

Light Grey	White	White	Light Grey	White
White	Light Green	Light Grey	Dark Blue	White
White	White	White	White	Light Grey
White	Blue	White	Light Grey	Green
Light Orange	White	White	White	White
White	Light Grey	White	Light Grey	Dark Blue
Blue	White	Red	White	Light Grey

# CONTENTS

## ABOUT FÖRSTA AP-FONDEN

Brief facts about Första AP-fonden .....	inside cover
Highlights of 2013 .....	3
Message from the CEO.....	4

## DIRECTORS' REPORT

Assets, expenses and earnings.....	6
Investment operations .....	8
Ten-year overview .....	18

## FINANCIAL STATEMENTS AND NOTES

Income statement .....	20
Balance sheet .....	20
Notes.....	24
The Board of Directors' statement of assurance..	36
Auditor's report .....	38

## FUND MANAGEMENT

Fund management report.....	40
The Board's report on internal control and risk management .....	42
Board of Directors.....	44
Executive Management Team.....	45

The figures in brackets represent the values for 2012.

The market values and other values in the fund management report are based on internal portfolio accounting and therefore include accrued items and netting of assets and liabilities. As a result, the values in the fund management report are not directly reconcilable with items in the balance sheet and income statement.

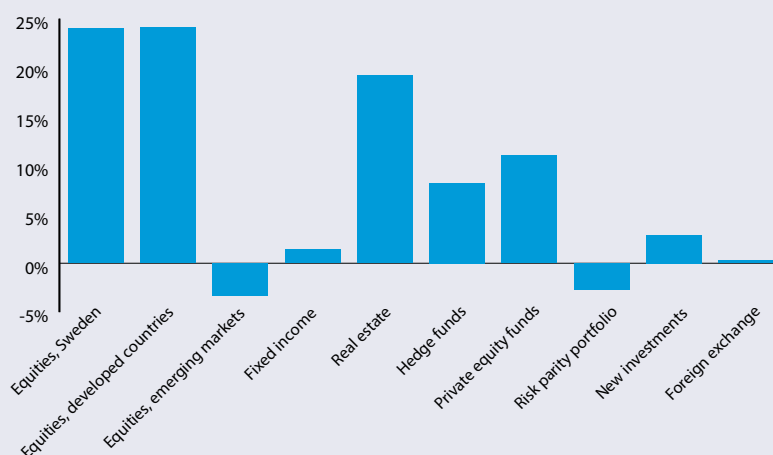
# BRIEF FACTS

- Första AP-fonden is one of five funds that manage buffer capital in the Swedish national income pension system (the AP funds). The capital reserves in the AP funds are used when disbursements from the pension system exceed contributions to the system. The funds' mission is to manage the fund capital, with a long-term perspective, to achieve high returns with a low level of risk.
- Första AP-fonden has net assets under management of SEK 252.5 billion in a global portfolio consisting of equities, fixed income securities, real estate, private equity funds and hedge funds.
- Första AP-fonden is a long-term investor and an engaged owner. In its role as owner, the Fund places high demands in the areas of environmental and social issues and corporate governance.
- Over the past ten-year period the Fund has produced an annualized return after expenses of 6.5 percent, which exceeds the target of 5.5 percent. The Fund has thereby contributed SEK 124.2 billion to the pension system since 2004

# HIGHLIGHTS OF 2013

- The year's net investment income after expenses amounted to SEK 25,687 million (24,170). Return after expenses was 11.2 percent (11.3).
- Over the past ten-year period Första AP-fonden has produced an annualized return after expenses of 6.5 percent, which exceeds the Fund's target of 5.5 percent.
- Net assets under management grew by SEK 18,807 million to SEK 252,507 million after the Fund transferred SEK 6,880 million (3,788) to the Swedish Pensions Agency.
- The Fund's administrative expenses amounted to SEK 350 million (322), which is equal to an annual expense ratio of 0.14 percent (0.14).
- The Board of Directors reformulated the Fund's target to a return of 5.5 percent after expenses over rolling ten-year periods.

## Return by asset class in 2013, %



## Five-year overview in summary

	2013	2012	2011	2010	2009
Return before expenses, %	11.3	11.4	-1.7	10.3	20.4
Expense ratio, %	0.14	0.14	0.12	0.13	0.16
Return after expenses, %	11.2	11.3	-1.9	10.2	20.2
Net investment income after expenses, SEK bn	25.7	24.2	-4.2	20.5	34.6
Net flows, SEK bn	-6.9	-3.8	-1.2	-4.0	-3.9
Closing net assets, SEK bn	252.5	233.7	213.3	218.8	202.3
Exposure, %					
Equities	49.2	47.4	49.2	60.3	58.6
– of which, Swedish equities	12.0	11.4	12.6	15.7	13.8
Fixed income <sup>1)</sup>	29.7	36.4	40.9	32.5	34.7
Real estate	8.8	7.7	5.6	5.0	3.4
Hedge funds	4.9	4.3	0.2	0.3	0.0
Private equity funds	3.3	3.2	2.8	2.0	1.7
Risk parity portfolio	3.8	-	-	-	-
Net investments	1.0	0.7	0.6	0.7	0.0
Foreign exchange	29.2	27.4	21.3	24.0	21.6
Share of external management, %	37.1	39.3	41.4	43.7	42.5

<sup>1)</sup> The risk parity portfolio contains 48 percent fixed income securities, which means that total fixed income exposure amounts to 31.2 percent.



## MESSAGE FROM THE CEO

It is satisfying to look back on 2013 as yet another year with a strong return. Net assets under management increased to SEK 253 billion, which is the highest level ever. Our assets have produced an annualized return of 6.5 per cent in the past ten years, which clearly exceeds our target of a 5.5 per cent return over rolling ten-year periods. For the past five-year period, annualized return has been 10 percent.

Based on experiences from the financial crisis, Första AP-fonden's strategy has been to build a portfolio that is robust to sharp changes in value. In light of this, I think the year's net investment income of SEK 25.7 billion is commendable. Stock market returns in the world's developed countries exceeded expectations in 2013. The risk appetite was strong and the year was generally characterized by lower macroeconomic unrest. The serious situation in the EMU stabilized, the recovery in the USA continued despite financial policy tightening, the Japanese economy was given a tangible boost by its aggressive new monetary policy and China continued to grow, albeit somewhat more modestly than earlier. The downside in the macroeconomic scenario was development in the emerging markets, which are struggling with major trade balance deficits and where a significant slowdown was noted.

The macroeconomic trend was well reflected in the financial markets, which showed rising government bond yields, shrinking credit risk premiums and good returns in the stock markets of the developed countries, with an emphasis on Japan and USA, but with considerably lower returns in the emerging markets. The major currencies were fairly stable against each other, with the exception of the yen, which weakened sharply in the wake of the forceful measures taken by the Bank of Japan.

Första AP-fonden's investment philosophy is based on the Fund's long-term role in the pension system. The investment process is designed on the assumption that the markets are not entirely effective. This means that in-house research and conscious choices form the basis for our investments. We want to know what we own,

meaning that we want to have an in-depth knowledge of the investments we make. Given that ambition, we have taken steps to concentrate the portfolio to fewer holdings. With a lengthy investment horizon it is natural to focus on investments that are sustainable in the long term, both from a purely financial perspective and in terms of factors like environmental impact and labour rights issues.

In our long-term analysis it is becoming increasingly clear that the risks and opportunities linked to sustainable business operations are important considerations. Our long-term approach as owners and our concentrated portfolio, in which our managers have actively selected the companies, give us favourable conditions to analyse and engage ourselves in the companies we own. In 2013 we worked actively to further integrate sustainability factors into our investment analysis.

During the year we transferred substantial assets from external managers to our internal management, which means that we currently manage most of the equity and fixed income portfolios internally. Close to SEK 15 billion was moved from external equity mandates in North America, the Pacific region and Japan to our internal management, with the result that nearly SEK 12 billion was shifted from index-linked to active management.

Most of the decisions about the Fund's exposure in hedge funds, private equity funds and real estate are now made internally. As part of our long-term strategy to raise the share of investments in private equity funds and real estate, we increased our holdings in both of these asset classes during 2013. To better balance the risks, but also to further develop the Fund's risk management, we made a substantial investment in a risk parity fund during 2013. In response to a more positive outlook in the equity markets we raised the share of equities in developed markets, which was financed through a reduction in the fixed income portfolio.

As we look ahead in 2014 it is obvious that the global macroeconomic situation is dominated by a large amount of unutilized resources in the West. High

unemployment is inhibiting wage growth, which has pushed down the inflationary rate to a level bordering on deflation. Although unemployment has fallen, particularly in the USA, deflationary pressure will remain strong during 2014. The central banks, led by the US Federal Reserve, have employed and are expected to employ an expansive monetary policy as long as deflation is the dominant risk.

The applied monetary policy is a key determinant for asset prices, since negative real interest rates are leading many asset managers to take increasingly large risks. This is resulting in lower credit risk premiums and steadily higher valuations. At present, valuations in the stock market, primarily the USA, are high and the risk for a backlash has therefore increased after the upswing in 2013. In addition, the conditions for a stronger dollar are good since the relatively favourable macroeconomic development in the USA has allowed the US central bank to employ a tighter monetary policy than its European counterparts. Pricing in the fixed income markets has seen a normalization of the prime rate over the past few years, which is not entirely in tune with the

resource situation. On the whole, the return conditions for 2014 are modest even if a new wave of monetary policy stimulus measures has the potential to further reduce risk premiums.

The AP funds' investment rules are focused on investments in listed equities, fixed income securities and real estate. We see major investment needs in areas that are suited to our mission to achieve a long-term and stable return. This applies, for example, to investments in different types of infrastructure, in renewable energy sources and in transition of the energy system from fossil fuel to carbon dioxide-neutral energy production. These are areas that would be of interest for direct investment. It would therefore be beneficial if such opportunities were permitted.

In conclusion, I would like to thank my competent and engaged employees for their excellent work and a good return contribution to the pension system.

Johan Magnusson  
Chief Executive Officer

### FÖRSTA AP-FONDEN IN THE INCOME PENSION SYSTEM

The national retirement pension system is an autonomous system that is fully financed by contributions that are based on the amount of wages/salaries paid out. Everyone who works and pays tax is part of the income pension system. Every month, a fixed contribution equal to 16 percent of salary (up to a ceiling of 7.5 income base amounts, or around SEK 35,000 per month), is paid to the income pension system and 2.5 percent to the premium pension system.

The money that is paid in today is used to pay current pensioners. At times like the present, when contributions to the system are lower than disbursements to pensioners, the capital in the AP funds is used to cover the difference. In periods when

contributions exceed disbursements, the surplus is allocated to the AP funds. More information about the pension system can be found on the Swedish Pension Agency's website [www.pensionsmyndigheten.se](http://www.pensionsmyndigheten.se)

Första AP-fonden, together with the Second, Third and Fourth AP funds, has two main tasks in the Swedish national income pension system. The funds function partly as a buffer to ensure payment of future pension benefits, and partly to generate a return that contributes to the pension system's long-term financing. The forecast is that it will be necessary to withdraw capital from the AP fund to cover pension disbursements for the next 25 to 30 years.

# DIRECTORS' REPORT

The Board of Directors and the CEO of Första AP-fonden hereby submit their directors' report for 2013. The directors' report has been reviewed by the Fund's auditors and includes pages 6 to 34.

At 31 December 2013, Första AP-fonden had net assets under management of SEK 252,507 million (233,700). The increase of SEK 18,807 is explained by the year's net investment income after expenses of SEK 25,687 million (24,170) and a net capital flow of SEK -6,880 million (-3,788) within the pension system. Since 2004, the Fund's combined investment income amounts to SEK 124.2 billion.

Net investment income after expenses is equal to a return of 11.2 percent (11.3). Första AP-fonden's target is for return after expenses to exceed 5.5 percent over rolling ten-year periods. Return after expenses for the past ten-year period was 6.5 percent (7.0).

Första AP-fonden strives to conduct cost-effective management. Of the Fund's internal and external mandates, the majority have generated a return after expenses that exceeds the respective market's return for 2013.

## PAYMENTS TO AND FROM THE SWEDISH PENSIONS AGENCY

In years when pension contributions exceed pension disbursements, the surplus is transferred to the First, Second, Third and Fourth AP funds. Since 2009, the amount of capital required for payment of pensions has been higher than the amount of capital that has been received via contributions. Capital has therefore been withdrawn from the four AP funds.

Första AP-fonden has transferred a total of SEK 19.9 billion to the Swedish Pensions Agency since 2009, of which SEK 6.9 billion in 2013. The contribution deficit is expected to increase in the years ahead and to be replaced by a surplus at the beginning of the 2040s.

## THE INVESTMENT PROCESS

Since 2009 Första AP-fonden has worked according to an investment process that is based on a long-term approach, fundamental research and a higher share share of investments other than listed equities and fixed income assets. For example, the fund has increased its investments in real estate, hedge funds and private equity funds. In 2013 the Fund also invested SEK 9,630 million in a risk parity portfolio.

### Net investment income for 2013 before expenses in local currency

	Contribution		Portfolio return, %
	Contribution, SEK bn	Contribution, %	
Equities, Sweden	6.1	2.7	24.0
Equities, developed countries	13.8	5.9	24.1
Equities, emerging markets	-0.5	-0.2	-3.3
<b>Total equities</b>	<b>19.4</b>	<b>8.4</b>	<b>17.9</b>
Fixed income securities	1.0	0.4	1.4
Real estate	3.3	1.4	19.2
Hedge funds	0.8	0.4	8.2
Private equity funds	0.8	0.4	11.0
Risk parity portfolio	-0.1	0.0	-2.7
New investments	0.1	0.0	2.9
Allocation, cash and foreign exchange	0.8	0.3	0.3
<b>Total</b>	<b>26.1</b>	<b>11.3</b>	<b>11.3</b>

Första AP-fonden's investment process consists of three decision levels:

- **Strategic asset allocation** deals with the allocation between asset classes, decisions about the size of the Fund's currency exposure and the duration of the fixed income portfolio.
- **Strategic management** includes all decisions regarding allocation within each asset class, such as the allocation between equity regions, the allocation between credit bonds and government bonds and the allocation between different currencies.
- **Operating management** is the management employed by the Fund based on the chosen strategies.

