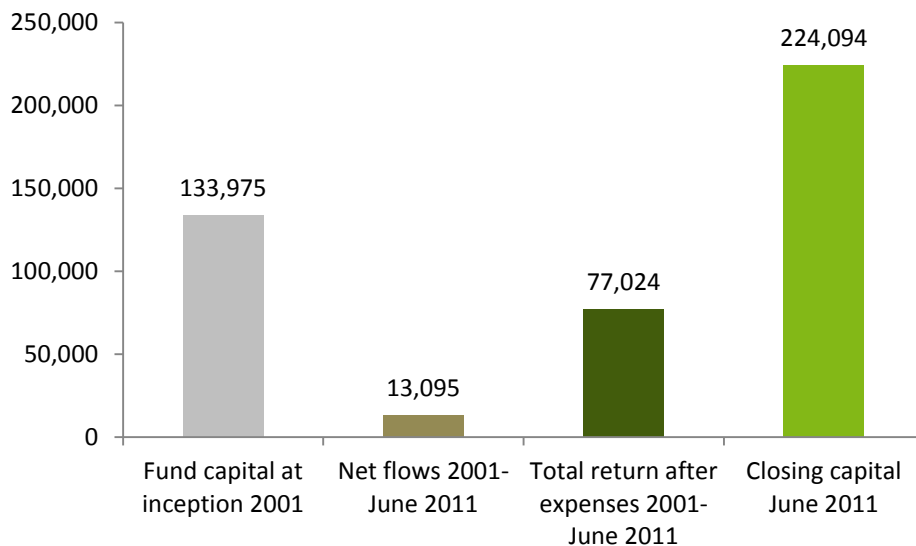


## INTERIM REPORT 1 JANUARY – 30 JUNE 2011

- The debt crisis in Europe, political turmoil in North Africa and the Middle East, the earthquake in Japan and slower economic growth in the United States were the backdrop for the first six months of 2011. Together, these factors led to uncertainty and weakness on financial markets.
- Profit for the first six months was SEK 3,449 million (4,034), representing a return of 1.6% (2.0) before expenses and 1.6% (1.9) after expenses.
- Fund capital stood at SEK 224,094 million on 30 June, an increase of SEK 3,265 million since 1 January.
- Payments of SEK 184 million to the pension system had a marginal impact on fund capital.
- Since inception in 2001, AP3 has generated a nominal annual return of 4.0%, outpacing the income index that is used to keep pension credits in line with inflation. The real annual return (minus inflation) stands at 2.3% during this period.

### Fund capital since inception in 2001, SEK m



## Fund capital

Fund capital stood at SEK 224,094 million on 30 June, up SEK 3,265 million from 1 January. Payments of SEK 184 million to the pension system had a marginal impact on fund capital. As of 2009 the Fund has a net outflow to the pension system because paid-in pension contributions are lower than pension disbursements, requiring AP3 to make payments to the Swedish Pensions Agency to help finance the deficit.

<b>Change in fund capital SEK m</b>	<b>Jan - June 2011</b>	<b>Jan - Dec 2010</b>
Fund capital at 1 Jan	220,829	206,539
Pension contributions	27,113	51,267
Pension disbursements	-27,190	-55,051
Administration fee to Swedish Pensions Agency	-107	-257
Profit for the period	3,449	18,331
<b>Total fund capital at end of period</b>	<b>224,094</b>	<b>220,829</b>

## Market overview and investment returns

The first six months of 2011 were marked by market uncertainty amid the political turmoil in North Africa and the Middle East, the earthquake in Japan and the deepening debt crisis in Europe. The plight of Greece, Ireland and Portugal became increasingly acute and threatened to engulf Italy and Spain.

