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HIGHLIGHTS OF THE PERIOD

- For the first half of 2013 the Fund delivered net investment income of SEK 9.5 billion (9.7). The period was marked by continued macroeconomic uncertainty.
- During the period, the Fund paid a net amount of SEK 3.1 billion (1.7) to the Swedish Pensions Agency. Net assets under management thus rose by SEK 6.3 billion to SEK 240 billion.
- Return after expenses was 4.0 percent (4.5). The Fund's administrative expenses amounted to SEK 166 million (161), which is equal to an annual expense ratio of 0.14 percent (0.15).
- Over the past rolling ten-year period the Fund has produced an annualized return of 6.1 percent, which exceeds the long-term target of 5.5 percent.
- During the period the Fund continued its efforts to create a more robust total portfolio. Among other things, investments were made in a risk parity portfolio with an external manager in order to further diversify the Fund's assets.

Första AP-fonden (AP1) is one of five funds that manage buffer capital in the Swedish national income pension system, and is regulated by the Swedish National Pension Funds Act (2000:192). For more information about Första AP-fonden visit the Fund's website, www.ap1.se. All monetary amounts in this report are expressed in Swedish kronor. Millions of kronor are abbreviated as SEK m and billions as SEK bn. Figures in brackets refer to the first half of 2012 unless otherwise stated. Internal data is used in the tables and diagrams in cases where no other sources are stated.

ACCOUNTING AND VALUATION POLICIES

The semi-annual report has been prepared in compliance with the accounting and valuation policies developed jointly by the AP funds. These are described in summary in the annual report for 2012. The semi-annual report has not been reviewed by the Fund's independent auditors.

Healthy return and long-term value creation

The first half of 2013 was marked by ongoing economic uncertainty at the international level, despite certain signs of better growth in parts of the global economy. In spite of this, the Fund has achieved relatively good value growth in many markets and achieved net investment income of SEK 9.5 billion for the period.

Our investment income is equal to a return on assets of 4.0 percent after expenses for the first six months of the year. This means that over the past ten years we have delivered an annualized return after expenses of 6.1 percent, and thereby surpassed our target for the period. Looking back, it can be noted that we have contributed more than SEK 100 billion to the Swedish pension system over the same period of time. The AP funds are playing an increasingly vital role in the pension system, since pension contributions will be lower than pension disbursements for many years into the future. In 2012 Första AP-fonden paid in net amount of SEK 3.8 billion to the pension system. Already in the first half of 2013 we have paid in more than SEK 3.1 billion.

In an attempt to combat weak economic development in the wake of the financial crisis, many central banks have been pursuing aggressive fiscal stimulus programs for several years. As a result, the financial markets have remained relatively buoyant. But market development has also been affected by concern about the possible consequences of a more normalized

“...risks and opportunities related to sustainability are key factors to take into consideration...”

monetary policy. This is especially true in the fixed income markets, which have reacted with rapidly rising long-term rates, a trend that is having a negative impact on return. The Fund's equity investments showed positive growth with the exception of emerging markets, where return has fallen sharply. We still believe in these markets and are confident that they will perform well in a longer perspective.



We are taking further steps to develop our portfolio and increase its robustness. In the annual report for 2012 we described the focus strategy and low volatility strategy in our internal equity management. These efforts have continued and an additional SEK 20 billion is now managed according to these strategies. In line with this trend, we are decreasingly steered by a market index and are instead investing based on deliberate selection. Through this and other initiatives, the share of assets managed internally has risen to 62.4 percent.

The changes we have made, and those we will make in the future, affect the Fund's expenses in different ways. By managing assets internally rather than externally we reduce our expenses, while the new investments we have made increase our expenses somewhat. But it is important to consistently focus on the return we achieve after expenses, particularly when we can create a better portfolio composition.

In our long-term analysis it is becoming clearer that risks and opportunities related to sustainability are key factors to take into consideration. It's a matter of weighing in factors that are complex and not always measurable, and that are also influenced by political decisions and regulations. We are continuously refining our working methods in order to in order to incorporate sustainability factors into our investment analysis to a greater extent.

Stockholm, August 2013

A handwritten signature in blue ink, appearing to read "Johan Magnusson".

Johan Magnusson
Managing Director

FIRST HALF OF 2013

Första AP-fonden's net investment income after expenses for the first half of 2013 was SEK 9.5 billion (9.7), which is equal to a return after expenses of 4.0 percent (4.5). Annualized return after expenses measured over a rolling ten-year period was 6.1 percent, which exceeds the long-term target of 5.5 percent.