The Board has established the strategic asset allocation at 50 percent listed equities, 30 percent fixed income assets and 20 percent alternative investments such as real estate, private equity funds, hedge funds and new investments. One aim has been the raise the share of assets with a return pattern that differs from the other parts of the portfolio in order to influence the total risk. Read more about risk in the income statement's Note 17.

In order to measure and explain the contribution from the different decision levels, a comparison is made with a starting portfolio. The Fund's return during the four-year period has been lower than that for the starting portfolio (7.7 percent compared to 8.9 percent) at the same time that the total risk has decreased.

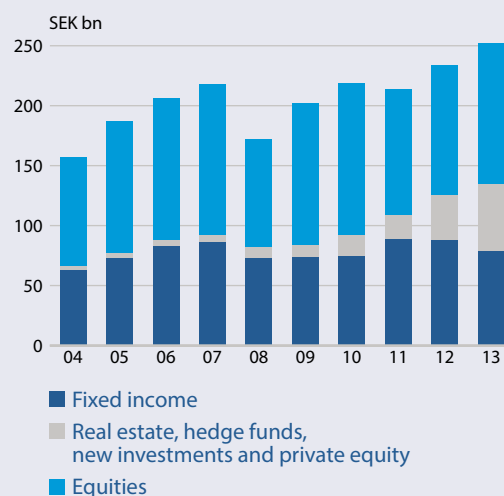
#### Fund asset development, SEK m

	2013	2012
<b>Opening net assets</b>	<b>233,700</b>	<b>213,318</b>
Net contributions to/from the Swedish Pensions Agency	-6,650	-3,568
Administrative contributions to the Swedish Pensions Agency, etc.	-230	-220
Net investment income after expenses	25,687	24,170
<b>Closing net assets</b>	<b>252,507</b>	<b>233,700</b>

#### Expenses and expense ratio, 2013

Expenses	SEK m	Expense ratio, %
Personnel costs	110	0.05
Other administrative expenses	51	0.02
<b>Operating expenses</b>	<b>161</b>	<b>0.07</b>
Commission costs	189	0.07
<b>Total expenses</b>	<b>350</b>	<b>0.14</b>

#### Fund asset development 2004-2014, SEK bn



#### Return for different decision levels

Return (before expenses)		
Decision level	1 yr, %	4 yrs, %
<b>Starting portfolio</b>	<b>11.4</b>	<b>8.9</b>
Strategic asset allocation	0.3	-0.7
Strategic management	-2.7	-0.8
Operating management	2.4	0.2
<b>Total in excess of starting portfolio</b>	<b>-0.1</b>	<b>-1.2</b>
<b>Total return</b>	<b>11.3</b>	<b>7.7</b>

#### Volatility for different decision levels

Volatility		
Decision level	1 yr, %	4 yrs, %
<b>Starting portfolio</b>	<b>4.9</b>	<b>7.6</b>
Strategic asset allocation	0.1	-0.9
Strategic management	-0.1	-0.1
Operating management	0.1	0.3
<b>Total in excess of starting portfolio</b>	<b>0.1</b>	<b>-0.6</b>
<b>Total volatility</b>	<b>5.0</b>	<b>7.0</b>

# INVESTMENT OPERATIONS

Första AP-fonden manages a global portfolio of equities, fixed income securities, currencies, real estate, hedge funds, private equity funds and new investments such as agricultural properties. The allocation between these asset classes is a central part of the Fund's investment process.

## STRATEGIC FOCUS AND ALLOCATION

Första AP-fonden's mission is to secure long-term pension disbursements in the income pension system. This demands a long-term investment horizon. The Fund's target is a return after expenses of 5.5 percent over rolling ten-year periods.

Första AP-fonden's overall financial risks are managed through the allocation between asset classes.

In the allocation process, the Fund adjusts its overall portfolio risk with the help of a few strategic variables such as the amount of equity, fixed income and currency exposure and by establishing the interest sensitivity (duration) of the fixed income portfolio.

The Board has established the strategic asset allocation at 50 percent listed equities, 30 percent fixed income assets and 20 percent alternative investments such as real estate, private equity funds, hedge funds and new investments. One ambition during 2013 and in earlier years has been to reduce the risk for sharp drops in value, so-called draw-down risk. During the year, this meant that the share of listed equities was low. One consequence of this is that the year's positive stock market development did not produce the level of return

## Portfolio composition

Asset class	Portfolio value SEK m, 31 Dec 2013	% of net assets	Exposure, %	Portfolio value SEK m, 31 Dec 2013	% of net assets	Exposure, %
<b>Equities</b>						
Sweden	30,144	12	12	26,590	11	11
Developed countries	64,089	25	28	58,490	25	25
Emerging markets	24,206	10	10	23,726	10	11
<b>Total equities</b>	<b>118,439</b>	<b>47</b>	<b>49</b>	<b>108,807</b>	<b>47</b>	<b>47</b>
<b>Fixed income</b>						
Nominal, government	17,862	7		21,199	9	
Nominal, credit	40,623	16		47,977	21	
Index-linked	16,448	7		15,952	7	
<b>Total fixed income</b>	<b>74,933</b>	<b>30</b>	<b>30</b>	<b>85,128</b>	<b>36</b>	<b>36</b>
Cash/foreign exchange	4,076	2	-1	2,689	1	0
<b>Total listed investments</b>	<b>193,372</b>	<b>78</b>	<b>79</b>	<b>196,625</b>	<b>84</b>	<b>84</b>
Real estate	22,163	9	9	18,011	8	8
Hedge funds	12,398	5	5	10,023	4	4
Private equity funds	8,371	3	3	7,407	3	3
Risk parity portfolio	9,511	4	4	0	0	0
New investments	2,616	1	1	1,634	1	1
<b>Total unlisted investments</b>	<b>55,059</b>	<b>22</b>	<b>22</b>	<b>37,074</b>	<b>16</b>	<b>16</b>
<b>Total portfolio</b>	<b>252,507</b>	<b>100</b>	<b>101</b>	<b>233,699</b>	<b>100</b>	<b>100</b>
Currency exposure	73,776		29	64,085		27



for the Fund compared to if draw-down risks had not been reduced, which had a negative impact on the return for strategic asset allocation. For the same reason, to reduce draw-down risks, a number of strategies have been implemented in parts of the portfolio, primarily in internally managed listed equities. This had a negative impact on strategic management during 2013.

In 2013 the Fund carried out a study on the conditions to realize its mission in the pension system. One conclusion of the study was that financial risk in the portfolio should be increased. Read more on page 15 and at [ap1.se](http://ap1.se).

### EQUITIES

Första AP-fonden's equity portfolio is divided between 55 percent in developed markets and 20 percent in emerging markets. The remaining 25 percent is invested in Sweden. Equities as an asset class are associated with generally higher risks but generate a high long-term return.

Första AP-fonden manages Swedish and foreign equities in developed countries internally. Investments are made primarily in large and mid-sized companies (large and mid caps). External managers are used for investments in emerging markets and small caps.

The internally managed portfolio consists of approximately 250 companies, of which around 30 are

Swedish. In 2013 the Fund increased the share of internally managed assets and reduced the share of externally managed assets. Around SEK 90 billion, equal to 75 percent of the equity portfolio, was managed internally at 31 December 2013.

To a large extent, the ambition is to own equities where the Fund has a clear idea of the fundamental value. The Fund has fewer holdings than previously, but sufficiently many to achieve a reasonably good spread of risk between markets and sectors. The scope to act as an engaged owner has thus increased, as have the possibilities to integrate sustainability factors into the investment decisions.

The internal portfolio is managed actively with a long investment horizon. The investment process is built on fundamental analysis based on an assessment of future profits and risk levels in relation to the current valuation. The strategy is to identify equities that are undervalued and are expected to show more stable development. The externally managed equities are handled by some 15 managers with different mandates. In 2013 the Fund carried out an evaluation and signed new agreements with all of these, both new and previously used managers. One objective of external management is to widen exposure by investing in new markets, such as so-called frontier markets, and to increase exposure to small caps in emerging markets.

### ETHICAL COUNCIL

The Ethical Council is the AP funds' joint body for dialogue with foreign companies that violate international conventions. Read more about the Ethical Council at [etikrådetapfonderna.se](http://etikrådetapfonderna.se)

### SHAREHOLDER ACTIVISM

Första AP-fonden is an active and engaged owner. Read more about the Fund's shareholder activism at [ap1.se](http://ap1.se)

### INVESTMENT RULES

Första AP-fonden complies with the investment rules established by the Swedish Parliament, which among other things state that:

- the fund's investments in regulated Swedish markets may not exceed 2 percent of the exchange's total market value
- the fund may hold no more than 10 percent of the votes in any single listed company
- at least 10 percent of the fund's assets must be managed externally
- at least 30 percent must be invested in fixed income securities with low risk
- no more than 5 percent of the fund's assets may be invested in unlisted securities
- no more than 40 percent of the assets may be exposed to currency risk
- the fund may not invest in commodities
- the fund's investment decisions may not be influenced by prevailing government policies, whether industrial or economic
- consideration shall be given to ethics and the environment without compromising the overall goal of attaining a high return

The share of mandates with active management, less linked to an index, was increased during 2013.

In 2013 the global equity markets showed continued strong development. Första AP-fonden's equity portfolio achieved a value increase of SEK 19.4 billion, equal to a return of 17.9 percent.

#### FIXED INCOME SECURITIES

Första AP-fonden managed a global fixed income portfolio in which the bulk is invested in foreign assets. Fixed income securities reduce the risk in the total portfolio and the Fund's investment rules state that at least 30 percent of the portfolio must be invested in fixed income assets. At year-end 2013 the portfolio

consisted of 23.6 percent corporate credits, 18.0 percent secured bonds, 8.6 percent credits from government guaranteed bonds and supranational issuers and 49.9 percent government bonds. The share of nominal assets was 70.0 percent and the share of real assets was 30.0 percent.

The strategic focus in fixed income management is to create the highest and most stable portfolio return possible over a long time horizon. The operating management is aimed at tactically exploiting the different opportunities that arise in the market.

The fixed income portfolio is managed according to a holistic perspective. This means that investment decisions in an individual market are made based on

#### External management mandates, equities, 31 Dec 2013

Manager	Region	Focus	SEK m	Starting date
<b>Equities</b>				
Hillswick	North America	Large caps	465	Dec-09
Blackrock	North America	Small caps	3,403	Nov-09
Champlain	North America	Small caps	1,410	Nov-09
Ironbridge	North America	Small caps	1,113	Apr-04
Blackrock	Emerging markets		9,795	Jun-06
Aberdeen	Emerging markets		3,673	Jun-06
Aberdeen	Emerging markets	Frontier	270	Jan-13
Aberdeen	Emerging markets	Small caps	317	Dec-13
TOBAM	Emerging markets		1,540	Jun-11
GMO	Emerging markets		1,882	Dec-13
Fisher Investment	Emerging markets		1,900	Nov-13
Lloyd George	Emerging markets	Frontier	681	Okt-13
Somerset	Emerging markets	Mid caps	1,276	Dec-13
William Blair	Emerging markets	Small caps	1,036	Sep-13
Arisaig	Africa		401	Sep-13
Investec	Africa		444	Sep-13
<b>Total</b>			<b>29,606</b>	

#### External management mandates, fixed income, 31 Dec 2013

Manager	Region	Focus	SEK m	Starting date
<b>Fixed income assets</b>				
Blackrock	USA	Investment Grade	3,851	Dec-99
Nordea (MacKay Shields)	USA	High Yield	3,260	Jun-12
Shenkman Capital	USA	High Yield	2,425	Jun-12
<b>Total</b>			<b>9,536</b>	

total exposure in the fixed income portfolio and with respect to the desired risk profile. The time horizon is long, which provides the opportunity to utilize the advantages in a way that a more short-term manager is not able or willing to do. Tactical analysis is used mainly to find market opportunities to implement the more long-term views for development.

During the year, the duration in the fixed income portfolio was reduced primarily through a decrease in the share of credits in the USA.

The Fund's portfolio for fixed income investments with high credit quality (investment grade) returned 1.0 percent (8.8), or SEK 0.7 billion (7,0) before expenses during 2013.

The Fund's investments in the so-called High Yield market, i.e. non-investment grade bonds and high direct yields, produced a return of 6.9 percent, of SEK 0.3 billion before expenses during 2013.

#### FOREIGN EXCHANGE

The Fund's currency exposure in developed markets during the year consisted of USD, EUR and GBP. At year-end 2013 the size of the Fund's exposure in developed markets was equal to 25.0 percent (21.3) of

the Fund's total net assets. The Fund's investments in emerging markets are not hedged. Exposure in emerging markets was equal to 4.2 percent (6.1) of the Fund's net assets.

Första AP-fonden's foreign exchange management works both operationally and strategically. The strategic focus is to create a composition of currencies that is deemed to be appropriate in the long term based on a fundamental valuation principle.

The operational focus consists partly of analysis of the maturity structure in the foreign currency futures book, and partly of daily risk monitoring.

During the period the Fund's currency exposure in developed markets generated a return of 0.20 percent (-0.44) in relation to the Fund's total net assets. For currencies in emerging markets, the corresponding figure was -0.65 per cent (0.40).

#### REAL ESTATE

The real estate market both in and outside Sweden showed positive development during the year. Första AP-fonden continued to implement the established strategy to increase the share of real estate investments both in Sweden and abroad.

