

INTERIM REPORT 1 JANUARY - 30 JUNE 2012

- The first six months of 2012 were marked by ongoing worries over the debt crisis in southern Europe and attendant economic weakness.
- Income for the first six months totalled SEK 9,848 million (3,449), representing a return of 4.6% (1.6) before expenses and 4.6% (1.6) after expenses.
- Fund capital stood at SEK 222,287 million at 30 June, an increase of SEK 8,181 million during the six months.
- The change in fund capital includes payments of SEK 1,667 million to the national pension system.
- AP3 has during the last 10 years generated a annual return of 5.5%. The real annual return (minus inflation) stands at 4.1% during this period. Since inception 2001 AP3's return amounts to 3.7% per year outpacing the income index that is the benchmark used to keep pension credits in line with inflation.
- The Fund had a lower level of portfolio risk than historically due to the risk of further balancing in the pension system and the impact of the global debt crisis of financial markets.

Fund capital since inception in 2001, SEK m



Fund capital

Fund capital stood at SEK 222,287 million at 30 June, an increase of SEK 8,181 million during the six months. The figure includes payments of SEK 1,667 million to the pension system. 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.

Change in fund capital SEK m	Jan-Jun 2012	Jan-Dec 2011
Fund capital at 1 Jan	214,106	220,829
Pension contributions	27,691	53,895
Pension disbursements	-29,248	-54,922
Administration fee to Swedish Pensions Agency	-110	-213
Income for the period	9,848	-5,483
Total fund capital at end of period	222,287	214,106

Market overview and investment returns

The first six months of 2012 were marked by ongoing worries over the debt crisis in southern Europe and attendant economic weakness. The year began with positive signals of an improved outlook for growth in the United States. The European Central Bank moved to stimulate the economy by offering long-term loans to European banks at low interest rates, a move that was greeted positively by the markets. However, the positive momentum came to a halt in March when US labour market data were weaker than expected and growth forecasts were revised downwards.

Clear signals of slower growth were also evident in China, where fiscal stimulus measures may be introduced but are unlikely to be on the scale seen in 2008.

In Europe, France and Greece both held general elections. Greece continues to struggle to meet the criteria set by the IMF, ECB and EU for the disbursement of further bailouts. Meanwhile, the focus on Spain's economic problems increased during the spring. The country is one of the largest EU economies and its financial difficulties have far more serious implications for the EU than those of Greece. Standard & Poor's, the credit rating agency, downgraded Spain from A to BBB+ in early May. Numerous banks also saw their ratings downgraded during the period. Expectations were low when EU leaders met for their summit in late June, ensuring a positive reception for the package of measures unveiled to tackle the crisis – despite the fact that the proposals offered scant support to growth over the short term.

On equity markets, share prices retreated in the second quarter after a positive start to the year. Risk aversion increased again as investors reduced their exposure to risk-based assets in favour of more secure investments. Yields fell sharply on the short-term and long-term bonds of countries regarded by the market as low-risk. The euro lost ground against the US dollar during the second quarter, while the Swedish krona remained stable.

AP3 reported income for the first six months of SEK 9,848 (3,449), representing a return of 4.6% (1.6) before expenses and 4.6% (1.6) after expenses. Allowing for deflation of 0.1% in the first six months, the real return was 4.7%. Since inception in 2001, average real return stands at 2.1%. Despite not yet having achieved its long-term target of a 4% return, AP3 has made a positive contribution to the pension system as returns since inception have exceeded 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 3.7%.

Return per risk category

Risk in the AP3 portfolio is allocated across seven risk categories. Dividing the portfolio on these lines enables us to analyse and project future returns and risk in the different asset categories and their contributions to the total portfolio. We base allocations on these projections, combined with macroeconomic analysis, valuations and assessment of investors' risk appetite.

Return per risk category 30 June 2012	Return %	Contribution to total return percentage points	Share of total return %
Equities	5.7	3.2	68.7
Fixed income	0.4	0.0	1.1
Credits	3.0	0.4	8.6
Inflation	2.1	0.4	8.2
Currencies	-	0.1	2.0
Other exposure	18.3	0.3	7.5
Absolute return strategies	-	0.2	3.9
Total AP3	4.6	4.6	100

The table illustrates how returns on the different risk categories contribute to total return. The equities risk category made the largest single contribution, 3.2 percentage points, to the total return of 4.6%. Returns on currency and absolute return strategies are not shown because no assets were allocated to these categories.

Equities posted a return of 5.7% (2.5) in the six months and were the largest contributor to overall return. The return on listed equities was 5.4% and the return on unlisted equity was 7.0%. Returns are measured with full hedging in Swedish kronor. Returns were positive across all regions. Sweden, the largest region in this risk category, recorded a return of 5.7%.

