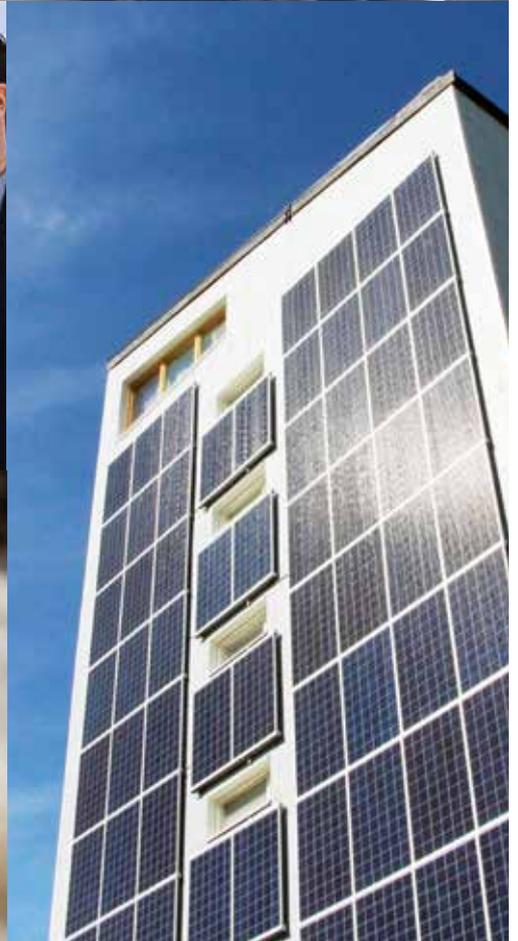


Interim Report 2017



Net investment income

SEK **16** bnReturn
after expenses**5.2** %SEK **3.7** bn
into the pension systemNet assets
SEK **323** bn

The first half of 2017 in brief

Net investment income of SEK 16.1 billion for the first six months of 2017 means that Första AP-fonden's (AP1's) return exceeds the long-term target of a real return of 4.0 per cent after expenses, and total net assets increased to SEK 322.9 billion as at per 30 June.

- Net investment income for the first six months of 2017 amounted to SEK 16.1 billion (10.6) after expenses.
- Return totalled 5.2 per cent (3.5) after expenses.
- In the first half of 2017, AP1's management generated an excess return in relation to the Fund's strategic benchmark* of 1.2 percentage points, which equates to SEK 3.6 billion.
- Measured over the latest ten-year period, the average real annual return amounted to 4.3 per cent (4.8), exceeding the long-term target of a real return after expenses of 4.0 per cent over rolling ten-year periods.
- Since negative net flows for the national income pension system in 2009, AP1 has disbursed a total of SEK 40.2 billion, of which SEK 3.7 billion (3.2) was transferred to the Swedish Pensions Agency in the first half of 2017.
- Total net assets increased by SEK 12.4 billion (7.3) to SEK 322.9 billion as at 30 June 2017.
- The Fund's administrative expenses totalled SEK 237 million (215), equating to 0.15 per cent (0.15) of assets under management in annual terms.
- During the first half-year AP1 was particularly active in the area of real estate, for example, with a range of direct investments, such as:
 - increased holding of retail properties in Secore Fastigheter
 - continued expansion in real estate company Willhem
 - a new joint venture with Elo focusing on Finnish commercial properties

*The Fund's strategic benchmark for management in the long term (10 years) is defined based on the Board's risk preference, investment beliefs and guidelines in general.

Key ratios

	Jan-Jun 2017	Jan-Jun 2016	Jan-Dec 2016
Closing net assets, SEK	322.9 bn	297.5 bn	310.5 bn
Net investment income for the period, SEK	16.1 bn	10.60 bn	27.0 bn
Net flow to the pension system, SEK	-3.7 bn	-3.2 bn	-6.6 bn
Opening net assets, SEK	310.5 bn	290.2 bn	290.2 bn
Expense ratio, operating expenses ⁽¹⁾	0.07%	0.06%	0.06%
Expense ratio, commission expenses ⁽¹⁾	0.08%	0.08%	0.09%
Total expense ratio* ⁽¹⁾	0.15%	0.15%	0.15%
Return after expenses	5.2%	3.5%	9.3%
Real return after expenses	4.5%	2.8%	7.6%
Annualised return after expenses, 5 years ⁽²⁾	10.1%	-	-
Annualised return after expenses, 10 years ⁽²⁾	5.4%	-	-
Annualised return after expenses, 10 years ⁽³⁾	4.3%	-	-

⁽¹⁾ In the six-month interim report, the expense ratio is calculated as the full-year effect

⁽²⁾ Also in six-month interim reports, the annualised return is calculated for 10 and 5 years respectively

⁽³⁾ The KPI for June 2017 is an estimate as the figure was not available at the time this report was published.

