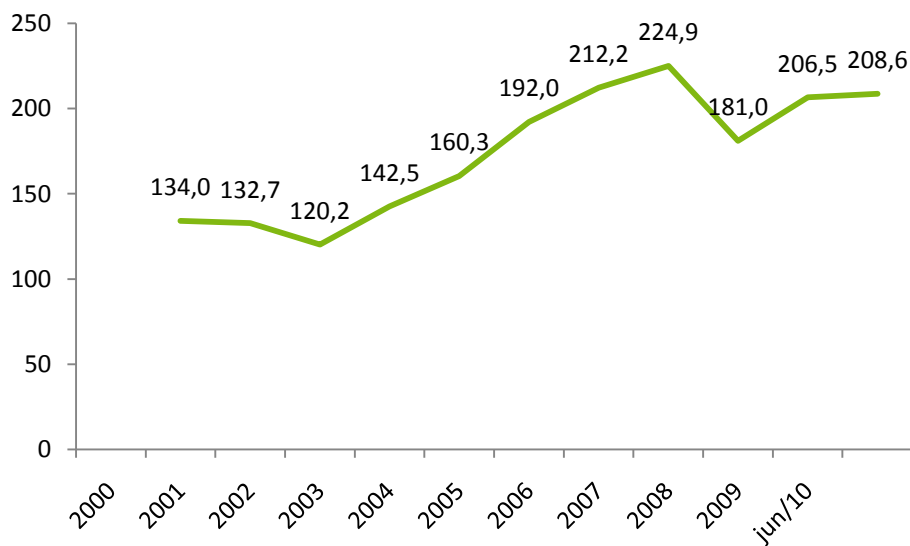


## INTERIM REPORT 1 JANUARY - 30 JUNE 2010

- The first six months of 2010 saw major bouts of volatility on the financial markets. Strong corporate earnings and favourable economic data had a positive impact on market sentiment at times, while worries over budget deficits and structural problems in the world economy overshadowed events on other occasions.
- Profit for the first six months was SEK 4.0 billion (9.4), representing a return of 2.0% (5.3) before expenses and 1.9% (5.2) after expenses.
- Fund capital stood at SEK 208.6 billion on 30 June, an increase of SEK 2.0 billion since the turn of the year. Payments of SEK 2.0 billion to the pension system resulted in a reduction in fund capital.
- Since inception in 2001 the Fund has recorded a nominal annual return of 3.5% and a real annual return (adjusted for inflation) of 2.0%. Nominal returns since inception have grown in step with the income index, which is used to keep pensions in line with inflation.

### Fund capital 2001-2010, SEK billion



## Fund capital

Fund capital stood at SEK 208.6 billion on 30 June, an increase of SEK 2.0 billion from the turn of the year. Payments of SEK 2.0 billion to the pension system had a negative impact on fund capital. As of 2009, AP3 makes payments to the Swedish Social Insurance Agency to help finance a deficit in the pension system arising from pension disbursements exceeding paid-in pension contributions. Hence, the Fund has a net outflow to the pension system.

### Change in fund capital

SEK million	Jan-Jun 2010	Jan-Dec 2009
Fund capital at 1 Jan	206,539	181,024
Pension contributions	25,369	50,678
Pension disbursements	-27,237	-54,353
Administration fee to Social Insurance Agency	-128	-231
Profit for the period	4,034	29,421
<b>Total fund capital at end of period</b>	<b>208,577</b>	<b>206,539</b>

## Market overview

Fears over the state of public finances in Europe, particularly in Portugal, Ireland, Italy, Greece and Spain, dominated financial markets during the first six months. Along with talk of measures to tighten financial market regulation, these concerns fuelled equity market weakness until early March. Indications of economic recovery and higher growth coincided with strong quarterly earnings figures to improved sentiment in March and April, only for the escalation of the Greek financial crisis in May to reignite concerns over the strength of the eurozone. Several countries, including Germany and the UK, cut public spending in June in a bid to tackle budget deficits. The disastrous oil spill in the Gulf of Mexico not only hit BP's stock market capitalisation but also the oil sector in general. Equity markets fell, bond yield spreads widened and bond prices fell as investors shunned risk. The US dollar and Japanese yen also strengthened. Most equity markets recorded negative returns during the first six months, though the Swedish market was an exception and gained ground.

## Income

AP3 recorded a profit of SEK 4.0 billion after expenses for the first six months, representing a return of 2.0% before expenses and 1.9% after expenses.

In late 2009 the Fund decided to introduce a new asset management model which is fully implemented from 2010. This new dynamic asset allocation model involves basing investment decisions on preferred levels of risk and expected returns between different asset categories. The new model is presented in detail in the 2009 annual report.