Economic growth in countries with high public deficits was slower than in countries with lower debt burdens. Fast-growing Asian economies continued to expand, while growth remained modest in industrialised nations. The eurozone and the United States experienced major structural problems, while China and India sought to reduce inflationary pressure by damping down growth. The US continued to battle rising public debt and weak growth, and the global uncertainty fed through into higher risk aversion among investors, who reduced exposure to risk instruments in favour of safer investments. Equity markets produced weak or negative returns, while short-term and long-term bond yields came under pressure in many markets. The krona strengthened against the US dollar and was steady against the euro.

AP3 recorded a profit of SEK 3,449 million after expenses in the first half, representing a return of 1.6% before expenses and 1.6% after expenses. Allowing for inflation of 0.8%, the real return was 0.7%. The average real return since inception stood at 2.3%, meaning that we have yet to reach our long-term target of a 4% annual real return. This is primarily because two major stock market corrections have occurred since the launch of the new pension system. Despite not yet having achieved the target, AP3 has made a positive contribution to the pension system, with returns since inception exceeding the income index (which is used as the basis for pension indexation). Since 2001 the income index has risen by 3.2% per year, compared to AP3's nominal annual return of 4.0%.

### Return per risk category

Total risk in the AP3 portfolio is allocated across seven risk categories. Dividing the portfolio in this way enables us to analyse and forecast future returns and risk in the different asset categories and their contributions to the total portfolio. We combine these forecasts with macroeconomic analysis, valuations and assessment of investors' risk appetite as the basis for investment allocations.

<b>Return per risk category 30 June 2011</b>	<b>Return %</b>	<b>Contribution to total return percentage points</b>	<b>Share of total return %</b>
Equities	2.5	1.5	36.4
Fixed income	0.4	0.1	1.6
Credits	2.5	0.3	8.6
Inflation	6.7	0.9	22.5
Foreign exchange	-	-1.2	30.0
Other exposure	2.8	0.0	0.7
Absolute return strategies	-	0.0	0.2
<b>Total AP3</b>	<b>1.6</b>	<b>1.6</b>	<b>100</b>

*The table illustrates how returns on the different risk categories contribute to total return. The Equities risk category was the strongest contributor, generating 1.5 percentage points out of a total return of 1.6%. The return on Foreign Exchange was negative at -1.2 percentage points. Returns on Foreign Exchange and Absolute Return Strategies are not shown because no assets were allocated to these categories.*

The Equities risk category posted a return of 2.5% and were the largest contributor to overall return during the period. The return on listed equities was 1.3% and private equity posted a return of 7.8%. Returns are measured with full hedging in Swedish kronor. North America and Europe were the two regions that recorded positive returns, reporting gains of 5.9% and 2.1% respectively for the period. Other regions were flat or negative. In Sweden, the largest region in this risk category, the return was zero.

The Fixed Income risk category consists primarily of investments in government bonds and reported a return of 0.4% for the period. Duration in the fixed income portfolio was fractionally above 2 years. AP3's holdings benefitted from lower bond yields in Sweden, the US and the UK. Our holdings of government bonds in the eurozone posted a negative return, due chiefly to the downgrading of Greek government bonds. Holdings of government bonds in the so-called PIIGS area had a value of SEK 7,480 million at 30 June, equivalent to 3.3% of fund capital. These holdings relate to government bonds issued by Greece, Italy and Spain with maturities of one to five years and are part of our eurozone bond portfolio. Our positions generated a return of -2% during the period.

The Credits risk category mainly comprises Swedish mortgage bonds and investment grade corporate bonds issued in Sweden, the US, Europe and the UK. The average duration of this portfolio was 3 years and the return was 2.5%, reflecting lower bond yields and narrower spreads.

The Inflation risk category covers investments in index-linked bonds and real estate including timberland, agricultural land and infrastructure assets. It posted a return of 6.7%. Real estate investments, notably in Vasakronan and Hemsö, made the largest contribution and generated a return of 8.8%.