The *fixed income* risk category consists primarily of investments in government bonds and posted a return of 0.4% (0.4) for the period. Average duration in the fixed income portfolio was 2.1 years. AP3's holdings benefitted from lower bond yields in Sweden, the US and the UK. European fixed income exposures are very limited. In March AP3 took part in the swap of Greek government bonds for bonds issued by the European Financial Stability Facility and thereafter divested its remaining holdings of Greek bonds.

The *credits* risk category primarily comprises Swedish mortgage bonds and investment grade corporate bonds in Sweden and the US. The average duration of this portfolio was 2.1 years and return totalled 3.0% (2.5).

The *inflation* risk category covers investments in index-linked bonds and real estate holdings including timberland, agricultural land and infrastructure assets. Return on inflation assets was 2.1% (6.7).

The *currency* risk category groups AP3's exposure to changes in foreign exchange rates against the Swedish krona. As at 30 June, 48.6% of AP3's investments were denominated in foreign currency. AP3 uses hedging to diversify portfolio risk. After hedging, 22.4% of portfolio assets were denominated in foreign currency. Income from open currency exposure contributed 0.1 percentage points (-1.2) to total return.

The *other exposure* risk category consists of holdings of convertible debentures, insurance-related securities and volatility strategies. It recorded a return of 18.3% (2.8) for the period.

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 generated income of SEK 388 million in the first six months and contributed 0.2 percentage points (0) to total return.

Risk per category

Risk in the AP3 portfolio is expressed using the Value at Risk (VaR) 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 1,692 million on 30 June. VaR is a statistical measure that under normal market conditions provides an accurate indication of portfolio risk. However, VaR does not take account of individual events and rapid market changes so must always be supplemented by other risk measures.

Equities are the main risk category in the portfolio. Currencies and fixed income have a negative covariance with equity risk and thereby help to reduce total portfolio risk. Credit exposures have a positive correlation with equities, while fixed income credit investments exhibit 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 portfolio risk is 31% lower than the total sum of risk per risk category and this is known as the “diversification effect”.

Value at Risk per risk category 30 June 2012	Value at Risk, SEK m	Value at Risk, %	Contribution to total risk, percentage points
Equities	1,642	0.74	90.2
Fixed income	35	0.02	-1.0
Credits	30	0.01	0.0
Inflation	218	0.10	10.2
Currencies	363	0.16	-6.1
Other exposure	136	0.06	5.6
Absolute return strategies	27	0.01	1.1
Total AP3	1,692	0.76	100

The table shows the breakdown of total portfolio risk into AP3's seven risk categories. Due to the correlation between the risk categories, total risk is lower than the total risk for each risk category. This is known as 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 greater or smaller than fund capital because we use derivatives to manage risk and ensure efficient asset management. The Fund had total exposure of 102.8% at 30 June.

Equity exposure was reduced and currency exposure increased during the six months as part of a more defensive portfolio strategy against the current backdrop of market volatility. Exposure to inflation assets (primarily real estate) was also increased.

Risk category 30 June 2012	Exposure, SEK m	Exposure, %
Equities	112,344	50.5
Fixed income	28,275	12.7
Credits	31,920	14.4
Inflation	37,233	16.8
Currencies ¹	49,721	22.4
Other exposures	7,513	3.4
Absolute return strategies	11,181	5.0
Total AP3	228,467	102.8

¹ *Currency exposure is shown as the portion of fund capital that is unhedged and cannot be added to other exposure.*

Legal limits

Unlisted holdings accounted for 5.3% of total assets as at 30 June. The National Pension Insurance Funds Act allows the AP funds to invest a maximum 5% of their assets in unlisted equity. During the six months AP3 sold a couple of small holdings in private equity funds on the secondary market with no negative impact on income. The value of unlisted equity holdings is measured three months in arrears, i.e. on 31 March. AP3 has made no new investments in unlisted equity since 2009.