Accounting and valuation policies

This interim report has been prepared in accordance with the accounting and valuation principles formulated jointly by the AP Funds. These are outlined in the 2016 Annual Report. The interim report has not been reviewed by the Fund's auditors.

Första AP-fonden (AP1) owns equities in companies in a wide range of sectors.

CEO Johan Magnusson looks back at a stable first half of 2017.



Good returns in a challenging environment

Första AP-fonden (AP1) reported strong net investment income for the first six months of 2017: SEK 16.1 billion after expenses, which equates to a return of 5.2 per cent. Net assets increased by SEK 12.4 billion to SEK 322.9 billion. The real return after expenses for the latest ten-year period was 4.3 per cent, which exceeds AP1's long-term target.

During the first six months of the year, we carried out a number of direct investments in the area of real estate.

The number of retail properties was expanded in Secore Fastigheter AB,

“This half-year's return was 5.2 per cent.”

a company which we own jointly with ICA. Alongside Finnish pension insurance company Elo, we also initiated a joint venture focusing on commercial

city-centre properties in Finland. In the early part of the year, our housing property company Willhem continued its expansion strategy with significant property acquisitions. Finally, we carried out investments in logistics properties.

It is a great achievement to have helped strengthen the Swedish pension system for so many years, but the outlook for being able to continue delivering a real return of 4 per cent is more of a challenge. The strong

economy and good global growth continued during the first half of the year, while consumer prices are slowly approaching central bank targets. An increasing use of resources, primarily due to falling unemployment, has led to further cautious interest rate hikes from the American Federal Reserve. At the same time, many other central banks have indicated making preparations for austerity. This would seem to signal an end to almost ten years of record-low interest rates, and this is likely to affect most asset classes since the abundance of liquidity so long prevalent in the financial markets will now be used up.

“Altered investment rules are positive.”

In terms of external influencing factors, it is more positive that Sweden's Ministry of Finance has now put forward a proposal for modified investment rules.

We hope, for instance, that we may now expect a reduction to the limit of having at least 30 per cent of our total assets in fixed-income securities. Historically, bonds have been regarded as a 'safe' asset type and have served to reduce risk in relation to equities, but with interest rates as low as they have been for a long time, this effect is not being achieved.

The proposal also suggests that the maximum limit of 5 per cent of unlisted assets be removed in favour of a new rule, whereby the proportion of illiquid investments is limited to a maximum of 40 per cent. As well as unlisted assets, illiquid assets include investments such as real estate, infrastructure and hedge funds. AP1 is one of the consultation bodies for the proposal; we will be familiarising ourselves with the details and making a comment at a later date. Generally speaking, however, we welcome the proposal as it brings our current investment rules up to date. More modern, flexible rules can provide us

“We are cost-efficient from an international perspective.”

with a better foundation to achieve our return target in the long term, and thereby continue to play a vital role in the pension system.

A relatively large proportion of our portfolio is managed actively by our own employees. This means that we have good opportunities to analyse and assess sustainability aspects. We also meticulously choose external asset managers, selecting those who share our view of sustainable investments. We are convinced that companies which regard sustainability as being business-critical have a better foundation for delivering not only a good return but also lower risk for us as investors.

AP1 has very consciously chosen a strategic approach in the field of sustainability which means that we avoid detailed quantitative targets. We believe that we would risk making certain investments simply to achieve these targets and to 'look good', but that this would not necessarily lead to either the best possible return or the desired level of risk. Instead we continue our efforts working towards four general goals: greater competence development, sustainability reviews of investments, a high level of transparency surrounding our sustainability work, and more investments with an explicit sustainability focus. These goals guide us in our day-to-day work.

One important aspect is to continue practising active ownership, since there is a clear link between this and long-term sustainability work. As a large institutional owner we have good potential to exert an influence, and we have a duty to exploit this potential in the best possible way. AP1's active efforts and dialogue with companies have for example contributed to the positive development of incentive schemes. They are now, almost without exception, structured in a positive way. Similarly, the boards of

directors are developing positively thanks to an increasingly diversified composition of members, based on a range of aspects such as nationality, age, gender and experience.