Since the summer of 2009, AP3 has taken a positive view of economic trends – a stance reflected in high exposure to equities and low exposure to currencies. Equities and foreign exchange were the main contributors to investment returns in the first six months. Excluding currency effects, equities made a contribution of -0.8 percentage points to total return. Open currency exposure yielded a positive contribution of 1.3 percentage points.

The Fund gradually reduced equity weights from 58.2% to 54.8% in the first six months due to increased uncertainty over future economic developments. AP3 also worked actively on currency exposure and the structure of the foreign exchange portfolio. This approach proved successful.

AP3 increased allocations of government bonds in Sweden and Europe during the first half as part of a drive to increase exposure to low-risk fixed income instruments. Statutory investment limitations require AP3 to always hold at least 30% of its assets in fixed income securities with low risk. Based on our view of bond markets at the start of the year, we withdrew from Japanese bonds in favour of Swedish bonds and increased portfolio duration. We also sold half our holdings of secured bank loans to realise the gains in these investments since 2008.

Real estate related investments, which fall within the “Inflation” risk category, performed well during the first half, mainly due to growth in the value of the Vasakronan holding and favourable returns on international timberland fund investments.

Additional allocations were made to insurance related instruments, which come under the “Other Exposure” risk category, as part of our risk diversification strategy.

### Return per risk category

January – June 2010	Return total %	Contribution to total return % points
Equities <sup>1</sup>	2.2	-0.8
Fixed income	2.1	0.4
Credits	3.5	0.5
Inflation	3.8	0.5
Foreign exchange	-	1.3
Other	-0.3	0.0
Absolute return strategies	-	0.1
Total AP3	2.0	2.0

<sup>1</sup> Return on equities excludes currency hedging. Contributions include currency hedging.

The Fund's total returns, risk and exposure in respect of each risk class are shown in the diagram below. Risk is shown as value at risk.<sup>1</sup> Total risk exposure stood at SEK 1.9 billion on 30 June 2010, meaning that negative changes in value should not exceed SEK 1.9 billion on 95 days out of 100. Risk has increased since the start of the year, mainly due to higher market volatility. AP3's total exposures exceeded 100% as of 30 June 2010 because the Fund holds positions in derivatives to manage risk and optimise asset management efficiency. Exposure is within the framework limits set by the Board.

<sup>1</sup> Value at risk, 95% confidence interval, 1 day. For further explanation see the 2009 annual report.

## AP3's risk categories

30/6-2010

AP3	
Return	2.0%
Risk	1.9 Bn SEK
<i>diversification effect</i> <sup>1</sup>	38.4%
Exposure	107.0%

	Equities	Fixed income	Credits	Inflation	Foreign exchange	Other	Absolut return strategies
Share of risk at 30 June 2010	76.5%	2.1%	2.6%	2.3%	14.6%	0.3%	1.5%
Exposure at 30 June 2010	54,8%	17,0%	17,1%	14,0%	7.9% <sup>2</sup>	0,9%	3,1%

1 Total risk is lower than the aggregate risk in each risk class due to the effect of diversification in the portfolio.

2 Currency exposure shows assets held in foreign currencies as a percentage of fund capital and cannot be added to other exposure.

Private equity holdings accounted for 5.3% of total assets at 30 June. The National Pension Funds Act, which regulates the AP Funds activities, allows AP3 to invest a maximum of 5% of its assets in private equity. However, AP3 exceeded this ceiling due to growth in private equity holdings exceeding that in listed assets during the first six months. The impact was cushioned by the fact that private equity holdings are valued three months in arrears (i.e. on 31 March), while listed assets were also hit by market turbulence during the second quarter. Measures are being taken to bring exposure within the limits. AP3 made no new private equity investments during the period.

In autumn 2009 AP3 acquired a 17% share of the voting equity in unlisted company Arise Windpower. The company floated on the stock market during the spring and on 30 June AP3's stake was 14.7%, exceeding the statutory rule stipulating that AP funds may not own more than 10% of the voting equity in any one company. The National Pension Funds Act requires us to sell any shareholding that exceeds the 10% limit as soon as possible, with due regard to market conditions.

## Foreign exchange

Currency exposure was 7.9% at 30 June. Active currency management is one of the AP3's risk categories. Exposures varied during the period from a high of 12% to a low of 3.5%.

## Expenses

Operating expenses for the first half were SEK 78 million, of which SEK 51 million were staff costs. An additional SEK 87 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 0.16% of assets under management on an annualised basis. The equivalent figure for AP3's internal expenses (operating expenses) was 0.08%.