In the first half of 2013 the Fund paid a net amount of SEK 3.1 billion to the Swedish Pensions Agency, which is significantly more than the corresponding amount of SEK 1.7 billion that was paid in the same period of 2012.

ASSET ALLOCATION

In the first half of the year the portfolio was further diversified by cutting back the share of liquid securities in favour of alternative investments. During the period the Fund made additional investments in hedge funds, private equity funds and real estate. A total of around SEK 3 billion was shifted to investments of these types. This was financed by a reduction in the Fund's fixed income investments, while the equity portfolio was kept virtually intact.

Aside from the investments in alternative assets, the Fund established a long-term partnership with the investment management company Bridgewater during the period through an investment in a risk parity portfolio designed by them. The risk parity portfolio further diversifies the Fund's assets with the aim of producing a return that is not affected by changes in economic growth or inflation over time.

The allocations to hedge funds, private equity funds, real estate, new investments and the risk parity portfolio give the Fund a return profile that is less dependent on fluctuations in the equity market but without compromising the expected long-term return.

EQUITIES

The equity markets advanced overall during the first half of the year. Consumer and healthcare stocks enjoyed an upward trend, while development for energy and materials stocks was weak. The Japanese stock market posted high returns, driven by signals of continued stimulus measures to boost growth. US stocks also performed well. Emerging markets stocks were down sharply, with falling prices in countries like Brazil, China and Russia. Concern about declining growth in China, combined with pessimism about materials prices, were contributing factors. The Stockholm stock exchange rallied by over 8 percent, led by strong gains for bank stocks, Ericsson and SCA. In general, small caps outperformed large caps.

In the first half of the year the Fund continued its efforts to reduce its external management mandates in developed markets and shift these assets to internal management, which now makes up 62.4 percent of the portfolio. More assets were allocated to internally managed low volatility and focus strategies with a long investment horizon. The goal is to create robustness in the Fund's total portfolio and increase the opportunities for strong returns by being an active and engaged owner in companies where the Fund sees good long-term potential.

The listed equity investments generated a return before expenses of 5.9 percent, equal to net investment income of SEK 6.6 billion. The allocation to emerging markets detracted from return, while investments in Sweden and developed markets made a positive contribution.

Net investment income for Jan–July 2013 before expenses in local currency

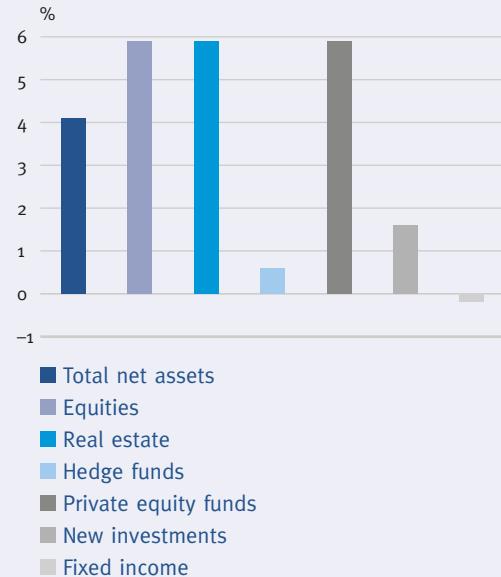
	Contribution		
	Contribution, SEK bn	Contribution, %	Portfolio return, %
Equities	6,585	2.8	5.9
Fixed income	-154	-0.1	-0.2
Real estate	1,061	0.5	5.9
Hedge funds	12	0.0	0.6
Private equity funds	425	0.2	5.9
Risk parity portfolio	-386	-0.2	-6.0
New investments	37	0.0	1.6
Allocation, cash and foreign exchange	1,970	0.8	0.8
Total	9,552	4.1	4.1

Annualized return after expenses, 2003–June 2013

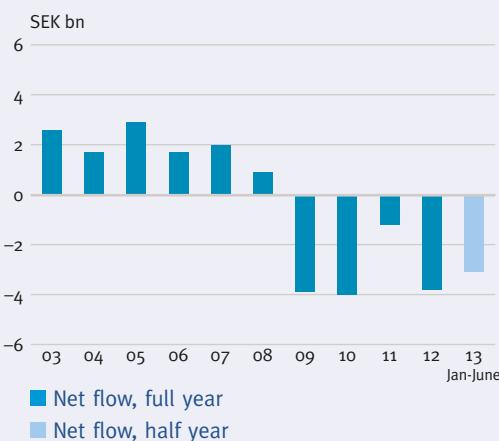


Return after expenses for the past ten-year period was 6.1 percent. The Fund's long-term target is a return of 5.5 percent after expenses over rolling five-year periods.