It is tremendously important that we run our business in a cost-effective manner. Ultimately this is about trust, and our ability to assure the largest possible contribution to the pension system. We intend to remain cost-efficient in an international context, and the Swedish government's annual assessment of the AP Funds confirmed that we are on the right track. Our ambition is to reduce the Fund's overall costs again in 2017 compared to the previous year. One positive development in the first half of 2017 is that we have reduced our costs for premises by decreasing our office space by around 25 per cent.

“The boards are increasingly diversified.”

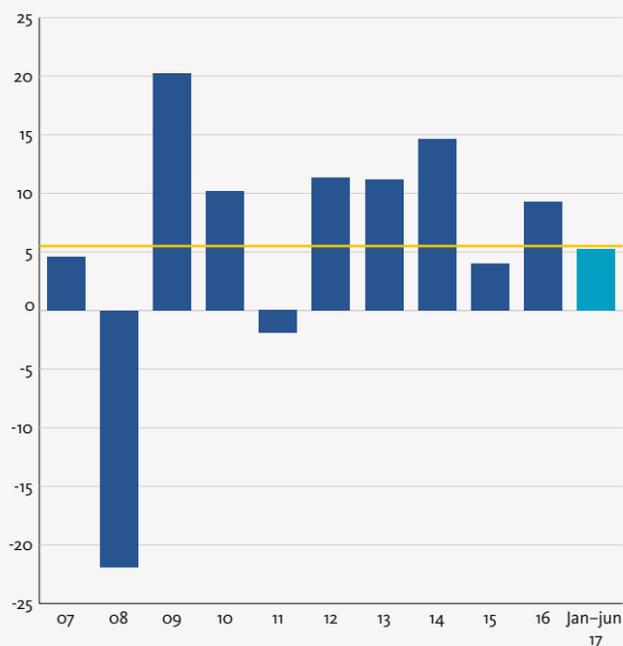
The First, Second, Third and Fourth AP Funds (AP1, AP2, AP3 and AP4) work together in a range of areas where we can find synergies, and also benefit from shared experiences, knowledge and working methods. This work is continuing to evolve and it is in line with the expectations that Sweden's government and parliament have of us.

Our efforts to develop AP1 into a world-class pension fund continues, and our dedicated, highly professional employees are a pivotal part of this. All in all AP1 stands strong in facing the years to come, when the potential to deliver continued high returns in a tougher market will be challenging.