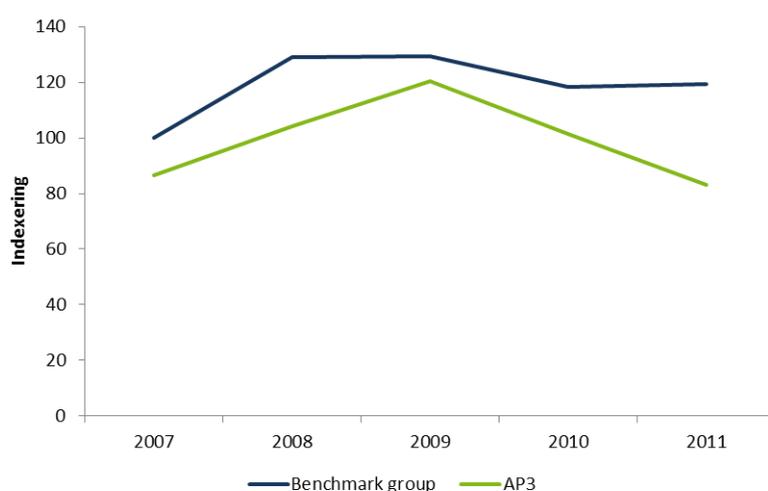
In 2009 AP3 acquired a 17% share of the voting rights in unlisted energy company Arise Windpower. The company completed an initial public offering that took AP3's holding to 14.7%, breaching the statutory limit of a maximum 10% share of the voting rights in any one company. AP3's holding in Arise Windpower stood at 13.9% of the voting rights as at 30 June. Subsequent to this date, AP3 divested part of its holding in a move that reduced its stake to slightly below 10% of the voting rights.

Operating expenses

Operating expenses for the six months totalled SEK 86 million (78), of which SEK 57 million (55) were staff costs. An additional SEK 50 million (56) of commission expenses was expensed in the income statement and consisted of fixed commissions for external mandates, agreed commissions for unlisted equity, 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 0.08%.

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 projected return, risk and cost.

Over the last seven years we have participated in an international benchmarking survey performed by Canadian consultants Cost Effectiveness Measurement (CEM). CEM's study examines the total cost of asset management operations, the value of assets under management, the portfolio mix and exposure to active management, comparing AP3's costs with those of 17 international pension funds with similar asset management operations. Analysis of the cost base in 2011 revealed that AP3's total asset management costs were around 30% lower than the benchmark average. We aim to generate higher value at a lower cost than the average achieved by comparable pension funds.



Corporate stewardship

AP3 voted at 64 Swedish annual general meetings and 500 foreign AGMs during the AGM season July 2011 to June 2012. Prior to the 2012 AGM season, we held nomination committee seats at six companies:

Aerocrine, Arise Windpower, Bergvik Skog, BioInvent, Karolinska Development and Orexo. A detailed presentation of our stewardship work and activities to promote environmental and social responsibility from July 2011 to June 2011 will be published on the website during the third quarter.

AP3 has a joint Ethical Council with AP1, AP2 and AP4 to promote environmental and socially responsible engagement in our foreign holdings. The Council published its annual report, which includes information on ongoing corporate dialogues, in April 2012. The report can be downloaded from www.ethicalcouncil.com.

Staff

The staff headcount was 55 at 30 June, a decrease of two persons from the start of the year.

Board of Directors

In June the government appointed Elisabeth Unell as a new director in place of Ingela Gardner Sundström, who left the Board after eight years.

Government review

The government's annual review of the AP funds' performance in 2011 noted that the funds' investment returns in 2001-2011 had exceeded the income index, though the margin shrank in 2011 due to weakness on equity markets. The review said the AP funds had continued to develop their strategies and asset management models to achieve greater stability in investment returns and create portfolios that can withstand market turbulence.

Furthermore, the review noted that AP1, AP2, AP3 and AP4 had continued to strengthen and develop their efforts to promote environmental and social responsibility by integrating these issues in their asset management. The government saw this as a positive move and also praised the Ethical Council's cooperation with AP7 in a preventive environmentally and socially responsible engagement project in the mining industry.

The review highlighted the importance of transparency and communication, acknowledging the Council's annual report and the funds' stewardship reports and websites as good examples.

Further information

A list of security holdings and other financial data as at 30 June 2012 is available on the AP3 website at www.ap3.se under "Asset Management".

Next reporting date

The full-year financial statements and annual report for 2012 will be published in February 2013.

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 2011 annual report on page 37 under Note 1.