AP3 aims to be a leading asset manager, meaning that we seek to generate strong risk-adjusted returns with cost-efficiency. We base our strategy for effective management on continuous improvement and a decision-making model focused on expected returns, risk and costs. It is also valuable to compare the effectiveness of our performance against similar pension funds and for the last six years we have

participated in an international benchmarking survey by the Canadian firm Cost Effectiveness Measurement (CEM), which many major pension funds use for this purpose. We aim to generate higher value at a lower cost than the average comparable pension fund. Over the last few years we have achieved that goal through a combination of asset management returns and our own efforts to reduce costs and also because we have expanded our collaboration with the other AP funds in areas offering scope for cost reduction.

The AP funds' costs have attracted considerable attention in the last year. AP1, AP2, AP3 and AP4 carried out a joint review to examine scope for cost savings in administrative functions through further cooperation or joint ventures. The potential cost-savings from creating a joint administrative organization proved to be limited. Concentration risk would have risen and the decision-making process become more complex. The board concluded that creating a joint service company is not practicable in the current context. However, the cooperation between the funds' administrative functions has been positive for all parties concerned and will be deepened by the creation of a joint forum. The forum will continue the work to ensure cost-effective management through knowledge exchange, stronger negotiating power vis-à-vis external suppliers, joint development and similar initiatives.

The choice of IT system has a key bearing on effective management, as demonstrated by the joint review. Based on the review, AP3 carried out a review of its own IT strategy and business system platform. We concluded that the present structure has low maintenance costs and meets our requirements. We have therefore decided to continue capitalising on the investments we have made and to focus on improving the existing environment by upgrading our current business system over the next 12-18 months.

Our cooperation with the other AP funds also strengthened our position when we renegotiated our custodian bank contract during the spring, resulting in lower custody account fees.

## **Corporate governance**

AP3 voted at 52 Swedish annual general meetings and 375 foreign AGMs during the period. Prior to the 2009 AGM season, we held nomination committee seats at eight companies: Algeta, Alpcot Agro, Arise Windpower, Bergvik Skog, BioInvent, Diagenic, Karolinska Development and Orexo.

A detailed presentation of our AGM-related activities and environmental and ethical work from July 2009 to June 2010 will be published on the website during the third quarter.

AP3 operates a joint Ethical Council with AP1, AP2 and AP4 to promote environmental and socially responsible business practices at foreign companies. The Council published its annual report, which includes information on ongoing corporate dialogues, in March 2010. The report can be downloaded from [www.ethicalcouncil.com](http://www.ethicalcouncil.com).

## **Staff**

The staff headcount was 56 on 30 June 2010, up by 1 since the turn of the year.

## **Board of Directors**

Deputy Chairman Lars Otterbeck left the Board at his own request. Lars G Josefsson was appointed as new Deputy Chairman. Directors Dan Andersson and Christer Romilson left the Board after ten years and were replaced by Lars Ernsäter and Peter Hellberg.

## **Government review**

The government's annual review of the AP funds' performance in 2009 noted a marked improvement in the funds' long-term returns since 2001 but said the funds had still not reached the targets set by their boards of directors. The review said that the strategic changes implemented in 2009 meant that AP1, AP2, AP3 and AP4 differed more significantly from each other in terms of their asset management approach

than previously. These differences were in line with the philosophy behind having separate funds sharing identical mandates, the report said, adding that the funds' corporate governance was effective by both Swedish and international standards.

A survey commissioned by the government from consultants McKinsey concluded that the AP funds' investment performance compared favourably with that of the funds' international peers. McKinsey compared the funds' returns with seven large international pension funds. Only one of the seven, ATP of Denmark, reported higher returns than the AP funds from 1 January 2005 to 31 December 2009. McKinsey's analysis showed that the AP funds' asset management costs were at the lower end of the scale compared to the other funds, confirming the cost-effectiveness of the AP funds' asset management.

### **Further information**

A list of assets and other data at 30 June 2010 are 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 2010 will be published in February 2011.

