlisted	4,175	3,339	2,853
Bonds and other interest-bearing assets	75,592	64,136	65,464
Derivatives	225	418	2,877
Total investment assets	177,839	149,228	157,742
Receivables and other assets			
Cash and cash equivalents	2,186	2,123	1,610
Other assets	233	215	36
Prepaid expenses and accrued income	1,460	1,158	1,199
Total receivables and other assets	3,879	3,496	2,845
TOTAL ASSETS	181,718	152,724	160,587
FUND CAPITAL AND LIABILITIES			
Liabilities			
Derivatives	5,228	552	205
Other liabilities	595	218	50
Deferred income and accrued expenses	95	44	78
Total liabilities	5,918	814	333
Fund capital			
Fund capital, opening balance	160,254	142,536	142,536
Net payments from the pension system	1,533	1,036	1,397
Transfers from special asset management and phase-out fund	215	159	254
Net profit for the year	13,798	8,179	16,067
Total fund capital	175,800	151,910	160,254
TOTAL FUND CAPITAL AND LIABILITIES	181,718	152,724	160,587

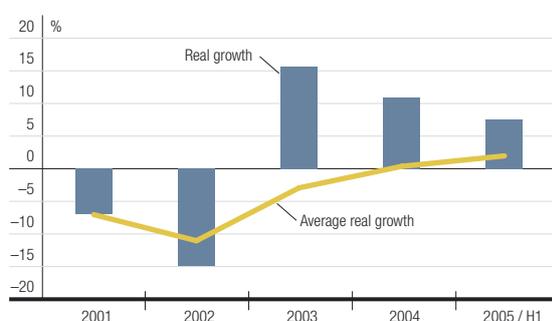


Tables

Portfolio return and risk (after commission expenses and excluding real estate and private equity)

		H1 2005	2004	2003	2002	2001	Since inception Annualised	Accumulated
Return	Portfolio	8.1	11.4	17.2	-12.9	-4.4	3.6	17.4
	Index	8.0	11.4	17.3	-13.5	-4.6	3.4	16.5
	Active	0.1	0.0	-0.1	0.6	0.2	0.2	1.0
Risk (standard deviation)	Portfolio	4.4	5.4	8.6	12.5	11.2	9.8	
	Index	4.3	5.3	8.5	12.6	10.9	9.7	
	Active	0.6	0.5	0.9	0.8	1.0	0.8	
Information ratio		n/a	0	neg	0.7	0.2	0.2	
Sharpe ratio		n/a	1.5	1.5	neg	neg	neg	

Real growth in capital after expenses on an annual basis and as an average for the period



AP3's portfolio at 30 June 2005

	Return % ¹	Market - value SEK million ²	Weight %	Reference portfolio weight %
Equities	11.7	97,745	55.6	54.5
Fixed income	3.4	71,670	40.8	37.0
Total market-listed assets	8.1	169,415	96.3	
Real estate	31.2	3,962	2.3	8.5
Private equity	21.0	2,496	1.4	-
Total	8.6	175,873	100.0	

¹ Excl. expenses

² Cash corresponding to forward positions has been distributed to the respective asset classes. Due to this the tables are not fully comparable with the balance sheet.

AP3's largest holdings (by voting capital) in its internally managed equity portfolio at 30 June 2005

%	
8.7	Munters
8.2	Nobia
6.7	Höganäs
6.2	Haldex
5.0	Alfa Laval

Return on equity portfolio in SEK, 1 Jan–30 June 2005

(incl. commission expenses, excl. hedging)	Portfolio	Index	Active return	Index in local currency
Sweden	13.3	15.1	-1.8	15.1
Europe	17.9	18.0	-0.1	11.2
Large cap	16.7	16.8	-0.1	
TMT	11.3	9.0	2.3	
Mid cap	18.7	19.8	-1.1	
Small cap	26.2	22.7	3.5	
USA	19.0	17.9	1.1	0.5
Large cap	16.8	16.8	0.0	
Mid cap	27.5	22.6	4.9	
Small cap	18.6	17.3	1.3	
Asia	18.5	17.7	0.8	5.0
Japan	13.2	11.2	2.0	2.4
Asia-Pacific	24.7	23.9	0.8	7.6

Credit structure for nominal fixed income portfolio at 30 June 2005

%	Portfolio	Index	Active
Government bonds	52.9	58.5	-5.6
Mortgage bonds and agencies	27.1	35.1	-8.0
Corporate bonds			
Investment grade	19.4	6.4	13.0
High-yield	0.6	0.0	0.6
Total	100.0	100.0	0.0

Modified duration for the fixed income portfolio

Modified duration at 30 June 2005 for the fixed income portfolio (including externally managed portfolios)

Fixed income bonds	Portfolio	Index	Active
Sweden	2.5	2.8	-0.3
Eurozone	3.1	2.6	0.5
UK	5.8	5.3	0.5
USA	1.2	3.0	-1.8
Total nominal bonds	2.8	2.9	-0.1

