



Tredje AP-fonden

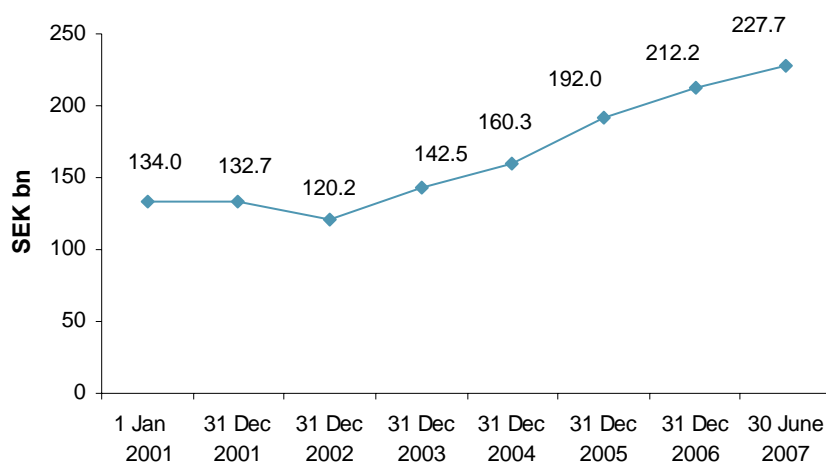
**Interim report 2007
1 January - 30 June**



Summary of six months ended 30 June 2007

- The AP3 portfolio performed favourably during the first half of the year amid continued equity market gains and rising interest rates. Net profit totalled SEK 14.5 billion, corresponding to a return of 6.8% after expenses. Return before expenses was 6.9%.
- Fund capital stood at SEK 227.7 billion on 30 June, an increase of SEK 15.5 billion since the start of the year.
- The return on the listed portfolio was 6.5% before expenses and the active return (outperformance of the index) was 0.4%.
- Currency exposure was 9.2% on 30 June.
- The Fund has generated total returns of SEK 74.4 billion since its inception in 2001, equivalent to a real annual return (adjusted for inflation) of 4.4%. AP3 has therefore comfortably met its target of an annual real return of 4%. Fund capital rose by SEK 93.7 billion including net in-flows.

Fund capital, SEK billion



Statement by the CEO

During the first half of the year AP3 continued to generate value in its asset management operations. Our strategy of diversifying risk across a range of assets and regions, combined with active medium-term asset allocation, has delivered success. The strategy is aimed at increasing income stability to secure higher returns for the Swedish pension system.

During the spring our strategic portfolio was positioned for continued equity market gains and higher interest rates. At the start of the summer, however, we considered that an equity market correction was likely and therefore reduced the level of risk in the portfolio. The turbulence in both the fixed income and equity markets in August naturally had an adverse impact on our investment returns, but this report relates to the period ended 30 June.

It should be said that six months is a very short period of time for a long-term asset manager like AP3, so I will describe our performance in a long-term context. Between our inception in 2001 and 30 June 2007, AP3 has delivered total returns of SEK 74.4 billion, corresponding to a nominal annual return of 5.9%. Adjusted for inflation, the annual return is 4.4%. During the six and half years since inception, our active management has outperformed the index by a total of SEK 3.6 billion, or 0.3 percentage points per year.

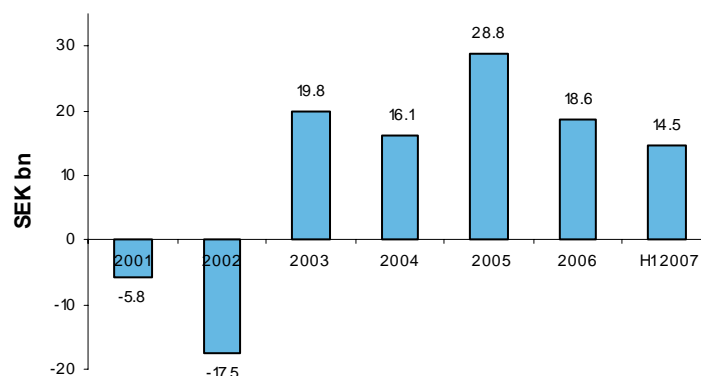
Putting our performance in this longer term context, I am pleased with the results we have generated for the Swedish pension system. Our strategy of placing strong emphasis on forward-looking assessments when selecting the strategic portfolio has been successful and our day-to-day active management has been strongly value-creating.

