

long-term value creation

dedicated ownership

SEK 202.6 billion

1.1%

SEK 2.3 billion

professionalism

First six months

2010

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Första AP-fonden (AP1) is one of five buffer funds in the Swedish pay-as-you-go pension system, and is regulated by the Swedish National Pension Funds Act. 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 2009 unless otherwise stated. Internal data is used in the tables and diagrams in cases where no other sources are stated. The applicable accounting and valuation principles and definitions are presented in the Fund's 2009 annual report, which can be found at www.ap1.se. For more information about Första AP-fonden visit the Fund's website, www.ap1.se. This report has not been reviewed by the Fund's independent auditors.

The period in brief

- The first half of 2010 was marked by concerns that weakened state finances in several countries could inhibit recovery in the real economy and fears of the consequences of far-reaching regulation of the financial sector. The majority of equity markets fell during the period alongside declining bond rates.
- The Fund posted net investment income of SEK 2.3 billion after expenses, representing a total return of 1.1 percent during the period. Net investment income before expenses was SEK 2.4 billion, equal to a return of 1.2 percent.
- Net assets under management rose by SEK 0.3 billion to SEK 202.6 billion. Net assets have been affected partly by the Fund's investment earnings of SEK 2.3 billion but also by the period's net outflow of SEK 2.0 billion in the pension system.
- The Fund's equity exposure at 30 June 2010 was 57.8 percent. On the same date, exposure to the fixed income market was 37.2 percent, exposure to alternative investments was 6.5 percent and exposure to foreign currencies was 22.3 percent.
- Total expenses in the first half of 2010 amounted to SEK 146 million. Measured in relation to the average value of the Fund's net assets, this represents an annual expense ratio of 0.14 percent. Of this total, operating expenses accounted for SEK 88 million, which is equal to an annual expense ratio of 0.09 percent. Commission costs for the six-month period totalled SEK 58 million, or an annual expense ratio of 0.06 percent.
- The promised cost savings of at least SEK 100 million will be reached through lower Operation expenses (approx SEK 45 million), lower Commission costs (approx SEK 35 million) and lower Transaction costs (more than SEK 20 million).

Positive value growth

Första AP-fonden is a long-term global investor with a focus on high absolute returns. The Fund's investment model is based on risk diversification between well chosen assets with high expected returns. The Fund aims to be a compact, efficient and professional organization with selected in-house competencies and a superior ability to procure world-leading asset management services.

For the first half of the year the Fund posted net investment income of SEK 2.3 billion after expenses, equal to a return of 1.1 percent. In spite of negative returns in the majority of equity markets, the Fund succeeded in achieving positive investment earnings through active diversification of risks.

Events in the financial markets during the period were shaped by uncertainty about the global economic recovery. Because the powerful demand stimuli created by governments and central banks are temporary, it is unclear how the global economy will react in a more normal environment. As a consequence of this, the majority of stock markets have trended downward at the same time that interest rates have fallen and price movements in general have increased.

We have continued our efforts to spread risks in the portfolio and have increased the investments in real estate and private equity according to plan while at the same time taking advantage of specific investment opportunities in the wake of the financial crisis.

The ambition to create a more robust portfolio that provides more even value growth over time, without compromising on our return target, is central for the Fund, and

we will therefore raise the share of alternative investments. We already have commitments of over SEK 20 billion in real estate, private equity and hedge funds, and plan to double our investments in these areas. The traditional investment areas such as equities and fixed income are also oriented towards seeking more stable long-term value growth.

In its yearly evaluation of the AP funds, the Government found that the funds have delivered good returns over the past five years in comparison with foreign pension funds. The Government's resulting decision not to initiate a change in the structure of the AP funds is positive and has contributed to boosting the motivation of our staff and giving us well needed opportunities to concentrate on developing our business.

Första AP-fonden strives for high cost-efficiency in its management. This was one of the reasons why the Fund adopted a new management model during 2009, a change that resulted in more than SEK 100 millions in annual savings. Together with the Second, Third and Fourth AP funds (AP2, AP3 and AP4), we have now, in addition, identified a number of areas where the funds can achieve even higher cost-efficiency by pooling their resources. Based on this, the cooperation already existing between the funds will be both deepened and broadened.