#### Foreign exchange return

Currency	Return, %	
	2013	2012
Open currency position, developed countries	0.2	-0.4
Open currency position, emerging markets	-0.7	-0.4
<b>Total open currency position</b>	<b>-0.5</b>	<b>-0.8</b>
<b>Translation to SEK</b>	<b>-1.2</b>	<b>-2.9</b>
<b>Currency hedges</b>	<b>0.8</b>	<b>2.0</b>

#### Currency exposure, 31 Dec 2013

SEK m	USD	GBP	EUR	JPY	Others	Total
Shares and participations	69,617	6,238	15,886	3,383	28,232	123,356
Bonds and other fixed income securities	16,381	6,841	13,467	--	305	36,994
Other assets	1,274	49	427	22	341	2,113
Derivatives	-40,126	-9,847	-20,881	-5,222	-12,611	-88,687
<b>Total currency exposure</b>	<b>47,146</b>	<b>3,281</b>	<b>8,899</b>	<b>-1,816</b>	<b>16,267</b>	<b>73,776</b>
Currency exposure, 31 Dec 2012	33,603	1,197	13,995	-2,443	17,904	64,256
Currency exposure, 31 Dec 2011	21,013	2,698	6,515	-1,205	16,517	45,538

In its real estate investments, the Fund strives mainly for a continuous return from rents and invests only to a lesser degree in strategies where expected value appreciation is the key component.

Första AP-fonden's real estate investments consist mainly of the partly owned Vasakronan, which invests in properties in selected Swedish growth areas, the wholly owned real estate company Willhem, which invests in residential properties in Sweden, and the 50%-owned company Cityhold Property, which invests in commercial properties in a selection of major European cities.

The Fund also pursues other international real estate investments through investments in unlisted funds and real estate companies.

The market value of the Fund's real estate investments at 31 December 2013 was SEK 21.9 billion, equal to 8.8 percent of the total portfolio. The Fund's new investments in real estate during 2013 amounted to SEK 2.3 billion. In addition to this, agreements were signed to invest a further amount of approximately SEK 900 million.

In 2013 Första AP-fonden's real estate investments produced a return of 19.2 percent.

## HEDGE FUNDS

Första AP-fonden's hedge fund strategy is designed to dampen the impact of large price movements in the rest of the portfolio. Under normal circumstances, the hedge fund portfolio is uncorrelated with the other parts of the Fund's portfolio. It is also expected to be negatively correlated with the rest of the portfolio in the event of major downturns in the stock market.

The market value of the hedge fund portfolio at 31 December 2013 was SEK 12.4 billion, equal to 4.9 percent. The investments are placed in funds with a number of different hedge fund managers and are dominated by systematic hedge funds that trade in liquid futures contracts.

Första AP-fonden's total hedge fund portfolio returned 8.2 percent under 2013. During the year, the Fund made new investments for a total of SEK 1,695 million at the same time that the existing portfolio was adjusted somewhat. The hedge fund investments also include Cevian Capital II, a so-called activist fund that invests primarily in minority ownership positions in listed companies in Northern Europe.

### External management, real estate, 31 Dec. 2013

Investment	Manager	Focus	Starting date	Valuation, SEK m, 31 Dec 2013
AMP	AMP Capital Investors	Commercial properties, Australia	2013	461
ASE Holdings	Commercial Estates Group	Commercial properties, UK	2012	486
Aberdeen Asia	Aberdeen Asset Management	Real estate, Asia	2012	53
Aberdeen Europe	Aberdeen Asset Management	Real estate, Europe	2013	792
CB Richard Ellis	CB Richard Ellis Global Real Estate Securities	REITs, global	2010	1,369
CITIC	CITIC Capital China Retail Properties Management	Commercial properties, China	2013	117
Cityhold	Cityhold AB	Commercial properties, Europe	2011	1,406
Investa Property	Investa Property Group	Commercial properties, Australia	2012	486
Valad Polish Retail	Valad Poland	Commercial properties, Poland	2013	592
State Street REIT	State Street Global Advisors	REITs, global	2011	584
Vasakronan	Vasakronan AB	Commercial properties, Sweden	2003	10,010 <sup>1)</sup>
White Peak II	White Peak	Project properties, China	2012	73
Willhem	Willhem AB	Residential properties, Sweden	2011	5,480 <sup>1)</sup>
<b>Total real estate</b>				<b>21,909</b>

<sup>1)</sup> The value includes both shares and subordinated loans.

### RISK PARITY PORTFOLIO

In 2013 Första AP-fonden invested in a risk parity portfolio with the manager Bridgewater. The portfolio is managed so that the amounts of a number of macroeconomic risks are in parity with each other. In this way, the objective is to limit the effects of the macroeconomic risks without thereby missing the opportunities for return.

The value of the risk parity portfolio at year-end 2013 was SEK 9.5 billion, equal to 3.8 percent of the Fund's total net assets.

### PRIVATE EQUITY FUNDS

Första AP-fonden has invested globally in private equity funds since 2006 and continued to increase its exposure to this asset class during 2013. In 2013 commitments were made to transfer assets to 11 funds for a value of approximately SEK 3.6 billion. At year-end 2013 the investments in private equity funds amounted to SEK 8.4 billion, or 3.3 percent of Första AP-fonden's net assets.

In 2013 the Fund made six investments in the USA, three investments in Europe with managers who are all

based in London but each have a different investment focus, and one investment in Asia with an India-based manager.

A major investment was also made in a global co-investment fund, which invests directly in mid-sized companies (mid-caps), parallel to the underlying portfolio managers, at lower fees.

The portfolio continued to develop well in 2013, which resulted in substantial gains on company divestitures, market listings and refinancings. Development in the European investments remained somewhat more modest in 2013 as a result of weaker growth in several European economies and lower M&A activity.

Return on investments in private equity funds during 2013 amounted to 11.0 percent (9.3). In 2014 Första AP-fonden will continue to build up its exposure to private equity managers. At the same time, the portfolio will be concentrated among fewer managers. The goal is for private equity funds to make up 5 percent of Första AP-fonden's total net assets.

#### Management mandates, hedge funds, 31 Dec 2013

Investment	Manager	Focus	Starting date	Valuation, SEK m, 31 Dec 2013
AQR MRP Offshore	AQR Capital Management	Hedge/diversification	2012	742
Triangular	Blackstone Alternative Asset Management	Hedge/diversification	2012	8,376
LGT Hedge	LGT Capital Partners	Hedge/diversification	2012	2,333
Carve I	Carve Capital AB	Hedge/diversification	2013	226
Cevian Capital II	Cevian Capital	Activist fund, Europe	2006	722
<b>Total hedge funds</b>				<b>12,399</b>

#### Management mandates, private equity funds, 31 Dec 2013

Investment	Manager	Focus	Starting date	Valuation, SEK m, 31 Dec 2013
Stockholm Global Private Equity	Hamilton Lane Advisors	Global	2006	1,987
First Private Equity Investments	LGT Capital Partners	Europe and Asia	2006	3,385
WP North America Private Equity	WP Global Partners	North America	2006	2,934
InnKap Partners	InnovationsKapital Nordic Advisors	Venture capital, Nordic region	2004	65
<b>Total private equity funds</b>				<b>8,371</b>

## NEW INVESTMENTS

New investments include new types of investments for the Fund, such as agricultural properties, and investments made in response to a specific market situation.

In 2013 Första AP-fonden increased its investments in agricultural properties in Australia and New Zealand. The farms in Australia mainly produce grain, meat, wool and milk. In New Zealand, the operations are focused on milk production.

The intention is for these agricultural investments to produce a stable and secure long-term return and contribute as a complement to the rest of the portfolio through a differing return pattern.

Return on new investments in 2013 amounted to SEK 0.1 million, or 2.9 percent.

## SUSTAINABILITY ASPECTS IN THE ANALYSIS

Första AP-fonden is convinced that over time, companies with effective management of environmental issues, climate change and social issues have greater opportunities to create higher profits and reduce risks than others. It is therefore possible for the Fund to increase its long-term return and decrease risks by analyzing and integrating sustainability factors into our asset management.

In 2013 the Fund commissioned an analysis of the Fund's strengths and possible areas for development in the sustainability sphere. The analysis has provided a platform for the Fund's efforts to further develop integration of ESG aspects into the investment decisions.

Issuers with substantial ESG risks are systematically mapped and this is taken into account in the investment decisions. Discussions are also conducted with the Fund's external equity and bond managers regarding

### Management mandates, new investments, 31 Dec 2013

Investment	Manager	Focus	Starting date	Valuation, SEK m, 31 Dec 2013
Cerep loan	Unlisted loan	Fixed income, Sweden	2012	324
Edelweiss Special Opportunities	EW Special Opportunities Advisors	Mezzanine, India	2010	222
Oaktree Opportunities	Oaktree Capital Managemnet	Fixed income, USA	2010	192
SBAB Subordinated loan	Subordinated loan	Fixed income, Sweden	2010	424
First Australian Farmland	AAG Investment Management	Farmland, Australia	2012	502
Southern Pastures	Southern Pastures Management	Farmland, New Zealand	2012	455
Alternative Beta portfolio	Första AP-fonden	Risk premium	2013	485
<b>Total new investments</b>				<b>2,604</b>

## DAMAGES FROM BANK OF NEW YORK MELLON

On 8 November 2010, Första AP-fonden filed a lawsuit against Bank of New York Mellon (BNYM) with the Commercial Court in London. This action was taken in response to losses incurred by the Fund in 2008 as a result of investment decisions made by BNYM on the Fund's behalf in its capacity as the Fund's securities lending agent.

In 2013, lawsuit negotiations were held in the Commercial Court in London. In its decision, the court ruled in favour of Första AP-fonden on significant

points and the Fund was awarded damages from BNYM. The amount of damages, which also covers legal fees, was set at USD 30 million (SEK 195 million) and was paid to the Fund in the fourth quarter of 2013.

The damages had a positive impact on net investment income for 2013 of SEK 195 million, of which the bulk was recognized in net gains/losses on fixed income assets as a reversal of the original loss that was recognized in Första AP-fonden's net investment income for 2008.

how they take sustainability issues into consideration in their investment decisions. Mapping of and discussions about sustainability aspects with the Fund's managers of unlisted holdings, including agricultural investments and private equity companies, have also been started.

Over the course of a few years, Första AP-fonden has reduced the number of listed companies in the internally managed portfolio. During the general meeting season of 2013 there was opportunity for the Fund to take part in 35 annual general meetings and two extraordinary general meetings in Swedish companies. The Fund participated in all of these. The Fund's holdings in foreign companies are most often lower than in Swedish companies, but it is nonetheless important for the Fund to also influence its foreign holdings. Consequently, the Fund votes at foreign general meetings in close to 500 companies. How the Fund votes at both Swedish and foreign general meetings is determined based on the ownership policy that has been adopted by the Board. This can be found on the website [ap1.se](http://ap1.se). Here, it is also possible to see how the Fund has voted on different issues and read the ownership reports for 2013 and earlier years.

To influence foreign companies towards corporate responsibility with regard to social and environmental issues, the Fund collaborates since 2007 with the Second, Third and Fourth AP funds in the Ethical Council. The Ethical Council monitors and analyzes the AP funds' foreign portfolio holdings to discourage the companies from acting in breach of the international conventions ratified by Sweden. The Ethical Council also works proactively in order to urge companies to act more responsibly and thereby reduce the risk that they will violate international conventions. Among other things, the Ethical Council has participated in investor initiatives related to efforts to combat corruption, climate issues and sustainability aspects in the tobacco and telecom industries.

In 2013 Första AP-fonden made a decision to exclude four companies from its investment universe since the Ethical Council, despite several years of efforts, did not succeed in meeting the goals that had been set. The four companies are the retail chain Walmart Stores, the mining company Freeport McMoRan and the chemical producers Incitec Pivot and Potash.

## RETURN TARGET AND FINANCIAL RISK

The past five-year period has seen major changes in the global capital markets. At the same time, development in the Swedish income pension system has been weaker than previously forecasted. The conditions for Första AP-fonden to realize its mission in the pension system have thus been altered. Against this background, the Fund conducted a study in 2013 on how the conditions have changed and the scope for the Fund to achieve its mission. Based on the study, Första AP-fonden's Board of Directors drew a number of conclusions, among other things that:

- It is possible to attain the return that corresponds to the pension system's needs. To achieve this return over the coming ten-year period the Fund must increase its financial risk.
- It is possible to increase financial risk without decreasing the stability of the pension system.

At the same time, the Board reformulated the Fund's target to a return after expenses of 5.5 percent over a rolling ten-year period (previously a five-year period). Financial risk in the portfolio will be permitted to increase in the future by raising the equity portion of the overall asset allocation by five percentage points to 65 percent. Both of these changes have been implemented with effect from 2014.

# REMUNERATION

## REMUNERATION TO THE FUND'S EMPLOYEES

Första AP-fonden, together with the Second, Third, Fourth, Six and Seventh AP funds, has a joint policy for remuneration and employee benefits. It is published on ap1.se.

Första AP-fonden's Board of Directors has adopted a policy for remuneration to senior executives (published on ap1.se). The policy states that the total amount of remuneration should be fair and reasonable, balanced and characterized by moderation. Furthermore, the level of remuneration should be market-based and competitive with respect to the labour market where the executive works, but without being higher than the norm for comparable positions. The terms of remuneration to senior executives in Första AP-fonden are determined according to a well defined process that involves the Board of Directors and its remuneration committee. The auditors conduct reviews to ensure compliance with the Government's "Guidelines for terms of employment of senior executives in the AP funds".

In each of the past three years, the Fund's average salary increases have been low. They have averaged at 2.0 percent, which is lower than the corresponding increase for the comparable market and within the public administration sector. In 2013, Första AP-fonden has also completed its efforts to adapt employee benefits to harmonize with other government administrations.

Första AP-fonden complies with points (9.1 – 9.9) related to remuneration to senior executives in the Swedish Code of Corporate Governance.