The government's review of the AP funds' operations in 2002-2006 notes that AP3 has produced highly competitive long-term returns and that the funds strategic investment decisions have generated considerable value. Moreover, at AP3 we have exceeded our target for long-term real returns. The government's review shows that our returns in 2002-2006 exceed those of the benchmark index, even after expenses. However, the government has criticised our active management because we have fallen short of our active return target of 0.6 percentage points. We are therefore pressing ahead with our drive to develop the active mandates further.

Our experiences so far this year have been positive, with active management once again making a positive contribution to overall return in the first half of 2007. The next steps involve the introduction of different mandates for global asset allocation and finalising the restructuring of the equity management mandates.

Kerstin Hessius, CEO

Total return after expenses, SEK billion



Fund capital

The market value of AP3's fund capital stood at SEK 227.7 billion on 30 June. In the first six months of the year fund capital grew by SEK 15.5 billion, of which SEK 14.5 billion was net profit and SEK 1.0 billion was net inflows from the pension system.

Operating expenses for the first half were SEK 63 million, of which SEK 24 million were staff costs. In addition, AP3 had commission expenses of SEK 82 million. These were expensed in the income statement and consisted of fixed com-

missions for external mandates, agreed commissions for private equity funds, and custody account expenses. The asset management cost ratio was 0.12% including commission expenses and 0.06% excluding commission expenses on an annualised basis.

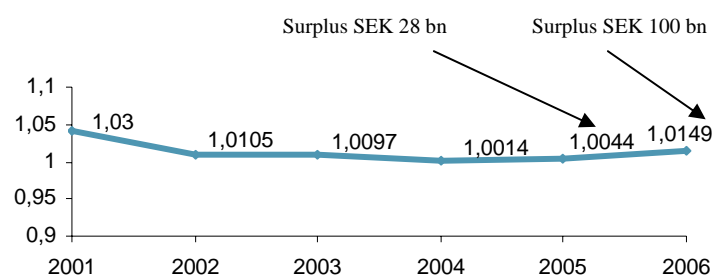
Changes in fund capital, SEK million	Jan-June 2007	Jan-Dec 2006
Fund capital at 1/1	212 198	191 950
Pension contribution	23 891	45 906
Pension disbursements	-22 965	-44 039
Administration fee to Swedish Social Insurance Agency	100	299
Transfers from phase-out funds	108	108
Net profit for the period	14 540	18 572
Total fund capital	227 672	212 198

Swedish pension system annual report

In March, the Swedish Social Insurance Agency published its annual report for 2006 on the Swedish pension system. The agency reported a pension system balance figure at the end of 2006 of 1.0149, which equates to a surplus of 1.49% or SEK 100 billion. In 2006, the combined returns of the AP funds totalled SEK 83 billion, of which AP3's share was SEK 19 billion. The AP funds thus played an important role in guaranteeing the

value of Swedish pensions. In its annual review of the AP funds' performance, the government noted that the AP funds had contributed to maintaining the financial stability of the pension system and that automatic balancing would have occurred on at least one occasion had it not been for the income generated by the funds.

Pension system balance figure



Source: Försäkringskassan

Portfolio and markets

AP3's portfolio	Exposure of portfolio, %	Market value at 30 June 2007, SEK billion	Portfolio return, Jan-June 2007, %	Index return, %	Contribution to absolute return, %
Swedish equities	12.4	28.3	13.7	13.2	1.7
Foreign equities ¹⁾	42.6	97.0	9.3	9.4	4.2
Fixed income ¹⁾	38.6	88.0	0.8	0.6	0.3
Tactical Asset Allocation, active currency management etc.	0.2	0.5			0.3
Total listed assets	93.9	213.9	6.5	6.1	6.5
Real estate	2.5	5.6	12.4		0.1
Unlisted equities	3.6	8.2	15.5		0.2
Total portfolio	100.0	227.7	6.9		6.9

1) Foreign equities and fixed income include currency hedging.