Första AP-fonden will continue to actively spread risks across both geographical areas and different types of investments. Första AP-fonden will be a leading active investor that combines long-term value creation with a clear investment process and dedicated ownership.



Stockholm, August 2010

A handwritten signature in blue ink, which appears to be 'Johan Magnusson'. The signature is fluid and cursive, written on a white background.

Johan Magnusson
Managing Director of Första AP-fonden

First half of 2010

Return

Economic development in the first half of 2010 remained turbulent. The financial crisis has undermined state finances in many Western nations, and concerns about how these countries' budget deficits will be tackled and the implications for development of the real economy have had a negative impact on the financial markets. Discussions about greater and changed regulation of the financial sector have also affected the markets and resulted in high volatility of returns.

Total return in the first half of 2010 was weakly positive following high returns throughout 2009. Return after expenses was 1.1 percent, corresponding to net investment income of SEK 2.3 billion. Return before expenses was 1.2 percent, equal to net investment of SEK 2.4 billion.

Listed assets make up approximately 94 percent of the portfolio and yielded net investment income of SEK 1.5 billion for the first half of the year, equal to a return of 0.7 percent before expenses. For the unlisted assets (alternative investments) – mainly real estate and private equity investments – net investment income for the same period was SEK 0.8 billion, representing a return of 8.3 percent.

Investments in derivatives gave rise to SEK -495 million (SEK 198 million) in realized and unrealized value adjustments.

Equities

The majority of stock markets dropped in value during the first half of 2010 and the stock markets in Europe, North America, the Pacific region and Japan all produced negative returns. Measured in Swedish kronor (SEK), return for the period varied between -6.2 and -9.0 percent. Only equities in emerging markets and Sweden showed positive returns, at 2.8 and 7.8 percent, respectively.

In the first half of 2010 the Fund's total equity investments produced net investment income of SEK -1.0 billion, equal to a return of -2.2 percent before expenses.

Fixed income investments

Bond rates fell in many markets during the first half of 2010 due to general fears that the budding recovery in the global economy would be restrained by dismal state finances that could force many countries to tighten their budgets. In the first half of 2010 the Fund's fixed income investments yielded net investment income of SEK 2.7 billion, equal to a return of 3.7 percent before expenses.

Foreign exchange

The foreign exchange market remained volatile, with sharp swings in the market. In the first half of the year the Swedish krona strengthened against the euro but weakened

against the US dollar. The open position for currencies of developed markets in the Fund's portfolio returned SEK 1.4 billion, or 0.66 percent in relation to the Fund's net assets. The corresponding return for emerging market currencies was SEK 1.3 billion, or 0.65 percent. The latter is included in return for equities in emerging markets.

Alternative investments

Alternative investments consist of assets that are not listed on any market. These include real estate holdings (mainly via Vasakronan), private equity funds, hedge funds and opportunistic investments. The Fund's participations in private equity funds consist partly of three customized mandates in the international market, and partly of direct fund holdings in the Nordic market. In the first half of the year the Fund started a procurement of one to three strategic hedge fund partners.

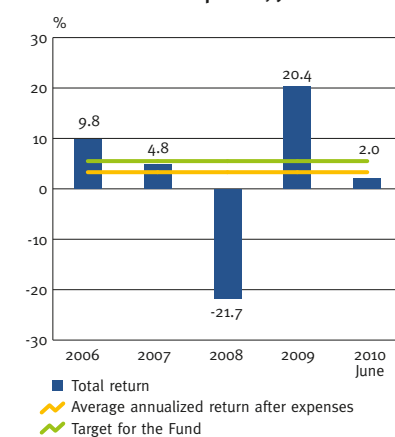
The net investment income in the first half of 2010 was SEK 0.8 billion, which is equal to a return of 8.3 percent.