## COMPARATIVE ANALYSIS FOR 2013

Every year, the Fund performs a comparison of remuneration levels with relevant parts of the labour market as a basis for monitoring compensation to the Fund's employees. The Fund differs from many other players in the financial industry in that it has no forms of variable salary.

The professional services company Towers Watson has regularly gathered comparative remuneration statistics, and did so also in 2013. Remuneration at Första AP-fonden has been compared with that for comparable positions at the other AP funds, some ten private asset managers and three public administrations, all active in the Swedish capital market. As a basis for the comparisons, each player in the study has prepared detailed job descriptions, assessed the relevant expertise and experience for each employee and reported individual salaries.

Compared to the other players in the study, remuneration to the Fund's employees is in some cases above the mean for the respective position. The Fund's remuneration lies within a range that can be regarded as market-based. Furthermore, the Board of Directors' analysis shows that there are different reasons why the Fund's remuneration is in certain cases higher than that in the comparison groups:

- Employees with cutting edge expertise: Första AP-fonden is a small and knowledge-intensive organization that has an explicit strategy to hire and retain employees with cutting edge expertise in specific areas.
- No variable salary: The Fund's employees are offered only fixed compensation. Many of the competencies sought by the Fund are offered variable salary by other employers. To attract and retain employees, the Fund therefore offers higher fixed salaries. The fact that Första AP-fonden does not pay variable salary when other players in the study do so creates difficulties in interpreting the statistics. In times when result-dependent variable salary is lower, Första AP-fonden's remuneration can therefore be higher than the average for comparable competencies. In times with high returns in the financial industry, the Fund's remuneration can instead be lower than the average for comparable competencies.



- **Historical salaries:** As a consequence of the strategy change and reorganization that were carried out in 2009, a number of employees were transferred to new positions at the same time that the number of managers was reduced. This has meant that a number of individuals have salaries that are high in relation to their current position.

#### **THE BOARD'S ASSESSMENT**

In 2013 the Board reviewed the remuneration structure and salary levels throughout the Fund and gathered comparative salary statistics. The Board's assessment is that the salary levels are market-based, competitive, reasonable and appropriate without being higher than the norm with regard to the CEO, senior executives and other employees. The Board has found that the Fund is in compliance with both the remuneration policy established by the Board and the Swedish Government's "Guidelines for terms of employment of senior executives in the AP funds".

A small number of employment contracts have a term of notice of more than six months. However, the Board has decided not to renegotiate these contracts since this would result in higher costs for the Fund without achieving any significant improvement in the contracts.

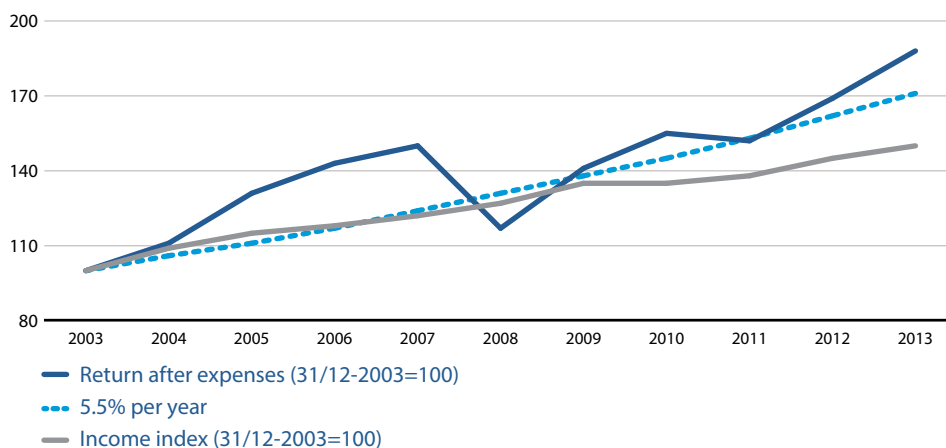
#### **REMUNERATION IN ASSOCIATED COMPANIES**

Första AP-fonden invests in various real estate markets via companies in which the Fund has a significant voting share (associated companies). At present, this includes Vasakronan, Cityhold Property and Willhem. These companies are subject to compliance with the Fund's ownership policy, which in addition to requirements for the Fund's portfolio companies also includes special rules for associated companies.

# TEN-YEAR OVERVIEW

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004	Annualized 2004–2013	Annualized 2009–2013
<b>Investment income and net flow, SEK bn</b>												
Net assets at 31 December	252.5	233.7	213.3	218.8	202.3	171.6	218.8	207.1	187.3	156.8		
Net flow to/from the pension system	-6.9	-3.8	-1.2	-4.0	-3.9	0.9	2.0	1.7	2.9	1.7		
Net investment income for the year	25.7	24.2	-4.2	20.5	34.6	-48.0	9.7	18.2	27.6	15.9		
<b>Return, expenses and risk, %</b>												
Return before expenses,	11.3	11.4	-1.7	10.3	20.4	-21.7	4.8	9.8	17.5	11.4	6.7	10.1
Operating expenses, annualized, % of AUM	0.07	0.08	0.07	0.08	0.10	0.09	0.08	0.08	0.08	0.09		
Commission costs, annualized, % of AUM	0.07	0.06	0.05	0.05	0.06	0.07	0.07	0.07	0.07	0.08		
Return after expenses	11.2	11.3	-1.9	10.2	20.2	-21.9	4.6	9.6	17.4	11.2	6.5	10.0
Risk (annualized standard deviation)	5.0	5.9	8.9	7.4	9.7	16.6	7.7	6.8	4.9	5.7		
Sharpe ratio	2.1	1.9	neg.	1.1	2.0	neg.	0.1	1.0	3.0	1.5		
<b>Return and expenses in total portfolio, SEK bn</b>												
Net investment income before expenses	26.0	24.3	-4.0	20.8	34.9	-47.7	9.8	18.4	27.7	16.0		
Total expenses	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.2		
<b>Exposure, %</b>												
Equities	49.2	47.4	49.2	60.3	58.6	54.6	59.2	59.8	58.6	58.9		
Fixed income	29.7	36.4	40.9	32.5	34.7	40.1	39.2	37.8	34.3	38.0		
Real estate	8.8	7.7	5.6	5.0	3.4	4.0	2.3	2.5	2.3	2.1		
Hedge funds	4.9	4.3	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0		
Private equity funds	3.3	3.2	2.8	2.0	1.7	1.4	0.7	0.0	0.0	0.0		
Risk parity portfolio	3.8	-	-	-	-	-	-	-	-	-		
New investments	1.0	0.7	0.6	0.7	0.0	-	-	-	-	-		
Foreign exchange	29.2	27.4	21.3	24.0	21.6	22.2	18.2	16.0	20.5	20.9		
<b>External management, %</b>												
Share of total portfolio at 31 December	37.1	39.3	41.4	43.7	42.4	39.7	36.0	34.2	37.7	24.0		

## Cumulative return after expenses, income index





# INCOME STATEMENT

SEK m	Note	2013	2012
<b>Operating income</b>			
Net interest income	1	3,063	4,893
Dividends received		3,451	3,126
Net gains/losses, listed shares and participations	2	16,635	13,650
Net gains/losses, unlisted shares and participations	3	4,405	1,607
Net gains/losses, fixed income assets		-2,171	4,529
Net gains/losses, derivative instruments		1,462	-1,094
Net gains/losses, foreign exchange movements		-811	-2,219
Other operating income		3	
Commission costs	4	-189	-145
<b>Total operating income</b>		<b>25,848</b>	<b>24,347</b>
<b>Operating expenses</b>			
Personnel costs	5	-110	-106
Other administrative expenses	6	-51	-71
<b>Total operating expenses</b>		<b>-161</b>	<b>-177</b>
<b>Net investment income for the year</b>		<b>25,687</b>	<b>24,170</b>

# BALANCE SHEET

SEK m	Note	2013-12-31	2012-12-31
<b>Assets</b>			
Shares and participations, listed	7	119,599	109,403
Shares and participations, unlisted	8	45,007	27,254
Bonds and other fixed income assets	9	82,327	92,359
Derivatives	10	1,926	2,480
Cash and bank balances		2,921	1,268
Other assets	11	984	551
Prepaid expenses and accrued income	12	891	1,035
<b>Total assets</b>		<b>253,655</b>	<b>234,350</b>
<b>Liabilities</b>			
Derivatives	10	241	201
Other liabilities	13	868	405
Accrued expenses and deferred income	14	39	44
<b>Total liabilities</b>		<b>1,148</b>	<b>650</b>
<b>Net assets</b>			
Opening net assets	15	233,700	213,318
Net flow to/from the pension system		-6,880	-3,788
<b>Net investment income for the year</b>		<b>25,687</b>	<b>24,170</b>
<b>Total net assets</b>		<b>252,507</b>	<b>233,700</b>
<b>Total net assets and liabilities</b>		<b>253,655</b>	<b>234,350</b>
Memorandum items	16	12,174	9,880

# NOTES

Första AP-fonden, corporate identity number 802005-7538, is one of the buffer funds in the Swedish pension system and is domiciled in Stockholm. The annual report for the financial year 2013 was approved by the Board of Directors on 19 February 2014. The income statement and balance sheet are subject to adoption by the Swedish Government.

## ACCOUNTING AND VALUATION POLICIES

The Swedish National Pension Funds Act (2000:192) states that the annual report shall be prepared in compliance with generally accepted accounting principles, whereby the assets in which the Fund's invests shall be stated at fair market value. Against this background, the First to Fourth AP funds (AP1, AP2, AP3, AP4) have developed joint accounting and valuation policies which have been applied and are summarized below. The accounting and valuation policies are unchanged compared to the preceding year. Regarding oversight in determining the fair value of unlisted real estate shares, see below in the section on unlisted shares and participations.

The funds' accounting and valuation policies are being successively adapted to International Financial Reporting Standards, IFRS. Because IFRS is undergoing extensive revisions, the adaptations so far have been focused on meeting the disclosure requirements in IFRS 7 and IFRS 13. Complete adaptation to IFRS would have no significant impact on the reported net investment income and net assets. Compared to the currently applicable IFRSs, the only major difference is that consolidated financial statements and cash flow statements are not prepared.

### TRADE DATE ACCOUNTING

Transactions in securities and derivative instruments in the money, bond, equity and foreign exchange markets are recognized in the balance sheet on the trade date, i.e. the date on which the rights and risks of ownership are substantially transferred between the parties. The receivable from or liability to the counterparty between the transaction date and settlement date is recognized in "other assets" or "other liabilities". Other transactions, above all those relating to unlisted shares, are recognized in the balance sheet on the settlement date, which is consistent with market practice.

### NET ACCOUNTING

Net accounting is applied for outgoing payments, repo transactions and derivative instruments when there is a substantive right of set-off of assets and liabilities and when the intention is to settle these simultaneously.

### TRANSLATION OF FOREIGN CURRENCY

Transactions in foreign currencies are translated to SEK at the exchange rate ruling on the transaction date. In the balance sheet, assets and liabilities in foreign currencies are translated to SEK at the closing day rates of exchange.

Changes in the value of foreign currency assets and liabilities are divided between those attributable to the

change in the value of the asset in local currency and those caused by fluctuations in the exchange rate. Foreign exchange effects arising from changes in foreign exchange rates are recognized in the income statement on the line “Net gains/losses, foreign exchange movements”.

### SHARES IN SUBSIDIARIES/ASSOCIATED COMPANIES

In accordance with the Swedish National Pension Funds Act, shares in subsidiaries and associated companies are stated at fair value. Fair value is determined according to the same methods applied for unlisted shares and participations. There is no obligation to prepare consolidated financial statements.

### VALUATION OF FINANCIAL INSTRUMENTS

All of the Fund's investments are stated at fair value, and both realized and unrealized changes in value are recognized in the income statement. Consequently, the lines for net gains/losses per asset class include both realized and unrealized gains/losses. A description of how the fair values of the Fund's various investments are determined is provided below.

#### LISTED SHARES AND PARTICIPATIONS

For shares and participations that are listed on a regulated market or trading platform, fair value is determined based on the quoted market prices on the balance sheet date according to the Fund's designated index supplier (MSCI, Six, Russel), most often the average price. Holdings that are not part of an index are valued at quoted prices observable in an active market. Paid brokerage commissions are recognized in net gains/losses on listed shares and participations.

#### UNLISTED SHARES AND PARTICIPATIONS

For shares and participations that are not listed on a regulated market or trading platform, fair value is determined based on the valuation provided by the counterparty or another external party. This value is updated when a new valuation has been obtained and is adjusted for any cash flows up to the closing day of the

period. In cases where the Fund has reasonable grounds to consider the valuation incorrect, the received valuation is adjusted.

This valuation complies with International Private Equity and Venture Capital Valuation Guidelines (IPEV) or similar valuation principles and should be primarily based on arm's length transactions, although other valuation methods can be used.

Unlisted real estate shares are valued according to the net asset value method to the extent that the share is not subject to transactions in a second-hand market. Development of a method for valuation of holdings in unlisted real estate companies has taken place in order to ensure measurement at fair value. As of 2013, deferred tax liabilities are thus taken up at a value that is used in real estate transactions, which differs from the valuation that is made in the financial statements of the real estate companies. The changed method for calculating fair value has affected net investment income for the year, see further in Note 3, Net gains losses, unlisted shares and participations.

#### BONDS AND OTHER FIXED INCOME ASSETS

For bonds and other fixed income assets, fair value is determined based on the quoted market prices on the balance sheet date (most often the bid price) according to the Fund's designated index supplier (Barclays, SEB). Holdings that are not part of an index are valued at quoted prices observable in an active market. For an instrument that is not quoted in an active market and for which no reliable market prices are available, the instrument is valued with the help of generally accepted valuation methods in which cash flows are discounted according to the applicable yield curve.