The global economic upturn continued during the first half of the year. Demand increased in Europe and Asia, while economic growth slowed in the US.

European and Asian policy interest rates continued to rise and increased rates were also seen in the global fixed income market, which was why the return on AP3's fixed income portfolio was only 0.8%. The decision in 2005 to halve portfolio duration, coupled with active fixed income management, delivered favourable returns. Had AP3 not taken these positions, the fixed income portfolio would have lost value.

The four-year upturn on equity markets continued during the spring, despite periodic market volatility. AP3's strategic equity positions made a positive contribution to return.

The AP3 portfolio is subject to a low level of currency risk. At the half-year mark, currency risk was 9.2%, or SEK 20.5 billion, of the total portfolio. Currency risk was 9.0% at the start of the year.

Private equity

The private equity portfolio generated a first-half return of 15.5%. Private equity returns consist of capital gains, unrealised changes in value on investments and changes in foreign exchange rates. During the period, AP3 made 13 new investment commitments totalling SEK 2.8 billion in private equity funds. The Fund now has made investment commitments in 85 funds. As of 30 June, commitments excluding infrastructure investments totalled SEK 13.8 billion (of which SEK 6.6 billion had been invested). Investment undertakings in infrastructure assets amounted to SEK 1.3 billion at 30 June (of which SEK 830 million had been invested).

Real estate

AP3's real estate portfolio consists of holdings in AP Fastigheter and timberland. The AP Fastigheter holding had a value of SEK 4.7 billion at the half-year mark and recorded a return of 12.2%.

The Swedish real estate market continued to perform favourably during the period, both in terms of property market values and rising rents for commercial premises.

After the half-year point, AP3 made its first commitment to an indirect international real estate investment and is planning to make further such commitments in the second half.

AP3's investment commitments in timberland totalled SEK 1.8 billion at 30 June (of which

Life Science

The life science portfolio focuses on small listed companies in the life science sector. Holdings are mainly in biotechnology, medical technology and diagnostics. The portfolio had investments in 42 companies at 30 June, which means that we have now achieved a sufficient critical mass for risk diversification purposes.

The life science portfolio had a market value of SEK 942 million at 30 June and posted a return for the period of 8.4%. Market conditions were volatile during the spring and continued in this vein during the summer. This was due partly to general uncertainty on equity markets having a particular impact on biotech and partly due to company-specific developments.

Governance issues

AP3 exercised its voting rights at 29 AGMs and three EGMs during the first half. Prior to the 2006 AGM season, the Fund was represented on the nomination committee of Karo Bio. A more detailed report on AP3's AGM-related governance activities from July 2006 to June 2007 is available on our website at www.ap3.se.

Other events during the period

- During the first half, AP3 carried out a procurement process for global tactical asset allocation (GTAA) and signed agreements with 12 managers. The process was part of the Fund's ongoing initiative to separate long-term market risk (beta) from decisions on active positions (alpha).
- AP3 also started a procurement process for external enhanced management mandates. This is in its final stages and will be completed during the third quarter.
- The process of separating of alpha and beta resulted in structural changes being made to the listed portfolio during the first half, and a couple of traditional mandates were replaced by lower-risk mandates. Work on introducing pure alpha sources will continue in the second half.

Events after the reporting date

A marked increase in volatility on Swedish and global markets after 30 June had a negative impact on the Fund's investment returns.

More information

Tables and lists of AP3's assets are available on our website at www.ap3.se.

Full-year report

The full-year financial statement and annual report for 2007 will be published in February 2008.