### **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 2009 annual report on page 37 under Note 1.

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

*Stockholm, 27 August 2010*

*Kerstin Hessius*  
CEO

<b>Income statement</b>	<b>Jan-Jun 2010</b>	<b>Jan-Jun 2010 2009</b>	<b>Jan-Dec 2009</b>
<b>Income, SEK million</b>			
Net interest income	864	421	1,687
Dividends received	2,101	1,779	2,554
Net income from listed shares and units	-2,996	6,816	24,832
Net income from unlisted shares and units	903	-2,209	-2,028
Net income from interest-bearing assets	1,374	2,805	4,985
Net income from derivative securities	-372	-661	-1,335
Net income from currencies	2,325	551	-957
Net commission expenses	-87	-69	-170
<b>Total operating income</b>	<b>4,112</b>	<b>9,433</b>	<b>29,568</b>
<b>Operating expenses</b>			
Staff expenses	51	46	95
Other administrative expenses	27	29	52
<b>Total operating expenses</b>	<b>78</b>	<b>75</b>	<b>147</b>
<b>Profit for the period</b>	<b>4,034</b>	<b>9,358</b>	<b>29,421</b>
<b>Balance sheet</b>			
	<b>30 Jun 2010</b>	<b>30 Jun 2009</b>	<b>31 Dec 2009</b>
<b>Assets, SEK million</b>			
Shares and units,			
Listed	105,036	94,024	105,570
Unlisted	19,738	17,271	17,995
Bonds and other interest-bearing assets	83,223	71,769	78,214
Derivatives	2,629	4,238	2,304
Cash and cash equivalents	2,196	2,555	1,723
Other assets	5,334	8,029	7,041
Prepaid expenses and accrued income	1,254	1,322	1,598
<b>Total assets</b>	<b>219,410</b>	<b>199,208</b>	<b>214,445</b>
<b>Fund capital and liabilities</b>			
Liabilities			
Derivatives	6,022	2,041	2,140
Other liabilities	4,749	8,436	5,693
Deferred income and accrued expenses	62	89	73
<b>Total liabilities</b>	<b>10,833</b>	<b>10,566</b>	<b>7,906</b>
<b>Fund capital</b>			
Fund capital at start of period	206,539	181,024	181,024
Net payment to pension system	-1,996	-1,740	-3,906
Profit for the period	4,034	9,358	29,421
<b>Total fund capital</b>	<b>208,577</b>	<b>188,642</b>	<b>206,539</b>
<b>Total fund capital and liabilities</b>	<b>219,410</b>	<b>199,208</b>	<b>214,445</b>

<b>Financial overview</b>	<b>Jan-Jun 2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Income and inflows</b>					
<b>SEK billion</b>					
Net flows to/from pension system	-2.0	-3.9	0.9	2.0	1.6
Net profit/loss	4.0	29.4	-44.8	10.7	18.6
<b>Fund capital at 31 Dec</b>	<b>208.6</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>					
<b>%</b>					
Return before expenses	2.0	16.4	-19.7	5.1	9.7
Operating expenses	0.08	0.08	0.07	0.06	0.06
Net commission expenses	0.08	0.09	0.07	0.07	0.08
Return after expenses	1.9	16.3	-19.8	5.0	9.5
Inflation	0.42	0.90	0.90	3.45	1.63
Real return after expenses	1.5	15.3	-20.5	1.5	7.8
<b>SEK billion</b>					
Return	4.1	29.6	-44.6	10.8	18.7
Operating expenses	0.1	0.1	0.1	0.1	0.1
Return after expenses	4.0	29.4	-44.8	10.7	18.6
<b>Risk</b>					
Risk (standard deviation) % <sup>1</sup>	8.8	9.9	16.6	7.3	6.3
Sharpe ratio	0.4	2.0	neg	0.1	1.1
<b>Currency exposure<sup>2</sup></b>					
% of total portfolio	7.9	8.3	13.8	9.0	9.0
<b>External management</b>					
% of total portfolio	44.8	40.7	38.8	39.9	40.4
<b>Asset management expenses</b>					
<b>% of assets under management</b>					
Operating expenses	0.08	0.08	0.07	0.06	0.06
Operating expenses and commission expenses	0.16	0.17	0.14	0.13	0.14

1 Figures apply as of 2010 for the total portfolio due to the transition to dynamic asset allocation. Prior figures state the risk solely for the market-listed portfolio.

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

<b>Market value per asset category</b>	<b>Jan-Jun 2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>SEK billion</b>	<b>208.6</b>	<b>206.5</b>	<b>181.0</b>	<b>224.9</b>	<b>212.2</b>
Swedish equities <sup>3</sup>	27.8	26.5	17.9	24.0	26.8
Foreign equities <sup>3</sup>	71.3	76.2	66.0	93.5	88.8
Nominal fixed income, Swedish	20.6	13.6	13.7	13.6	18.0
Nominal fixed income, foreign	40.0	42.3	39.2	59.3	44.5
Index-linked fixed income, Swedish	1.5	0.1	5.4	7.4	12.0
Index-linked fixed income, foreign	13.4	14.2	8.7	11.3	10.4
Private equity, Swedish and foreign <sup>3,4</sup>	11.1	9.8	10.8	9.5	6.4
Real estate exposure	16.8	16.0	16.2	6.4	5.5
New strategies <sup>4</sup>	6.2	7.7	3.1		
Staff headcount	<b>56</b>	<b>55</b>	<b>50</b>	<b>51</b>	<b>50</b>

<sup>3</sup> Swedish and foreign equities include listed equities and private equity prior to 1 January 2006. Listed equities and private equity are reported separately as of 2006.

<sup>4</sup> Private equity includes listed life science holdings prior to 1 January 2008. As of 2008, these are part of new strategies.