The Foreign Exchange risk category groups the Fund's exposure to changes in foreign exchange rates against the Swedish krona. As of 30 June, 62% of AP3's investments were denominated in foreign currency. After hedging, currency exposure was 13% and varied in a band of 11% to 17% during the period. AP3 uses hedging to diversify portfolio risk. The contribution from Foreign Exchange was negative at -1.2 percentage points. This was mainly due to the appreciation of the krona against the US dollar and sterling.

The Other risk category, comprising convertible bond and insurance-related bond holdings, generated a return of 2.8%.

The Absolute Return Strategies risk category covers mandates that set out to generate an absolute return. Absolute Return Strategies comprise 30 or so mandates managed by internal and external managers. These mandates returned a profit of SEK 8 million in the first six months and their contribution to total return was close to zero.

### Risk-taking per risk category

Risk in the AP3 portfolio is expressed using the Value at Risk metric. VaR is defined as a 95% probability that the daily negative change in the value of the portfolio will not exceed a fixed amount. Risk expressed as VaR stood at SEK 1,483 million on 30 June. VaR is a statistical measure that under normal market conditions provides an accurate indication of portfolio risk. However, it must always be supported by other risk measures because VaR does not take account of individual events and rapid market changes.

Equities are the main risk category in the AP3 portfolio. Foreign Exchange, Fixed Income and Inflation have negative covariance with equity risk and thereby help to reduce total portfolio risk. Credits have a positive correlation with equities, through the fixed income portion of credit exposures exhibits negative covariance. The Credits risk category comprises both these elements. AP3 deploys a diversification strategy between asset classes and geographic markets to limit total portfolio risk. Total risk per risk category is 36% higher than total portfolio risk and this is known as the "diversification effect".

Value at Risk per risk category 30 June 2011	Value at Risk, SEK m	Value at Risk, %	Contribution to total risk, percentage points	Share of total risk, %
Equities	1,668	0.74	110.9	71.3
Fixed income	45	0.02	-0.1	1.9
Credits	61	0.03	-2.3	2.6
Inflation	72	0.03	-1.9	3.1
Foreign exchange	443	0.20	-9.3	18.9
Other exposure	0	0	0	0
Absolute return strategies	52	0.02	2.7	2.2
<b>Total AP3</b>	<b>1,483</b>	<b>0.66</b>	<b>100</b>	<b>100</b>

*The table shows the breakdown of total portfolio risk into AP3's seven risk categories. The correlation between the risk categories means that total risk is lower than the aggregate risk for each risk category. This is due to the "diversification effect". The share of total risk is measured as each risk category's share of total risk excluding the diversification effect.*

### Exposure per risk category

Exposure is defined as underlying capital that is exposed to changes in value arising from market movements. AP3's exposure can be larger or smaller than the fund capital because the Fund use derivatives to manage risk and ensure efficient asset management. Total exposure was 105% at 30 June.

Risk category, 30 June 2011	Exposure, SEK M	Exposure, %
Equities	128,697	57.4
Fixed income	29,670	13.2
Credits	35,967	16.1
Inflation	31,104	13.9
Foreign exchange <sup>1</sup>	29,168	13.0
Other exposure	2,375	1.1
Absolute return strategies	7,373	3.3
<b>Total AP3</b>	<b>235,187</b>	<b>105.0</b>

<sup>1</sup> *Currency exposure is shown as the portion of fund capital that is unbedged and cannot be added to other exposure.*