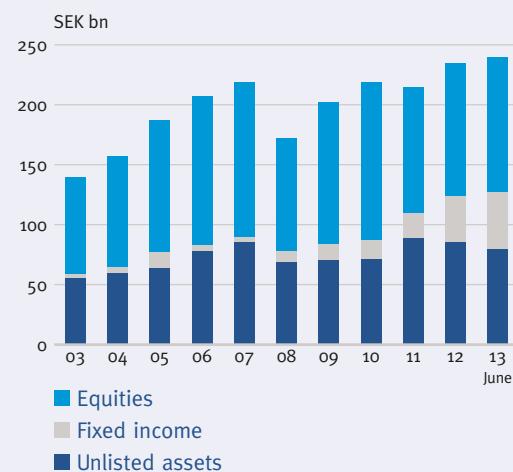
Return by asset class, Jan–June 2013



Net flow



Development of net assets



Net assets

SEK m	Jan–June 2013	2012
Opening net assets	233,700	213,318
Net investment income before expenses	9,552	24,347
The Fund's expenses	-81	-177
Net flow to/from the Swedish Pensions Agency	-3,015	-3,568
Administrative contribution to the Swedish Pensions Agency, etc.	-115	-220
Closing net assets	240,041	233,700

FIXED INCOME AND FOREIGN EXCHANGE

In the first half of 2013, development in the fixed income and foreign exchange markets was influenced by macroeconomic factors, severe debt problems in several countries and weak banks. There was also uncertainty related to various central banks' actions to stabilize the banking system and create the conditions for increased investments and growth.

Japan announced an expansionary monetary policy with an inflation target of 2 percent. The strategy is to undertake a massive purchase of outstanding government bonds with long maturities. This resulted in a sharply falling yen rate and fuelled a huge rally on the Tokyo stock exchange.

The USA showed a gradual improvement in both the housing and labour markets. In response to stronger macroeconomic variables, the US central bank (the Fed) signalled a possible tapering of the bond buying program. This had a powerful impact on long-term bond yields – and resulted in rising interest rates. Another consequence of the anticipated stimulus reduction was a growing yield spread between credit bonds and more secure government bonds.

In China, economic development was somewhat weaker than expected, which exacerbated fears about possible negative repercussions for the materials market and spillover effects to major raw materials producing economies such as Australia. This led to a falling Australian dollar.

Despite sizeable movements in both the fixed income and foreign exchange markets, the effects on the Fund's fixed income and foreign exchange portfolio were minor in the first half of the year since the portfolios were so well balanced during the period.

For the first half of 2013 the Fund's fixed income investments produced a return before expenses of -0.2 percent, equal to net investment income of SEK -153.6 million.

REAL ESTATE

In the first half of 2013 the real estate market was stable in the areas and sectors where Första AP-fonden invests. At the global level, there is a keen demand for attractively located properties leased to creditworthy tenants in major metropolitan areas.

At 30 June 2013, the Fund's real estate portfolio was valued at SEK 19 billion. The portfolio value increased through value appreciation in the existing properties and through a handful of investments, some within the framework of previously wholly or partly owned companies and some through new external managers.

Return on the real estate portfolio for the first half of the year was 5.9 percent, equal to net investment income of SEK 1 billion.

PRIVATE EQUITY FUNDS

In the first half of 2013 the Fund made new investments in four private equity funds, three in the USA and one in Europe. All four funds have a clear investment focus on companies that are underperforming in relation to their long-term capacity and companies with restructuring potential.

Första AP-fonden's total portfolio of private equity funds showed continued positive development during the first half of 2013 with a return of 5.9 percent, equal to net investment income of SEK 425 million.

HEDGE FUNDS

In the first half of the year Första AP-fonden continued to build up its hedge fund portfolio with the objective of reaching an allocation of around 5 percent of the total portfolio. A number of initiatives were also taken to diversify the hedge fund portfolio.

In the first half of the year the Fund made hedge fund investments of SEK 1 billion. During the period, Första AP-fonden's hedge fund portfolio delivered a return of 0.6 percent, equal to net investment income of SEK 12.4 million.

NEW INVESTMENTS

In the first half of 2013 the Fund increased its existing investments in agricultural properties in Australia and New Zealand. Return on new investments for the first half of the year was 1.6 percent, equal to net investment income of SEK 36.6 million.