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

Stockholm, 27 August 2012

Kerstin Hessius, CEO

Income statement	Jan-Jun 2012	Jan-Jun 2011	Jan-Dec 2011
Income, SEK m			
Net interest income	2,039	1,761	3,697
Dividends received	2,248	2,459	3,338
Net income from listed shares and units	4,483	-543	-15,854
Net income from unlisted shares and units	128	1,901	2,407
Net income from interest-bearing assets	140	781	2,001
Net income from derivatives	178	-49	-375
Net income from currencies	768	-2,727	-453
Commission expenses	-50	-56	-89
Total income	9,934	3,527	-5,328
Operating expenses			
Staff costs	-57	-55	-104
Other administrative expenses	-29	-23	-51
Total operating expenses	-86	-78	-155
Profit/loss for the year	9,848	3,449	-5,483
Balance sheet			
Assets, SEK million	30/06/2012	30/06/2011	31/12/2011
Shares and units,			
Listed	103,909	117,837	107,087
Unlisted	23,581	20,304	21,346
Bonds and other interest-bearing assets	97,339	107,766	93,077
Derivatives	2,080	1,851	1,802
Cash and cash equivalents	937	1,739	1,520
Other assets	12,204	1,770	10,018
Prepaid expenses and accrued income	1,323	1,338	1,842
Total assets	241,373	252,605	236,692
Fund capital and liabilities			
Liabilities			
Derivatives	1,209	2,478	2,774
Other liabilities	17,835	25,954	19,751
Deferred income and accrued expenses	42	79	61
Total liabilities	19,086	28,511	22,586
Fund capital			
Fund capital at 1 Jan	214,106	220,829	220,829
Net payment to the national pension system	-1,667	-184	-1,240
Income for the year	9,848	3,449	-5,483
Total fund capital	222,287	224,094	214,106
Total fund capital and liabilities	241,373	252,605	236,692

Financial summary	Jan- Jun 2012	2011	2010	2009	2008	2007
Income and inflows in SEK bn						
Net flows to/from the pension system	-1.7	-1.2	-4.0	-3.9	0.9	2.0
Net profit/loss	9.8	-5.5	18.3	29.4	-44.8	10.7
Fund capital at end of period	222.3	214.1	220.8	206.5	181.0	224.9
Return and expenses						
Total portfolio in percent						
Return before expenses	4.6	-2.4	9.1	16.4	-19.7	5.1
Operating expenses ¹	0.08	0.07	0.07	0.08	0.07	0.06
Net commission expenses ¹	0.05	0.04	0.07	0.09	0.07	0.07
Return after expenses	4.6	-2.5	9.0	16.3	-19.8	5.0
Inflation	-0.1 ²	2.0	2.3	0.9	0.9	3.5
Real return after expenses	4.7	-4.4	6.5	15.3	-20.5	1.5
SEK bn						
Return	9.9	-5.3	18.5	29.6	-44.6	10.8
Operating expenses	0.1	0.2	0.2	0.1	0.1	0.1
Return after expenses	9.8	-5.5	18.3	29.4	-44.8	10.7
Risk						
Risk (standard deviation ³) %	5.9	9.2	7.0	9.9	16.6	7.3
Sharpe ratio	1.4	neg.	1.2	2.0	neg.	0.1
Currency exposure⁴						
Percentage of total portfolio	22.4	19.3	11.3	8.3	13.8	9.0
External management						
Percentage of total portfolio	37.4	34.8	41.0	40.7	38.8	39.9
Asset management expenses						
Percentage of assets under management						
Operating expenses ¹	0.08	0.07	0.07	0.08	0.07	0.06
Operating expenses plus commission expenses ¹	0.12	0.11	0.14	0.17	0.14	0.13
Staff headcount	55	57	56	55	50	51

¹ Annualised rates.

² Calculated as change in consumer price index at 30 June compared to 31 December the prior year.

³ As of 2010 figures relate to the total portfolio. Prior to 2010, risk was shown for the listed portfolio only.

⁴ Excluding exposure to SEK-listed companies with foreign domicile.

Market value per asset category	Jan-Jun 2012	2011	2010	2009	2008	2007
Total, SEK bn	222.3	214.1	220.8	206.5	181.0	224.9
Swedish equities	24.2	28.7	32.0	26.5	17.9	24.0
Foreign equities	75.6	76.3	78.8	76.2	66.0	93.5
Nominal fixed income, Swedish	52.6	41.7	31.6	13.6	13.7	13.6
Nominal fixed income, foreign	17.0	14.6	28.7	42.3	39.2	59.3
Index-linked bonds, Swedish	15.5	17.1	1.5	0.1	5.4	7.4
Index-linked bonds, foreign	2.6	4.2	13.7	14.2	8.7	11.3
Unlisted equity, Swedish and foreign ¹	11.9	11.5	10.9	9.8	10.8	9.5
Real estate	18.3	15.7	16.9	16.0	16.2	6.4
New strategies ²	-	-	6.9	7.7	3.1	-
Other assets ³	4.6	4.2	-	-	-	-

¹ Unlisted equity includes listed life science holdings prior to 2008. As of 2008, life science investments are included in New Strategies.

² New strategies were allocated between the various asset categories during 2011. Investments that fell outside the scope of the categories are classified as other assets.

³ Other assets include investments in convertible debentures and insurance-related securities.