### Legal limits

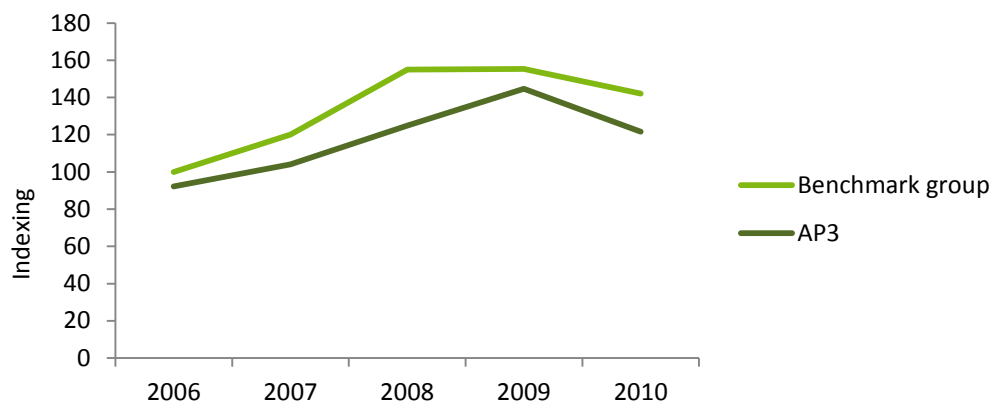
Private equity holdings accounted for 5.0% of total assets at 30 June. The National Pension Insurance Funds (AP Funds) Act permits the AP funds to invest a maximum 5% of their assets in private equity. The increase in the private equity portfolio during the first half exceeded the growth of the listed equity portfolio. The value of private equity holdings is measured three months in arrears, i.e. on 31 March. AP3 has made no new private equity investments since 2009.

In late 2009 AP3 acquired a 17% share of the voting equity in unlisted energy company Arise Windpower. The company floated on the stock market in the first half of 2010 and as of 30 June 2011 AP3's stake was 14.6%, exceeding the statutory limit stipulating that AP funds may not own more than 10% of the voting equity in any one company. The National Pension Insurance Funds Act requires us to sell any shareholding that exceeds the 10% limit as soon as possible, with due regard to market conditions.

## Expenses

Operating expenses for the first six months totalled SEK 78 million, of which SEK 55 million were staff costs. An additional SEK 56 million of commission expenses were expensed in the income statement and consisted of fixed commissions for external mandates, agreed commissions for private equity funds, and custody account expenses. Total expenses (operating expenses plus commission expenses) totalled 0.12% of assets under management on an annualised basis. The equivalent figure for AP3's internal expenses (operating expenses) was 0.07%.

AP3's ambition is to generate strong risk-adjusted returns with high cost-efficiency. We base our strategy for effective management on continuous improvement and a decision-making model focused on expected return, risk and cost. Over the last six years we have participated in an international benchmarking survey performed by Canadian consultants Cost Effectiveness Measurement (CEM). We aim to generate higher value at a lower cost than the average comparable pension fund, achieving that goal in recent years through a combination of good asset management returns, a focus on costs and by working closely with the other AP funds to reduce costs in areas where we have seen potential for savings.



*The CEM study indicates that AP3 has had lower costs than the benchmark group over the last five years. In 2010 our cost base was 14% lower than for comparable global pension funds.*

We reduced costs by SEK 18 million in 2010 from the prior year and this trend has continued in 2011. This is the result of proactive measures to identify cost-effective alternatives. For instance, we have scaled back our active management and increased internal asset management. Working closely with the other AP funds in negotiating with suppliers has also enabled us to reduce custodian bank expenses.

## Corporate governance

AP3 voted at 52 Swedish annual general meetings and 399 foreign AGMs. Prior to the 2011 AGM season, we held nomination committee seats at eight companies: Alpcot Agro, Arise Windpower, Bergvik Skog, BioInvent, Cellavision, Diagenic, Karolinska Development and Orexo.

A detailed presentation of our AGM-related activities and our environmental and social responsibility initiatives from July 2010 to June 2011 will be published on the AP3 website during the third quarter.

AP3 has a joint Ethical Council with AP1, AP2 and AP4 to promote environmental and socially responsible business practices in our foreign holdings. The Council published its annual report, which includes information on corporate dialogues, in April 2011. The report can be downloaded from [www.ethicalcouncil.com](http://www.ethicalcouncil.com).