Interest income is recognized as interest calculated according to the effective interest rate method based on amortized cost. Amortized cost is the net present value of future payments, where the discount rate is the effective rate of interest on the acquisition date. This means that acquired premiums and discounts are accrued over the remaining maturity or until the next interest conversion date and are included in recognized interest income.

#### DERIVATIVE INSTRUMENTS

For derivative instruments, fair value is determined based on quoted market prices at the end of the year. For an instrument that is not traded in an active market and for which no reliable market prices are available, the value of the instrument is established by using a generally accepted valuation method based solely on observable market inputs.

Derivative positions with a positive fair value on the balance sheet date are taken up as assets, while positions with a negative fair value are taken up as liabilities. The difference between the spot and forward rates for futures contracts accrues on a straight-line basis over the maturity period and is recognized as interest.

#### REPO TRANSACTIONS

In a true repo (repurchase) transaction, the sold asset remains in the balance sheet and the proceeds received are recognized as a liability. The divested security is reported in the balance sheet as a pledged asset under memorandum items. The cash value difference between the spot and forward legs is accrued over the maturity of the security and is recognized in interest.

#### SECURITIES LENDING

Securities on loan are stated in the balance sheet at fair value, while compensation received for securities on loan is recognized in interest income in the income statement. Collateral received for securities on loan consists of securities and/or cash. In cases where Första AP-fonden has a right of disposal over the received collateral, this is recognized in the balance sheet as an asset and a corresponding liability. In other cases, the collateral received is not recognized in the balance sheet but is stated separately under the heading "Pledged assets, contingent liabilities and obligations". The value of securities on loan, as well as collateral for these, are also recognized under this note.

#### ITEMS RECOGNIZED DIRECTLY IN NET ASSETS

Contributions to and from the national pension system are recognized directly in the Fund's net assets.

#### COMMISSION COSTS

Commission costs are recognized in the income statement as deduction from operating income. These consist of direct transaction costs such as custodian bank fees and fixed fees to external managers, as well as fixed fees for listed funds. Performance-based fees, which are payable only if the manager delivers returns over a predetermined level and where profit-sharing is applied, are recognized as a deduction from net investment income for the respective asset class in the income statement.

Management fees paid for unlisted shares and participations, for which a refund is permitted before profit-sharing and where a refund is deemed probable, are recognized in historical cost and are therefore included in unrealized gains/losses. In other cases, they are reported as commission costs.

#### OPERATING EXPENSES

All administrative expenses, excluding brokerage fees, fees to external managers and custodian bank fees, are recognized in operating expenses. Investments in equipment and software developed or acquired by the Fund are normally expensed as incurred.

#### INCOME TAXES

Första AP-fonden is exempt from all income tax on domestic investments in Sweden.

The dividend and coupon taxes imposed in certain countries are recognized net in the income statement under the respective income item.

With effect from 2012 the Fund is registered for value added tax and is therefore liable for VAT on acquisitions from outside Sweden. The Fund does not have the right to recover paid VAT. Expensed VAT is included in the respective cost item.

## Note 1 – Net interest income

SEK m	2013	2012
<b>Interest income</b>		
Bonds and other fixed income securities	2,484	3,417
Derivatives	733	1,693
Other interest income	10	14
<b>Total interest income</b>	<b>3,227</b>	<b>5,124</b>
<b>Interest expenses</b>		
Derivatives	-164	-231
Other interest expenses	0	0
<b>Total interest expenses</b>	<b>-164</b>	<b>-231</b>
<b>Net interest income</b>	<b>3,063</b>	<b>4,893</b>

## Note 2 – Net gains/losses, listed shares and participations

SEK m	2013	2012
Investment gains/losses	16,696	13,712
Less brokerage commissions	-61	-62
<b>Total</b>	<b>16,635</b>	<b>13,650</b>

## Note 3 – Net gains/losses, unlisted shares and participations

SEK m	2013	2012
Capital gains/losses	986	29
Unrealized value changes	3,419	1,578
<b>Total</b>	<b>4,405</b>	<b>1,607</b>

Development of a method for valuation of holdings in unlisted real estate companies has taken place in order to ensure measurement at fair value. As of 2013, deferred tax liabilities are thus taken up at a value that is used in real estate transactions, which differs from the valuation that is made in the balance sheets of the real estate companies. The changed method for calculating fair value has affected net investment income for the year by SEK 1,175 million, of which SEK 850 million refers to earlier years. The value change is primarily attributable to the Fund's holding in Vasakronan.

## Note 4 – Commission costs

SEK m	2013	2012
External management fees, listed assets	-104	-103
External management fees, unlisted assets	-70	-29
Other commission costs, incl. custodian bank fees	-15	-13
<b>Total</b>	<b>-189</b>	<b>-145</b>

Commission costs do not include performance-based fees. In 2013 these amounted to SEK 46 million (25) and are deducted from net investment income for the asset under management.

External management fees for unlisted assets are recognized as commission costs to the extent that the agreements do not permit a refund before profit-sharing in connection with future profit-generating disposals. In 2013, SEK 87 million (37) was recognized as part of the historical cost of assets.



## Note 5 – Employees

No. of employees	2013			2012		
	Total	Men	Women	Total	Men	Women
Average number of employees	49	36	13	46	35	11
Number of employees at 31 December <sup>1)</sup>	52	38	14	47	35	12
Number of persons on executive management team at 31 December	6	5	1	6	5	1

<sup>1)</sup> At year-end 2013, two individuals were employed on a project basis.

Personnel costs in SEK thousands, 2013	Salaries and remuneration	Pension costs	Of which, salary exchange	Social security expense <sup>2)</sup>	Total
Board Chairman	113			36	149
Other Board members (8 people)	508			154	662
CEO	2,724	2,387	1,260	1,435	6,546
<b>Executive management team, excl. CEO</b>					
Chief Strategist	2,494	676	80	948	4,118
Head of Communication and ESG	1,607	640	13	660	2,907
Administrative Manager	1,531	1,405	252	822	3,758
Head of External Management and AI	2,552	819	302	1,001	4,372
Head of HR	1,320	600	63	560	2,480
Other employees	46,434	17,590	2,041	18,683	82,707
<b>Total</b>	<b>59,283</b>	<b>24,117</b>	<b>4,011</b>	<b>24,299</b>	<b>107,699</b>
Other personnel costs					2,065
<b>Total personnel costs</b>					<b>109,764</b>

Personnel costs in SEK thousands, 2012	Salaries and remuneration	Pension costs	Of which, salary exchange	Social security expense <sup>2)</sup>	Total
Board Chairman	113			35	148
Other Board members (8 people)	511			148	659
CEO	2,639	2,381	1,200	1,408	6,428
<b>Executive management team, excl. CEO</b>					
Chief Strategist	2,545	539		931	4,015
Head of Communication and ESG	1,535	621	12	635	2,791
Administrative Manager	1,502	1,214	240	770	3,486
Head of External Management and AI	2,641	757	288	1,015	4,413
Head of HR	1,172	695	180	538	2,405
Other employees	44,589	17,128	1,518	17,948	79,665
<b>Total</b>	<b>57,247</b>	<b>23,335</b>	<b>3,438</b>	<b>23,428</b>	<b>104,010</b>
Other personnel costs					2,442
<b>Total personnel costs</b>					<b>106,452</b>

<sup>2)</sup> The stated pension cost also includes the cost of payroll tax.

Första AP-fonden follows the Swedish Government's guidelines for remuneration to senior executives and other employees.

### SALARIES AND OTHER BENEFITS

The Swedish Government determines the amount fees to be paid to the members of the Board. The fund management report provides information about fees and attendance for each Board member. The Board of Directors determines the terms of employment for the CEO, following consultation with the remuneration committee. The terms of employment for the Fund senior executives is determined by the CEO following consultation with the remuneration committee. All employees have individualized employment contracts. In the event of termination on the part of the employer, the term of notice for the CEO is 18 months. For the members of the executive management team and other employees it is between 3 and 12 months.

### VARIABLE REMUNERATION

Since 1 January 2010, Första AP-fonden has no system for variable remuneration.

### PENSIONS AND SIMILAR BENEFITS

The employment contract of the Managing Director includes an obligation for the Fund to pay pension premiums equal to 30 percent of salary. For that portion granting entitlement under the national pension scheme, the pension premium is reduced to 11.5 percent. As of 1 February 2013, Första AP-fonden has switched to a defined contribution pension plan, BTP1, for newly hired employees. The pension agreement has been signed and agreed on between the parties. This means that the Fund has two plans for occupational pension, BTP1, which is a defined contribution plan, and BTP2, which is a defined benefit plan.

All employees have the option of participating in a salary exchange scheme in which gross salary is exchanged for pension premiums. The pension premium is then adjusted upward by 5 percent, which corresponds to the difference between payroll tax and social security fees. The premium exchange is therefore cost neutral for the Fund. In 2013 the Fund completed its efforts to adapt employee benefits to harmonize with other government administrations and agencies. Other benefits are taxable and amount to smaller values.

## Note 6 – Other administrative expenses

SEK th	2013	2012
Costs for premises <sup>1)</sup>	-10,559	-10,876
Purchased services	-11,439	-29,214
Information and data expenses	-21,914	-24,162
Other administrative expenses	-6,911	-6,759
<b>Total</b>	<b>-50,823</b>	<b>-71,011</b>
<i>The stated amount for purchased services includes remuneration to auditors according to the following breakdown:</i>		
<b>EY</b>		
Audit services	-1,261	-930
Audit services outside the scope of the audit	-312	-162
Non-audit services <sup>2)</sup>	-584	-941
	<b>-2,157</b>	<b>-2,033</b>
<b>KPMG</b>		
Non-audit services <sup>3)</sup>	-155	-227

<sup>1)</sup> Första AP-fonden rents office premises from Vasakronan AB on market-based terms.

<sup>2)</sup> Advisory services for corporate structure, real estate and private equity investments, as well as tax advisory services for private equity investments.

<sup>3)</sup> Advisory services and handling of repayment of withholding tax in the EU.

## Note 7 – Shares and participations, listed

Shares and participations, listed, SEK m	Dec. 31, 2013 Fair value	Dec. 31, 2012 Fair value
Equities, Swedish	28,355	24,697
Equities, non-Swedish	75,584	69,695
Participations in Swedish funds	-	-
Participations in non-Swedish funds	15,660	15,011
<b>Total</b>	<b>119,599</b>	<b>109,403</b>

At December 31, 2013, Första AP-fonden had shares on loan for a value of SEK 363 million. As collateral, government bonds for a value of SEK 383 million have been received. The market value of the loaned position and collateral is calculated daily. The collateral should amount to between 102 and 105 percent.

Cont'd, Note 7 – Shares and participations, listed

Five largest Swedish equity holdings, SEK m	Number	Fair value
Hennes & Mauritz B	12,559,370	3,720
Nordea Bank	34,589,693	2,997
Atlas Copco A+ B	12,615,355	2,167
Swedbank	11,883,469	2,151
Volvo B	23,478,222	1,983
<b>Total</b>		<b>13,018</b>

Five largest non-Swedish equity holdings, SEK m	Number	Fair value
ABB AG	5,504,458	936
Samsung Electronics Co	142,904	661
Novartis	1,180,403	607
KDDI	1,532,600	606
Taiwan Semiconductor	11,393,118	588
<b>Total</b>		<b>3,398</b>

A complete register of all listed holdings at 30 June and 31 December 2013 can be found on Första AP-fonden's website [ap1.se](http://ap1.se)

## Note 8 – Shares and participations, unlisted

Shares and participations, unlisted, SEK m	Dec. 31, 2013 Fair value	Dec. 31, 2012 Fair value
Swedish unlisted shares and participations: subsidiaries and associated companies	11,010	8,201
Non-Swedish unlisted shares and participations: subsidiaries and associated companies	466	410
Other unlisted shares and participations	33,531	18,643
<b>Total</b>	<b>45,007</b>	<b>27,254</b>

### Swedish shares and participations, subsidiaries and associated companies

SEK m	Domicile	CIN	Number	% of capital/votes <sup>1)</sup>	Fair value
Vasakronan Holding AB	Stockholm	556650-4196	1,000,000	25%	7,010
Cityhold Property AB	Stockholm	556845-8631	2,820,342	50%	1,406
Willhem AB	Gothenburg	556797-1295	100,000	100%	2,594
<b>Total</b>					<b>11,010</b>

### Non-Swedish shares and participations, subsidiaries and associated companies

SEK m	Domicile	CIN	Number	% of capital/votes <sup>1)</sup>	Fair value
First Australian Farmland Pty Ltd	Australia	155 718 013	15,000,000	100%	197
ASE Holdings S.à.r.l	Luxembourg	B 169327	37,780	38%	269
<b>Total</b>					<b>466</b>

<sup>1)</sup> The holdings are divided only when they differ from each other.