Income statement and balance sheet

Income statement

SEK million

	Jan- June 2007	Jan- June 2006	Jan- Dec 2006
Revenue			
Net interest income	28	853 ¹⁾	704 ¹⁾
Dividends received	2 314	2 185	2 977
Net income from listed shares and units	8 894	1 738	14 821
Net income from unlisted shares and units	1 753	1 196	3 218
Net income from interest-bearing assets	-748	-1 279	-416
Net income from derivative securities	2 206	321 ¹⁾	257 ¹⁾
Net income from currencies	238	-1 426	-2 710
Net commission expenses	-82	-90	-154
Total revenues	14 603	3 498	18 697
Operating expenses			
Staff expenses	39	39	80
Other administrative expenses	24	22	45
Total operating expenses	63	61	125
Net profit for the period	14 540	3 437	18 572

1) The comparative figures between these lines have been reclassified.

Balance sheet

SEK million

	30 June 2007	30 June 2006	31 Dec 2006
Assets			
Investment assets			
Shares and units			
Listed	118 114	99 417	112 232
Unlisted	10 098	6 493	8 732
Bonds and interest-bearing assets	100 744	88 381	88 446
Derivatives	1 409	3 874	3 411
Total investment assets	230 365	198 165	212 821
Receivables and other assets			
Cash and cash equivalents	3 085	3 007	2 746
Other assets	3 937	1 754	1 110
Prepaid expenses and accrued income	2 282	1 549	1 546
Total receivables and other assets	9 304	6 310	5 402
Total assets	239 669	204 475	218 223
Fund capital and liabilities			
Derivatives	1 453	548	284
Other liabilities	10 405	7 667	5 626
Deferred income and accrued expenses	139	131	115
Total liabilities	11 997	8 346	6 025
Fund capital			
Fund capital at 1/1	212 198	191 950	191 950
Net payments from the pension system	826	659	1 568
Transfers from special asset management and phase-out funds	108	83	108
Net profit for the period	14 540	3 437	18 572
Total fund capital	227 672	196 129	212 198
Total fund capital and liabilities	239 669	204 475	218 223

Changes in accounting principles

This interim report has been prepared in accordance with the accounting and valuation principles jointly developed and approved by the AP funds. These are presented in the 2006 annual report on page 45 under Note 1.

Stockholm, 29 August 2007

Kerstin Hessius
CEO

Auditors' report

We have reviewed this report for the period 1 January to 30 June 2007. The Board and the Chief Executive Officer are responsible for the preparation and presentation of this interim financial information in accordance with the Swedish National Pension Funds Act. Our responsibility is to express a conclusion on this interim financial information based on our review.

We conducted our review in accordance with the Standard on Review Engagements SÖG 2410 of *Interim Financial information Performed by the Independent Auditor of the Entity*, issued by FAR. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Standards on Auditing in Sweden, RS, and other generally accepted auditing practices. The procedures performed in a review do not enable us to obtain a level of assurance that would make us aware of all significant matters that might be identified in an audit. Therefore, the conclusion expressed based on a review does not give the same level of assurance as a conclusion expressed based on an audit.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not, in all material respects, in accordance with the Swedish National Pension Funds Act.

Stockholm, 29 August 2007

Anders Bäckström
Authorised Public Accountant
Appointed by the Swedish Government