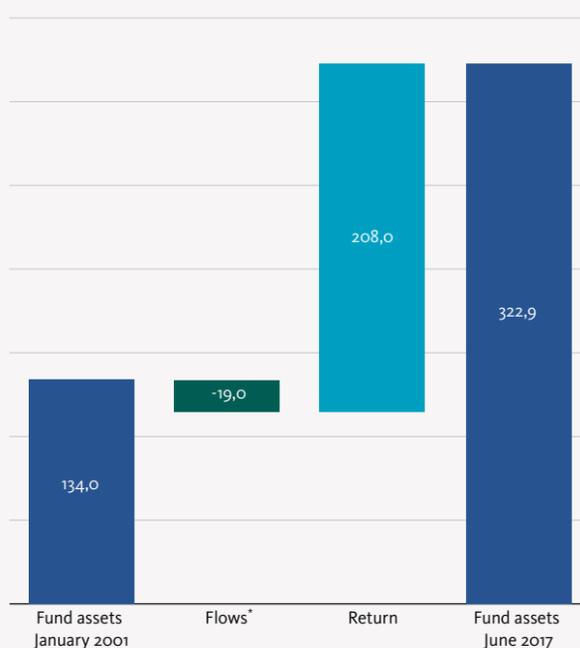
Stockholm, July 2017
Johan Magnusson

FINANCIAL SUMMARY

Return after expenses 2007 – June 2017, %

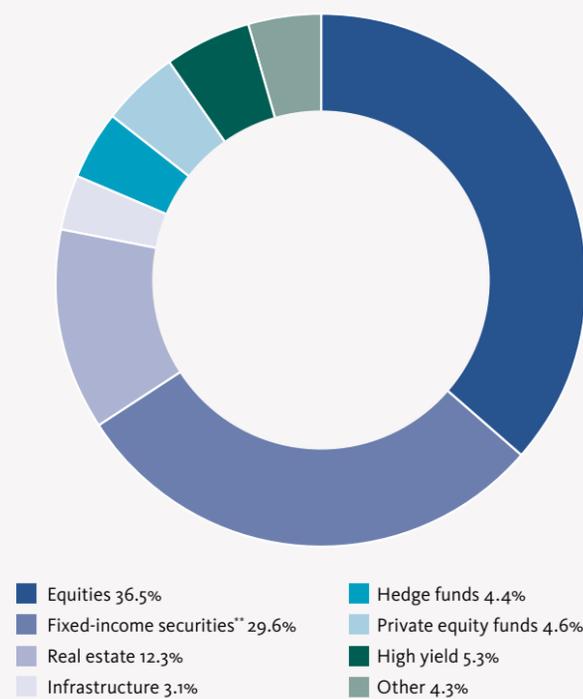


Net asset performance 2001 – June 2017, SEK bn



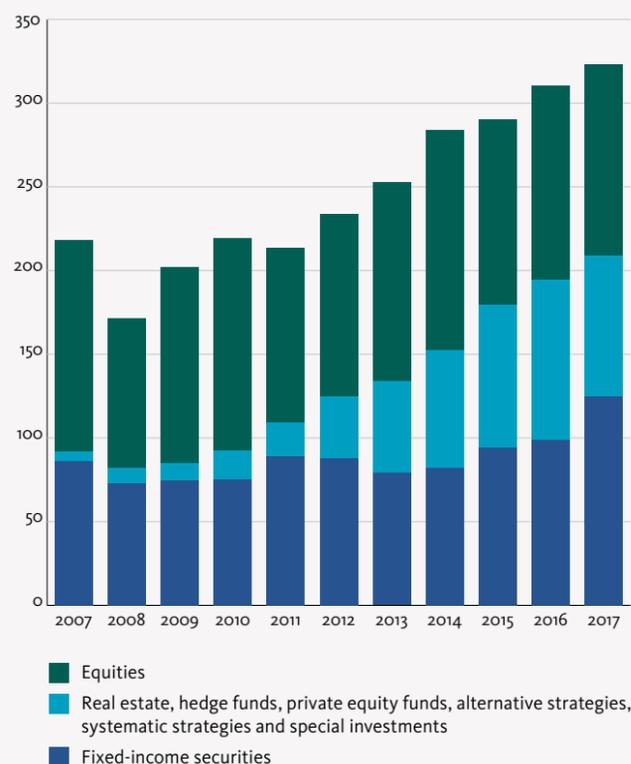
* Incl. flows from liquidation funds/special investments in 2001-2008

Assets by type



** Investment grade bonds (fixed income incl. cash funds in accounts: 33.0% as at 30 June 2017)

Net asset performance 2007 – June 2017, SEK bn



The Fund's development during the first half of 2017

AP1's net investment income for the first six months of 2017 amounted to SEK 16.1 billion (10.6), which means a return after expenses of 5.2 per cent (3.5).

Measured over the last ten-year period, the return was 5.4 per cent. This equates to a real return of 4.3 per cent, exceeding the long-term target of a real return after expenses of 4.0 per cent over rolling ten-year periods.

Transfer to the Swedish Pensions Agency

In the first half of 2017, the Fund transferred SEK 3.7 billion (3.2) to the pension system to cover the deficit in pension contributions in relation to pension disbursements. Since AP1 was formed in 2001, the Fund has paid SEK 26 billion to the Swedish Pensions Agency to cover the deficit in pension disbursements.

Control and mandate

The Board of Directors of AP1 bears full responsibility for the operations of the Fund and is responsible for the Fund's organisation and management of Fund assets. The work of the Board is regulated in the National Pension Insurance Funds (AP Funds) Act. The Board has delegated a management mandate to the CEO, which establishes the asset management framework. The mandate is expressed in a risk tolerance. This is manifested in an overarching asset allocation and limitations as to how much the asset allocation can be deviated from. The limitations are expressed both as exposure limits and limitations in terms of forecast tracking error. Read more in the risk management plan at www.ap1.se.