Other unlisted shares and participations	Domicile	CIN	Holding	Historical cost, SEK m
Innkap 3 Partners Sweden KB	Gothenburg	969673-0333	11	27
Carve 1	Stockholm			200
Aberdeen Asia III Property Fund of Funds	Luxembourg		38	59
Aberdeen European Secondaries Fund of Funds	Luxembourg		49	794
AMP Capital Shopping Centre Fund	Sydney		0	514
AQR MRP Offshore Fund L.P.	Cayman Islands		100	628
Bridgewater Tailored All Weather Fund L.P.	Cayman Islands		100	9,630
Cevian Capital II, Ltd	Cayman Islands		1	369
CITIC Capital China Retail Properties Investment L.P.	Cayman Islands		11	128
EDW Special Opportunities India LLC	Mauritius		17	249
First Hedge Investments I L.P.	Guernsey		100	2,263
FIRST II Private Equity Investments, L.P. Inc	Guernsey		100	1,034
FIRST Private Equity Invstments, L.P. Inc	Guernsey		99	1,963
First Stockholm Global Private Equity, L.P.	USA		100	187
Fourth Stockholm Global Private Equity L.P.	Delaware, USA		100	248
Innkap 3 AnnexePartners, L.P.	Guernsey		11	3
Innkap 4 Partners L.P.	Guernsey		11	46
Investa Commercial Property Fund	Australia		6	565
Valad Polish Retail Sarl	Luxembourg		24	514
Second Stockholm Global Private Equity L.P.	USA		99	1,100
Southern Pastures L.P.	New Zealand		99	444
Third Stockholm Global Private Equity L.P.	USA		99	397
Triangular Fund L.P.	Cayman Islands		100	8,477
Whitepeak Real Estate II L.P.	Jersey		26	88
WP North America Private Equity II L.P.	USA		99	886
WP North America Private Equity L.P.	USA		99	1,664
<b>Total</b>				<b>32,477</b>
<b>Total fair value of unlisted shares and participations</b>				<b>33,531</b>

## Note 9 – Bonds and other fixed income assets

SEK m	31 Dec. 2013 Fair value	31 Dec. 2012 Fair value
<b>Breakdown by type of issuer</b>		
Swedish state	9,847	5,668
Swedish municipalities	274	
Swedish mortgage institutions	8,220	9,126
<i>Other Swedish companies</i>		
Financial companies	9,705	10,917
Non-financial companies	13,285	15,747
Foreign states	22,818	28,380
Other foreign issuers	18,178	22,520
<b>Total</b>	<b>82,327</b>	<b>92,358</b>

Cont'd, Note 9 – Bonds and other fixed income assets

SEK m	31 Dec. 2013 Fair value	31 Dec. 2012 Fair value
<b>Breakdown by type of instrument</b>		
Index-linked bonds	20,675	19,421
Other bonds	46,369	56,204
Treasury bills		
Commercial paper		
Other instruments	15,283	16,733
<b>Total</b>	<b>82,327</b>	<b>92,358</b>

## Note 10 – Derivatives

	2013-31 Dec. 2013-31		31 Dec. 2012	
	Nominal amount	Fair value	Nominal amount	Fair value
<b>Derivatives with positive fair values</b>				
Currency futures	71,243	1,891	90,057	2,437
Interest futures	36,557	-	44,179	0
Equity futures	5,967	2	2,437	3
Swaps	1	1	39	7
<i>Equity options</i>				
– Held, put	133	6	187	33
– Held, call	885	26	-	0
<b>Total</b>	<b>114,786</b>	<b>1,926</b>	<b>136,899</b>	<b>2,480</b>
Of which, cleared	43,179		46,616	
<b>Derivatives with negative fair values</b>				
Currency futures	13,918	161	4,732	99
Interest futures	1,866	-	6,710	0
Equity futures	1,529	-	740	0
Swaps	8	8	1	0
<i>Equity options</i>				
– Issued, put	186	26	501	36
– Issued, call	1,229	46	989	66
<b>Total</b>	<b>18,736</b>	<b>241</b>	<b>13,673</b>	<b>201</b>
Of which, cleared	3,395		7,450	

No derivative position with a negative fair value has a time to maturity of more than 12 months.

## Note 11 – Other assets

SEK m	2013	2012
Incoming payments, unsettled transactions	890	261
Receivables from foreign tax authorities	90	66
Other assets	4	224
<b>Total</b>	<b>984</b>	<b>551</b>

### Note 12 – Deferred expenses and accrued income

SEK m	2013	2012
Accrued interest income	802	915
Accrued dividends	80	109
Other deferred expenses and accrued income	9	11
<b>Total</b>	<b>891</b>	<b>1 035</b>

### Note 13 – Other liabilities

SEK m	2013	2012
Outgoing payments, unsettled transactions	852	168
Other liabilities	16	237
<b>Total</b>	<b>868</b>	<b>405</b>

### Note 14 – Deferred income and accrued expenses

SEK m	2013	2012
Accrued performance-based fees	0	0
Accrued management fees	26	27
Other accrued expenses	13	17
<b>Total</b>	<b>39</b>	<b>44</b>

### Note 15 – Net assets

SEK m	2013	2012
Opening net assets	<b>233,700</b>	<b>213,318</b>
<i>Net flow to/from from the pension system:</i>		
Incoming pension contributions	56,839	55,441
Outgoing pension disbursements	-63,490	-59,005
Transfer of pension entitlements to the EU	-2	-5
Settlement of pension entitlements	3	1
Outgoing administrative contribution to the Swedish Pensions Agency	-230	-220
<b>Total net outflow to the pension system</b>	<b>-6,880</b>	<b>-3,788</b>
Net investment income for the year	25,687	24,170
<b>Closing net assets</b>	<b>252,507</b>	<b>233,700</b>

## Note 16 – Memorandum items

SEK m	2013	2012
<b>Pledged assets and equivalent collateral</b>	<b>inga</b>	<b>inga</b>
Securities on loan against other collateral <sup>1)</sup>	363	24
Collateral furnished for futures transactions	1,678	2,137
Collateral furnished for OTC transactions <sup>2)</sup>	136	
<b>Other pledged assets and equivalent collateral</b>	<b>2,177</b>	<b>2,161</b>
Investment commitments, unlisted holdings	9,997	7,719
<b>Commitments</b>	<b>9,997</b>	<b>7,719</b>
<b>Total memorandum items</b>	<b>12,174</b>	<b>9,880</b>
<sup>1)</sup> Collateral received for securities on loan	383	26
<sup>2)</sup> Collateral received for OTC transactions	161	

## Note 17 – Financial instruments, price and valuation hierarchy

The tables below provide disclosures about how fair value is determined for the financial instruments used by the Fund. The AP funds' accounting and valuation policies are in accordance with International Financial Reporting Standards (IFRS). The objective is to present information about the fair values of financial assets and liabilities and to ensure transparency and comparability between different entities. This means that the disclosures about valuation of assets and liabilities in the balance sheet depend whether these are traded on an active or inactive market and whether quoted prices are available at the time of valuation.

### VALUATION OF THE FUND'S NET ASSETS – MARKET LISTED ASSETS

The majority of the Fund's assets are market listed, which means that they are traded on an active market at rates that represent actual and regularly occurring market transactions. The Fund's market listed assets are valued daily at their quoted market rates and consist of equities, bonds, derivatives and foreign exchange (FX).

For so-called OTC derivatives, the valuation is based on either theoretical modeling or on a valuation from an external party. For the Fund's holdings of currency futures the valuation is based on a theoretical modeling, where the model's subjective aspect at present consists exclusively of the choice of yield curve and the methods for calculating and forecasting future values (interpolation and extrapolation). The same methods are applied for deposits, short-dated commercial paper and similar instruments. For other OTC derivatives, the valuation is made exclusively by an external party as a comparison to the Fund's own valuations.

In periods when the market lacks liquidity for market listed paper, a higher degree of subjectivity is required in the valuation process. At such times, the market exhibits sharply increased gaps between bid and ask prices, which can also differ markedly between market players. At times like these, the Fund adopts a conservative approach to valuation.

### VALUATION OF NET ASSETS – ALTERNATIVE INVESTMENTS

For assets that are not valued in an active market, different valuation techniques are applied to determine fair value. Fair value is defined as the price that would be received or paid in an orderly transaction between two independent market participants. Första AP-fonden's unlisted investments consist of investments in hedge funds, risk parity funds, private equity funds, real estate companies and real estate funds.

Investments in unlisted hedge funds and risk parity funds are normally valued at one a month delay. These funds invest primarily in market listed securities. Valuation of fund participations is based on the same principles as for market listed assets.

Investments in private equity funds are valued according to the IPEV (International Private Equity and Venture Capital Guidelines) or similar principles. According to IPEV, the valuation can be based on completed transactions, market multiples in valuation, the value of net assets or discounting of future cash flows. Valuation of the Fund's investments in private equity funds is based on the most recent available reporting. Since reporting from private

equity funds is received at a delay, the Fund's annual accounts are generally based on reporting at 30 September 2013 adjusted for the time thereafter and up to the closing date. In a situation with rising long-term returns in the equity markets, this means that the Fund has a lower valuation in the annual accounts than that which is later reported by the private equity fund manager.

Investments in real estate companies are valued in accordance with IFRS and industry practice as established in IPD's recommendations. The valuation is based on discounting of future rental income, operating expenses and sales prices with market-based return requirements. With regard to valuation of deferred tax in a real estate company, this is measured at fair value, i.e. a discounting of future tax effects by an interest rate that is relevant for the individual company. Investments in real estate companies are valued according to recommendations from industry organizations such as INREV.

### FAIR VALUE

The fair value of a financial instrument is defined as the amount for which an asset or a liability could be exchanged between knowledgeable and willing parties in an arm's length transaction. Depending on which market inputs are available for valuation of financial instruments, these are divided into a hierarchy of three levels:

- *Level 1:* A financial instrument belongs to level 1 if there are quoted prices in active markets for identical assets and liabilities.
- *Level 2:* Financial instruments that do not belong to level 1 instead belong to level 2 if there are quoted prices in inactive markets or if the value can be estimated using quoted prices.
- *Level 3:* Instruments belong to level 3 if they cannot be included in level 1 or level 2. In these cases, no observable market inputs can be used for valuation.

Valuations are based on information with consideration to the circumstances, and may require a significant element of estimation from the Fund's management.

### ACTIVE MARKET

An active market is one in which quoted prices are readily and regularly available from an exchange, a trader or similar and where transactions are priced at market rates. It is virtually only equities for listed companies, currencies and fixed income securities issued by national and municipal governments, banks or major corporations that are traded on an active market and can thus be included in level 1. However, the fact that a financial instrument is traded on an active market is not sufficient for the instrument to be classified at level 1. For example, currency derivatives are traded on very active markets, but are classified at level 2 since the value must be estimated based on quoted prices for other instruments.

### INACTIVE MARKET

An inactive market is characterized by a low trading volume and a much lower level of trading activity than an active market. Available prices vary dramatically over time or between market participants. In many cases, the prices are not current.

Financial assets, closing balance, 31 Dec. 2013	Level 1, SEK m	Level 2, SEK m	Level 3, SEK m	Total
Shares and participations, listed	119,599	-	-	119,599
Shares and participations, unlisted	-	722	44,285	45,007
Bonds and other fixed income assets	72,527	2,472	7,328	82,327
Derivatives	-	1,926	-	1,926
<b>Total assets valued at</b>	<b>192,126</b>	<b>5,120</b>	<b>51,613</b>	<b>248,859</b>
<b>Financial liabilities</b>				
Derivatives	-	-241	-	-241
<b>Total liabilities value at</b>	<b>-</b>	<b>-241</b>	<b>-</b>	<b>-241</b>
<b>Financial assets and liabilities</b>	<b>192,126</b>	<b>4,879</b>	<b>51,613</b>	<b>248,618</b>



Cont'd, Note 17 – Financial instruments, price and valuation hierarchy

<b>Financial assets, closing balance, 31 Dec. 2013</b>	<b>Level 1, SEK m</b>	<b>Level 2, SEK m</b>	<b>Level 3, SEK m</b>	<b>Total</b>
Shares and participations, listed	109,403	0	0	109,403
Shares and participations, unlisted	0	604	26,650	27,254
Bonds and other fixed income assets	83,607	1,097	7,655	92,359
Derivatives	0	2,480	0	2,480
<b>Total assets valued at</b>	<b>193,010</b>	<b>4,181</b>	<b>34,305</b>	<b>231,496</b>
<b>Financial liabilities</b>				
Derivatives	0	-201	0	-201
<b>Total liabilities valued at</b>	<b>0</b>	<b>-201</b>	<b>0</b>	<b>-201</b>
<b>Financial assets and liabilities</b>	<b>193,010</b>	<b>3,980</b>	<b>34,305</b>	<b>231,295</b>

<b>Changes in level 3, SEK m</b>	<b>2013</b>	<b>2012</b>
<b>Shares and participations, unlisted, opening balance</b>	<b>26,650</b>	<b>10,836</b>
buy	14,429	15,617
sell	-424	-255
Change in value	3,630	452
<b>Change in shares and participations, unlisted</b>	<b>17,635</b>	<b>15,814</b>
<b>Shares and participations, unlisted, closing balance</b>	<b>44,285</b>	<b>26,650</b>
<b>Bonds and other fixed income assets, opening balance</b>	<b>7,655</b>	<b>6,492</b>
buy	440	2,033
sell	-780	-795
Change in value	13	-75
<b>Change in bonds and other fixed income assets</b>	<b>-327</b>	<b>1,163</b>
<b>Bonds and other fixed income assets, closing balance</b>	<b>7,328</b>	<b>7,655</b>
<b>Total change in level 3</b>	<b>17,308</b>	<b>16,977</b>

Of the above reported change in value, 99% (98%) was unrealized on the balance sheet date.

No reclassification between levels 1, 2 and 3 took place during the year.

The Fund has the majority of its investments at level 1 where the valuations are obtained from independent and well reputed valuation sources.

## RISK PROFILES

All investments in the financial markets are associated with risk. The most significant risks can be divided into three groups – investment risks, administrative risks and operational risks. Investment risks can be further divided into market risk, liquidity risk and credit risk. The Fund's most significant investment risk is market risk, which is the risk for changes in the value of an asset. Market risk can be quantified and is typically measured in terms of standard deviation of return (volatility), Value at Risk, expected shortfall and other metrics.

Liquidity risk is the risk for a low volume of trading in an instrument, which can lead to large differences between bid and ask prices and therefore higher transaction costs, or make it impossible to sell an instrument at the desired time. The Fund's equity investments take place in quoted markets and are in most cases highly liquid. However, alternative investments have low liquidity. The table below shows the maturity structure of the Fund's bond portfolio.

Credit risk is associated with investments in bonds and the risk that an issuer will be unable to meet its obligations or, in the worst case, will cancel payments. Credit risk is estimated by a credit rating agency. To limit this risk the Fund invests only in bonds with a rating of at least BBB, with few exceptions.