RISK PARITY PORTFOLIO

At the end of the first half of 2013, Första AP-fonden invested SEK 6.3 billion in a risk parity portfolio. A portfolio of this type is managed with the aim of neutralizing the effects of macroeconomic risks. The idea behind the investment is that it will thereby contribute to making the Fund's total portfolio more robust.

In the first half of the year the Fund compensated for the high interest sensitivity in the risk parity portfolio by lessening interest sensitivity in the Fund's other fixed income investments.

In the first half of 2013 the Fund invested SEK 6.3 million, equal to approximately 2.6 percent of total assets under management, in the risk parity portfolio. This took place through a reduction in the liquid fixed income portfolio.

EXPENSES

Första AP-fonden has a compact and cost-effective organization. Operating expenses for the first half of 2013 amounted to SEK 81 million (87). Commission costs, which include

fixed external management fees and custodian bank fees, for the same period totalled SEK 85 million (74). The Fund's total expenses for the period amounted to SEK 166 million (161).

Measured in relation to the average value of net assets, the Fund's operating expenses are equal to an annual expense ratio of 0.07 percent (0.08). If commission costs are also included, the Fund's total expense ratio was 0.14 percent (0.15). The higher expenses are mainly attributable to an increase in new investments. The number of employees in Första AP-fonden at 30 June 2013 was 48 (46).

LAWSUIT AGAINST BANK OF NEW YORK MELLON

In 2010 Första AP-fonden filed a lawsuit against Bank of New York Mellon (BNYM) with the Commercial Court in London, which has been described in earlier annual reports.

This action was taken in response to losses of around USD 35.5 million that were incurred by the Fund in 2008 as a result of securities lending transactions carried out by BNYM on the Fund's behalf in its capacity as the Fund's securities lending agent. Första AP-fonden feels that the investment decisions made by BNYM were negligent and in violation of the Fund's investment restrictions.

The lawsuit was tried in June and July 2013 and a ruling is expected to be handed down in the second half of 2013. Legal fees and expenses for the lawsuit in the first half of 2013 amounted to SEK 36 million. These have been recognized as a receivable, since the Fund's assessment is that the settlement resulting from the ruling will cover these expenses.

Expenses and expense ratio

	Jan–June 2013		Jan–June 2012		2012	
	Expenses, SEK m	Annual expense ratio, %	Expenses, SEK m	Annual expense ratio, %	Expenses, SEK m	Annual expense ratio, %
Personnel costs	55.0	0.05	52.0	0.05	106.0	0.05
Other administrative expenses	26.0	0.02	35.0	0.03	71.0	0.03
Total operating expenses	81.0	0.07	87.0	0.08	177.0	0.08
Commission costs	85.0	0.07	74.0	0.07	145.0	0.07
Total expenses	166.0	0.14	161.0	0.15	322.0	0.15

TEN-YEAR OVERVIEW

	Jan–June 2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Net investment income and inflows, SEK bn										
Net assets	240.0	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	−3.1	−3.8	−1.2	−4.0	−3.9	0.9	2.0	1.7	2.9	1.7
Net investment income	9.5	24.2	−4.2	20.5	34.6	−48.0	9.7	18.2	27.6	15.9
Return, expenses and risk, %										
Return before expenses	4.1	11.4	−1.7	10.3	20.4	−21.7	4.8	9.8	17.5	11.4
Operating expenses, annual, as a % of net assets	0.07	0.08	0.07	0.08	0.10	0.09	0.08	0.08	0.08	0.09
Commission costs, annual, as a % of net assets	0.07	0.07	0.05	0.05	0.06	0.07	0.07	0.07	0.07	0.08
Return after expenses	4.0	11.3	−1.9	10.2	20.2	−21.9	4.6	9.6	17.4	11.2
Risk*	5.4	5.9	8.9	7.4	9.7	16.6	7.7	6.8	4.9	5.7
Sharpe ratio	0.6	1.9	neg.	1.1	2.0	neg.	0.1	1.0	3.0	1.5
Return and expenses in the total portfolio, SEK bn										
Return before expenses	9.6	24.5	−4.0	20.8	34.9	−47.7	9.8	18.4	27.7	16.0
Operating expenses	−0.1	−0.3	−0.3	−0.3	−0.3	−0.2	−0.2	−0.2	−0.1	−0.1
Exposure, %										
Equities	48.1	47.4	49.2	60.3	58.6	54.6	59.2	59.8	58.6	58.9
Fixed income	31.9	36.4	40.9	32.5	34.7	40.1	39.2	37.8	34.3	38.0
Real estate	7.9	7.7	5.6	5.0	3.4	4.0	2.3	2.5	2.3	2.1
Hedge funds	4.8	4.3	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Private equity funds	3.4	3.2	2.8	2.0	1.7	1.4	0.7	0.0	0.0	0.0
Risk parity portfolio	2.6	—	—	—	—	—	—	—	—	—
New investments	1.1	0.7	0.6	0.7	0.0	—	—	—	—	—
Cash	0.2	0.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign exchange	26.1	27.4	21.3	24.0	21.6	22.2	18.2	16.0	20.5	20.9
Extern management, %										
Share of total portfolio	37.6	39.3	41.4	43.7	42.4	39.7	36.0	34.2	37.7	24.0