Asset allocation and results of the Fund's management

Within the framework of the management mandate, the CEO of AP1 decides on the management orientation and asset allocation in the form of a strategic asset allocation. The CEO's strategic asset allocation forms the basis of the management organisation's work on allocation and management. In the first half of 2017, AP1's management generated an excess return in relation to the Fund's strategic asset allocation or 'benchmark' of 1.2 percentage points, which equates to SEK 3.6 billion. The Fund's strategic benchmark for management in the long term (10 years) is defined based on the Board's risk preference, investment beliefs and guidelines in general.

Collaboration between AP1-4

The collaboration between the First, Second, Third and Fourth AP Funds (AP1-4) evolved during the first half of 2017. The aims are to further improve cost effectiveness, create synergies and secure a relevant exchange of experiences, knowledge and working methods between the organisations.

Sustainable value creation

AP1's ambition in the field of sustainability is high. The Fund is convinced that investments in sustainable companies entail a lower risk and probably generate a higher return in the long run. Sustainability aspects are integrated into investment decisions and the Fund's work as an engaged owner. AP1's entire asset management is steeped in its ambition to generate long-term sustainable value growth.

Asset classes

Equities

At the end of June 2017, AP1's equity portfolio was valued at SEK 109.7 billion, broken down into SEK 42.5 billion in Sweden, SEK 35.3 billion in foreign developed markets and SEK 31.9 billion in emerging markets. Swedish equities and equities in foreign developed markets are managed internally, while emerging markets are managed by external managers. There are also investments in listed equities under other assets in the systematic strategies sub-portfolio amounting to SEK 14.4 billion. The return on the equity portfolio for the first six months of 2017 was 10.0 per cent, which equates to SEK 10.2 billion.

Fixed-income securities

AP1's fixed-income portfolio was valued at SEK 93.9 billion at the end of June, with the majority invested in foreign securities. AP1 also has fixed-income securities through fund holdings that are reported under other assets

in the alternative strategies sub-portfolio. The return on the Fund's fixed-income portfolio in the first half of 2017 was 0.3 per cent, equating to SEK 0.2 billion.

Bonds with a lower credit rating

AP1's investments in bonds with a lower credit rating (high-yield investments) amounted to SEK 17.1 billion on 30 June 2017, equating to 5.3 per cent of net assets. The return for bonds with a lower credit rating totalled 3.7 per cent for the period.

Alternative investments

Real estate

AP1's real estate holding was valued at SEK 39.7 billion at the end of June, equating to 12.3 per cent of net assets. The main long-term focus of the Fund's real estate investments is running return from rent payments, and to some extent expected value appreciation. The return on the real estate portfolio in the first six months of 2017 totalled 8.5 per cent, equating to SEK 3.2 billion.

Infrastructure

The Fund's investments in infrastructure amounted to SEK 9.9 billion at the end of June 2017, equating to 3.1 per cent of net assets, and included part-ownership of the energy distribution company Ellevio. The return on the infrastructure portfolio totalled 10.8 per cent for the period.

Hedge funds

AP1's hedge fund portfolio was valued at SEK 14.1 billion at the end of June, equating to 4.4 per cent of net assets. Investments in hedge funds are designed to generate a more diversified, robust portfolio, which tones down the effects of sharp price volatility in the rest of the portfolio, while also generating a good return over time. The return of the hedge fund portfolio in the first half of 2017 was -2.2 per cent, equating to SEK -0.3 billion.

Private equity funds

AP1's investments in private equity funds amounted to SEK 14.9 billion at the end of June, equating to 4.6 per cent of net assets. The Fund invests globally in private equity funds through external managers. The return on this asset class is expected to be higher than for listed equities over time. The return on the private equity portfolio for the first half-year was 8.9 per cent, equating to SEK 1.3 billion.

Other asset classes

Alternative strategies

AP1's alternative strategies portfolio amounted to SEK 5.1 billion at the end of June 2017, equating to 1.6 per cent of net assets. Alternative strategies include a risk parity portfolio with the purpose of limiting macroeconomic risks without renouncing return opportunities and a portfolio consisting of alternative beta strategies designed to systematically obtain risk premiums. The return on the alternative strategies portfolio for the first half-year was 0.8 per cent, equating to SEK 0.8 billion.

Systematic strategies

AP1's systematic strategies portfolio amounted to SEK 14.4 billion on 30 June 2017, equating to 4.4 per cent of net assets. Systematic strategies include investments in equities with low volatility in developed countries. The return for the first half of the year was 9.7 per cent, equating to SEK 1.4 billion.