## **Staff**

The staff headcount was 57 people at 30 June, an increase of 1 since the start of the year.

## **Board of Directors**

In May the government appointed Pär Nuder as Chairman in place of Claes de Neergaard and Björn Börjesson as Deputy Chairman in place of Lars G Josefsson.

## **Government review**

The government's annual review of the AP funds' performance in 2010 noted that the funds had further developed their asset management models and increased their focus on medium-term and dynamic asset allocation. According to the review, the differences between the AP funds are essentially positive.

The review noted that AP1, AP2, AP3 and AP4 cemented their commitment to social and environmental responsibility in 2010 and took important steps in terms of core values and resource allocation to ensure high quality standards. The document also pointed out that the funds' commitments extend well beyond mere compliance with international conventions and that the funds now cooperate more extensively in this field.

## **Events after the reporting period**

Turbulence on global equity and fixed income markets intensified after the reporting date, with an adverse impact on AP3's fund capital.

## **Further information**

A list of assets and other data at 30 June 2011 is available on the AP3 website at [www.ap3.se](http://www.ap3.se) under Portfolio.

## **Next reporting date**

The full-year financial statements and annual report for 2011 will be published in February 2012.

## **Accounting policies**

This interim report was prepared in compliance with the accounting and valuation principles jointly developed and approved by the AP funds. These are presented in the 2010 annual report on page 33 under Note 1.

The interim report has not been reviewed by AP3's auditors.

*Stockholm, 26 August 2011*

*Kerstin Hessius*  
CEO

<b>Income statement</b>	<b>Jan - June 2011</b>	<b>Jan - June 2010</b>	<b>Jan - Dec 2010</b>
<b>Income, SEK m</b>			
Net interest income	1,761	864	1,999
Dividends received	2,459	2,101	2,917
Net income from listed shares and units	-543	-2,996	14,755
Net income from unlisted shares and units	1,901	903	2,415
Net income from interest-bearing assets	781	1,374	1,182
Net income from derivative securities	-49	-372	-1,817
Net income from currencies	-2,727	2,325	-2,820
Net commission expenses	-56	-87	-146
<b>Total operating income</b>	<b>3,527</b>	<b>4,112</b>	<b>18,485</b>
<b>Operating expenses</b>			
Staff expenses	55	51	101
Other administrative expenses	23	27	53
<b>Total operating expenses</b>	<b>78</b>	<b>78</b>	<b>154</b>
<b>Profit for the period</b>	<b>3,449</b>	<b>4,034</b>	<b>18,331</b>
<b>Balance sheet</b>			
<b>Assets, SEK m</b>	<b>2011-06-30</b>	<b>2010-06-30</b>	<b>2009-12-31</b>
Shares and units,			
Listed	117,837	105,036	114,306
Unlisted	20,304	19,738	18,966
Bonds and other interest-bearing assets	107,766	83,223	96,338
Derivatives	1,851	2,629	4,317
Cash and cash equivalents	1,739	2,196	2,225
Other assets	1,770	5,334	9,263
Prepaid expenses and accrued income	1,338	1,254	1,827
<b>Total assets</b>	<b>252,605</b>	<b>219,410</b>	<b>247,242</b>
<b>Fund capital and liabilities</b>			
<b>Liabilities</b>			
Derivates	2,478	6,022	1,430
Other liabilities	25,954	4,749	24,898
Deferred income and accrued expenses	79	62	85
<b>Total liabilities</b>	<b>25,511</b>	<b>10,833</b>	<b>26,413</b>
<b>Fund capital</b>			
Fund capital at start of period	220,829	206,539	206,539
Net payments to the pension system	-184	-1,996	-4,041
Profit for the period	3,449	4,034	18,331
<b>Total fund capital</b>	<b>224,094</b>	<b>208,577</b>	<b>220,829</b>
<b>Total fund capital and liabilities</b>	<b>252,605</b>	<b>219,410</b>	<b>247,242</b>