* Annualized standard deviation, nominal return before expenses

PORTFOLIO COMPOSITION

Asset class	Portfolio value SEK m, 30 June 2013			Portfolio value SEK m, 31 Dec 2012		
	% of net assets	Exposure, %	% of net assets	Exposure, %		
Equities	113,132.8	47.1	48.1	108,807	46.6	47.4
Sweden	26,677	11.1	11.1	26,590	11.4	11.4
Developed countries	63,496	26.5	26.9	58,490	25.0	25.0
Emerging markets	22,959	9.6	10.0	23,727	10.2	11.0
Fixed income	76,655.9	31.9	31.9	85,128	36.4	36.4
Nominal, government	15,157	6.3		21,199	9.1	
Nominal, credit	44,256	18.4		47,977	20.5	
Index-linked	17,243	7.2		15,952	6.8	
Cash/foreign exchange	2,780	1.2	0.2	2,689	1.2	0.3
Total listed investments	192,569.0	80.2	80.2	196,625	84.1	84.1
Real estate	18,969	7.9	7.9	18,011	7.7	7.7
Hedge funds	11,438	4.8	4.8	10,023	4.3	4.3
Private equity funds	8,074	3.4	3.4	7,407	3.2	3.2
Other assets	6,343	2.6	2.6	–	–	–
New investments	2,648	1.1	1.1	1,634	0.7	0.7
Total unlisted investments	47,472.0	19.8	19.8	37,074	15.9	15.9
Total portfolio	240,041.0	100.0	100.0	233,700	100.0	100.0
Currency exposure	62,676		26.1	64,085		27.4

CURRENCY EXPOSURE

Currency exposure, 30 June 2013, SEK m	USD	GBP	EUR	JPY	Other	Total
Shares and participations	64,816	5,427	12,845	3,682	30,251	117,021
Fixed income securities	17,916	6,583	13,813			38,312
Other assets	1,450	50	-498	212	113	1,327
Derivatives	-40,205	-9,917	-19,198	-7,642	-17,022	-93,984
Currency exposure, 30 June 2013	43,977	2,143	6,962	-3,748	13,342	62,676

INCOME STATEMENT

SEK m	Jan–June 2013	Jan–June 2012	2012
Operating income			
Net interest income	1,530	2,435	4,893
Dividends received	2,437	2,178	3,126
Net gains/losses, listed shares and participations	4,002	4,236	13,650
Net gains/losses, unlisted shares and participations	1,359	424	1,607
Net gains/losses fixed income assets	-2,534	1,496	4,529
Net gains/losses, derivative instruments	831	-1,210	-1,094
Net gains/losses, foreign exchange movements	2,009	275	-2,219
Other income	3	–	–
Commission costs	-85	-74	-145
Total operating income	9,552	9,760	24,347
Operating expenses			
Personnel costs	-55	-52	-106
Other administrative expenses	-26	-35	-71
Total operating expenses	-81	-87	-177
Net investment income	9,471	9,673	24,170

BALANCE SHEET

SEK m	30 June 2013	30 June 2012	2012
Assets			
Shares and participations, listed	114,147	102,290	109,403
Shares and participations, unlisted	37,952	19,220	27,254
Bonds and other fixed income assets	85,331	94,357	92,359
Derivatives	856	4,186	2,480
Cash and bank balances	1,411	2,487	1,268
Other assets	4,976	3,761	550
Prepaid expenses and accrued income	1,272	1,500	1,035
Total assets	245,945.0	227,801	234,350
Liabilities			
Derivatives	2,770	3,362	201
Other liabilities	3,083	3,072	405
Accrued expenses and deferred income	51	43	44
Total liabilities	5,904.0	6,477	650
Net assets			
Opening net assets	233,700	213,318	213,318
Net flow to/from the pension system	-3,130	-1,667	-3,788
Net investment income for the year	9,471	9,673	24,170
Total net assets	240,041	221,324	233,700
Total net assets and liabilities	245,945	227,801	234,350