Special investments

AP1's special investments portfolio amounted to SEK 1.5 billion at the end of June, equating to 0.5 per cent of net assets. Special investments comprise various types of investment on a number of foreign markets. The return on special investments for the first half of the year was 6.3 per cent, equating to SEK 0.1 billion.

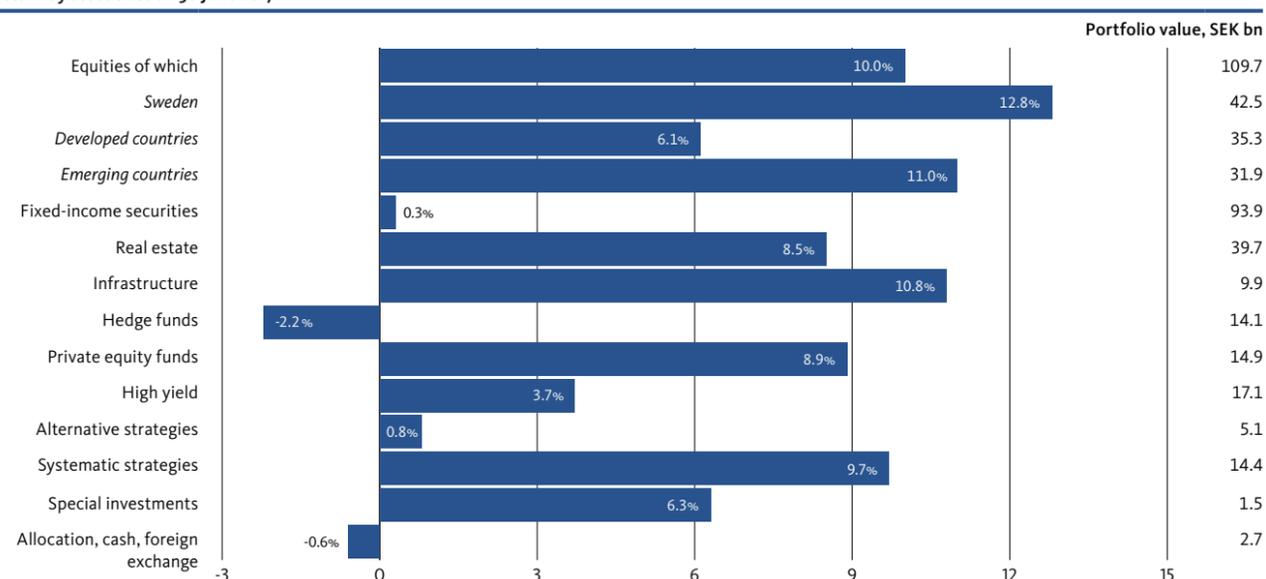
Foreign exchange

AP1 owns assets in different currencies. Currency is treated as a separate asset

that is managed according to special foreign exchange strategies. The value and return on all foreign assets are translated into Swedish kronor. The majority of the Fund's foreign assets are protected, in terms of exchange rate fluctuations, using currency hedges.

The return on the Fund's currency positions at the end of June 2017 was -1.0 per cent, equating to SEK 3.1 billion.