Expenses

Operating expenses for the first half of 2010 totalled SEK 88 million (92). These expenses include one-time costs, among other things for the relocation to a new office that is expected to reduce costs for premises by

Return and income contribution, Jan-June 2010 (Before expenses)	Return, %	Income contribution	
		SEK bn	%-points
Equities, Swedish	7.8	2.8	1.3
Equities, Europe	-7.6	-1.4	-0.7
Equities, North America	-6.2	-2.1	-1.0
Equities, Japan	-6.9	-0.4	-0.2
Equities, Pacific excl. Japan	-9.0	-0.5	-0.2
Equities, emerging markets	2.8	0.6	0.3
Total equities	-2.2	-1.0	-0.5
Fixed income	3.7	2.7	1.3
Allocation, cash/foreign exchange		-0.1	0.0
Total listed assets	0.7	1.5	0.7
Alternative investments	8.3	0.8	0.5
Total	1.2	2.4	1.2

Annual return after expenses, June 2006–2010



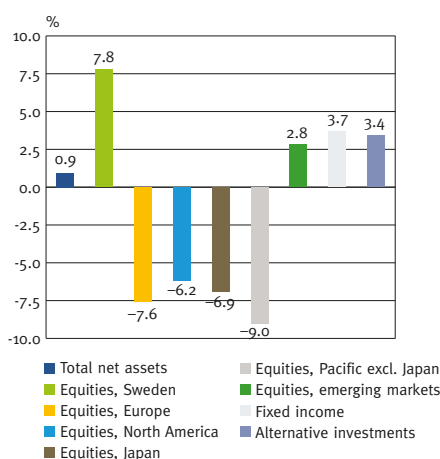
around 25 per cent annually. Commission costs, i.e. fixed external management fees and custodian fees that are deducted directly from operating income, amounted to SEK 58 million (57) for the same period. In relation to the average value of net assets under management during the period – SEK 205.9 billion (SEK 172.4 bn) – commission costs have decreased.

Measured in relation to the average value of net assets, this represents an annual expense ratio of 0.09 (0.10). If commission costs are also included, the Fund's expense ratio decreased to 0.14 percent (0.17). The number of employees at 30 June 2010 was 43 (44).

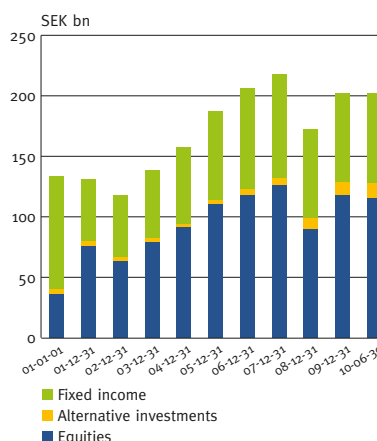
Net assets

At 30 June 2010 the Fund had net assets under management of SEK 202.6 billion, an increase of SEK 0.3 billion since year-end 2009. The change consists of the Fund's net investment income of SEK 2.3 billion and the net outflow to the pension system of SEK 2.0 billion (pension contributions minus pension disbursements, as well as administrative contributions to the Swedish Pensions Agency, SPA). The reason for the negative net flow in the pension system is that the large birth cohorts from the 1940s are starting to retire to a greater extent. According to the Swedish Pensions Agency's calculations, the net flow in the pension system will deteriorate for another ten or so years but will then improve and will once again be positive in the mid-2040s.

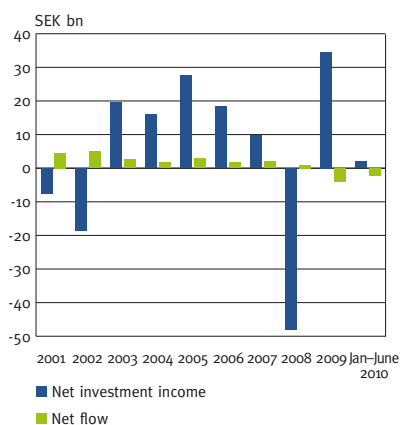
Return by asset class, Jan–Jun 2010



Development of net assets



Net investment income and net flow



Fund asset development

	2010 Jan–Jun
Net assets, SEK bn	
Opening net assets	202.3
Net pension contributions from SPA ¹⁾	-1.9
Administrative contribution to SPA ¹⁾	-0.1
Net investment income for the period	2.3
Closing net assets	202.6