Credit risk also arises when there is a risk that a counterparty will not meet its obligations to the Fund. Counterparty risk arises in trading of securities and OTC contracts. To minimize this risk, this trading is limited and diversified. For counterparties in trading of OTC contracts, the Fund requires high credit worthiness from credit rating agencies and signed netting agreements (ISDA agreements).

## SENSITIVITY ANALYSIS: REPORTING OF MARKET RISK

### FORECASTED RISK

The assets' expected market risk is presented in the sensitivity analysis according to the table below. The calculations are based on the Fund's portfolio composition at 31 December 2013 and historical market returns.

The sensitivity analysis is carried out through simulation of return outcomes for the Fund's assets. This means that no assumptions about the normal distribution are necessary. The simulations shown in the table are based on a short-term risk perspective. The simulation uses a one-year data history and risk is presented for a horizon of a one-day change in value. The simulation is based on a joint standard that has been agreed on by the First, Second, Third and Fourth AP funds.

The simulation is shown with two different but related risk measures. Value at Risk measures the upper limit that the loss on the Fund's portfolio is not expected exceed over a given time horizon with a probability of 95 percent. Expected shortfall estimates the limit that the loss may exceed with a probability of 5 percent. Expected shortfall is the expected loss of portfolio value given that a loss is greater than Value at Risk.

Första AP-fonden's risk measured as forecasted volatility was 6.7 percent for the Fund's total portfolio, all assets, at 31 December 2013. The foreign exchange asset class shows the Fund's total currency risk, while the other assets in the table are hedged for currency risk. The table shows the diversification gain achieved through the Fund's investment in different assets, which together reduce the Fund's risk for portfolio losses compared to the risks specific to each individual asset.

### REALIZED RISK

Average realized risk is calculated based on a joint standard that has been agreed on by the First, Second, Third and Fourth AP funds starting in 2013 and which is founded on the principle that calculation of risk should reflect the market valuation of the Fund's total assets. The valuation frequency is established as quarterly and the period for calculation is established at ten years. As a result, for the total portfolio the realized standard deviation for the past ten years has been expressed at an annual rate calculated on quarterly data.

Första AP-fonden's average realized risk for the past ten-year period was 8.7 percent based on this calculation method.

The First, Second, Third and Fourth AP funds have also agreed to report average realized risk during the past year both for the total portfolio and for the assets that are market valued daily. For this calculation of standard deviation, daily quoted market values are used. The average realized risk during the year was 5.0 per cent for the total portfolio and 5.8 per cent for the daily market valued share of the portfolio. The share of the portfolio that is market valued daily at the end of the year was 79 percent.

Sensitivity analysis, market risk at 31 Dec	Volatility, annual, %		Value at risk annual, mkr		Expected shortfall annual, mkr		Value at risk (95%), one day, SEK m		Expected shortfall (5%), one day, SEK m	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Equities	9.5	12.1	-18,481	-22,825	-26,923	-30,249	-1,146	-1,416	-1,670	-1,876
Fixed income	1.8	1.6	-2,208	-2,009	-3,074	-2,711	-137	-125	-191	-168
Alternative investments	9.7	13.3	-8,792	-7,238	-14,051	-10,145	-545	-449	-871	-629
Foreign exchange	9.5	8.3	-10,656	-8,667	-13,273	-11,467	-661	-538	-823	-711
Contribution from diversification	-3.7	-4.0	15,005	15,597	22,018	21,101	931	967	1,366	1,309
Liquid portfolio <sup>1)</sup>	6.4	-	-20,656	-	-28,846	-	-1,281	-	-1,789	-
<b>Total portfolio</b>	<b>6.0</b>	<b>6.7</b>	<b>-25,132</b>	<b>-25,141</b>	<b>-35,303</b>	<b>-33,471</b>	<b>-1,558</b>	<b>-1,561</b>	<b>-2,189</b>	<b>-2,075</b>

<sup>1)</sup> Daily market quoted assets

Reporting of the bonds' maturity structure and credit risk shows only direct holdings and not indirect holdings through various financial instruments, such as funds and ETFs. Furthermore, this reporting does not include short-term debt instruments issued by banks or loans issued to real estate companies that are subsidiaries or associated companies of the Fund.

Cont'd, Note 17 – Financial instruments, price and valuation hierarchy

### Liquidity risk (Maturity structure)

Maturity in years, SEK m At 31 Dec	< 1		1 < 3		3 < 5		5 < 10		> 10		Total balance, SEK m	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	Nominal, government	0	0	1,200	462	2,303	2,155	9,244	8,833	3,509	6,781	16,256
Nominal, credit	1,773	1,855	10,451	13,080	10,406	11,506	10,940	9,117	2,473	3,366	36,043	38,924
Index-linked	155	0	4,860	1,405	3,258	3,915	7,878	6,520	4,611	7,589	20,762	19,429
<b>Total</b>	<b>1,928</b>	<b>1,855</b>	<b>16,511</b>	<b>14,947</b>	<b>15,967</b>	<b>17,576</b>	<b>28,062</b>	<b>24,470</b>	<b>10,593</b>	<b>17,736</b>	<b>73,061</b>	<b>76,584</b>

### REPORTING OF MATURITY STRUCTURE

The maturity structure for bonds is presented in the table above. According to the current maturity structure, Första AP-fonden's fixed income assets will generate cash flows to the Fund that exceed forecasted payments to the pension system. The Fund will thus be able to meet the forecasted requirements for payments to the pension system.

### REPORTING OF CREDIT RISK

Credit risk for bonds is estimated through grading in different rating classes. Första AP-fonden uses the credit rating agencies Standard & Poor's and Moody's. These agencies issue an assessment that assigns a bond's credit rating, with a highest possible rating of AAA. The Fund has limited holdings of bonds with a rating of BBB, SEK 9,259 million, and holdings with a lower rating, <BBB, in funds with high yield investments, SEK 6,619 million. The overall assessment is that the Fund has low exposure to credit risk in its bond holdings.

### Credit risk

Rating, SEK m	AAA		AA		A		BBB		<BBB		Total balance, SEK m	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	Nominal, government	6,704	14,271	7,100	3,283	0	0	2,453	2,530	0	0	16,256
Nominal, credit	11,151	20,958	6,350	6,637	8,651	8,065	3,272	6,132	6,619	130	36,043	41,922
Index-linked	9,243	9,549	7,985	1,717	0	0	3,534	3,312	0	0	20,762	14,578
<b>Total</b>	<b>27,098</b>	<b>44,778</b>	<b>21,435</b>	<b>11,637</b>	<b>8,651</b>	<b>8,065</b>	<b>9,259</b>	<b>11,974</b>	<b>6,619</b>	<b>130</b>	<b>73,061</b>	<b>76,584</b>

Reporting of credit risk for fixed income securities based on ratings issued by well-reputed rating agencies.

# BOARD OF DIRECTORS STATEMENT OF ASSURANCE

## STATEMENT OF ASSURANCE

We hereby give our assurance that to the best of our knowledge, the annual accounts have been prepared in conformity with generally accepted accounting principles in Sweden and with the joint accounting and valuation principles developed by the AP funds, that the information therein gives a true and fair picture of the actual conditions, and that nothing of material significance has been omitted that could affect the picture of the Fund created by this annual report.

Stockholm, 19 February 2014

Urban Karlström  
*Chairman*

Annika Sundén  
*Deputy Chairman*

Göran Arrius

Ulf Axelson

Anders Knape

Christina Lindenius

Eva Redhe Ridderstad

Per Nordberg

Ola Pettersson

Our auditors' report was submitted on 20 February 2014

Jan Birgerson  
*Authorized Public Accountant*  
*Appointed by the Swedish Government*

Peter Strandh  
*Authorized Public Accountant*  
*Appointed by the Swedish Government*



# AUDITORS' REPORT

## AUDITORS' REPORT

*For Första AP-fonden, corporate identity number 802005-7538*

### REPORT ON THE ANNUAL REPORT

We have audited the annual report of Första AP-fonden for the financial year 2013. The Fund's annual report is included in the printed version of this document on pages 6-36.

### THE BOARD OF DIRECTORS AND THE CEO'S RESPONSIBILITY FOR THE ANNUAL REPORT

The Board of Directors and CEO are responsible for the preparation and fair presentation of an annual report in accordance with the Swedish National Pensions Act, and for such internal control as the Board of Directors and the CEO determine is necessary to enable the preparation of an annual report that is free from material misstatement, whether due to fraud or error.

### THE AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the annual report based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and have planned and performed the audit to obtain reasonable assurance that the annual report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence corroborating the amounts and disclosures in the annual report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the accounting policies used and the reasonableness of the significant accounting estimates made by the Board of Directors and the CEO, as well as evaluating the overall presentation of the annual report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### OPINION

In our opinion the annual report has been prepared in accordance with the Swedish National Pensions Act (2000:192) and presents fairly, in all material aspects, the financial position of Första AP-fonden as of 31 December 2013 and of its financial performance for the year then ended in accordance with the Swedish National Pensions Act. The statutory administration report is consistent with the other parts of the annual report.

We therefore recommend that the income statement and balance sheet be adopted.

#### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In addition to our audit of the annual report, we have examined the inventory of the assets managed by Första AP-fonden. We have also examined the administration of the Board of Directors and the CEO of Första AP-fonden for the financial year 2013.

#### THE BOARD OF DIRECTORS AND THE CEO'S RESPONSIBILITY

The Board of Directors and the CEO are responsible for the preparation of the financial statements and for the management of the Fund's assets in accordance with the Swedish National Pensions Act.

#### THE AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion with reasonable assurance on the results of our examination and inventory of the assets managed by the Fund and the administration of the Fund based on our audit. We conducted our audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the inventory of assets, we have examined the Fund's inventory of assets and a selection of supporting evidence.

As a basis for our opinion concerning the administration of the Fund, in addition to our audit of the annual report, we examined significant decisions, actions taken and circumstances of the Fund in order to determine if any member of the Board of Directors or the CEO has, in any way, acted in contravention of the Swedish National Pensions Act.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### OPINION

Our audit has not resulted in any qualifications concerning the inventory of assets or administration of the Fund.

Stockholm, 20 February 2014

Jan Birgersson  
*Authorized Public Accountant*  
*Appointed by the Swedish Government*

Peter Strandh  
*Authorized Public Accountant*  
*Appointed by the Swedish Government*

# FUND GOVERNANCE REPORT

Första AP-fonden voluntarily complies with the Swedish Code of Corporate Governance, part of which requires the publication of this fund governance report. However, not all rules in the Code are applicable, since Första AP-fonden is a government entity (for more details see the Fund's website [www.ap1.se](http://www.ap1.se)).

The AP funds are more independent than most other government entities, since their operations are regulated only by law and not by directive. The members of the funds' boards of directors and independent auditors are appointed by the Swedish Government. Every year, the performance and management of the AP funds is evaluated by order of the Swedish Government and the results are presented in a communication to the Swedish Parliament.

## BOARD OF DIRECTORS

Första AP-fonden's Board of Directors consists of nine members, all of whom are appointed by the Swedish Government. The Government also appoints the Chairman and Deputy Chairman. Of the other members, two are nominated by the employer organizations and two by the employee organizations. The Fund's CEO is not a member of the Board.

In 2013 Board member Tor Marthin resigned. As a new Board member, Eva Redhe Ridderstad was appointed. The members have been appointed to serve until the income statement and balance sheet for 2013 have been adopted 2013.

The Government determines the amount of fees and other remuneration to be paid to members of the Board. Remuneration for the full year amounts to SEK 100,000 for the Chairman, SEK 75,000 for the Deputy Chairman and SEK 50,000 each for the other Board members. In addition, there is scope to pay total fees of SEK 100,000 for work on the Board's committees. The Board has decided to pay fees of SEK 20,000 per year to the members of the Fund's audit committee and SEK 13,000 per year to members of the remuneration committee. For more information about remuneration of Board members see Note 5. A more detailed presentation of the members of the Board of Directors is found on page 44.

The Board is responsible for overseeing Första AP-fonden's organization and management of the investment assets. The work of the Board is regulated by a procedural plan that is adopted yearly. Every year, in

compliance with the requirements in the Swedish National Pension Act (2009:192), Första AP-fonden's Board of Directors establishes the Fund's business plan, goals and guidelines for investment operations, budget, risk management plan and ownership policy. The Board also appoints a CEO to whom it delegates responsibility for the Fund's day-to-day activities. The Board of Directors is required to hold at least four meetings per year. In 2013 the Board met on six occasions. Average attendance at Board meetings during 2013 was 91 percent (see table). Reporting of day-to-day asset management and risk reporting have been standing items on the agenda. In 2013 the Board has among other things focused on the Fund's mission in the pension system, the Fund's long-term return targets and the overall asset allocation.

In connection with this, the Board has decided to change the return target to a return of 5.5 percent after expenses over a rolling ten-year period. The Fund's overall asset allocation, around which the Fund's actual asset allocation can vary, was established at 65 percent equities and 35 percent fixed income securities.

From among its own members the Board has appointed two committees, an audit committee and a remuneration committee. Both committees are preparatory organs and the Board retains the right to make decisions in all matters addressed in the committees. The audit committee assists the Board in matters related to internal control, operational risks, financial reporting and auditing. In 2013 the audit committee consisted of Annika Sundén (chairman of the committee), Christina Lindenius and Per Nordberg. The committee met on four occasions during the year. Attendance at meetings of the audit committee was 100 percent. The remuneration committee assists the Board in matters related to remuneration. In 2013 the committee consisted of Board Chairman Urban Karlström (chairman of the committee), Anders Knappe and Tor Marthin until his resignation from the Board in May. Starting from 1 September, Göran Arrius was a member of the remuneration committee. The committee met on two occasions during the year. Attendance at meetings of the remuneration committee was 100 percent.