Return by asset class on 30 June 2017



Ten-Year Overview

	Jan-Jun 2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Net investment income and inflow, SEK bn										
Net assets at end of period	322.9	310.5	290.2	283.8	252.5	233.7	213.3	218.8	202.3	171.6
Net flows from the pension system	-3.7	-6.6	-4.9	-5.1	-6.9	-3.8	-1.2	-4.0	-3.9	0.9
Net investment income for the year	16.1	27.0	11.3	36.4	25.7	24.2	-4.2	20.5	34.6	-48.0
Return, expenses and risk, %										
Return before expenses	5.3	9.5	4.1	14.8	11.3	11.4	-1.7	10.3	20.4	-21.7
Operating expenses, annualised, % of AUM	0.07	0.06	0.06	0.07	0.07	0.08	0.07	0.08	0.10	0.09
Commission expenses, annualised, % of AUM	0.08	0.09	0.11	0.10	0.07	0.06	0.05	0.05	0.06	0.07
Return after expenses	5.2	9.3	4.0	14.6	11.2	11.3	-1.9	10.2	20.2	-21.9
Net investment income and expenses in total portfolio, SEK bn										
Net investment income before expenses	16.3	27.4	11.8	36.9	26.0	24.5	-4.0	20.8	34.9	-47.7
Total administrative expenses, SEK bn	-0.2	-0.5	-0.5	-0.5	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Exposure, %										
Equities	36.5	34.1	34.7	48.9	49.2	47.4	49.2	60.3	58.6	54.6
Sweden	13.1	12.3	12.3	11.6	12.0	11.4	12.6	15.7	13.8	11.2
Developed countries	13.5	12.5	14.4	27.1	27.5	25.0	25.3			
Emerging countries	9.9	9.2	8.0	10.1%	9.7	11.0	11.4			
Fixed-income securities ⁽¹⁾	29.6	29.8	30.2	30.9	31.2	36.4	40.9	32.5	34.7	40.1
- of which fixed-income securities in other assets	0.6	2.5	2.3	3.3	1.5					
Cash	-1.7	-1.1	-0.1	-1.1	-0.7					
Real estate	12.3	12.6	11.5	8.8	8.8	7.7	5.6	5.0	3.4	4.0
Infrastructure	3.1	3.0	2.9							
Hedge funds	4.4	5.0	4.8	5.9	4.9	4.3	0.2	0.3	-	-
Private equity funds	4.6	4.7	5.0	4.4	3.3	3.2	2.8	2.0	1.7	1.4
High yield	5.3	4.5	2.9							
Alternative strategies	1.6	5.0	4.4							
Systematic strategies	4.4	4.5	5.2	5.6	4.8	0.7	0.6	0.7		
Special investments	0.5	0.5	0.7							
Foreign exchange	20.3	22.1	31.3	35.1	29.2	27.4	21.3	24.0	21.6	22.2
Risk										
Risk ⁽²⁾	3.3	6.4	8.1	5.4	5.0	5.9	8.9	7.4	9.7	16.6
Sharpe ratio	3.4	1.5	0.5	2.6	2.1	1.9	neg.	1.1	2.0	neg.
External management, %										
Share of total portfolio at 31 December ⁽³⁾	28.1	31.8	31.0	34.6	37.1	39.3	41.4	43.7	42.4	39.7

⁽¹⁾ Investment grade bonds (fixed income incl. cash funds in accounts = 33.0% on 30 June 2017).

⁽²⁾ Standard deviation calculated on daily return in 2017.

⁽³⁾ In accordance with a joint decision, the AP Funds report wholly or partially owned real estate companies as being internally managed.

Income Statement

SEK m	Jan-Jun 2017	Jan-Jun 2016	Jan-Dec 2016
Operating income			
Net interest income	148	327	504
Dividends received and accrued	3,907	4,267	6,086
Net gains/losses, listed shares and participations	9,955	-2,091	5,762
Net gains/losses, unlisted shares and participations	3,046	2,698	6,900
Net gains/losses, fixed-income assets	-190	3,011	2,347
Net gains/losses, derivative instruments	1,077	-1,142	-979
Net gains/losses, foreign exchange movements	-1,642	3,698	6,803
Commission expenses	-132	-122	-271
Total operating income	16,169	10,646	27,152
Operating expenses			
Personnel costs	-63	-57	-118
Other administrative expenses	-42	-36	-69
Total operating expenses	-105	-93	-187
Net investment income	16,064	10,553	26,965

Balance Sheet

SEK m	30 Jun 17	30 Jun 16	31 Dec 16
Assets			
Shares and participations, listed	132,434	128,774	126,433
Shares and participations, unlisted	67,734	70,727	76,440
Bonds and other fixed-income assets	103,300	93,152	96,438
Derivatives	4,206	248	2,960
Cash and bank balances	4,075	5,585	5,222
Other assets	13,033	1,027	4,455
Prepaid expenses and accrued income	1,064	1,181	868
Total assets	325,846	300,694	312,816
Liabilities			
Derivatives	285	2,135	478
Other liabilities	2,618	985	1,762
Deferred income and accrued expenses	30	30	41
Total liabilities	2,933	3,150	2,281
Net assets			
Opening net assets	310,535	290,207	290,207
Net payments to/from the pension system	-3,686	-3,216	-6,637
Net investment income for the year	16,064	10,553	26,965
Total net assets	322,913	297,544	310,535
Total net assets and liabilities	325,846	300,694	312,816



Första AP-fonden

Box 16294, SE-103 25 Stockholm, Sweden

Street address: Regeringsgatan 28, Stockholm, Sweden

Phone: +46 (0)8-566 202 00

www.ap1.se