¹⁾ The Swedish Pensions Agency

Expenses	Jan–Jun 2010		Jan–Jun 2009		Jan–Dec 2009	
	Expenses (SEK m)	Expense ratio ¹⁾	Expenses (SEK m)	Expense ratio ¹⁾	Expenses (SEK m)	Expense ratio ¹⁾
Personnel costs	45		58		125	
Other administrative expenses	43		34		66	
Operating expenses	88	0.09	92	0.10	191	0.10
Commission costs	58	0.06	57	0.07	112	0.06
Total expenses	146	0.14	149	0.17	303	0.16

¹⁾ Percent of average annual value of net assets

Five-year overview

Five-year overview, % ¹⁾	Jan-Jun	Full year				
	2010 ²⁾	2009	2008	2007	2006	
Net assets (at end of period), SEK bn	202.6	202.3	171.6	218.8	207.1	
Net flow to/from the pension system, SEK bn	-2.0	-3.9	0.9	2.0	1.7	
Net investment income, SEK bn	2.3	34.6	-48.0	9.7	18.2	
Total return before expenses,	1.2	20.4	-21.7	4.8	9.8	
Operating expenses (in annual terms)	0.09	0.10	0.09	0.08	0.08	
Commission costs (in annual terms)	0.05	0.06	0.07	0.07	0.07	
Return after expenses	1.1	20.2	-21.9	4.6	9.6	
Inflation	0.4	0.9	0.9	3.5	1.6	
Real return after expenses	0.7	19.3	-22.6	1.1	8.0	
Return and risk in the listed portion of the portfolio						
Return	Portfolio	0.7	21.4	-22.4	4.4	9.2
	Index	N/A	N/A	-21.7	4.0	8.6
	Active	N/A	N/A	-0.7	0.4	0.6
Risk (standard deviation)	Portfolio	8.6	10.7	17.7	7.9	6.8
	Index	N/A	N/A	17.6	7.6	6.6
	Active	N/A	N/A	1.0	0.5	0.6
Exposure						
Equities	57.6	58.6	54.6	59.2	59.8	
Fixed income	37.2	34.7	40.1	39.2	37.8	
Alternative investments	6.5	5.1	5.5	2.9	2.5	
Currency exposure	22.3	21.6	22.2	18.2	16.0	
Share of external management in total portfolio	44.4	42.4	39.7	36.0	34.2	

Portfolio return, % ²⁾	Jan-jun	Full year			
	2010	2009	2008	2007	2006
Equities, Swedish	7.8	50.3	-40.0	-3.8	24.9
Equities, non-Swedish		24.1	-39.9	3.8	13.7
Equities, European	-7.6				
Equities, North American	-6.2				
Equities, Japanese	-6.9				
Equities, Pacific excl. Japan	-9.0				
Equities, emerging markets	2.8	61.1	-41.5	30.6	12.5
Total equities	-2.2	33.5	-40.1	4.7	16.1
Fixed income	3.7	7.6	8.3	4.2	1.3
Total listed assets	0.7	21.4	-22.4	4.4	9.2
Alternative investments	8.3	-3.4	-3.5	18.6	38.4
Total return	1.2	20.4	-21.7	4.8	9.8

1) The figures are in per cent unless otherwise stated.

2) Currency hedged return with the exception of equities in emerging markets and alternative investments, where return is reported without hedging due to a lack of hedge opportunities

Portfolio composition

At 30 June 2010, exposure to equities in the total portfolio was 57.8 percent (56.0).

Exposure to the European and North American equity markets decreased during the period, while exposure to the Swedish market and emerging markets increased. Exposure to the fixed income markets including Allocation, cash and foreign exchange was

37.2 percent (42.0) and exposure to alternative investments was 6.5 percent (5.1). The Fund's open currency exposure at 30 June 2010 was 22.3 percent (22.1).

Of the Fund's total net assets at 30 June 2010, 44.4 percent (41.3) were under external management.