Anna Hesselman
Authorised Public Accountant
Appointed by the Swedish Government

Summary 2001 - June 2007

	Jan- June 2007	Jan- Dec 2006	Jan- Dec 2005	Jan- Dec 2004	Jan- Dec 2003	Jan- Dec 2002	Jan- Dec 2001	Annualised 2001-June 2007 (6 1/2 years)	Annualised 2004-2007
Income and inflows									
SEK billion									
Net inflows from the pension system	1.0	1.6	2.9	1.7	2.6	5.0	4.5		
Net profit for the period	14.5	18.6	28.8	16.1	19.8	-17.5	-5.8		
Fund capital at end of period	227.7	212.2	192.0	160.3	142.5	120.2	132.7		
Return and expenses total portfolio ¹⁾									
%									
Return before expenses	6.9	9.7	17.9	11.4	16.4	-12.4	-4.1		
Operating expenses	0.03	0.06	0.07	0.10	0.10	0.10	0.08		
Commission expenses	0.03	0.08	0.09	0.11	0.08	0.04	0.00		
Return after expenses	6.8	9.6	17.7	11.2	16.2	-12.6	-4.2	5.9	
Inflation	1.2	1.6	0.9	0.3	1.3	2.1	2.7	1.4	
Real return after expenses	5.5	7.8	16.7	10.9	14.7	-14.4	-6.7	4.4	
SEK billion									
Return before expenses	14.6	18.7	28.9	16.3	20.0	-17.3	-5.7	10.8	
Expenses	0.1	0.1	0.1	0.3	0.2	0.2	0.1	0.2	
Return after expenses	14.5	18.6	28.8	16.1	19.8	-17.5	-5.8	10.6	
Return and risk listed portfolio									
Return %	Portfolio	6.5	8.9	17.3	11.4	17.2	-12.9	-4.4	10.9
	Index	6.1	9.1	16.1	11.4	17.3	-13.5	-4.6	10.6
	Active	0.4	-0.2	1.2	0.0	-0.1	0.6	0.2	0.3
Risk (standard deviation) %	Portfolio	6.1	6.3	4.5	5.4	8.6	12.5	11.2	5.6
	Index	5.9	6.1	4.3	5.3	8.5	12.6	10.9	5.4
	Active	0.5	0.5	0.5	0.5	0.9	0.8	1.0	0.5
Information ratio		0.9	neg	2.2	0.0	neg	0.7	0.2	0.7
Sharpe ratio		0.5	1.1	3.4	1.6	1.6	neg	neg	1.5

1) For 2001-2004, return before expenses refers to return before all expenses. For 2005, 2006, 2007 it refers to return after performance-based expenses.

Summary 2001 - June 2007, continued

	Jan- June 2007	Jan- Dec 2006	Jan- Dec 2005	Jan- Dec 2004	Jan- Dec 2003	Jan- Dec 2002	Jan- Dec 2001
Currency exposure							
% of strategic portfolio	9.2 ²⁾	9.0 ²⁾	14.7 ²⁾	19.3	10.8	9.6	7.7
Active management							
% of total portfolio	64.2	74.9	74.1	87.8	80.6	84.8	73.9
External management							
% of total portfolio	43.1	40.4	45.3	30.8	28.8	28.4	23.2
Asset management expenses							
% of assets under management							
Operating expenses	0.06 ³⁾	0.06	0.07	0.10	0.10	0.10	0.08
Operating expenses + commission expenses	0.12 ³⁾	0.14	0.16	0.21	0.18	0.14	0.08
Portfolio structure							
SEK billion							
Total portfolio	227.7	212.2	192.0	160.3	142.5	120.2	132.7
of which							
Swedish equities	29.5	27.5	30.7	27.3	23.8	19.4	23.8
Foreign equities	104.2	94.2	80.2	61.7	57.0	48.2	44.6
Nominal Swedish fixed income	12.1	18.0	25.6	28.4	25.6	19.7	23.2
Nominal foreign fixed income	58.4	44.5	42.5	24.8	22.7	19.5	27.8
Index-linked Swedish fixed income	7.1	12.0	6.7	6.7	10.2	9.8	9.5
Index-linked foreign fixed income	10.7	10.4	1.9	7.9	0.0	0.0	0.0
Real estate (incl. timberland)	5.6	5.5	4.4	3.5	3.2	3.6	3.8
Number of employees							
	50	50	48	46	45	41	34

2) Excluding exposure through SEK-listed companies with a foreign domicile.

3) Expenses converted to annualised rates.

About AP3

AP3 is one of five national pension funds (known as AP funds) that manage the so-called buffer assets of the Swedish pension system. The assets of the AP funds serve as a buffer to even out any surpluses or deficits that arise in the pension system. The combined assets of AP1, AP2, AP3, AP4 and AP6 correspond to 12.6% of the state's future pension liabilities. AP3's assets under management totalled SEK 227.7 billion on 30 June 2007.



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