## FUND MANAGEMENT

The Board of Första AP-fonden has delegated responsibility for day-to-day activities to the Fund's CEO. The executive management team consists of the



CEO, together with the Administrative Manager, the Head Strategist and the Heads of External Management, HR, and Communication and ESG.

Första AP-fonden applies market-based salaries. Remuneration to the CEO is determined by the Board of Directors and consists of fixed salary and payment of defined contribution pension premiums equal to 30 percent of basic salary. For that portion of salary granting entitlement under the national pension scheme, the pension premium is reduced to 11.5 percent. Remuneration to the other senior executives in the executive management team is determined by the CEO and consists of fixed salary and pension premiums according to the applicable agreements for bank employees. The Fund's CEO and one additional member of the executive management team have defined contribution pension plans. No variable remuneration is available to the Fund's employees. The Fund's remuneration policy complies with the guidelines approved by the Government on 20 April 2009 (see further in the administration report). However, there are cases where the term of notice in the event of termination by the employer exceeds six months. See Note 5 for more information about remuneration.

#### AUDITORS

Första AP-fonden's auditors are appointed by the Swedish Government. The current ordinance, shared by Jan Birgeron and Peter Strandh, both from EY,

commenced on 31 May 2013 and extends until the Fund's income statement and balance sheet for 2013 have been adopted.

Jan Birgeron has been appointed by the Government to coordinate the auditing procedures of all AP funds. Jan Birgeron and Peter Strandh have also been appointed as auditors of the Second, Third, Fourth and Seventh AP funds. The auditors report directly to the Board in the form of a written audit report and an oral presentation. The auditors participate in at least one Board meeting per year and meet with the Board Chairman or audit committee as needed. The auditors present an audit report from the audit. The auditors also submit a yearly oral report to the Swedish Ministry of Finance. The auditors' duties include examining the Fund's operating activities, the administration of the Fund, the annual accounts and the accounting records, and expressing an opinion on the Fund's annual accounts and asset management based on their audit. Their duties also include assessment of Första AP-fonden's application of the accounting and valuation standards established for the AP funds and whether the overall presentation of information in the financial statements provides a true and fair view of the Fund's financial position and operations. In addition to the normal audit, the AP funds' auditors must attach a written signed statement to the auditors' report to express their opinion on whether the guidelines for remuneration to senior executives as established for the financial year have been complied with.

#### Facts about the Board

	Appointed by recommendation	Attendance at Board meetings	Audit committee (attendance)	Remuneration committee (attendance)
Urban Karlström	Chairman	6/6		Chairman 2/2
Annika Sundén, Dep. Chairman		6/6	Chairman 4/4	
Göran Arrius	Saco	5/6		Member since 1 Sept 1/1
Ulf Axelson		5/6		
Anders Knape	SKL	3/6		Member 2/2
Christina Lindenius		6/6	Member 4/4	
Tor Marthin		2/2		Member until 1 June 1/1
Per Nordberg	Svenskt Näringsliv	6/6	Member 4/4	
Ola Pettersson	LO	6/6		
Eva Redhe Ridderstad		4/4		
<b>Total attendance</b>		<b>91%</b>	<b>100%</b>	<b>100%</b>

# THE BOARD'S REPORT ON INTERNAL CONTROL AND RISK MANAGEMENT

According to the Swedish National Pension Funds Act (2000:192), the Board of Directors is responsible for the Fund's organization and management of the Fund's assets. Part of this responsibility is to ensure the high quality of the Fund's internal control. Every year, the Board submits a report on internal control and risk management that is published in the annual report. However, this report is not part of the formal annual report and is therefore not examined by the independent auditors. The report is structured in accordance with applicable aspects of Swedish and international frameworks for internal control over financial reporting: the Swedish Code of Corporate Governance, the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Financial Supervisory Authority's directives.

Internal control is an integral part of the Fund's operations and is achieved through monitoring, analysis and reporting within two of the Fund's functions, the middle office and the Compliance Officer. The work of both functions is carried out independently from the Fund's other activities. The Fund's risk management activities are focused on avoiding undesired financial risks and minimizing operational risks. The middle office function is primarily concerned with financial risks, while the Compliance Officer deals mainly with operational risks and compliance with internally and externally established rules. Operational risks refer to the risk that inadequate or incorrect routines, systems or external factors will cause financial losses or other damage such as weakened or loss of confidence. The Compliance Officer also ensures that the necessary control functions are in place and are used correctly.

## CONTROL ENVIRONMENT – FUND GOVERNANCE

Management of financial risks is critical in order for the Fund to fulfill its mission in the pension system – to achieve a high return on investment with a low level of risk. The Fund's risk management is therefore a proactive process in which financial risk is forecasted

for each asset individually and for the portfolio as a whole. For this reason, there is a well established risk culture at the Fund. Two important bearers of this culture are transparent reporting of business activities and a duality principle for processing of business transactions. This means, among other things, that the entire organization can monitor business activities via an enterprise-wide system and that business transactions require the approval of at least two persons, one from both the Fund's back office and one from the affected investment unit.

Every year, the Board adopts a normative document in which the roles and responsibilities of the Board and the CEO are described. This document contains a number of guidelines and plans and defines the respective areas of responsibility and authority. This document serves as a basis for internal control and monitoring of the Fund's investment activities and specifies the limits for the Fund's financial risk-taking. Furthermore, the CEO establishes detailed routines for valuation of financial instruments and well defined decision-making structures for management of day-to-day operations. The approach leads to good and stable internal risk control.

## RISK ASSESSMENT

To ensure effective financial reporting and identification of operational risks, a yearly review of the Fund's processes and documentation of these is conducted by order of the Board. The results of this review are reported to the Board's audit committee. A central component of this review is the account closing process, which serves as basis for the Fund's external financial reporting, and describes valuation, reconciliation and control of securities in connection with closing of the accounts. Aside from a general evaluation of the processes, the CEO, after consultation with the Compliance Officer, establishes on a yearly basis the areas to be prioritized and subjected to special review. The units within the organization that are affected by the review participate actively in the

analysis, which is based on a self-assessment method. This work results in an evaluation of identified risks and a prioritization of measures. The Fund's Compliance Officer oversees the analysis process and ensures that the prioritized measures are implemented.

#### CONTROL STRUCTURES AND ACTIVITIES

The financial information is analyzed and examined by the Fund's back office and middle office, which verify the performed internal controls and report on this to the CEO. To a large extent, the control function is built into the Fund's established financial systems for portfolio and risk management. These systems also produce data for various risk analyses and are used as a support for control activities.

The portfolio is managed according to forecasted risk within the given risk mandates. The forecasted risk is analyzed retrospectively against the actual risk outcome. In this way, the model for portfolio management can be continuously developed.

#### MONITORING

Första AP-fonden's Board of Directors has ultimate responsibility for internal control. From among its members, the Board appoints an audit committee whose duties include handling of issues related to internal control. The middle office and Compliance Officer report to the audit committee in connection with its meetings. The independent auditors report continuously to the audit committee and to the Board in connection with the annual closing of the books. Risk management and internal control are standing items on the agenda of all of the Fund's scheduled Board meetings, at which the CEO reports on the prioritized risk areas. The Board approves all external financial reports prior to publication.

#### MONITORING IN 2013

At the request of Första AP-fonden's Board of Directors, the Compliance Officer has carried out an

overall risk analysis for the Fund in order to identify the greatest risks. The Fund has continued to prioritize proactive risk mitigation. The overall analysis led to the formulation of an action plan for the Fund's measures to handle the prioritized risks. At the request of the CEO, the Compliance Officer has performed an operational risk analysis regarding the processes for the Fund's internal equity management in order to clarify the principles and guidelines, the decision-making and responsibility structure and the administrative routines for management.

Första AP-fonden's accounting and valuation policies are in accordance with International Financial Reporting Standards, IFRS, with the exception of subsidiaries which are measured at fair value. To read more about this, see the Fund's accounting and valuation policies. The cooperation between the Compliance Officer, the audit committee and the independent auditors functions well. The Board's earlier decision not to establish an internal audit function still applies.

#### COMMUNICATION

All guidelines and instructions with relevance for internal control are communicated clearly and made accessible to all employees on the Fund's intranet. This transparency also applies to the daily internal performance reports, which are also made available on the Fund's intranet.

The Board is regularly informed about the Fund's financial position and performance. Every month, the Board is provided with an income, return and risk report. An income statement and balance sheet report is presented to the Board on a quarterly basis. Reports on the Fund's financial position and risk-taking are also presented at each scheduled Board meeting. These procedures are deemed to ensure the quality of the Fund's external financial reporting. External reports are published in connection with the annual and semi-annual account closings.

# BOARD OF DIRECTORS



Urban Karlström



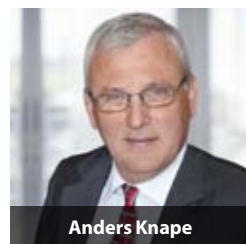
Annika Sundén



Göran Arrius



Ulf Axelson



Anders Knape



Christina Lindenius



Eva Redhe Ridderstad



Per Nordberg



Ola Pettersson

## Urban Karlström

### Chairman

Born in 1953. Ph.D. Econ.  
Appointed to the Board in 2011  
Chairman of the remuneration committee, Director General of the Swedish Fortifications Agency

### Other assignments:

Chairman of Forum for Innovation in the Transport Sector, Chairman of Arcato AB

## Annika Sundén

### Deputy Chairman

Born in 1964. Associate Professor  
Appointed to the Board in 2011  
Chairman of the audit committee  
Deputy Director General Swedish Pensions Agency

### Other assignments:

Member of the Institute for Future Studies, Member of the Expert Group for Public Economics, Deputy board member of Min Pension i Sverige AB  
Member of the United Nations Institute for Social Research

## Göran Arrius

Born in 1959

Appointed to the Board in 2011  
Member of the remuneration committee  
Appointed on the recommendation of employee organization (Saco – the Swedish Confederation of Professional Associations), President of Saco

### Other assignments:

Chairman of AEA, Member of the Swedish Defense Intelligence Court, Chairman of Folk och Försvar, Chairman of LO, TCO and Saco's office in Brussels,

board member at Folksam Liv, member of the Rikskommittén Sveriges Nationaldag, representative (principal) to the Royal Foundation

## Ulf Axelson

Born in 1969. Abraaj Capital Chair in Finance and Private Equity at the London School of Economics and Political Science  
Appointed to the Board in 2011

### Other assignments: –

## Anders Knape

Born in 1955

Appointed to the Board in 2007  
Member of the remuneration committee  
Appointed by recommendation of employer organization (the Swedish Association of Local Authorities and Regions) Chairman of the Swedish Association of Local Authorities and Regions (SKL)

### Other assignments:

Chairman of SKL Företag AB. Vice Chairman of KPA AB, Vice President of the Council of Europe Congress of Local and Regional Authorities, the EU Committee of the Regions and CEMR, Member of the municipal council of Karlstad

## Christina Lindenius

Born in 1964. M.B.A.

Appointed to the Board in 2005  
Member of the audit committee  
Managing Director of Insurance Sweden and the Swedish Insurance Employers' Association (FAO)

### Other assignments:

Chairman of Min Pension i Sverige AB,

the Swedish Motor Insurers (TFF) and Svensk Försäkringsadministration AB. Board member of the Association for Generally Accepted Principles in the Securities Market, the Institute for Financial Research (SIFR) and the Swedish National Committee of the International Chamber of Commerce

## Eva Redhe Ridderstad

Born in 1962. M.B.A.

Appointed to the Board in 2013

### Other assignments:

Chairman of Spago Imaging AB and Ftrack AB. Board member of MQ Holding AB, Probi AB, Pled Pharma AB, Protector Forsikring ASA, TAM Group AB and Axel Christiernsson International AB

## Per Nordberg

Born in 1956. M.Sc.Econ.

Appointed to the Board in 2007

Member of the audit committee

Appointed by recommendation of employer organization (Confederation of Swedish Enterprise) Managing Director of Fouriertransform AB

### Other assignments: –

## Ola Pettersson

Born in 1973. M.Sc. Macroeconomics

Appointed to the Board in 2011

Appointed by recommendation of employee organization (LO – The Swedish Trade Union Confederation) Chief Economist at LO

### Other assignments:

Board member of AMF Pension AB, member of Skatteverkets insynsråd

# EXECUTIVE MANAGEMENT TEAM



Johan Magnusson

Ossian Ekdahl

Rikard Kjörling

Andrejs Landsmanis

Anders Rahmn

Marina Westman

## Johan Magnusson

### Managing Director and Chief Investment Officer

Born in 1959. Economist  
Employed since 2008  
In current position since 2008

#### Previous experience:

Senior positions at SEB Wealth Management and ABB Investment Management

## Ossian Ekdahl

### Head of Communication and ESG

Born in 1961. M.B.A., Licentiate degree in economics  
Employed since 1999  
In current position since: Head of Communication since 2009, Head of ESG since 2001

#### Previous experience:

The Stockholm School of Economics, University of Karlstad, the Ministry of Finance and the Central Bank of Sweden

## Rikard Kjörling

### Head of External Management

Born in 1959. M.B.A.  
Employed since 2004  
In current position since 2004

#### Previous experience:

Various positions at SEB Wealth Management and Trygg-Hansa

## Andrejs Landsmanis

### Chef strategisk tillgångsallokering

Born in 1952. Economist  
Employed since 2008  
In current position since 2008

#### Previous experience:

SEB Wealth Management and Länsförsäkringar

## Anders Rahmn

### Administrative Manager

Born in 1951. M.B.A.  
Employed since 1990  
In current position since 2000

#### Previous experience:

The Swedish National Audit Office and the Ministry of Health and Social Affairs

## Marina Westman

### Head of Human Resources

Born in 1960. B.Sc. Human Resources Development and Labour Relations  
Employed since 2008

In current position since 2008

#### Previous experience:

HR positions in the SEB group