Portfolio composition

Asset class	Portfolio value ¹⁾ 30 June 2010 SEK m	% of net assets	Exposure ²⁾ %	Portfolio value ¹⁾ 31 Dec 2009 SEK m	% of net assets	Exposure ²⁾ %
Swedish	29,115	14.4	14.5	27,945	13.8	13.8
European	21,191	10.5	10.4	23,467	11.6	11.6
North American	36,526	18.0	18.3	39,183	19.4	20.4
Japanese	5,435	2.7	1.7	5,056	2.5	1.6
Pacific excl. Japan	5,071	2.5	3.3	5,263	2.6	3.1
Emerging markets	18,846	9.3	9.5	16,612	8.2	8.2
Total equities	116,184	57.3	57.8	117,526	58.1	58.6
Nominal Swedish	24,107	11.9		19,725	9.7	
Nominal non-Swedish	31,240	15.4		29,850	14.8	
Index-linked	20,025	9.9		18,852	9.3	
Total fixed income	75,373	37.2	37.2	70,262	34.7	34.7
Allocation, cash/foreign exchange	-2,189	-1.1	-1.4	4,193	2.1	1.5
Total listed assets	189,367	93.5	93.5	191,982	94.9	94.9
Alternative investments	13,267	6.5	6.5	10,317	5.1	5.1
Total portfolio	202,634	100	100	202,299	100	100
Currency exposure	45,122		22.3	43,727		21.6

¹⁾ Market value of spot and derivative positions plus cash and cash equivalents.

²⁾ Also including the nominal amount of derivative positions with a market value of zero.

Portfolio composition

Management structure, 30 June 2010

Portfolio value, SEK bn	Internal	External	Total
Equities, Sweden	29.1		29.1
Equities, Europe	21.2		21.2
Equities, North America		36.5	36.5
Equities, Japan		5.4	5.4
Equities, Pacific excl. Japan		5.1	5.1
Equities, emerging markets	1.8	17.0	18.8
Fixed income	62.6	12.8	75.4
Allocation, cash/foreign exchange ¹⁾	-2.2		-2.2
Alternative investments		13.3	13.3
Total	112.5	90.1	202.6

Currency exposure

SEK m	USD	GBP	EUR	JPY	Others	Total
Net currency exposure, 30 June 2010	20,365	5,471	4,731	-1,287	15,842	45,122
Net currency exposure, 31 Dec 2009	19,618	5,175	3,583	-1,499	16,850	43,727
Net currency exposure, 30 June 2009	19,668	3,795	4,744	1,868	9,976	40,051

Income statement

SEK m	30 June 2010	30 June 2009	31 Dec 2009
Operating income			
Net interest income	1,618	1,659	3,382
Dividends received	1,919	1,997	2,807
Net gains/losses, listed shares and participations	-4,805	8,340	28,303
Net gains/losses, unlisted shares and participations	675	-594	-521
Net gains/losses, fixed income assets	1,770	457	2,150
Net gains/losses, derivatives	-495	198	686
Net gains/losses, foreign exchange movements	1,794	-405	-1,926
Commission costs	-58	-57	-112
Total operating income	2,418	11,595	34,769
Operating expenses			
Personnel costs	-45	-58	-125
Other administrative expenses	-43	-34	-66
Total operating expenses	-88	-92	-191
Net investment income	2,330	11,503	34,578

Balance sheet

SEK m	30 June 2010	30 June 2009	31 Dec 2009
Assets			
Shares and participations, listed	115,224	100,052	116,666
Shares and participations, unlisted	6,405	4,727	4,886
Bonds and other fixed income assets	79,038	76,381	73,989
Derivatives	792	1,899	4,323
Cash and bank balances	1,491	640	1,259
Other assets	9,712	1,219	800
Deferred expenses and accrued income	1,564	1,468	1,130
Total assets	214,226	186,386	203,053
Liabilities			
Derivatives	1,815	2,428	344
Other liabilities	9,747	2,556	353
Deferred income and accrued expenses	31	12	57
Total liabilities	11,593	4,996	754
Net assets			
Opening net assets	202,299	171,627	171,627
Net flow from/to the pension system	-1,996	-1,740	-3,906
Transferred from liquidation fund/special management fund		0	0
Net investment income for the year	2,330	11,503	34,578
Total net assets	202,633	181,390	202,299
Total net assets and liabilities	214,226	186,386	203,053