<b>Five-year summary</b>	<b>Jan- June 2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Income and inflows i mdkr</b>						
Net flows to/from the pension system	-0.2	-4.0	-3.9	0.9	2.0	1.6
Result	3.4	18.3	29.4	-44.8	10.7	18.6
<b>Fund capital at end of period</b>	<b>224.1</b>	<b>220.8</b>	<b>206.5</b>	<b>181.0</b>	<b>224.9</b>	<b>212.2</b>
<b>Return and expenses</b>						
<b>Total portfolio</b>						
%						
Return before expenses	1.6	9.1	16.4	-19.7	5.1	9.7
Operating expenses <sup>1</sup>	0.07	0.07	0.08	0.07	0.06	0.06
Net commission expenses <sup>1</sup>	0.05	0.07	0.09	0.07	0.07	0.08
Return after expenses	1.6	9.0	16.3	-19.8	5.0	9.5
Inflation	0.83	2.33	0.90	0.90	3.45	1.63
Real return after expenses	0.7	6.5	15.3	-20.5	1.5	7.8
<b>SEK bn</b>						
Return	3.5	18.5	29.6	-44.6	10.8	18.7
Operating expenses	0.1	0.2	0.1	0.1	0.1	0.1
Return after expenses	3.4	18.3	29.4	-44.8	10.7	18.6
<b>Risk</b>						
Risk (standard deviation) % <sup>2</sup>	5.7	7.0	9.9	16.6	7.3	6.3
Sharpe ration	0.3	1.2	2.0	neg	0.1	1.1
<b>Currency exposure <sup>3</sup></b>						
% av total portfolio	13.0	11.3	8.3	13.8	9.0	9.0
<b>External management</b>						
% av total portfolio <sup>4</sup>	38.5	41.0	40.7	38.8	39.9	40.4
<b>Asset management expenses</b>						
% of assets under management						
Operating expenses <sup>1</sup>	0.07	0.07	0.08	0.07	0.06	0.06
Operating expenses + commission expenses <sup>1</sup>	0.12	0.14	0.17	0.14	0.13	0.14

<sup>1</sup> Expenses shown at annualised rates.

<sup>2</sup> Risk presented for the total portfolio as of 2010 due to the transition to dynamic asset allocation.  
Prior to 2010, risk was presented for the listed portfolio only.

<sup>3</sup> Excluding exposure to SEK-listed companies with a foreign domicile.

<sup>4</sup> As of 2008 AP3 no longer provides figures for active and passive management because the majority of portfolio assets are now passively managed.



Market value per asset category	Jan-June 2011	2010	2009	2008	2007	2006
<b>SEK bn</b>	<b>224.1</b>	<b>220.8</b>	<b>206.5</b>	<b>181.0</b>	<b>224.9</b>	<b>212.2</b>
Swedish equities	32.2	32.0	26.5	17.9	24.0	26.8
Foreign equities	81.9	78.8	76.2	66.0	93.5	88.8
Nominal fixed income, Swedish	30.0	31.6	13.6	13.7	13.6	18.0
Nominal fixed income, foreign	28.8	28.7	42.3	39.2	59.3	44.5
Index-linked fixed income, Swedish	9.5	1.5	0.1	5.4	7.4	12.0
Index-linked fixed income, foreign	6.1	13.7	14.2	8.7	11.3	10.4
Private equity, Swedish and foreign <sup>5</sup>	11.2	10.9	9.8	10.8	9.5	6.4
Real estate	18.3	16.9	16.0	16.2	6.4	5.5
New strategies <sup>4</sup>	6.1	6.9	7.7	3.1		
Staff headcount	<b>57</b>	<b>56</b>	<b>55</b>	<b>50</b>	<b>51</b>	<b>50</b>

<sup>5</sup> Prior to 1 January 2008, life science holdings were included in private equity. As of 2008, life science investments are included in New Strategies.